

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

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# Funds in Court England and Wales Account 2004-2005

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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

## Foreword

### Accountant General's Accounts

The Accountant General's Accounts (Account A) cover the year ended 28 February 2005. 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 enactment referred to in Section 40 of the Act are not segregated in the Accounts.

### The Court Funds Office

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

- suitors involved in a civil legal action where money is paid into the Court Funds Office. 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 2004-2005 accounting period paid interest at a rate of 4% 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. 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 Public Guardianship Office, either in stocks and certain unit and investment trusts, or placed with the Court Funds Office on its Special Account, which during the 2004-2005 accounting period paid interest at a rate of 6% gross with instant access; and
- 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 is implemented by the Investment Division of the Official Solicitor and Public Trustee either in stocks and certain unit and investment trusts, or placed with the Court Funds Office on its Special Account.

The Court Funds Office 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 Court Funds Office where the rightful owner cannot be found, and which therefore cannot be returned.

The Unclaimed Balances register is available at the Court Funds Office 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.

## Court Funds Office Investment Criteria

Under section 38(2) of the Act, the Accountant General maintains an account at the Bank of England. From time to time money on that account in excess of an average working balance at an agreed level is remitted to the Commission for the Reduction of National Debt (CRND) for investment, drawings being made when additional money is required to meet payments 'out of Court'. The level of working balance is £500,000 (2004 - £800,000) and the Accountant General meets the Bank's cost of servicing this account. This arrangement is being reviewed as part of the wider review of investment and banking activities within the Department for Constitutional Affairs.

The 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 2004 to 28 February 2005), the percentage rates were

Basic	4%
Special	6%

Interest earned by the Accountant General's deposits with the CRND pays the interest due on Basic and Special Accounts.

## Results for the Year Ended 28 February 2005

The Accounts on pages 11 to 12 report cash lodgements during the year ending 28 February 2005 of £1.98 billion (2004 - £2.0 billion), with cash payments and transactions out of Court of £1.88 billion (2004 - £1.9 billion). This net inflow of cash, plus interest earned of £211 million (2004 - £193 million), were the main reasons for overall cash balances held increasing to £4.26 billion (2004 - £3.96 billion) at 28 February 2005.

The 2004-2005 Accounts also reported a £1.84 million (2004 - £22.96 million) decrease in the nominal value of securities held, with a closing balance of £17.5 million reported at 28 February 2005 (2004 - £19.3 million). The number of Common Investment Fund units held increased by 0.3 million (2004 - decrease of 1.3 million) with 4.2 million units held at 28 February 2005 (2004 - 3.9 million). Further details of the Common Investment Funds are provided in note 5 and Part C of the Accounts.

The administrative costs of the Court Funds Office fall outside the scope of these accounts. Instead, the costs for the year ending 28 February 2005, and their reimbursement from funds held by the CRND, are reported in the 2004-2005 Annual Report and Accounts of the Court Service.

## Audit of accounts

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

## Investment and banking review

The implementation of the investment and banking review continued throughout 2004-2005. This brought together specific activities in the Court Funds Office, the Office of the Official Solicitor and Public Trustee and the Public Guardianship Office. Significant urgent operational issues were addressed 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 operation and 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. Further detailed planning and consultation is now underway.

*Peter Handcock*  
Accountant General of the Supreme Court

20 June 2005

## Statement of the Accountant General's responsibilities

### Management and Investment of Funds in Court

As set out in section 38 of the Administration of Justice Act 1982 (the Act), the Accountant General of the 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

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 Peter Handcock as Accountant General of the Supreme Court on 13 February 2003. 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 Court Funds Office.

### The purpose of the system of internal control

The Court Funds Office 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 the Court Funds Office to maintain a risk register, which is a complete record of the risks the Court Funds Office 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 the Court Service and DCA.

The Court Funds Office 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 at the Court Funds Office during the financial year ending 28 February 2005.

### The risk and control framework

In the Court Funds Office, the main processes in place for identifying, evaluating and managing risks are

- Management Board 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 is reflected as a responsibility 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 Public Guardianship Office, the Official Solicitor and Public Trustee 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 Court Funds Office and Deputy Accountant General for verification and certification;
- the Court Funds Office Management Board's ongoing review of the Court Funds Office 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 Internal Assurance recommendations and the Corporate Governance Branch health check;
- regular reviews of an annual budget covering the costs of administering the Court Funds Office, which is agreed by the Court Service 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; and
- the establishment of a Compliance function within Court Funds Office whose role is to help embed risk management across CFO operations as well as review adherence to the Key Risks and Operational Controls that was identified jointly by Corporate Governance branch and Court Funds Office

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 the Court Funds Office. The work of Internal Audit is informed by an analysis of the risks to which the Department are exposed and annual internal audit plans are based on this analysis. The Court Service Audit Committee and Management Board endorsed the analysis of risk and the internal audit plans for the year ending 28 February 2005.

## Internal control

The Internal Assurance Division carried out a review of accounting procedures at the Court Funds Office in June 2003 and identified weaknesses in suspense accounts, reconciliation and overdrawn accounts. As a result of Internal Assurance Division's recommendations, an action plan was put in place to address those weaknesses identified. Progress in achieving this action plan was reported monthly to the Accountant General until December 2003. Since this date, further remedial work now forms an integral part of the integrated action plan that is being taken forward following the Investments and Banking review.

A follow up audit by the Internal Assurance Division was conducted in July 2004 and found significant improvement in controls. A dedicated Compliance team has now been set within the Court Funds Office 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 is currently undertaking remedial work to improve the database of beneficiaries where contact had been lost. This dedicated project team is working with new address trace technology to identify missing Litigation Friends/Beneficiaries. In the process, data missing from the current database is being systematically identified and repaired. This exercise improves the controls that prevent accounts becoming Unclaimed Balances.

## 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 only part way through and should near completion in Spring 2006.

## Annual reconciliation of security holdings

The annual reconciliation of the Accountant General security holdings at the financial year ending 28 February 2005 was carried out by comparing the Client holdings on the CFO's Funds Accounting System (FAS) records against records held at the Bank of England and at the Registrars and Unit Managers.

## Strategic review of the accounts

A post year-end review has been undertaken to examine the future role of the Accounts for the Court Funds Office. More meaningful accounts in line with Generally Accepted Accounting Principles (GAAPs) will be introduced for future accounting periods. The Accounts for the period from 1 March 2004. Will be restated using this principle. The rigour of implementing this recommendation will contribute to overall accountability, governance and control being improved.

*Peter Handcock*  
Accountant General of the Supreme Court

20 June 2005

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

I certify that I have audited the Accounts on pages 11 to 15 under section 45 (3) of the Administration of Justice Act 1982. These 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 financial statements 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 responsibilities as independent auditor are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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 financial statements. I am not required to consider, nor have I considered whether the Accountant General's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the corporate governance procedures or the risk and control procedures that operate over the Court Funds Office.

## Basis of audit opinion

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

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 error, or by fraud or other irregularity, and that in all material respects the receipts and payments 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 financial statements.

## Opinion

In my opinion

- the financial statements properly present the receipts and payments and transactions in securities of the Accountant General of the Supreme Court for the year ended 28 February 2005 and the balances held at that date and have been properly prepared in accordance with section 45 (1) (a) of the Administration of Justice Act 1982 and Treasury directions made there under; and
- in all material respects the receipts and payments and transactions in securities have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities, which govern them.

I have no observations to make on these Accounts.

*John Bourn*  
Comptroller and Auditor General

7 July 2005

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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 2005

	Receipts and Payments for the year ended 28 February 2005			Receipts and Payments for the year ended 29 February 2004		
	Cash £	Securities nominal value £	Common investment Fund Units	Cash £	Securities nominal value £	Common investment Fund Units
<b>Receipts and transfers into court</b>						
<i>Cash</i>						
Lodgements by suitors	1,978,863,037			1,996,443,436		
Sales of Common Investment Fund (CIF) units and other securities	51,081,712			44,716,560		
Dividends	5,817,892			13,469,440		
Interest credited to court accounts	211,119,968			193,221,360		
<i>Securities</i>						
Lodged		1,228,649			665,709	
Purchased		14,465,585	1,585,566		11,163,439	927,689
<b>Total receipts and transfers into court</b>	<b>2,246,882,609</b>	<b>15,694,234</b>	<b>1,585,566</b>	<b>2,247,850,796</b>	<b>11,829,148</b>	<b>927,689</b>
<b>Less payments and transfers out of court</b>						
<i>Cash</i>						
Payments to suitors	(1,881,242,424)			(1,897,085,307)		
Cost of purchase of CIF units and other securities	(59,635,844)			(53,226,077)		
Transfer to the Department for Constitutional Affairs (Note 8)	(6,036,781)			(4,739,288)		
<i>Securities</i>						
Transferred and delivered		(14,508,578)	(780,094)		(30,674,124)	(1,269,511)
Sold		(3,023,314)	(473,421)		(4,110,809)	(943,309)
<b>Total payments and transfers out of court</b>	<b>(1,946,915,049)</b>	<b>(17,531,892)</b>	<b>(1,253,515)</b>	<b>(1,955,050,672)</b>	<b>(34,784,933)</b>	<b>(2,212,820)</b>
<b>Net movement in year</b>	<b>299,967,560</b>	<b>(1,837,658)</b>	<b>332,051</b>	<b>292,800,124</b>	<b>(22,955,785)</b>	<b>(1,285,131)</b>

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

## Statement of Balances at 28 February 2005

	Notes	Cash	Securities nominal value	Common investment Fund
<b>Balance as at 1 March 2004</b>	2	3,959,217,197	19,291,595	3,854,610
<i>Add/(deduct)</i>				
Net movement in year		299,967,560	(1,837,658)	332,051
<b>Balances as at 28 February 2005</b>	2	<u>4,259,184,757</u>	<u>17,453,937</u>	<u>4,186,661</u>

*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

a The cash balances for which the Accountant General is liable are

	<b>28 February 2005 £</b>	29 February 2004 £
<b>Cash balances representing</b>		
Court Funds (including interest) placed on Basic Account	<b>1,110,601,911</b>	1,116,556,514
Court Funds (including interest) placed on Special Account	<b>2,994,594,558</b>	2,696,694,273
Unclaimed Balances	<b>47,316,821</b>	40,994,968
Other Suitors' monies deposited in the Supreme Court	<b>93,637,575</b>	84,837,986
Suitors' monies held as foreign currency	<b>13,033,892</b>	20,133,456
	<b>4,259,184,757</b>	3,959,217,197
<b>The balances were held</b>		
Bank of England	<b>10,048,884</b>	13,931,716
Money held as foreign currency (note 3)	<b>13,033,892</b>	20,133,456
National Debt Commissioners (note 2 b and c)	<b>4,259,406,123</b>	3,945,933,972
Amounts awaiting banking	<b>125,542</b>	1,225,260
	<b>4,282,614,441</b>	3,981,224,404
<i>Less cheques issued prior to 1 March and not yet cashed</i>	<b>(23,429,684)</b>	(22,007,207)
	<b>4,259,184,757</b>	3,959,217,197

b The National Debt Commissioners balance of £4,259 million (29 February 2004 – £3,946 million) excludes £68 million (28 February 2004 – £59 million) of basic and special account interest accrued but not yet credited to Court Funds. The National Debt Commissioner's balance at 28 February 2005 including this accrued interest was £4,327 million (29 February 2004 – £4,005 million).

c Further details on the Court Funds Investment Account that is maintained by the National Debt Commissioners are provided in Part B of the 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 2005.

Currency	Balance at 28 February 2005 in foreign currency	Exchange rates	Sterling equivalent at 28 February 2005
CAD	1,568,873	2.3665	£662,951
DKK	1,026	10.7984	£95
SEK	5,936	13.1393	£452
EUR	482,656	1.4507	£332,706
USD	23,180,977	1.9257	£12,037,688
			<b>£13,033,892</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 £2,764,744 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 £1,632,297 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 Courts Funds Office, rather than Treasury. This outstanding liability to Suitors of £1,632,297 may need to be repaid at some point in the future and where such claims arise these will need to be met by the Court Funds Office.

### 5 Common investment fund

The 1982 Administration of Justice Act allows the Secretary of State and Lord Chancellor to establish Common Investment Schemes. From 1 September 2003 the Fund was invested in an Equity Index Tracker Fund 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 Department.

At the end of period ended 28 February 2005, there were 4,186,661 units in issue (28 February 2004 – 3,868,780 units) with a net asset value of 867.38 pence per unit (29 February 2004 – 785.33 pence per unit) held by clients of the Court Funds Office.

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

### 6 Securities under custody

The Bank of England acts as a securities custodian for any securities paid into Court in the name of the Accountant General. Any foreign securities are held by the Bank of England with their sub-custodian Euroclear in Brussels. Euroclear is a regulated International Central Securities Depository for internationally traded securities.



## 7 Miscellaneous items

In addition to the balances of cash, securities and Common Investment Fund units on 28 February 2005, further items were held on behalf of the Accountant General as follows

Details	28 February 2005	29 February 2004
National Savings Certificates	<b>£145,582</b>	£134,125
Financial documents ordered into Court	<b>3 Packets</b>	5 Packets
Two Private Bonds and one Packet		
Gold Coins	<b>4</b>	4
Silver Coins	<b>1,746</b>	1,746
Various Unit Trusts	<b>35,706,352.18</b>	43,384,218

## 8 Transfer of Fees

The £6,036,781 shown in respect of transfer of fees to the Department for Constitutional Affairs represents

	For the period ended 28 February 2005 £	For the period ended 29 February 2004 £
Court of Protection fees met directly from funds held in Court	<b>5,976,983</b>	4,722,160
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>59,798</b>	17,128
	<b><u>6,036,781</u></b>	<u>4,739,288</u>

*Peter Handcock*  
Accountant General of the Supreme Court

20 June 2005

# Commissioners for the Reduction of the National Debt (CRND)

## Funds in Court in England and Wales Investment Account

### Foreword

#### Background

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 the Commissioners for the Reduction of the National Debt for investment; on days when the balance in his account is insufficient to meet demands, the Commissioners make good the shortfall.

Section 39 (1) of the Act authorises the Treasury to make regulations setting out the range of investments in which the Commissioners 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 the Commissioners 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 the Commissioners 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 Commissioners 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 the Commissioners in respect of expenses; and
- any sum the 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 the Commissioners by the Accountant General.

#### Commissioners for the Reduction of National Debt

The main function of the Commissioners for the Reduction of National Debt (CRND) 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 the Assistant Comptroller, who are appointed by and act on behalf of the Commissioners, make the day-to-day decisions.

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

CRND's administrative expenditure is accounted for within the DMO's agency vote. The cost of managing the Court Funds is recharged to the fund. In 2004-2005, the cost charged to the fund was £105,000 (2003-2004: £72,100).

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.

### Preparation of the accounts

The Accounts are prepared on an accruals basis in accordance with Treasury direction and are presented in pursuance of section 45 (2) of the Act.

### Results for 2004-2005

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 gilt-edged securities.

During 2004-2005, the CFIA made a net operating surplus from funds invested of £184 million (£75 million 2003-2004).

The market value of assets held by the Commissioners rose by £276 million to £4,827 million at the year end. This reflects the increase in the liability of the Commissioners to the Accountant General of the Supreme Court to £4,321 million at the year-end.

### 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 this report before each House of Parliament.

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

23 November 2005

## Statement of Accounting Officer's responsibilities

- 1 Section 45 (1) of the Administration of Justice Act 1982 requires the Commissioners to prepare an account for each financial year in the form and on the basis determined by HM Treasury.
- 2 The Court Fund Investment Account is prepared on an accruals basis, as directed by HM Treasury and must give a true and fair view of the state of affairs of the Board and the cash flows for the financial year.
- 3 The Commissioners have appointed the Secretary and Comptroller General to discharge the residual statutory responsibilities of the Commissioners, a role that is analogous to acting as an Accounting Officer. Therefore the Secretary and Comptroller General has responsibility for preparing the annual accounts and for transmitting these to the Comptroller and Auditor General.
- 4 In preparing the accounts the 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 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 account. 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 2005 and up to the date of approval of this account, and accords with Treasury guidance. Not all components of the current system of internal control were in place throughout the whole of the financial year 2004-2005 because additions have been made 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 the DMO's risk management framework. These have covered specific issues such as anti-money laundering, whistle blowing, 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. A passive style of fund management has been adopted, pending conclusion of the most appropriate style of fund management for each client. CRND has established effective communication channels with each of its clients to help in the development of the most appropriate style of fund management in the context of the fund objectives and risks.

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 ongoing 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 through a review of cash management operations.

Heads of business units and functional teams assess regularly whether risks to their operations are being managed effectively. The DMO held risk workshops for operational staff on specific risk issues. New risks, and risks with an increased likelihood of occurrence, are highlighted and actions identified to ensure all risks will be effectively managed. Teams responsible for delivering each key project used risk registers. Senior managers 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. Seminars have been held to raise staff awareness of these issues. 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's Business Continuity Plan, 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 was formally established at the beginning of the 2003-04 financial year to assess actions to maintain and improve the DMO's system of internal control including CRND. 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 team has met regularly to identify weaknesses in the control environment, recommend actions to management and to lead the implementation of changes where appropriate.
- 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. Compliance testing is 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 2004-2005 and remains so on the date I sign this statement.

*Jo Whelan*

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

23 November 2005

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

I certify that I have audited the financial statements on pages 24 to 31 under the Administration of Justice Act 1982. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain investments and the accounting policies set out on page 27.

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

As described in the Foreword on pages 1 to 3 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. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Administration of Justice Act 1982 and Treasury directions made thereunder, and whether in all material respects the transactions conform to the authorities which govern them. I also report, if in my opinion, the Foreword is not consistent with the financial statements, if the Commissioners for the Reduction of the National Debt have not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 19 to 21 to 6 reflects the Commissioners for the Reduction of the National Debt's compliance with the Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury, or 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 Secretary and Comptroller General's Statement on Internal Control covers all risks and controls. I am also not required to 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.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of the transactions with investors included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Secretary and Comptroller General in the preparation of the financial statements, and of whether the accounting policies are appropriate, 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 error, or by fraud or other irregularity and that, in all material respects, the transactions conform to 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 of the balances held in respect of Insolvency Services Fund Investment Account as at 28 February 2005 and of the deficit and cash flows for the year then ended; and 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 conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

25 November 2005

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

## Income and Expenditure Account for the year to 28 February 2005

	Notes	2005 £	2004 £
Interest receivable	2	<b>273,575,866</b>	256,741,289
Surplus income payable to Consolidated Fund	11	<b>(4,109,633)</b>	(4,334,149)
Net interest income after deduction of surplus income payable		<b>269,466,233</b>	252,407,140
Dealing (losses)/profits	3	<b>(75,294,048)</b>	(168,997,755)
Total investment income		<b>194,172,185</b>	83,409,385
Other income and expenditure	4	<b>(10,600,000)</b>	(8,714,906)
Operating surplus		<b>183,572,185</b>	74,694,479

## Balance Sheet as at 28 February 2005

	Notes	2005 £	2004 £
<b>Assets</b>			
Debt securities	5	<b>3,092,410,628</b>	4,146,918,561
Loans and advances	6	<b>1,642,200,000</b>	306,400,000
Cash	7	<b>9,931,186</b>	8,434,820
Other assets: accrued income	8	<b>82,142,771</b>	88,820,533
<b>Total assets</b>		<b><u>4,826,684,585</u></b>	<u>4,550,573,914</u>
<b>Liabilities</b>			
Client funds	13	<b>4,821,079,952</b>	4,542,207,766
<i>Other liabilities: creditors</i>	9	<b>5,604,633</b>	8,366,148
<b>Total liabilities</b>		<b><u>4,826,684,585</u></b>	<u>4,550,573,914</u>

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

23 November 2005

## Cash Flow Statement for the year ended 28 February 2005

	Note	2005 £	2004 £
Net cash flow from operating activities	10	<b>(93,803,634)</b>	(116,290,016)
Financing		<b>95,300,000</b>	117,400,000
Increase/(decrease) in cash		<b><u>1,496,366</u></b>	<u>1,109,984</u>

# Notes to the Accounts for the year ended 28 February 2005

## 1 Accounting policies

These accounts have been prepared in accordance with direction made by 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 Administration expenditure

The costs incurred by CRND in managing the Fund are included in the Income and Expenditure Account together with any administrative costs incurred by the Court Funds Office as advised to CRND.

## 2 Interest receivable

	2005 £	2004 £
Debt securities		
Gilt edged securities	<b>236,396,786</b>	240,441,361
Other securities	<b>0</b>	1,617,684
Interest receivable on deposits given	<b>36,784,378</b>	14,389,010
Interest receivable on cash	<b>394,702</b>	293,234
<b>Total interest receivable</b>	<b><u>273,575,866</u></b>	<b><u>256,741,289</u></b>

**3 Dealing (losses)/profits**

	2005 £	2004 £
Profit/(loss) realised on disposal of securities	<b>(23,774,388)</b>	(35,175,560)
Valuation movement on gilts	<b>(51,519,660)</b>	(133,822,195)
<b>Total dealing (losses)/profits</b>	<b>(75,294,048)</b>	(168,997,755)

**4 Expenses**

	2005 £	2004 £
Management expenses – payable to the client	<b>(10,495,000)</b>	(8,642,806)
– payable to CRND	<b>(105,000)</b>	(72,100)
<b>Total expenses</b>	<b>(10,600,000)</b>	(8,714,906)

*5a Debt securities*

	2005 Nominal £	2005 Cost £	2005 Clean market value £	2004 Nominal £	2004 Cost £	2004 Clean market value £
UK Government gilts – Marketable	<b>16,000,000</b>	<b>18,646,299</b>	<b>18,018,200</b>	16,000,000	18,646,299	18,298,700
UK Government gilts – Non Marketable (NILO)	<b>2,939,256,096</b>	<b>3,119,809,028</b>	<b>3,074,392,428</b>	3,924,806,096	4,122,797,302	4,128,619,861
<b>Total debt securities</b>	<b>2,955,256,096</b>	<b>3,138,455,327</b>	<b>3,092,410,628</b>	3,940,806,096	4,141,443,601	4,146,918,561

*5b Debt securities (Maturity analysis)*

	2005 Nominal £	2005 Cost £	2005 Clean market value £	2004 Nominal £	2004 Cost £	2004 Clean market value £
Maturing in less than three months	<b>138,500,000</b>	<b>156,843,868</b>	<b>139,344,850</b>	0	0	0
Maturing in over three months but less than one year	<b>0</b>	<b>0</b>	<b>0</b>	985,550,000	1,002,988,273	993,599,670
Maturing in over one year but less than five years	<b>1,923,578,096</b>	<b>2,040,557,752</b>	<b>1,991,594,387</b>	1,805,350,000	1,941,124,591	1,912,226,784
Maturing in over five years	<b>893,178,000</b>	<b>941,053,707</b>	<b>961,471,391</b>	1,149,906,096	1,197,330,737	1,241,092,107
<b>Total debt securities</b>	<b>2,955,256,096</b>	<b>3,138,455,327</b>	<b>3,092,410,628</b>	3,940,806,096	4,141,443,601	4,146,918,561

**6 Loans and advances**

	2005 £	2004 £
Fixed rate deposits given to DMA	<b>1,208,000,000</b>	19,500,000
Call notice deposits given to DMA	<b>434,200,000</b>	286,900,000
<b>Total loans and advances</b>	<b>1,642,200,000</b>	306,400,000

**7 Cash**

	2005 £	2004 £
Ways and means	<u>9,931,186</u>	<u>8,434,820</u>

**8 Other assets: accrued income**

	2005 £	2004 £
Accrued coupon interest	74,479,749	87,968,984
Accrued interest on deposits	7,638,417	827,551
Accrued interest on cash	24,605	23,998
	<u>82,142,771</u>	<u>88,820,533</u>

**9 Other liabilities: accruals**

	2005 £	2004 £
Surplus due to the Consolidated Fund for FY 2004-2005	4,109,633	4,334,149
Fund's own management expenses due to the client	1,495,000	4,031,999
Total other liabilities	<u>5,604,633</u>	<u>8,366,148</u>

**10a Reconciliation of operating profit to net cash flow from operating activities (indirect method)**

	2005 £	2004 £
Operating surplus	183,572,185	74,694,479
(Increase)/decrease in debt securities	1,002,988,274	(11,495,716)
(Increase)/decrease in movement in valuation of debt securities	51,519,660	133,822,195
(Increase)/decrease in deposits given	(1,335,800,000)	(306,400,000)
(Increase)/decrease in other assets: accrued income	6,677,762	(11,365,221)
Increase/(decrease) in other liabilities: creditors	(2,761,515)	4,454,247
<b>Net cash flow from operating activities</b>	<u>(93,803,634)</u>	<u>(116,290,016)</u>
<b>Financing</b>		
Advanced by the client	477,000,000	504,300,000
Withdrawn by the client	(381,700,000)	(386,900,000)
	<u>95,300,000</u>	<u>117,400,000</u>

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

	2005 £	2004 £
Cost of purchases of debt securities	<b>(657,149,999)</b>	(3,070,512,982)
Proceeds from sales of debt securities	<b>1,682,060,353</b>	3,050,449,024
Loans and advances given out	<b>(6,582,578,000)</b>	(3,208,000,000)
Loans and advances received	<b>5,246,778,000</b>	2,901,600,000
Interest received	<b>234,557,160</b>	218,768,751
Payment of surplus to Consolidated Fund for FY 2003-2004	<b>(4,334,149)</b>	(3,911,901)
Expenses	<b>(13,136,999)</b>	(4,682,908)
<b>Net cash flow from operating activities</b>	<b><u>(93,803,634)</u></b>	<u>(116,290,016)</u>
<b>Financing</b>		
Advanced by the client	<b>477,000,000</b>	504,300,000
Withdrawn by the client	<b>(381,700,000)</b>	(386,900,000)
	<b><u>95,300,000</u></b>	<u>117,400,000</u>

Purchases/sales of debt securities are reported gross and include purchased accrued interest of £0 and rebate interest received of £45,696,468 (2003-2004: purchased accrued interest £1,266,145 and rebate interest received £27,873,462).

**11 Surplus income payable**

	2005 £	2004 £
Interest received in the year	<b>234,557,160</b>	218,768,751
Interest payable to suitors (estimated)	<b>(219,847,527)</b>	(205,719,696)
Management expenses payable	<b>(10,600,000)</b>	(8,714,906)
Surplus payable to the Consolidated Fund for financial year 2004-2005	<b><u>4,109,633</u></b>	<u>4,334,149</u>



**12 Securities at cost represent**

	2005 £	2005 £	2004 £	2004 £
Liability of the Investment Account to the Accountant General of the Supreme Court		<b>4,321,246,698</b>		4,006,099,171
<i>Add</i>				
Accumulated sum to provide for depreciation	<b>3,750,631</b>		3,750,631	
Accumulated net profit on sales of securities from 1 October 1965, including a profit of 21,922,079.87 for current year	<b>461,773,993</b>		439,851,913	
<i>Less</i>				
Difference between cost price of securities and total liabilities at 1 October, 1965	<b>(1,785,822)</b>		(1,785,822)	
Difference between cost price of securities transferred from Palatine Courts and the liability assumed at 10 February, 1972	<b>(3,620)</b>		(3,620)	
		<b><u>4,784,981,880</u></b>		<u>4,447,912,273</u>
<i>Comprising</i>				
Adjustment for Surplus Income payable to Consolidated Fund in respect of 2004-2005		<b>(4,109,633)</b>		(4,334,149)
Accrued Management Expenses		<b>(1,495,000)</b>		(4,031,999)
Securities at cost		<b><u>4,790,586,513</u></b>		<u>4,456,278,421</u>
		<b><u>4,784,981,880</u></b>		<u>4,447,912,273</u>

**13 Client funds**

	2005 £	2004 £
Prior year client funds	<b>4,542,207,766</b>	4,350,113,287
Operating surplus	<b>183,572,185</b>	74,694,479
Financing	<b>95,300,000</b>	117,400,000
Current year client funds	<b><u>4,821,079,951</u></b>	<u>4,542,207,766</u>

**14 Related parties**

Commissioners for the Reduction of the National Debt (CRND) is a separate entity within the DMO, which operates the Debt Management Account (DMA), and conducts a fund management service for a range of mostly governmental clients. 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 £6,583 million (2003-2004: £3,208 million). During the year the Fund purchased NILO gilts of nominal value £650 million from the DMA, and sold NILO stocks of nominal value £1,636 million to the DMA (2003-2004: Purchases £1,417 million, Sales £1,000 million). The value of deposits held with the DMA as at the balance sheet date was £1,642 million (2003-2004: £306 million).

## Appendix

### Funds in Court in England and Wales Investment Account

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

- 1 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; and
  - 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

Managed by Legal & General (Unit Trust Managers) Limited Authorised and regulated by the Financial Services Authority Fund Manager's Report for the year ended 28 February 2005.

## Foreword

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

### The Equity Index Tracker Fund

On 1 September 2003 the assets of the Capital Fund were transferred to Legal & General (Unit Trust Managers) limited who were appointed as the new Manager from that date. These assets are shown in the prior period's accounts as an in-specie transfer within those accounts.

#### 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 Investment 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 is the legal basis for the Fund?

The Fund is an Unauthorised Unit Trust and was created under the Administration of Justice Act 1982 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). Pursuant to section 42(5)(b) of the Act of 1982, 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 were authorised to retain units in the Fund on termination of their connection with those offices. These changes are described in more detail below.

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

##### **I The 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. 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;
- 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 Peter Handcock as Accountant General of the Supreme Court on 13 February 2003. 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 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 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.

#### 4 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 Administration of Justice Act, 1982. 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.

#### 5 Accounts and Audit

These accounts are in respect of the Equity Index Tracker Fund for the year ended 28 February 2005 and have been prepared in accordance with an Accounts Direction issued by Treasury under section 45(2) of the Act as detailed on page 55. 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 42 and 43.

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

12 July 2005

*Peter Hancock*  
 Accountant General of the Supreme Court

12 July 2005

## 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

80% FTSE All-Share Index

20% FTSE World (ex-UK) Index

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

The FTSE World (ex-UK) Index exposure 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 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 10.04% (excluding income). Over the same period the composite benchmark rose by 10.25%, producing a tracking deviation of -0.21%, well within the Funds 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 2004 to 28 February 2005, with the benchmark performance which comprises 80% FTSE All-Share Index and 20% FTSE World (ex-UK) Index.

	March 2004	April 2004	May 2004	June 2004	July 2004	August 2004	September 2004
Total Fund	-1.58	1.70	-1.86	1.58	-2.12	1.13	2.28
Benchmark	-1.56	1.66	-1.84	1.60	-2.07	1.13	2.31
Relative	-0.02	0.04	-0.02	-0.02	-0.05	0.00	-0.03
	October 2004	November 2004	December 2004	January 2005	February 2005	1-year	
Total Fund	1.10	1.80	2.93	0.89	1.92	10.04	
Benchmark	1.14	1.82	2.92	0.89	1.97	10.25	
Relative	-0.04	-0.02	0.01	0.00	-0.05	-0.21	

## 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 54.

## Market/economic review

During the year under review the FTSE All-Share Index rose by 11.24%, while the FTSE All-World (ex-UK) Index rose by 6.28%. Over the first six months, despite resilient economic growth in the UK, the market struggled to gain ground as interest rates rose by 0.75%, to 4.75%. The world's major markets also struggled, largely as a result of the uncertainty created by the heightened terror alert, as well as a slowdown in the pace of the global recovery.

Following the summer soft patch, confidence returned to the market and despite steadily rising interest rates, this has had a positive effect on global equity markets. The FTSE All-World (excluding UK) Index returned a positive performance for the final six months of the year. The UK market also benefited from resilient economic growth throughout the second half of the year, and was further supported by the Bank of England's decision to hold interest rates at 4.75%.

# 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 DCA) to discuss operational issues and investment strategies.

The accounts produced at the accounting year end are audited by a firm appointed 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 2005 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 three experienced risk managers. 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 Source book. The Risk function operates within the Legal & General Group risk management framework. The Head of Risk & Business Standards 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
- Group 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 & Corporate Division (chair)
- Managing Director
- Sales & Marketing Director
- Group Compliance Director
- Head of Risk & Business Standards
- Finance Director
- Finance Director (UK Operations)
- Operations Director

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

- 1 Minutes of previous meeting
- 2 Matters arising
- 3 Key Risk Indicators
- 4 Top Risks
- 5 Area Risk Reports
- 6 Business Standards Report
- 7 Risk Assessment Reports
- 8 Audit Recommendations Report
- 9 Compliance Report
- 10 Human Resources Report
- 11 Training & Competency Report
- 12 Any Other Business

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; and
- follows formalised processes to identify, assess, monitor and control risk.

Embedding the risk framework within the business remains a key objective and priority for 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 Trustees and 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

12 July 2005

# 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. As indicated on page 2, the Lord Chancellor appointed Legal & General (Unit Trust Managers) Limited on 1 September 2003.

## 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 Common Investment Index Tracker Fund on pages 44 to 53 under section 45(3) of the Administration of Justice Act 1982. These financial statements have been prepared in accordance with the accounts direction issued by Treasury on pages 55 to 57 and the accounting policies set out on page 48.

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

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

As explained in the Foreword on page 33, 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. As indicated on page 33, the Lord Chancellor appointed Legal & General Unit Trust Managers Ltd to be the Investment Manager for the Common Investment Index Tracker Fund for the period 1 March 2004 to 28 February 2005.

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

Under Section 45(1)(c) of the Act, and in accordance with directions issued by Treasury, the Investment Manager, as described on page 38, 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 responsibilities as independent auditor are established by statute and guided by the United Kingdom Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in November 2003 and with directions issued by Treasury under the Administration of Justice Act 1982. I also report whether in all material respects, the financial transactions of the Fund conform to the authorities that govern them.

I also report if in my opinion the Investment Manager's Report on pages 36 and 37 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.

I review whether the statement on pages 38 to 40 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.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An 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 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 other irregularity 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 of the financial position of the Equity Index Tracker Fund as at 28 February 2005 and of the net income and movements in net assets for the period from 1 March 2004 to 28 February 2005;
- 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 Fund during the period from 1 March 2004 to 28 February 2005 conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

15 July 2005

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

## Statement of Total Return for the year ended 28 February 2005

		1 March 2004 to 28 February 2005		1 September 2003 to 29 February 2004	
	Notes	£	£	£	£
Net gains on Investments	2	<b>3,772,561</b>		1,622,656	
Other gains/(losses)	3		<b>0</b>		0
Income	4	<b>943,054</b>		253,031	
Expenses	5	<b>(62,672)</b>		(25,992)	
Net income before taxation		<b>880,382</b>		227,039	
Taxation	6	<b>(31,083)</b>		(17,276)	
Net income after taxation for the year		<b>849,299</b>		209,763	
Total return for the year		<b>4,621,860</b>		1,832,419	
Distributions	7	<b>(849,799)</b>		(209,888)	
Net increase in unitholders' funds from investment activities		<b>3,772,061</b>		1,622,531	

## Statement of Movements in Unitholders' Funds for the year ended 28 February 2005

		1 March 2004 to 28 February 2005		1 September 2003 to 29 February 2004	
		£	£	£	£
Net assets at the start of the year			<b>30,382,849</b>		0
Movement due to sales and repurchases of units					
Amounts received on creation of units		<b>7,738,849</b>		1,056,487	
In-specie transfer*		<b>0</b>		28,456,323	
Less Amounts paid on cancellation of units		<b>(336,048)</b>		(752,492)	
			<b>7,402,801</b>		28,760,318
Net increase in Unitholders' funds from investment activities (see above)		<b>3,772,061</b>		1,622,531	
<b>Net assets at the end of the year</b>			<b>41,557,711</b>		30,382,849

\* Transfer from JP Morgan Fleming Capital Fund.

The notes on pages 48 to 53 form part of these accounts.

## Portfolio Statement as at 28 February 2005

All investments are in distribution units unless otherwise stated. The percentages in brackets show the equivalent sector holdings at 29 February 2004.

Investment	Holding/ nominal value	Market value £	% of net assets
<b>Unit Trusts investing in UK shares — 80.18% (80.9%)</b>			
Legal & General UK index trust	33,007,245	33,320,813	80.18
<b>Unit Trusts investing in overseas shares — 19.82% (19.89%)</b>			
Legal & General European Index Trust	1,286,951	1,844,844	4.44
Legal & General Japan Index Trust	3,086,141	825,543	1.98
Legal & General Pacific Index Trust	1,452,208	592,210	1.43
Legal & General US Index Trust	4,073,034	4,973,175	11.97
		8,235,772	19.82
<b>Portfolio of investments</b>		41,556,585	100.00
<b>Net current assets</b>		1,126	0
<b>Net assets</b>		41,557,711	<b>100.00%</b>

*The notes on pages 48 to 53 form part of these accounts.*

## Balance Sheet as at 28 February 2005

	Notes	<b>28 February 2005</b>	29 February 2004
		£	£
<b>Portfolio of investments</b>		<b>41,556,585</b>	30,377,825
<b>Net current assets</b>			
Debtors	8	<b>330,457</b>	27,007
Cash and bank balances	9	<b>496,014</b>	320,881
		<b>826,471</b>	347,888
<i>Less</i>			
Creditors	10	<b>301,499</b>	133,883
Bank overdrafts	9	<b>20,234</b>	0
Distribution payable on distribution units		<b>503,612</b>	208,981
		<b>825,345</b>	342,864
<b>Net current assets</b>		<b>1,126</b>	5,024
<b>Net assets</b>		<b>41,557,711</b>	30,382,849
<b>Unitholders' funds</b>		<b>41,557,711</b>	30,382,849

*The notes on pages 48 to 53 form part of these accounts.*

M W Dedman  
 Managing Director  
 Legal & General (Unit Trust Managers) Limited

12 July 2005



## Summary of Material Portfolio Changes for the period ended 28 February 2005

<b>Major purchases</b>		<b>Cost £000</b>
Legal & General UK Index Trust		5,981
Legal & General US Index Trust		1,081
Legal & General European Index Trust		397
Legal & General Japan Index Trust		180
Legal & General Pacific Index Trust		107
<b>Total purchases for the period</b>	<b>£7,746</b>	
<b>Major sales</b>		<b>Proceeds £000</b>
Legal & General UK Index Trust		315
Legal & General European Index Trust		18
Legal & General US Index Trust		5
Legal & General Pacific Index Trust		2
<b>Total sales for the period</b>	<b>£340</b>	

# Notes to the Financial Statements as at 28 February 2005

## 1 Accounting policies

### *a Basis of accounting*

The accounts are subject to an Accounts Direction given by Treasury (as detailed on pages 55 to 57) and are prepared under the historic 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.

### *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 in respect of the management fees incurred by the underlying investments.

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 Source book.

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 2005, 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 arm's length basis following the best execution principles thereby ensuring that Legal & General meets its regulatory obligations in respect of best execution.

### *f Taxation*

Provision is made for taxation at current rates on the excess of 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>1 March 2004 to 28 February 2005</b>	1 September 2003 to 29 February 2004
	£	£
The net gains on investments during the year comprise		
Proceeds from sales of investments during the year	<b>340,000</b>	761,765
Original cost of investments sold during the year	<b>(318,615)</b>	(743,661)
Gains realised on Investments sold during the year	<b>21,385</b>	18,104
Net appreciation there on already recognised In earlier periods	<b>(21,017)</b>	0
	<b>368</b>	18,104
Net unrealised appreciation for the year	<b>3,772,193</b>	1,604,552
Net gains on investments	<b>3,772,561</b>	1,622,656

**3 Other gains/(losses)**

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

**4 Income**

	<b>1 March 2004 to 28 February 2005</b>	1 September 2003 to 29 February 2004
	£	£
Franked dividend distributions	<b>638,109</b>	140,784
Unfranked dividend distributions	<b>112,491</b>	28,902
Bank interest	<b>5,591</b>	4,639
Management fee rebates from Legal & General Investment Management United	<b>186,863</b>	78,706
	<b>943,054</b>	253,031

**5 Expenses**

	<b>1 March 2004 to 28 February 2005</b>	1 September 2003 to 29 February 2004
	£	£
<b>Payable to the Manager, associates of the Manager and agents of either of them</b>		
Manager's periodic fee	<b>58,306</b>	24,615
<b>Other expenses</b>		
Safe custody fees	<b>3,540</b>	1,200
Transaction charges	<b>500</b>	125
Bank overdraft interest	<b>326</b>	52
	<b>4,366</b>	1,377
<b>Total expenses</b>	<b>62,672</b>	25,992

## 6 Taxation

### a Analysis of taxation charge in year

	1 March 2004 to 28 February 2005 £	1 September 2003 to 29 February 2004 £
Corporation tax	43,014	17,276
Prior year tax adjustment	(11,931)	0
Current tax [note 6 (b)]	31,083	17,276
Deferred tax [note 6 (c)]	0	0
<b>Total taxation</b>	<b>31,083</b>	<b>17,276</b>

### 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	880,382	227,039
Net income before taxation multiplied by the applicable rate of Corporation tax at 20%	176,076	45,408
<i>Effects of</i>		
Income not subject to taxation	(127,622)	(28,157)
Prior year tax adjustment	(11,931)	0
Disallowable expenditure	100	25
Movement in taxation losses	(5,540)	0
Current tax	31,083	17,276

### c Provision for Deferred tax

There is no Deferred tax provision in the current year.

At the year end there is a potential deferred tax asset of £33,752 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

	1 March 2004 to 28 February 2005 £	1 September 2003 to 29 February 2004 £
Interim distribution	420,214	0
Final distribution	503,612	208,981
	<b>923,826</b>	<b>208,981</b>
<i>Add</i> Income deducted on cancellation of units	3,978	7,437
<i>Less</i> Income received on creation of units	(78,005)	(6,530)
<b>Distributions for the year</b>	<b>849,799</b>	<b>209,888</b>
<i>Less</i> Transaction charges	(500)	(125)
Net Income after taxation for the year	<b>849,299</b>	<b>209,763</b>

**8 Debtors**

	<b>28 February 2005</b>	29 February 2004
	£	£
Amounts receivable for creation of units	<b>300,002</b>	0
Accrued income	<b>17,268</b>	26,560
Bank interest	<b>1,256</b>	447
Receivable income tax	<b>436</b>	0
Corporation tax recoverable	<b>11,495</b>	0
	<b>330,457</b>	27,007

**9 Cash and bank balances**

	<b>28 February 2005</b>	29 February 2004
	£	£
Cash and bank balances	<b>496,014</b>	320,881
Bank overdrafts	<b>(20,234)</b>	0
<b>Net uninvested cash</b>	<b>475,780</b>	320,881

**10 Creditors**

	<b>28 February 2005</b>	29 February 2004
	£	£
Purchases awaiting settlement	<b>275,000</b>	113,705
Accrued expenses	<b>5,983</b>	8,683
Corporation tax payable	<b>20,516</b>	11,495
	<b>301,499</b>	133,883

**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 6. 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 period, 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 counter parties to fail to meet their transaction commitments, This risk is managed by appraising the credit profile of financial instruments and trade counter parties. 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 Trust is the potential movement in the value of financial instruments held as a result of price fluctuations given that the Fund invests in other unit trusts, 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 Source book. 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 unit trust investments 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 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, are a related party (as defined by Financial Reporting Standard (FRS) 8). Details of units created and cancelled are shown in the Statement of Movements in Unitholders' Funds. 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 £41,556,585 at 28 February 2005 (2004: £30,377,825).

Management fees paid to Legal & General Investment Management limited are shown in note 5. The balances due in respect of these fees is £5,404 (2004: £8,292). Management fee rebates received from Legal & General Investment Management are shown in note 4. Rebates receivable at the year end amount to £17,268 (2004: £26,560).

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**

Investment Channel	Net asset value of fund	Net asset value per unit	Number of units in issue	%
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 Table for the period ended 28 February 2005

### Interim dividend distribution in pence per unit

Group 1: units purchased prior to 1 March 2004

Group 2: units purchased from 1 March 2004 to 31 August 2004

	Net income	Equalisation (Note 11)	Distribution paid 12 October 2004
<b>Distribution units</b>			
Group 1	9.8245	0	9.8245
Group 2	1.7096	8.1149	9.8245

No distribution was paid on 12 October 2003 by Legal & General Unit Trust Managers Limited.

### Final dividend distribution in pence per unit

Group 1: units purchased prior to 1 September 2004

Group 2: units purchased from 1 September 2004 to 28 February 2005

	Net income	Equalisation (Note 11)	Distribution paid 10 April 2005
<b>Distribution units</b>			
Group 1	10.5113	0	10.5113
Group 2	2.2431	8.2682	10.5113

The distribution paid on 10 April was 5.4017p 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 <sup>(2)</sup>	£41,557,711	867.38p	4,791,158

### Unit price range

Year	Highest offer	Lowest bid	Net income <sup>(4)</sup>	Per 1,000 invested <sup>(4)</sup>
Distribution units 2003 <sup>(1)</sup>	773.30p	722.60p	0	0
2004 <sup>(3)</sup>	850.30p	757.20p	15.2262p	£20.49
2005	890.70p	847.20p	10.5112p	£14.14

1 Since inception at 1 September 2003.

2 To 28 February 2005.

3 The table shows highest offer and lowest bid prices to 28 February 2005. This table also shows net income to 10 April 2005.

4 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.



# 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' Funds;
  - VI a Balance Sheet;
  - VII a Portfolio Statement;
  - VIII a Summary of Material Portfolio charges;
  - IX a Distribution Statement; 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

26 November 2004

## General information

### Accounting/distribution dates

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

#### Accounting dates

28 February  
31 August

#### Distribution dates

10 April  
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.

#### 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  
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11 Queen Victoria Street  
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Telephone: 020 7528 6200  
Registered in England No. 1009418  
Authorised and regulated by the Financial Services Authority

**Directors of the Manager**

JM Bury  
S Cartlidge (appointed 29 October 2004)  
MW Dedman  
M Pengilly (appointed 9 February 2005)  
SR Pistell  
JB Pollock  
RP Sewell  
S Whiteside (resigned 30 April 2004)

**Overall governance**

Department for Constitutional Affairs

**Auditor**

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