

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

Funds in Court England & Wales Account 2001-2002

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

Accountant general's accounts

The Accountant General's Accounts (Account A) cover the year ended 28 February 2002. 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. Deposits under the various enactments referred to in Section 40 of the Act are not segregated in the Accounts.

The Court Funds Office

- 1 The Court Funds Office manages money 'held in Court' on behalf of clients who may be
 - a suitors involved in a civil legal action where money is paid into the Court Funds Office. This could be a case 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 it on completion of the case and pays interest on it at a competitive rate;
 - b patients who, under the Court of Protection, are not able to manage their property and affairs, and as a result use the services of the Protection and Receivership activities of the former Public Trust Office (now the Public Guardianship Office). The investment strategy is determined by the respective courts either on a Capital Appreciation or High-Income basis or a mixture of both and reviewed annually. The investment strategy determined by the courts is implemented by the Investment Division of the former Public Trust Office either in stocks and certain unit and investment trusts or placed on a special account that pays a competitive gross rate of interest with instant access; and
 - c funds paid into court for the benefit of a child and held until the child's eighteenth birthday, unless a court order instructs otherwise. The investment strategy is determined by the respective courts either on a Capital Appreciation or High-Income basis or a mixture of both. The investment strategy determined by the courts is implemented by the Investment Division of the Official Solicitor and Public Trustee either in stocks and certain unit and investment trusts or placed on a special account that pays a competitive gross rate of interest with instant access. Such funds can be invested in one of two ways; either in stocks and certain unit and investment trusts or placed on a special account that pays a competitive gross rate of interest with instant access.
- 2 The Court Funds Office is also responsible for the Unclaimed Balances Account. This fund consists of
 - a money paid into court which has not been claimed after a reasonable time; and
 - b money paid to the Court Funds Office where the rightful owner cannot be found.
- 3 The Court Funds Office is controlled by the Rules of the Supreme Court and the Court Funds Rules which has authority to accept payments 'into Court' under certain circumstances and to hold these funds until instructed to make a payment out.

CFO investment criteria

Under section 38(2) of the Administration of Justice Act 1982, 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 National Debt Commissioners for investment, drawings being made when additional money is required to meet payments out of Court. The level of working balance is £800,000 and the Accountant General is liable to meet the Bank's cost of servicing this account.

The basic and special accounts are operated by the Accountant General. The rates of interest are prescribed from time to time by direction made by the Lord Chancellor with the concurrence of the Treasury. During the year the percentage rates per annum were

From 1 March 2001 to 31 January 2002

Basic	5.25%
Special	7%

From 1 February 2002 to 28 February 2002

Basic	4%
Special	6%

Interest credited to these accounts is met from the income earned on the money deposited with the National Debt Commissioners.

Results for the year

The accounts on pages 9 to 13 report cash lodgements during the year ending 28 February 2002 of £1.9bn with cash payments and transactions out of court of £1.7bn. This net inflow of cash, plus interest earned of £175m, were the main reasons for overall cash balances held increasing to £3.04 billion at 28 February 2002.

The 2001-2002 accounts also resulted in a £6.8m increase in the nominal value of securities held, with a closing balance of £52.6m reported at 28 February 2002. The number of common investment fund units held reduced by 0.78 million with 6 million units held at 28 February 2002. Further details of the common investment funds are provided in Part C of the White Paper Accounts.

Audit of accounts

Under Section 45 (3) of the Administration of Justice Act 1982, the Comptroller and Auditor General is responsible for examining the Funds in Court Accounts and laying before each House of Parliament a copy of the accounts together with his certificate and report.

Transfer of the Court Funds Office and appointment of the Accountant General

Following The Lord Chancellor's recommendations in 'Making Changes - The Future of the Public Trust Office', responsibility for the Court Funds Office transferred to the Court Service on 1 April 2001.

The transfer of responsibility resulted in a change of Accountant General from the acting Chief Executive of the Public Trust Office to the Chief Executive of the Court Service.

On 1 April 2001, Ian Magee, Chief Executive of the Court Service, was appointed as Accountant General replacing Nicholas J Smedley who, as acting Chief Executive of the former Public Trust Fund Office, had held the post since 1 January 2000.

On 1 April 2003, Peter Handcock, Acting Chief Executive of the Court Service, was appointed as Accountant General, replacing Ian Magee.

Administration costs

The administrative costs of the Court Funds Office fall outside the scope of these accounts. Instead these costs for the year ending 28 February 2002, and their re-imburement from funds held by the National Debt Commissioners, were reported in the 2001-2002 Annual Report and Accounts of the Court Service.

Future developments

The Court Funds Office faces a challenging programme of work over the next few years. Key issues relate to the need to replace the Funds Accounting System, which a CFO Transformation Programme team, with input from CFO, staff is taking forward. There is also the ongoing programme of work to strengthen the internal control and governance arrangements within the Court Funds Office, with further details of this work provided in the statement on internal financial control on pages 6 and 7.

Peter Handcock
Accountant General of the Supreme Court

7 November 2003

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 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 that Act, he 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 statement of balances held by the Accountant General at the year-end.

Appointment of the Accountant General

The Lord Chancellor has appointed the Accountant General as the Accounting Officer for the Funds in Court. His relevant responsibilities as Accounting Officer, including his responsibilities for the propriety and regularity of the private 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

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 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.

The system of internal financial 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.

In particular it includes

- 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 considered by the CFO Management Boards;
- the CFO Management Board's ongoing review of the CFO process for formally identifying, evaluating and managing the significant risks to the achievement of its objectives;
- the undertaking of daily and monthly reconciliations to ascertain and agree the balances held with the Bank of England and the National Debt Commissioners, 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; and
- regular reviews of an annual budget covering the costs of administering the CFO which is agreed by the Court Service Board.

The Department for Constitutional Affairs (formerly Lord Chancellor's Department) has an Internal Assurance Division (IAD), which operates to the standards defined in the Government Internal Audit Manual. The work of Internal Audit is informed by an analysis of the risk to which the Department is exposed and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans were for the year ending 28 February 2002, endorsed by the Audit Committee and Court Service Board, and approved by the Accountant General. Since 1 April 2001, audit coverage of the CFO has been provided as part of IAD's audit of the Court Service.

My review of the effectiveness of the system of internal financial control is informed by the work of Internal Assurance Division and the CFO management team, who have responsibility for the development and maintenance of the financial control framework, and comments made by the external auditors in their management letter and other reports.

The Internal Assurance Division carried out a Review of Accounting procedures at the Court Funds Office in June 2003. As a result of IAD's recommendations, an action plan has now been put in place to address those weaknesses identified. Progress in achieving this action plan is reported monthly to Senior Management.

The CFO is also taking action to strengthen internal financial controls as a result of a joint exercise on compliance controls between the Court Funds Office and Corporate Governance Branch of the Court Service.

Areas of further work

As Accounting Officer, I am aware of the recommendations of the Turnbull Committee. Progress to date on implementing these recommendations includes

- strengthening of internal financial controls, includes;
- ongoing involvement with the Court Service corporate governance project;
- carrying out of a full risk assessment by Deloitte & Touche, including the preparation of a risk register;
- training of staff; and
- review and update of management and operational controls.

The risk management process requires the CFO to maintain a risk register which is a complete record of the risks the CFO 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 Supreme Court Group and the Court Service Board.

The CFO is continuing to embed these risk management procedures and, in doing so, ensure full compliance with the Court Service's risk management strategy.

This aims to ensure that risk management is embedded within all organisational processes, including those within CFO by 31 March 2004.

Peter Handcock
Accountant General of the Supreme Court

7 November 2003

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 9 to 13 under section 45 (3) of the Administration of Justice Act 1982. These financial statements 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 financial statements 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 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 6 and 7 comply 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.

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 and transactions in securities have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the 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 2002 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 conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

7 January 2004

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

Account of the Receipts and Payments and Transactions in Securities of the Accountant General under the Court Funds Rules for the year ended 28 February 2002

	Receipts and payments account for the year ended 28 February 2002			Receipts and payments account for the year ended 29 February 2001		
	Cash Sterling	Securities nominal value Sterling	Common investment Fund Units	Cash Sterling	Securities nominal value Sterling	Common investment Fund Units
Receipts and transfers into court						
<i>Cash</i>						
Lodgments by suitors etc.	1,921,939,453			1,811,121,922		
Sales of Common Investment Fund units and other securities	38,079,508			41,026,198		
Dividends	9,747,647			10,217,056		
Interest credited to court accounts	175,883,180			160,296,266		
Exchange rate gain	417,547			2,139,750		
<i>Securities</i>						
Lodged		24,531,871	3,913		11,803,828	41,143
Purchased		10,789,234			23,976,978	7,029
Exchange rate gain		29,334			90,006	
Total receipts and transfers into court	<u>2,146,067,335</u>	<u>35,350,439</u>	<u>3,913</u>	<u>2,024,801,192</u>	<u>35,870,812</u>	<u>48,172</u>
Less payments and transfers out of court						
<i>Cash</i>						
Payments to suitors etc.	(1,719,687,089)			(1,709,573,166)		
Cost of purchase of Common Investment Fund Units and other securities	(84,694,672)		(784,948)	(101,084,948)		
<i>Transfer of fees etc. to</i>						
The Lord Chancellor's Department (Note 8)	(4,970,052)			(9,346,291)		
<i>Securities</i>						
Transferred and delivered		(25,957,579)		(26,281,522)	(41,143)	
Sold		(2,581,795)		(2,905,943)	(1,217,949)	
Total payments and transfers out of Court	<u>(1,809,351,813)</u>	<u>(28,539,374)</u>	<u>(784,948)</u>	<u>(1,820,004,405)</u>	<u>(29,187,465)</u>	<u>(1,259,092)</u>
Net movement in year	<u>336,715,522</u>	<u>6,811,065</u>	<u>(781,035)</u>	<u>204,796,787</u>	<u>6,683,347</u>	<u>(1,210,920)</u>

The notes on pages 11 to 13 form part of these accounts.

Account of the Receipts and Payments and Transactions in Securities of the Accountant General under the Court Funds Rules for the year ended 28 February 2002 *continued*

	Statement of balances at 28 February 2002		
	Cash	Securities nominal value	Common Investment Fund
	Sterling	Sterling	Units
Balance 1 March 2001	2,705,490,210	45,860,208	6,784,024
<i>Add</i>			
Net movement in year	<u>336,715,522</u>	<u>6,811,065</u>	<u>(781,035)</u>
Balances 28 February 2002 (see note 2)	<u>3,042,205,732</u>	<u>52,671,273</u>	<u>6,002,989</u>

The notes on pages 11 to 13 form part of these accounts.

Notes to the accounts

1 Preparation of Accounts

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

2 Cash balances

The cash balances for which the Accountant General is liable are

	2002 £	2001 £
Cash balances representing		
Court funds (including interest) placed on basic account	783,385,808	804,482,155
Court funds (including interest) placed on special account	2,064,571,202	1,673,488,089
Receivership funds	0	114,258,974
Unclaimed balances	32,028,577	32,072,993
Other Suitors money etc. deposited in the Supreme Court	100,107,789	45,397,943
Suitors money held as Foreign Currency	62,112,356	35,790,056
Total	<u>3,042,205,732</u>	<u>2,705,490,210</u>
Bank of England	2,092,113	20,166,202
Monies held as Foreign Currency (Note 3)	62,112,356	35,790,056
National Debt Commissioners (a)	2,987,579,474	2,672,547,741
Amounts awaiting banking	203,339	2,611,810
	<u>3,051,987,282</u>	<u>2,731,115,809</u>
Less cheques issued prior to 1 March and not yet cashed	(9,781,550)	(25,625,599)
Total	<u>3,042,205,732</u>	<u>2,705,490,210</u>

- a The National Debt Commissioners balance excludes an estimated £46,904,604.51 of basic and special account interest accrued but not yet credited to Court Funds. The National Debt Commissioners' balance at 28 February 2002 including this accrued interest was £3,034 million.

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

3 Foreign currency

Suitors money held as Foreign Currency is deposited by the Accountant General with various foreign commercial banks acting as agents of the Bank of England. Foreign Currency was translated to Sterling value by exchange rates in force at 28 February 2002.

Currency	Closing balance	Exchange rates	Sterling conversion
AUS\$	159	2.7396	58
CAN\$	508,821	2.2697	224,180
DK	980	12.1502	81
SK	5,658	14.7989	382
EURO	1,722	1.635	1,053
US\$	87,370,502	1.4142	61,780,867
JPY	20,000,000	189.1529	105,735
Total			<u>62,112,356</u>

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 Funds

Units held in the Common Investment Funds at 28 February 2002 were as follows

Title of fund	2002	2001
Capital Fund	4,056,079	4,492,594
High Yield Fund	1,946,910	2,291,430
	<u>6,002,989</u>	<u>6,784,024</u>

In April 2003, the High Yield Fund was merged with the Capital Fund, and from late August 2003 the resulting Capital Fund units will be invested in an Equity Index Tracker Fund.

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

6 Bonds listed on the Euroclear exchange

The Bank of England, as a participant acting for the Accountant General, holds various instruments on the Euroclear Exchange in Brussels.

These Security Instruments includes corporate bonds, foreign denominated ordinary and preference shares, short and medium term notes, global depository receipts and investment funds.

The Euroclear exchange is a clearing and settlement system for internationally traded securities.

7 Miscellaneous items

In addition to the balances of cash, securities and Common Investment Fund Units on 28 February 2002, further items were held on behalf of the Accountant General as follows

Location	Item	Value (2002)	Value (2001)
Court Funds Office	National Savings Certificates/two private bonds and one packet	£166,425	£166,425
Bank of England	Financial documents ordered into Court (packets)	5 packets	5 packets
Bank of England	Various Unit Trusts	68,514,917 units	52,901,086 units
British Museum	Gold coins	4 gold coins	4 gold coins
British Museum	Silver coins	1,747 coins	1,747 coins

The term 'packets' relates to financial documents ordered into Court.

8 Transfer of fees

The £4,970,052 shown in respect of transfer of fees to the Lord Chancellor's Department includes

Item	2002 £	2001 £
Court of Protection Fees met directly from funds held in court	4,964,745	9,343,129
Interest earned on foreign currency deposits where no court order has been made for the payment out of interest	5,307	2,599
Total	4,970,052	9,345,728

The amounts transferred also include sums under 5 pence remaining on accounts when closed and negligible residues from dividends that cannot be exactly apportioned.

Peter Handcock
Accountant General of the Supreme Court

7 November 2003

National Debt Commissioners' Accounts

Foreword

The National Debt Commissioner's Accounts (Account B) cover the year ended 28 February 2002. They have been prepared in accordance with a direction given by the Treasury in pursuance of section 45(2) of the Administration of Justice Act 1982. The accounts are prepared on a cash basis and must properly present the receipts, payments and transactions in securities for the year and the balances held at the year end.

Section 39(1) of the Act and Statutory Instrument 1978 No. 468 authorise investment in Government and Government guaranteed securities, Treasury Bills, Ways and Means advances and local authority securities. Until required to meet payments, the interest or dividends received on investments held by the Commissioners is reinvested in authorised securities.

Section 45(1) of the Act requires the Commissioners to prepare accounts in respect of their transactions under section 39 of the Act. The Commissioners have delegated their authority under this section of the Act to the Comptroller General and as a consequence the Comptroller General is responsible for propriety, regularity and the keeping of proper records.

During the year the nominal amount of securities held by the Commissioners rose by £402.6m to £3,356.0m. This reflected the increase in the liability of the Commissioners to the Accountant General of the Supreme Court from £2,716.3m at the beginning of the year to £3,040.5m at 28 February 2002.

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 surplus or deficiency is obtained by deducting from the interest and dividends received by the Commissioners the sum of

- a the interest due to be paid or credited to the basic and special accounts;
- b the sum required by the Lord Chancellor in respect of administering funds in court;
- c the sum required by the Commissioners in respect of expenses; and
- d 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.

Statement on Internal Control

The National Debt Office (NDO), which for many years provided administrative support to the National Debt Commissioners (the Commissioners), had been part of the National Investment and Loans Office (NILO) since 1980. As part of the outcome of an examination by the Treasury of the overall efficiency and effectiveness of the Government's cash and debt service activities, the operations of the NDO and the UK Debt Management Office (DMO) were integrated with effect from 1 July 2002 and NILO thereafter ceased to exist. Since 1 July the statutory operations carried out within the DMO on behalf of the Commissioners have been referred to CRND.

I succeeded Ian Peattie as Comptroller General to the Commissioners with effect from 1 July. Whilst I acknowledge my responsibility for ensuring that an effective system of internal control is maintained and operated by the CRND, I have taken assurances from Ian Peattie, the former Accounting Officer for NILO, as to the system that was in place in NILO during the period covered by these accounts.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve 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 the principal risks to the achievement of departmental aims and objectives, to evaluate the nature and extent of those risks and to manage these efficiently, effectively and economically.

The department had established the following processes

- a management team which met monthly to consider the plans and strategic direction of the department and its three constituent statutory bodies. The management team comprised the senior members of the department who were all aware of, and involved in, the various functions of the department and the activities being undertaken;
- regular reports from managers on the steps they were taking to manage risks in their area of responsibility including progress reports on key projects as appropriate;
- a Risk Management Committee which met half-yearly and which comprised all members of the management team together with representatives from both internal and external audit; and
- regular reports by internal audit, to standards defined in the Government Internal Audit Manual, which included the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the department's system of internal control together with recommendations for improvement. The work of Internal Audit was based on an assessment of the risks to NILO which had been agreed by the Risk Management Committee.

My predecessor's review of the effectiveness of the system of internal control was informed by the work of the internal auditors and the executive managers within the department who had responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

In addition to the actions mentioned above, in the coming year the department had planned to

- arrange a programme of workshops with staff to ensure that the current assessment of key operational risks was accurate; and
- develop the assessment into an organisation wide risk register.

However, work in this area was overtaken by the decision, announced to Parliament on 25 March 2002, that the NDO will be integrated with the DMO with effect from 1 July 2002, and that NILO will thereafter cease to exist.

Following the integration, the opportunity has been taken to consolidate the systems of internal control into the standard framework of controls applied within the DMO.

The DMO's Chief Executive is the Accounting Officer for the whole of the DMO and so is responsible for the DMO's Statement on Internal Control. In future, I shall seek assurances from him on the DMO's Statement of Internal Control as it relates to the business of the CRND.

The Certificate of the Comptroller and Auditor General to the National Debt Commissioners

I certify that I have audited the financial statements of the Court Funds Investment Account on pages 17 to 19 under the Treasury agreement letter dated 23 August 1990.

Respective responsibilities of the Accounting Officer and the Auditor

As described on page 14, the Accounting Officer is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword and the Statement of Internal Control on page 15. My responsibilities, as independent auditor, are guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements properly present the receipts, payments and transactions in securities, and the balances at year end, and whether in all material respects the receipts, payments and transactions in securities 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 page 15 reflects compliance with Treasury's guidance 'Corporate governance: 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.

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 the Accounting Officer 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 payments, receipts and transactions in securities 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, payments and transactions in securities of the Commissioners for the Reduction of the National Debt in respect of the Court Funds Investment Account for the year ended 28 February 2002, and the balances held at that date; and
- in all material respects the receipts, payments and transactions in securities conform to the authorities which govern them.

John Bourn
Comptroller and Auditor General

17 July 2003

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

Court Funds Investment Account

Account of the Receipts and Payments and Transactions in Securities of the National Debt Commissioners for the year ended 28 February 2002

	Notes	2002 £	2001 £
Cash receipts			
From Accountant General		511,432,000	403,000,000
Interest on securities etc.		183,127,194	175,069,803
Sales of securities etc.	1&5	2,563,293,536	3,356,373,581
		3,257,852,730	3,934,443,384
Cash payments			
To Accountant General		361,690,000	357,000,000
Purchase of securities etc.	5	2,891,830,176	3,570,538,093
Consolidated Fund - Surplus Income		0	2,587,428
Lord Chancellor's Department for Funds in Court administration		4,275,554	4,223,863
National Debt Commissioners for expenses		57,000	94,000
		3,257,852,730	3,934,443,384
Securities (at cost)			
Purchases	5	2,891,830,176	3,570,538,093
Sales	1&5	2,481,949,049	3,347,433,541
Net movement in securities in year		409,881,127	223,104,552

Statement of Balances at 28 February 2002

	Note	Securities (at cost) 2002 £	Securities (at cost) 2001 £
Balances at beginning of financial year		3,002,492,294	2,779,387,742
Net movement in year		409,881,127	223,104,552
Balance at end of financial year	2	3,412,373,421	3,002,492,294

The notes which follow form part of this account.

Notes to the Accounts

1 Received for securities sold

	2002 £	2001 £
Cost of securities sold etc.	2,481,949,049	3,347,433,541
Profit (loss) on disposal	<u>81,344,487</u>	8,940,040
Received for securities sold etc.	<u>2,563,293,536</u>	<u>3,356,373,581</u>

2 Securities held at year end

	Nominal £	Cost £	Market value £
Securities			
Government and Government guaranteed stocks	3,356,067,835	3,412,373,421	3,578,456,187

3 Securities at cost as in Note 2 above represent

	£	£	£
Liability of the investment Account to the Accountant General of the Supreme Court			3,040,484,079
<i>Add</i> Accumulated sum retained to provide for depreciation in the value of the securities			<u>3,750,631</u>
			3,044,234,710
<i>Add</i> Accumulated net profit on sales (or transfers) of securities from 1 October 1965 (including £81,344,487 for current year)		357,740,863	
<i>Less</i> Difference between cost price of securities and total liabilities at 1 October 1965	1,785,822		
Difference between cost price of securities transferred from Palatine Courts and the liability assumed at 10 February 1972	<u>3,620</u>	<u>1,789,442</u>	<u>355,951,421</u>
			3,400,186,131
<i>Comprising</i>			
Adjustment for surplus income payable to the Consolidated Fund in respect of 2001-2002			(4,331,189)
Adjustment for surplus income payable to the Consolidated Fund in respect of 2000-2001			(8,806,907)
Adjustment for deficit income payable from the Consolidated Fund in respect of 1999-2000			950,806
Securities at cost			<u>3,412,373,421</u>
			<u>3,400,186,131</u>

4 Application of income under Section 39(2) of the Administration of Justice Act 1982 as amended by Section 5(1) of the Public Trustee and Administration of Funds Act 1986

	£	£
Interest received on securities		183,127 194
<i>Less</i> interest due to be paid or credited to Court Accounts	174,463,451	
<i>Less</i> paid to Lord Chancellor's Department for fund administration in 2001-2002	4,275,554	
<i>Less</i> paid to NILO Services Account for management expenses in 2001-2002	57,000	
<i>Less</i> amount, determined by Treasury, retained to provide for depreciation in the value of securities	0	178,796,005
	<hr/>	<hr/>
Surplus income payable from the Consolidated Fund		4,331,189

5 Securities exchanged

During the year the National Debt Office exchanged with the Debt Management Office holdings of marketable gilt edged securities for equivalent amounts of non-marketable NILO stocks. The switches were effected at the book price of the holdings and as result there were no profits or losses. Given the substance of the transactions (effectively a name change) these were not recorded as sales and purchases. Only on the ultimate disposal of these stocks will profits or losses be recognised as realised.

Jo Whelan

25 February 2003

Comptroller General

Commissioners for the Reduction of the National Debt

Common Investment Scheme: Capital Fund

Investment Manager's Foreword

Statutory background

Section 45(1) of the Administration of Justice Act 1982 (the Act) requires the Investment Manager to prepare accounts in respect of the Common Investment Schemes. Under section 45 of the Act, the Lord High Chancellor of Great Britain (Lord Chancellor) appointed JP Morgan Fleming Asset Management (UK) Limited, formerly Fleming Investment Management Limited, as Investment Manager of the Common Investment Schemes with effect from 20 July 1999 to 31 August 2003.

For the period covered by these accounts there were two Common Investment Funds: these being the Capital Fund and the High Yield Fund.

Role of Court Funds Office

The Court Funds Office 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 Schemes;
- distribution to unit holders of dividends calculated by the Investment Manager;
- payment of Investment Manager's fees; and
- investment management oversight through the Strategic Investment Board.

Fund information

The objective of the Capital Fund is to secure a high long term capital growth with a small but growing income level. The accounts show the investment of funds in UK Equities and Global Equities. The Distribution Statement on page 37 and note 7 to the accounts also provide details of the dividends declared.

The Capital Fund pays a dividend twice a year. The Fund goes ex-dividend on the following dates and pays six weeks later.

Capital Fund	Ex-dividend	1 September	Pay date	15 October
	Ex-dividend	1 March	Pay date	15 April

The Investment Manager produced an annual investment report for the period ending 28 February 2002. This report provides further details on asset allocation; financial performance, including portfolio commentary; a review of the year; and market outlook. This report is available from the Accountant General of the Supreme Court and can be obtained from the Court Funds Office, 22 Kingsway, London, WC2B 6LE.

Closure of Capital Fund

The High Yield Fund was closed and merged into the Capital Fund on 10 April 2003 in accordance with Statutory Instrument 778.

Subsequently, on 1 September 2003 the assets of the combined Capital Fund were transferred to Legal & General (Unit Trust Managers) Limited who were appointed as the new Investment Manager from that date.

Accounts and audit

These accounts are in respect of the Capital Fund for the period 1 March 2001 to 28 February 2002 and have been prepared in accordance with a Direction issued by Treasury under section 45(2) of the Act as detailed on page 44.

The Comptroller and Auditor General is appointed external auditor under section 45(3) of the Act.

Mark White
Chief Executive Officer
JP Morgan Fleming Asset Management (UK) Limited

17 November 2004

Statement of Lord Chancellor's and Investment Manager's responsibilities

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 20, the Lord Chancellor appointed JP Morgan Fleming Asset Management (UK) Limited, formerly Fleming Investment Management Limited, to be Investment Manager for the period from 20 July 1999 to 31 August 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 Capital Fund.

The Treasury Direction requires the Investment Manager to follow best commercial practice. In preparing the Funds' Accounts, the Manager follows the disclosure requirements of the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by IMRO in January 1997 to the extent that such requirements are relevant to the Common Investment Funds. 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 Funds and of their 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 Unit Trust Schemes issued by IMRO in January 1997 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 Investment Management Agreement with the Lord High Chancellor dated 20 July 1999 and the Common Investment Scheme Statutory Instrument 1991 No. 1209.

Statement on Internal Control

1 Introduction

JP Morgan Fleming Asset Management (UK) Limited ('JPMFAM(UK)') formerly Fleming Investment Management Limited, part of the JP Morgan Fleming Asset Management group of companies ('JPMFAM'); was appointed as Investment Manager for the Common Investment Funds in July 1999. JPMFAM is a global investment manager that provides financial expertise and investment products and services for retail and institutional investors including mutual funds, investment trusts, governments, corporations, endowments, foundations and individuals. The management of JPMFAM are responsible for the identification of control objectives relating to the provision of investment management services and design, implementation and maintenance of JPMFAM's control procedures, to ensure with reasonable assurance on an ongoing basis that the control objectives are achieved. In carrying out these responsibilities, JPMFAM has regard not only to the interests of the client but also regulatory and general business requirements.

At the outset of a client relationship, the client and JPMFAM(UK) agree on the investment objectives and guidelines, if applicable, that will govern the account. Investment professionals (portfolio managers) manage the portfolios within these specifications. Adherence to investment policy and procedures is monitored by portfolio managers who are responsible for continual review of the accounts under their supervision, and by Guideline Management and Control Group. Various departments within JPMFAM also review adherence to investment policies and guidelines as well as compliance with the authorising documents, the organisation's controls and applicable regulatory requirements.

2 Scope of responsibility

As Chief Executive Officer of JPMFAM(UK), I have responsibility for maintaining an effective system of internal control that supports the achievement of JPMFAM's policies, aims and objectives, whilst safeguarding the management of the investments including the Common Investment Funds for which I have overall management responsibility.

3 The purpose of the system of internal control

A robust risk management and control culture is essential to our mission of being the pre-eminent asset management organisation world-wide. JPMFAM's management controls are designed to reinforce the group's control objectives to maintain effective operations, provide accurate financial reporting and ensure compliance with applicable policies, controls and regulations. An integral part of the system of controls is the control environment, which represents the collective effect of various factors on establishing, enhancing and maintaining the effectiveness of specific controls. The control environment reflects the overall attitude, awareness and actions of management and employees concerning the importance of control and its emphasis in the investment management business. These factors are reflected in the policies and procedures.

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 JPMFAM's 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 JPMFAM(UK) between July 1999 and August 2003 (the point at which responsibility for these funds was transferred) and accords with the requirements of the combined code and the requirements of the Financial Services Authority (FSA).

4 Capacity to handle risk

In order to cultivate a strong risk management culture and provide a framework to pro-actively manage risks in the business, Business Control Committees (BCCs), formerly known as Risk Committees, have been established providing the basis of a defined risk governance structure.

The BCCs represent a critical business-driven forum for reporting, monitoring, and escalating operational risk issues. These committees are “owned” by senior management within each business, which in turn encourages the “first line of defence” for each risk to be fully accountable and to provide transparency regarding risks and what is being done about them. Output from our Self Assessment, Error Reporting, Action Plan, and Integrated Reporting processes (together with relevant Key Risk Indicators) is used to help ensure that the BCCs stay focused on the critical issues.

Direct oversight on the business is provided by the BCCs meeting periodically, and which are made up of representatives from the business including senior managers, risk managers, compliance and internal audit.

JPMFAM(UK) has a formal hiring practice that is designed to ensure that new employees are qualified for job responsibilities. New position hiring must be approved by the head of the department requiring the position and the Human Resources department. The hiring policy includes a minimum education and experience requirement, completion of reference, background and credit investigations, and execution of confidentiality statements.

JPMFAM(UK)’s staff receive reviews of their performance at least annually from their supervisors using standard performance evaluation methods and criteria.

The Compliance function undertakes a program of sample monitoring to check that the investment management business is acting in accordance with applicable conduct of business related laws and regulations. In addition, Compliance staff liaise with the business areas on a daily basis to address compliance issues as they arise. In the course of monitoring and liaising with the business areas, it can sometimes become apparent that additional training on compliance matters is required and this will be provided. Money laundering sessions are obligatory for all JPMFAM’s employees and take place once a year. In order to increase employees’ risk awareness we focus on topics such as business or operational risk, money laundering and compliance with regulatory guidelines.

The risk management team is responsible for the investigation and review of business errors and breaches of investment guidelines. In addition, the team is responsible for the regular review of operational risk e.g. transaction reports and systems, the production of monthly reports to cover the above, Business Continuity Planning, counterparty risk, unquoted securities, new products, material issues, new risks and seed capital investments. It is the responsibility of each individual business unit that the risks are dealt with effectively.

5 The risk and control framework

Underlying the global structure of JPMFAM is a management structure consisting of global, regional and local management team members. Business units and functions are primarily responsible for managing their own risks and controls and for ensuring that they are compliant with firm-wide and local control policies, procedures and regulations. There are Chief Investment Officers assigned to Fixed Income, Equity, Private Equity and Hedge Funds reporting to the Chief Executive Officer of JPMFAM.

JPMFAM(UK)’s internal controls are evaluated regularly through a control self-assessment process. The assessment process is generally organised by functional unit or product and is used by business units to assess the effectiveness of their control environment. Assessments identify key operating risks faced by the business, describe controls in place to mitigate the risks identified, assess the effectiveness of these controls and identify tasks required to rectify control gaps.

As part of its overall risk management process JPMFAM has an approval procedure for new products, services and activities. Risks are reviewed and signed off by members of Risk Management, Compliance, Tax, Investment Management, Operations, Legal, Audit and Finance Departments.

A centralised Risk Management and Controls group provides a consolidated risk control function for JPMFAM acting as both an important control group and advisers to the business on risk policies and best practice.

The risk management function provides oversight, co-ordination, support and a consolidated view of risks and controls to senior management. The risk management group is responsible for providing guidance on managing operational and fiduciary risks taken in the investment management business.

The Legal and Compliance Departments advise management and business units on legal and regulatory matters and monitor compliance with regulatory and registration requirements. The Compliance department provides regulatory advice on compliance with conduct of business rules and is responsible with other business areas, for certain regulatory reporting requirements and for advising the businesses on their responsibilities for establishing and implementing procedures which comply with regulations.

The General Auditing Department (i.e. Internal Audit) is responsible primarily for objectively evaluating and reporting on risks and controls. Internal Audit conducts and participates in special projects relating to risks and controls and advises managers on issues related to risks and controls. Internal Audit co-ordinates with Risk Management, Legal and Compliance and, through audits, reviews risks and controls at multiple locations using the same standards, identifies best practices for cross-border business activities and reports on global risk and control issues to global business managers.

The status of outstanding General Auditing Department and management self-assessment control issues is reported to the Business Control Committees on a regular basis. Additionally, the General Auditor reports directly and regularly to the Chair of the Audit Committee of the Board of the overall holding company for the whole group, JP Morgan Chase and Co.

Inherent to internal controls is the principle of segregation of functions and duties. JPMFAM is structured to delineate responsibilities in a manner that reinforces segregation of duties between investment decision; recording transactions; custody of assets; trade execution (for equities); trade affirmation; transaction processing; fund transfers; reconciliation activities; performance measurement; risk management and legal and compliance.

In conducting its day to day operations, JPMFAM retains the services of certain outside service providers that the organisation believes are reliable. A number of factors are considered in performing due diligence of and selecting outsource service providers, including, among other things, each service provider's reliability for prompt and accurate delivery of services.

6 Review of effectiveness

As Chief Executive Officer for JPMFAM(UK) and as investment manager for the Common Investment Funds, 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 informed by the work of the internal auditors and the executive managers within JPMFAM 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.

External Auditors perform annual reviews in accordance with the Statement on Auditing Standards No. 70 established by the American Institute of Certified Public Accountants and within the framework set out in Technical Release Audit 4/97 – FRAG 21/94 (revised) issued by the Institute of Chartered Accountants in England and Wales.

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 of JPMFAM(UK) and the BCC, and plan to address any weaknesses and ensure continuous improvement of the system.

Mark White
Chief Executive Officer
JP Morgan Fleming Asset Management (UK) Limited

17 November 2004

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

I certify that I have audited the financial statements of the Common Investment Capital Fund on pages 28 to 43 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 and the accounting policies set out on page 38.

Respective responsibilities of the Lord Chancellor, Investment Manager and Auditor

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 on page 20, the Lord Chancellor appointed JP Morgan Asset Management to be the Investment Manager for the Common Investment Capital Fund for the period from 20 July 1999 to 31 August 2003.

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 22, is responsible for preparing the financial statements in respect of transactions in the Common Investment Capital Fund. The 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 relating to Authorised Unit Trust Schemes issued in January 1997 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 Foreword on page 20 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 23 to 25 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 JP Morgan Asset Management'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 included 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 error or by fraud or other irregularity and that, in all material respects, the financial transactions 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 give a true and fair view of the financial position of the Capital Fund at 28 February 2002 and of the net income and movements in net assets for the year then ended;
- 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 year ending 28 February 2002 conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

1 December 2004

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

Statement of Total Return for the year ended 28 February 2002

	28 February 2002		28 February 2001	
	£	£	£	£
Net losses on investments during the year (Note 2)		(5,918,037)		(1,882,872)
Other gains/(losses) (Note 3)		1,830		(42,846)
Total income (Note 4)	909,817		1,038,478	
Expenses (Note 5)	(201,916)		(255,209)	
Net income before taxation	707,901		783,269	
Taxation (Note 6)	(18,613)		(23,723)	
Net income after taxation for the year		689,288		759,546
Total return for the year		(5,226,919)		(1,166,172)
Distributions (Note 7)		(711,194)		(938,164)
Net decrease in unitholders' funds from investment activities		(5,938,113)		(2,104,336)

Statement of Movements in Unitholders' Funds for the year ended 28 February 2002

	28 February 2002		28 February 2001	
	£	£	£	£
Net assets at the start of the year		45,136,400		53,424,108
Movement due to sales and repurchase of units				
Less Amounts paid on cancellation of units	(4,065,012)		(6,232,876)	
Net cash out of Fund		(4,065,012)		(6,232,876)
Net decrease in unitholders' funds from investment activities (see above)		(5,938,113)		(2,104,336)
Other gains		0		49,504
Net assets at the end of the year		35,133,275		45,136,400

The notes on pages 38 to 43 form part of these accounts.

Portfolio Statement as at 28 February 2002

	Holding	Market value £	Total net assets %
Mineral Extraction 15.29% (28 February 2001 – 12.65%)			
Anadarko Petroleum	1,300	47,882	0.14
Anglo American	26,500	318,265	0.91
Applied Materials	2,100	64,564	0.18
Bayer	4,900	109,930	0.31
BHP Billiton	45,200	180,800	0.52
BP	398,310	2,320,156	6.60
Brambles Industries	12,386	41,109	0.12
Compania Vale Do Rio Doce ADR	2,900	52,202	0.15
Dynegy	3,000	54,225	0.15
Endesa	3,840	40,732	0.12
ENI	16,725	162,627	0.46
Enterprise Oil	11,062	68,584	0.20
Imerys	900	67,121	0.19
Imperial Chemical (nil paid)	22,073	20,859	0.06
Imperial Chemical Industries	34,687	98,858	0.28
Ingersoll-Rand	2,950	104,285	0.30
Kaneka	7,000	29,696	0.09
Lonmin	7,224	86,327	0.25
MIM	139,190	66,794	0.19
Newmont Mining	3,200	54,559	0.16
Phillips Petroleum	2,250	93,992	0.27
Rio Tinto	13,730	195,241	0.56
Shell Transport & Trading	183,431	902,481	2.57
Total Fina Elf	1,734	180,219	0.51
General Manufacturers 8.27% (28 February 2001 – 7.96%)			
Alcoa	2,390	63,484	0.18
Altadis	7,300	85,268	0.24
Balfour Beatty	28,860	65,801	0.19
Barratt Developments	23,000	106,260	0.30
Berkeley	10,500	84,000	0.24
British Vita	42,100	87,989	0.25
Bunzl	10,600	53,318	0.15
Canon	4,000	99,111	0.28
Chloride	64,055	32,668	0.09
Corus	119,873	98,296	0.28
De La Rue	18,219	76,702	0.22
Dover	3,000	83,951	0.24
DS Smith	48,600	79,461	0.23
FKI	67,945	107,353	0.31
General Motors	7,220	75,421	0.22
Georgia-Pacific	4,157	75,373	0.22
Heidelberg Zement	1,656	52,915	0.15
Henderson Land Development	14,000	38,518	0.11
Honda Motor	2,300	65,009	0.19
IMI	13,603	36,048	0.10
Interserve	13,171	69,477	0.20
Johnson Matthey	4,585	42,641	0.12
Kidde	100,489	67,830	0.19

Portfolio Statement as at 28 February 2002 *(continued)*

	Holding	Market value £	Total net assets %
Meggitt	67,418	113,599	0.32
Morgan Crucible	29,939	49,100	0.14
Persimmon	27,287	116,243	0.33
Redrow	31,100	85,059	0.24
RMC	12,949	73,809	0.21
Smiths	16,470	116,772	0.33
Sumitomo	15,000	54,760	0.16
TI Automotive*	17,300	0	0.00
Tomkins	28,936	70,314	0.20
Tyco International	2,380	48,975	0.14
Volex	19,454	31,613	0.09
Weir	29,102	68,681	0.20
Wilson (Connolly)	22,089	36,999	0.11
Wimpey (George)	50,367	131,962	0.38
Wolseley	34,000	202,980	0.58
Yule Catto	18,982	49,733	0.14
Consumer Goods 16.13% (28 February 2001 – 12.04%)			
American Home Products	2,000	89,876	0.26
Amersham	18,831	134,830	0.38
Boots	25,116	160,366	0.46
Bristol-Myers Squibb	3,600	119,653	0.34
British American Tobacco	39,193	254,363	0.72
Cadbury Schweppes	26,800	128,908	0.37
Debenhams	27,116	99,787	0.28
Diageo	45,000	378,000	1.08
Eidos	2,966	4,093	0.01
Electronics Boutique	38,800	53,932	0.15
EMI	15,100	46,772	0.13
GKN	12,513	36,788	0.10
GlaxoSmithKline	114,717	1,977,721	5.63
HCA	1,500	43,179	0.12
Imperial Tobacco	6,852	64,203	0.18
Johnson & Johnson	2,320	99,852	0.28
Kao	3,000	39,861	0.11
Kraft Foods	3,055	84,389	0.24
Marks & Spencer	38,200	143,632	0.41
May Department Stores	2,900	75,135	0.21
Merck	4,050	175,613	0.50
Nestle	760	119,090	0.34
Oxford Glycosciences	5,567	26,165	0.07
Pfizer	8,080	234,020	0.67
Pharmacia	4,520	131,184	0.37
Philip Morris	5,220	194,348	0.55
Safeway	61,257	195,410	0.56
Saint Gobain	880	96,546	0.27
Takeda Chemical	3,000	86,062	0.24
Target	3,250	96,404	0.27
Unilever	2,100	86,269	0.25
Wendy's International	4,150	91,075	0.26
Woolworths	288,995	112,708	0.32

Portfolio Statement as at 28 February 2002 *(continued)*

	Holding	Market value £	Total net assets %
Services 19.33% (28 February 2001 – 21.06%)			
Aegis	48,914	50,626	0.14
Albertsons	3,430	73,394	0.21
AOL Time Warner	4,870	85,408	0.24
Arriva	18,268	61,472	0.17
Ashtead	57,100	23,411	0.07
Astrazeneca	26,983	964,912	2.75
Aventis	2,880	150,851	0.43
Avis Europe	42,771	73,566	0.21
BAE Systems	38,940	123,829	0.35
Big Food	39,994	55,592	0.16
British Airways	52,719	107,283	0.31
British Sky Broadcasting	18,000	129,240	0.37
BTG	7,430	39,008	0.11
Burlington Northern Santa	3,400	69,832	0.20
Circuit City Stores	3,620	45,736	0.13
Compass	21,614	104,179	0.30
Cordiant Communications	44,681	29,936	0.09
Daily Mail & General Trust	10,657	72,148	0.21
Davis Service	23,000	100,050	0.28
Deutsche Post	4,708	42,971	0.12
EMAP	11,000	74,800	0.21
Firstgroup	19,100	48,896	0.14
Fuji Television Network	12	41,842	0.12
Gannett	1,290	69,503	0.20
Hays	15,163	29,947	0.09
Hilton	83,167	185,462	0.53
Jarvis	9,700	53,981	0.15
Johnston Press	3,746	12,811	0.04
Lex Service	16,000	83,360	0.24
Manchester United	35,738	47,889	0.14
Mersey Docks & Harbour	10,500	54,495	0.16
Morrison (WM) Supermarkets	38,170	79,012	0.22
MyTravel	33,315	74,292	0.21
National Express	11,852	64,890	0.18
Nintendo	600	62,573	0.18
Nokia	8,380	124,353	0.35
P&O (deferred)	35,086	73,856	0.21
P&O Princess Cruises	12,923	52,984	0.15
Pearson	11,073	86,369	0.25
Rank	51,613	129,033	0.37
Reed International	17,677	111,984	0.32
Rentokil Initial	52,519	140,094	0.40
Reuters	21,212	111,151	0.32
Salvesen (Christian)	50,600	43,769	0.12
Scottish Radios	1,529	12,118	0.03
Selfridges	26,754	86,549	0.25
Shanks	6,000	10,290	0.03
Six Continents	21,868	154,388	0.44

Portfolio Statement as at 28 February 2002 *(continued)*

	Holding	Market value £	Total net assets %
Somerfield	49,700	59,143	0.17
St Ives	18,500	74,740	0.21
Stagecoach	78,500	53,184	0.15
Tesco	39,363	99,195	0.28
United Business Media	11,592	67,813	0.19
Vodafone	1,230,898	1,646,326	4.69
Walt Disney	5,200	84,559	0.24
Waste Management	3,800	70,700	0.20
WPP	14,000	104,160	0.30
Utilities 6.33% (28 February 2001 – 8.74%)			
AWG	545,126	21,480	0.06
BG	28,466	83,263	0.24
BT	191,525	489,825	1.39
Cable & Wireless	53,552	117,814	0.34
Centrica	24,033	50,950	0.15
Consolidated Edison	2,000	57,664	0.16
Exxon Mobil	5,888	171,949	0.49
General Electric	4,021	109,452	0.31
Innogy	20,048	51,373	0.15
Kelda	18,471	65,941	0.19
Korea Telecom	3,500	54,440	0.15
Lattice	57,467	97,263	0.28
mmO2	198,761	131,182	0.37
National Grid	29,800	137,751	0.39
Nippon Telegraph & Telephone	31	69,933	0.20
Nordea	21,500	78,809	0.22
SBC Communications	6,200	165,871	0.47
Scottish Power	31,092	132,763	0.38
Sprint PCS	3,100	20,219	0.06
Talisman Energy	3,570	95,299	0.27
Telewest Communication	55,300	9,816	0.03
Time Warner Telecom	2,600	10,460	0.03
Financials 22.74% (28 February 2001 – 21.88%)			
Abbey National	37,046	353,048	1.00
Aberdeen Asset Management	6,400	17,664	0.05
ABN Amro	5,190	63,907	0.18
Alliance & Leicester	9,112	75,903	0.22
Allied Domecq	48,829	196,293	0.56
American International	1,700	88,900	0.25
Amvescap	23,044	196,565	0.56
AXA	8,532	112,337	0.32
Bank of New York	2,100	55,915	0.16
Barclays	26,511	550,103	1.57
BNP Paribas	4,200	143,964	0.41
Bradford & Bingley	54,857	169,508	0.48
British Land	20,151	104,483	0.30
Brittanic	11,700	76,869	0.22
CGNU	45,782	328,486	0.93
Cheung Kong	9,000	53,133	0.15

Portfolio Statement as at 28 February 2002 *(continued)*

	Holding	Market value £	Total net assets %
Cigna	860	54,598	0.16
Citigroup	7,410	237,064	0.67
Fannie Mae	2,950	163,216	0.46
Fleet Boston Financial	3,200	75,521	0.21
Fortis	6,730	105,630	0.30
Friends Provident	32,539	56,943	0.16
Hartford Financial Services	2,200	104,331	0.30
HBOS	54,583	404,460	1.15
HSBC	149,166	1,152,307	3.28
Land Securities	6,389	56,223	0.16
Legal & General	54,098	81,147	0.23
Lloyds TSB	111,863	760,668	2.17
Nikko Cordial	13,000	35,370	0.10
Provident Financial	17,921	116,487	0.33
Prudential	47,262	310,039	0.88
Prudential Financial	2,499	54,003	0.15
Royal & Sun Alliance	51,800	135,198	0.38
Royal Bank of Scotland	51,852	898,077	2.56
Schroders (non-voting)	2,000	14,700	0.04
Schroders	6,274	49,847	0.14
Standard Chartered	20,300	140,273	0.40
Takefuji	1,400	60,280	0.17
Unibanco	2,767	47,245	0.13
Washington Mutual Savings	4,580	105,337	0.30
Wells Fargo	3,200	106,109	0.30
XL Capital	800	53,877	0.15
Zurich Financial Services	254	34,876	0.10
Investment Trusts 1.14% (28 February 2001 – 0.97%)			
3i	8,000	54,800	0.16
Electra Investment	6,881	43,075	0.12
JF Taiwan	7,400	67,492	0.19
Templeton Emerging Markets	200,000	234,500	0.67
Unit Trusts 4.99% (28 February 2001 – 4.85%)			
JPMF Institutional UK Smaller Companies	745,000	1,294,438	3.68
JPMF US Smaller Companies	260,000	460,200	1.31

Portfolio Statement as at 28 February 2002 *(continued)*

	Holding	Market value £	Total net assets %
Information Technology 4.30% (28 February 2001 – 7.53%)			
Acom	1,300	50,412	0.14
AES	4,740	17,242	0.05
Agere Systems	12,684	35,871	0.10
AIT	3,111	15,944	0.05
Anite	25,593	33,527	0.10
Cambridge Antibody Technology	2,428	34,283	0.10
Cap Gemini	900	42,215	0.12
Cisco Systems	6,300	63,539	0.18
Dassault Systems	1,900	61,757	0.18
Electronic Data Systems	1,500	62,603	0.18
First Technology	16,565	71,312	0.20
Flextronics International	5,100	51,725	0.15
IBM	960	66,584	0.19
Isoft	17,800	49,217	0.14
Kon Philips Electronics	5,118	94,507	0.27
Lexmark International	1,250	43,910	0.12
Logica	12,740	49,049	0.14
Marconi	107,500	18,813	0.05
Microsoft	4,000	164,975	0.47
MISYS	26,596	69,549	0.20
Morse	32,512	57,221	0.16
Psion	19,000	14,488	0.04
RM	11,000	8,085	0.02
ROHM	800	81,783	0.23
Samsung Electronics	1,000	92,796	0.26
Spirent	64,671	83,102	0.24
United Technologies	1,500	77,376	0.22
Portfolio of investments		34,614,001	98.52
Net current assets		519,274	1.48
Total net assets		35,133,275	100.00%

* Suspended security

Unless otherwise stated the above securities are ordinary shares or common stock.

Balance Sheet as at 28 February 2002

	Notes	28 February 2002	28 February 2001
		£	£
Portfolio of Investments		34,614,001	44,088,147
Net current assets			
Debtors	9	231,621	281,064
Cash and bank balances	10	703,046	1,102,446
		934,667	1,383,510
<i>Less</i>			
Creditors	11	(137,552)	(36,949)
Distribution payable on income units		(277,841)	(298,308)
		(415,393)	(335,257)
Net current assets		519,274	1,048,253
Net assets		35,133,275	45,136,400
Unitholders' Funds		35,133,275	45,136,400

The notes on pages 38 to 43 form part of these accounts.

Mark White
Chief Executive Officer
JP Morgan Fleming Asset Management (UK) Limited

17 November 2004

Summary of Material Portfolio Changes for the year ended 28 February 2002

Purchases	Cost
	£
Anglo American	268,628
Pfizer	220,941
Amersham	219,295
Prudential	207,054
Shell Transport & Trading	206,699
BP	192,596
CGNU	189,266
British American Tobacco	161,912
BT	154,221
Rentokil Initial	153,704
Bradford & Bingley	143,119
Boots	133,474
BG	131,799
GlaxoSmithKline	125,084
Woolworths	115,904
Washington Mutual Savings	114,412
Royal & Sun Alliance	111,634
Nestle	107,537
Walt Disney	105,369
Safeway	105,092
Other securities	5,785,657
Total of all purchases for the year	£8,953,397
Sales	Proceeds
	£
BP	384,294
GlaxoSmithKline	296,985
Shell Transport & Trading	270,164
BG	212,492
Royal Bank of Scotland	208,923
Rio Tinto	207,595
Morrison (WM) Supermarkets	192,904
Rexam	189,296
AstraZeneca	178,282
Debenhams	177,013
Alliance & Leicester	173,645
BHP Billiton	173,291
Amec	161,980
Signet	161,912
American International	157,692
Arcadia	139,327
Barclays	139,273
Rank	133,937
Bank of America	130,705
Standard Chartered	129,681
Total of all sales for the year	£12,509,506

Distribution Statement

Final distribution

Group A—Units purchased prior to 1 September 2001

Group B—Units purchased on 1 September 2001 to 28 February 2002

	Gross income	Tax at 10%	Net income	Equalisation	Distribution payable 15 April 2002	Distribution paid 15 April 2001
	pence per unit	pence per unit				
Group A	7.61	0.76	6.85	0.00	6.85	6.64
Group B	5.16	0.52	4.64	2.21	6.85	6.64

Interim distribution

Group A—Units purchased prior to 1 March 2001

Group B—Units purchased 1 March 2001 to 31 August 2001

	Gross income	Tax at 10%	Net income	Equalisation	Distribution paid 15 October 2001	Distribution paid 1 October 2000
	pence per unit	pence per unit				
Group A	10.81	1.08	9.73	0.00	9.73	12.66
Group B	6.04	0.60	5.44	4.29	9.73	12.66

Equalisation applies only to units purchased during the distribution period (group B units). It is the average amount of income included in the purchase price of all group B units and is refunded to 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.

Details of amounts distributed are provided in note 7.

Notes to the Financial Statements

1 Accounting policies

Basis of accounting

The accounts are subject to an Accounts Direction issued by Treasury (as detailed on page 44) 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 Unit Trust Schemes issued by IMRO in January 1997.

Accounting period end date

The accounts Direction requires accounts to be prepared for each year of one year ending on the last day of February. The accounts for the period 1 March 2001 to 28 February 2002 will be presented under Section 45 of the Administration of Justice Act 1982.

Valuation

Listed investments have been valued at mid-market value at 28 February 2002.

All transactions in foreign currencies are converted into sterling at the rates of exchange ruling at the date of such transactions. Foreign currency assets and liabilities at the end of the accounting period are translated at the exchange rate at close of business on 28 February 2002.

Income

Dividends receivable from equity investments are credited to the income account when they are first quoted ex-dividend.

Expenses

Expenses of the Fund are charged against income.

Distribution policy

Distributions are made on 15 April and 15 October each year and are based on the available net income at 1 March and 1 September respectively. The ordinary element of scrip dividends is treated as income and forms part of the distributable income.

2 Net losses on investments

	28 February 2002	28 February 2001
	£	£
The net losses on investments during the year comprise		
Proceeds from sales of investments during the year	12,509,506	21,355,732
Original cost of investments sold during the year	(14,286,535)	(18,229,999)
(Losses)/gains realised on investments sold during the year	(1,777,029)	3,125,733
Net depreciation/(appreciation) thereon already recognised in earlier years	628,689	(2,046,664)
	(1,148,340)	1,079,069
Net unrealised depreciation for the year	(4,769,697)	(2,961,941)
Net losses on investments	(5,918,037)	(1,882,872)

3 Other gains/(losses)

	28 February 2002	28 February 2001
	£	£
Other gains/(losses) comprise		
Currency gains/(losses)	1,830	(42,846)

4 Total income

	28 February 2002	28 February 2001
	£	£
UK dividends	724,947	816,832
Overseas dividends	134,115	165,639
Bank interest	50,755	56,007
	909,817	1,038,478

5 Expenses

	28 February 2002	28 February 2001
	£	£
Payable to the Investment Manager, associates of the Investment Manager and agents of either of them		
Investment Manager's periodic charge	201,916	255,209

6 Taxation

	28 February 2002	28 February 2001
	£	£
<i>a Analysis of charge in year</i>		
Overseas tax	16,177	23,723
Prior year adjustment	2,436	0
Current year tax charge (note 6b)	18,613	23,723

b Factors affecting tax charge for year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK for an Authorised Unit Trust of 20%. The differences are explained below

	28 February 2002	28 February 2001
	£	£
Net income before taxation	707,901	783,269
Corporation tax at 20%	141,580	156,654
Effects of		
Excess expenses for which no relief taken	3,354	6,686
UK Franked income not subject to Corporation tax	(144,989)	(163,366)
Overseas tax	16,177	23,723
Miscellaneous adjustments	55	26
Prior year adjustment	2,436	0
	(122,967)	(132,931)
Current year tax charge (note 6a)	18,613	23,723

The Fund is exempt from tax on capital gains, therefore, any capital return is not included in the above reconciliation.

c After claiming relief against accrued income taxable on receipt, the Fund has unrelieved excess expenses of £107,683 (2001: £90,915). It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised.

The Fund has Eligible Unrelieved Foreign Tax 'A' of £48,991 (2001: £33,146) which can be utilised against corporation tax in future years.

7 Distributions

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

	28 February 2002	28 February 2001
	£	£
<i>Interim</i> Dividend distribution	413,489	604,410
<i>Final</i> Dividend distribution	277,841	298,308
	691,330	902,718
<i>Add</i> income deducted on cancellation of units	19,864	35,446
Net distribution for the year	711,194	938,164

Details of the distribution per unit are set out in the table on page 37.

8 Movement between net income and distributions

	28 February 2002	28 February 2001
	£	£
Net income after taxation	689,288	759,546
<i>Add</i> undistributed income brought forward	319	132
<i>Less</i> undistributed income carried forward	(316)	(319)
Amounts transferred from capital	21,903	178,805
Distributions	711,194	938,164

9 Debtors

	28 February 2002	28 February 2001
	£	£
Accrued income	133,190	152,702
Income tax recoverable	0	18,581
Other debtors	95,672	95,672
Overseas tax recoverable	2,759	14,109
	231,621	281,064

10 Cash and bank balances

	28 February 2002	28 February 2001
	£	£
Cash and bank balances	703,046	1,102,446

11 Creditors

	28 February 2002	28 February 2001
	£	£
Due for units cancelled	519	0
Accrued expenses	137,033	36,949
	137,552	36,949

12 Units in issue

The number of units in issue at the end of the year was 4,056,079 (28 February 2001: 4,492,594)

13 Contingent liabilities

At the balance sheet date, the fund had the following contingent liability

Nil paid shares £39,033 (28 February 2001: nil).

14 Related party transactions

The Court Funds Office (CFO), who provide investment management oversight services for the Fund are a related party (as defined by FRS 8). Details of units created and cancelled are shown in the Statement of Movements in Unitholders' Funds. The balances due to and from the Court Funds Office in respect of these transactions are detailed in notes 9 and 11.

JP Morgan Fleming Asset Management (UK) Limited, formerly Fleming Investment Management Limited, who provide investment management services could be regarded as a related party (as defined by FRS 8). Investments made on behalf of the Fund include those in JPMF unit trusts, which had a market value of £1,754,638 at 28 February 2002 (£2,189,980 at 28 February 2001) and JF Investment Trusts, which had a market value of £67,492 at 28 February 2002 (£nil at 28 February 2001).

Management fees paid to JP Morgan Fleming Asset Management (UK) Limited are shown in note 5. The balances due at the year end in respect of these fees are shown in Note 11.

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

15 Financial instruments

In pursuing its investment objective as stated on page 20, the Fund holds a number of financial instruments. The Fund's financial instruments comprise securities and other investments, cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for redemptions and debtors for accrued income.

The main risks arising from the Fund's financial instruments and the Investment Manager's policies for managing these risks are summarised below. These policies have been applied throughout the year.

Market price risk

Market price risk is the risk that the value of the Fund's investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises mainly from uncertainty about future prices of financial instruments the Fund holds. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to market price fluctuations, which are monitored by the Investment Manager in pursuance of the investment objective and policy as set out in the Statutory Instrument 1209 (1991).

Adherence to investment guidelines and to investment and borrowing powers set out in the Investment Management Agreement with the Lord High Chancellor and the Statutory Instrument 1209 (1991) mitigates the risk of excessive exposure to any particular type of security or issuer.

Foreign currency risk

At the year end date, 25.30% (28 February 2001: 23.19%) of the net assets of the fund were denominated in currencies other than sterling, with the effect that the balance sheet and total return can be significantly affected by the currency movements.

	28 February 2002	28 February 2001
	£	£
US Dollar	5,756,604	5,980,180
Euro	1,826,904	2,337,401
Japanese Yen	776,952	1,214,710
Swiss Francs	153,966	322,492
Australian Dollar	107,903	127,100
Canadian Dollar	95,299	180,238
Hong Kong Dollar	91,651	152,001
Swedish Krona	78,809	107,974
Singapore Dollar	0	46,639
	<u>8,888,088</u>	<u>10,468,735</u>

Interest rate risk

Interest rate risk is the risk that the value of the Fund's investment holdings will fluctuate as a result of changes in interest rates.

The Fund does not invest in either fixed or floating rate securities and interest rate risk exposure is restricted to interest receivable on bank deposits or payable on bank overdraft positions which will be affected by fluctuations in interest rates.

Liquidity risk

The Fund's assets comprise mainly of readily realisable securities. The main liability of the Fund is the redemption of any units that investors wish to sell. Assets of the Fund may need to be sold if insufficient cash is available to finance such redemptions.

Credit risk

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its responsibilities. The Fund only buys and sells investments through brokers which have been approved by the Investment Manager as an acceptable counterparty. In addition, limits are set to the exposure to any individual broker that may exist at any time and changes in brokers' financial ratings are reviewed.

Administration of Justice Act 1982: Common Investment Funds

Accounts Directions given by The Treasury

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 in respect of the period from 20 July 1999 to 29 February 2000 and thereafter for each period of one year ending on the last day of February until the final period from 1 March to 31 August 2003, accounts in respect of the
 - I Capital Fund; and
 - II High Yield Fund.
- 2 The accounts for each of the Funds referred to above shall give a true and fair view of the disposition of the assets and liabilities of the Fund at the year end and of the net income and movement in the net assets of the Fund for the year. Subject to the foregoing requirement, and without limiting the information given, each account shall reflect best commercial accounting practices.
- 3 The Report and accounts shall include
 - a a Foreword;
 - b a Statement of Responsibilities;
 - c a Statement on Internal Control;
 - d a Statement of Total Return;
 - e a Statement of Movements in Unitholder's Funds;
 - f a Portfolio Statement;
 - g a Balance Sheet;
 - h a Summary of Material Portfolio Changes; and
 - i a Distribution Statement.

The accounts for each Fund shall also include such notes as may be necessary to present a true and fair view and for the purposes referred to in the following paragraphs.

- 4 The Foreword shall consist of information concerning the Common Investment Funds. It shall, amongst other things:
 - a state 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; and
 - b include an explanation of the statutory background to the accounts.
- 5 When preparing the accounts, the Investment Manager shall comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by IMRO in January 1997 to the extent that such requirements are relevant to the Common Investment Funds.
- 6 This Direction replaces the Direction dated 19 August 1999.

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

26 May 2004

Common Investment Scheme: High Yield Fund

Investment Manager's Foreword

Statutory background

Section 45(1) of the Administration of Justice Act 1982 (the Act) requires the Investment Manager to prepare accounts in respect of the Common Investment Schemes. Under section 45 of the Act, the Lord High Chancellor of Great Britain (Lord Chancellor) appointed JP Morgan Fleming Asset Management (UK) Limited, formerly Fleming Investment Management Limited, as Investment Manager of the Common Investment Schemes with effect from 20 July 1999 to 31 August 2003.

For the period covered by these accounts there were two Common Investment Funds: these being the Capital Fund and the High Yield Fund.

Role of Court Funds Office

The Court Funds Office 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 Schemes;
- distribution to unit holders of dividends calculated by the Investment Manager;
- payment of Investment Manager's fees; and
- investment management oversight through the Strategic Investment Board.

Fund information

The objective of the High Yield Fund is to secure a high income yield which, will grow together with modest capital growth as befits a high yield portfolio. The accounts show the investment of funds in UK Equities and UK Gilt Securities. The Distribution Statement on page 59 and note 7 to the accounts also provides details of the dividends declared.

The High Yield Fund pays a dividend twice a year. The Fund goes ex-dividend on the following dates and pays six weeks later

High Yield Fund	Ex-dividend 1 September	Pay date 15 October
	Ex-dividend 1 March	Pay date 15 April

The Investment Manager produced an annual investment report for the period ending 28 February 2002. This report provides further details on asset allocation; financial performance; including portfolio commentary; a review of the year; and market outlook. This report is available from the Accountant General of the Supreme Court and can be obtained from the Court Funds Office, 22 Kingsway, London, WC2B 6LE.

Merger with Capital Fund

The High Yield Fund was closed and merged into the Capital Fund on 10 April 2003 in accordance with Statutory Instrument 778.

Subsequently, on 1 September 2003 the assets of the combined Capital Fund were transferred to Legal & General (Unit Trust Managers) Limited who were appointed as the new Investment Manager from that date.

Accounts and audit

These accounts are in respect of the High Yield Fund for the period 1 March 2001 to 28 February 2002 and have been prepared in accordance with a Direction issued by Treasury under section 45(2) of the Act as detailed on page 66.

The Comptroller and Auditor General is appointed external auditor under section 45(3) of the Act.

Mark White
Chief Executive Officer
JP Morgan Fleming Asset Management (UK) Limited

17 November 2004

Statement of Lord Chancellor's and Investment Manager's responsibilities

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 45, the Lord Chancellor appointed JP Morgan Fleming Asset Management (UK) Limited, formerly Fleming Investment Management Limited, to be Investment Manager for the period from 20 July 1999 to 31 August 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 High Yield Fund.

The Treasury Direction requires the Investment Manager to follow best commercial practice. In preparing the Funds' Accounts, the Manager follows the disclosure requirements of the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by IMRO in January 1997 to the extent that such requirements are relevant to the Common Investment Funds. 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 Funds and of their 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 Unit Trust Schemes issued by IMRO in January 1997 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 Investment Management Agreement with the Lord High Chancellor dated 20 July 1999 and the Common Investment Scheme Statutory Instrument 1991 No. 1209.

Statement of Internal Control

1 Introduction

JP Morgan Fleming Asset Management (UK) Limited ('JPMFAM(UK)') formerly Fleming Investment Management Limited, part of the JP Morgan Fleming Asset Management group of companies ('JPMFAM') was appointed as Investment Manager for the Common Investment Funds in July 1999. JPMFAM is a global investment manager that provides financial expertise and investment products and services for retail and institutional investors including mutual funds, investment trusts, governments, corporations, endowments, foundations and individuals. The management of JPMFAM are responsible for the identification of control objectives relating to the provision of investment management services and design, implementation and maintenance of JPMFAM's control procedures, to ensure with reasonable assurance on an ongoing basis that the control objectives are achieved. In carrying out these responsibilities, JPMFAM has regard not only to the interests of the client but also regulatory and general business requirements.

At the outset of a client relationship, the client and JPMFAM(UK) agree on the investment objectives and guidelines, if applicable, that will govern the account. Investment professionals (portfolio managers) manage the portfolios within these specifications. Adherence to investment policy and procedures is monitored by portfolio managers who are responsible for continual review of the accounts under their supervision, and by Guideline Management and Control Group. Various departments within JPMFAM also review adherence to investment policies and guidelines as well as compliance with the authorising documents, the organisation's controls and applicable regulatory requirements.

2 Scope of responsibility

As Chief Executive Officer of JPMFAM(UK), I have responsibility for maintaining an effective system of internal control that supports the achievement of JPMFAM's policies, aims and objectives, whilst safeguarding the management of the investments including the Common Investment Funds for which I have overall management responsibility.

3 The purpose of the system of internal control

A robust risk management and control culture is essential to our mission of being the pre-eminent asset management organisation world-wide. JPMFAM's management controls are designed to reinforce the group's control objectives to maintain effective operations, provide accurate financial reporting and ensure compliance with applicable policies, controls and regulations. An integral part of the system of controls is the control environment, which represents the collective effect of various factors on establishing, enhancing and maintaining the effectiveness of specific controls. The control environment reflects the overall attitude, awareness and actions management and employees concerning the importance of control and its emphasis in the investment management business. These factors are reflected in the policies and procedures.

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 JPMFAM's 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 JPMFAM(UK) between July 1999 and August 2003 (the point at which responsibility for these funds were transferred) and accords with the requirements of the combined code and the requirements of the Financial Services Authority (FSA).

4 Capacity to handle risk

In order to cultivate a strong risk management culture and provide a framework to pro-actively manage risks in the business, Business Control Committees (BCCs), formerly known as Risk Committees, have been established providing the basis of a defined risk governance structure.

The BCCs represent a critical business-driven forum for reporting, monitoring, and escalating operational risk issues. These committees are “owned” by senior management within each business, which in turn encourages the “first line of defence” for each risk to be fully accountable and to provide transparency regarding risks and what is being done about them. Output from our Self Assessment, Error Reporting, Action Plan, and Integrated Reporting processes (together with relevant Key Risk Indicators) is used to help ensure that the BCCs stay focused on the critical issues.

Direct oversight on the business is provided by the BCCs meeting periodically, and which are made up of representatives from the business including senior managers, risk managers, compliance and internal audit.

JPMFAM(UK) has a formal hiring practice that is designed to ensure that new employees are qualified for job responsibilities. New position hiring must be approved by the head of the department requiring the position and the Human Resources department. The hiring policy includes a minimum education and experience requirement, completion of reference, background and credit investigations, and execution of confidentiality statements.

JPMFAM(UK)'s staff receive reviews of their performance at least annually from their supervisors using standard performance evaluation methods and criteria.

The Compliance function undertakes a program of sample monitoring to check that the investment management business is acting in accordance with applicable conduct of business related laws and regulations. In addition, Compliance staff liaise with the business areas on a daily basis to address compliance issues as they arise. In the course of monitoring and liaising with the business areas, it can sometimes become apparent that additional training on compliance matters is required and this will be provided. Money laundering sessions are obligatory for all JPMFAM's employees and take place once a year. In order to increase employees' risk awareness we focus on topics such as business or operational risk, money laundering and compliance with regulatory guidelines.

The risk management team is responsible for the investigation and review of business errors and breaches of investment guidelines. In addition, the team is responsible for the regular review of operational risk e.g. transaction reports and systems, the production of monthly reports to cover the above, Business Continuity Planning, counterparty risk, unquoted securities, new products, material issues, new risks and seed capital investments. It is the responsibility of each individual business unit that the risks are dealt with effectively.

5 The risk and control framework

Underlying the global structure of JPMFAM is a management structure consisting of global, regional and local management team members. Business units and functions are primarily responsible for managing their own risks and controls and for ensuring that they are compliant with firm-wide and local control policies, procedures and regulations. There are Chief Investment Officers assigned to Fixed Income, Equity, Private Equity and Hedge Funds reporting to the Chief Executive Officer of JPMFAM.

JPMFAM(UK)'s internal controls are evaluated regularly through a control self-assessment process. The assessment process is generally organised by functional unit or product and is used by business units to assess the effectiveness of their control environment. Assessments identify key operating risks faced by the business, describe controls in place to mitigate the risks identified, assess the effectiveness of these controls and identify tasks required to rectify control gaps.

As part of its overall risk management process JPMFAM has an approval procedure for new products, services and activities. Risks are reviewed and signed off by members of Risk Management, Compliance, Tax, Investment Management, Operations, Legal, Audit and Finance Departments.

A centralised Risk Management and Controls group provides a consolidated risk control function for JPMFAM acting as both an important control group and advisors to the business on risk policies and best practice.

The risk management function provides oversight, co-ordination, support and a consolidated view of risks and controls to senior management. The risk management group is responsible for providing guidance on managing operational and fiduciary risks taken in the investment management business.

The Legal and Compliance Departments advise management and business units on legal and regulatory matters and monitor compliance with regulatory and registration requirements. The Compliance department provides regulatory advice on compliance with conduct of business rules and is responsible with other business areas, for certain regulatory reporting requirements and for advising the businesses on their responsibilities for establishing and implementing procedures which comply with regulations.

The General Auditing Department (i.e. Internal Audit) is responsible primarily for objectively evaluating and reporting on risks and controls. Internal Audit conducts and participates in special projects relating to risks and controls and advises managers on issues related to risks and controls. Internal Audit co-ordinates with Risk Management, Legal and Compliance and through audits, reviews risks and controls at multiple locations using the same standards, identifies best practices for cross-border business activities and reports on global risk and control issues to global business managers.

The status of outstanding General Auditing Department and management self-assessment control issues is reported to the Business Control Committees on a regular basis. Additionally, the General Auditor reports directly and regularly to the Chair of the Audit Committee of the Board of the overall holding company for the whole group, JP Morgan Chase and Co.

Inherent to internal controls is the principle of segregation of functions and duties. JPMFAM is structured to delineate responsibilities in a manner that reinforces segregation of duties between investment decision; recording transactions; custody of assets; trade execution (for equities); trade affirmation; transaction processing; fund transfers; reconciliation activities; performance measurement; risk management and legal and compliance.

In conducting its day to day operations, JPMFAM retains the services of certain outside service providers that the organisation believes are reliable. A number of factors are considered in performing due diligence of and selecting outsource service providers, including, among other things, each service provider's reliability for prompt and accurate delivery of services.

6 Review of effectiveness

As Chief Executive Officer for JPMFAM(UK) and as investment manager for the Common Investment Funds, 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 informed by the work of the internal auditors and the executive managers within JPMFAM 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.

External Auditors perform annual reviews in accordance with the Statement on Auditing Standards No.70 established by the American Institute of Certified Public Accountants and within the framework set out in Technical Release Audit 4/97 – FRAG 21/94 (revised) issued by the Institute of Chartered Accountants in England and Wales.

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 of JPMFAM(UK) and the BCC, and plans to address any weaknesses and ensure continuous improvement of the system is in place.

Mark White
Chief Executive Officer
JP Morgan Fleming Asset Management (UK) Limited

17 November 2004

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 High Yield Fund on pages 53 to 65 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 and the accounting policies set out on page 60.

Respective responsibilities of the Lord Chancellor, Investment Manager and Auditor

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 on page 45, the Lord Chancellor appointed by JP Morgan Asset Management to be the Investment Manager for the Common Investment High Yield Fund for the period from 20 July 1999 to 21 August 2003.

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 47, is responsible for preparing the financial statements in respect of transactions in the Common Investment High Yield Fund. The 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 relating to Authorised Unit Trust Schemes issued in January 1997 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 Foreword on page 45 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 48 to 50 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 JP Morgan Fleming Asset Management (UK) Limited'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 included 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 error or by fraud or other irregularity and that, in all material respects, the financial transactions 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 give a true and fair view of the financial position of the Common Investment High Yield Fund at 28 February 2002 and of the net income and movements in net assets for the year then ended;
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and directions made thereunder by the Treasury; and
- in all material respects the financial transactions of the Fund during the year ending 28 February 2002 conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

2 December 2004

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

Statement of Total Return for the year ended 28 February 2002

	28 February 2002		28 February 2001	
	£	£	£	£
Net gains/(losses) on investments during the year (Note 2)	(1,103,043)		1,527,389	
Other losses (Note 3)		0		(39)
Total income (Note 4)	353,323		470,803	
Expenses (Note 5)	(48,483)		(64,394)	
Net income before taxation	304,840		406,409	
Taxation (Note 6)	(11,320)		34,011	
Net income after taxation for the year		293,520		440,420
Total return for the year	(809,523)		1,967,770	
Distributions (Note 7)	(347,611)		(441,860)	
Net increase/(decrease) in unitholders' funds from investment activities	(1,157,134)		1,525,910	

Statement of Movements in Unitholders' Funds for the year ended 28 February 2002

	28 February 2002		28 February 2001	
	£	£	£	£
Net assets at the start of the year		11,031,803		12,516,764
Movement due to sales and repurchase of units				
Less Amounts paid on cancellation of units	(1,567,988)		(3,010,871)	
Net cash out of Fund		(1,567,988)		(3,010,871)
Net increase/(decrease) in unitholders' funds from investment activities (see above)	(1,157,134)		1,525,910	
Other gains	42,298		0	
Net assets at the end of the year		8,348,979		11,031,803

The notes on pages 60 to 65 form part of these accounts.

Portfolio Statement as at 28 February 2002

	Holding	Market value £	Total net assets %
Mineral Extraction 15.22% (28 February 2001 – 11.96%)			
Anglo American	5,400	64,854	0.78
BHP Billiton	13,000	52,000	0.62
BP Amoco	111,000	646,575	7.74
Enterprise Oil	4,000	24,800	0.30
Imperial Chemical Industries	14,228	30,010	0.36
Lonmin	2,772	33,125	0.40
Novar	18,000	23,850	0.29
Rio Tinto	7,184	102,156	1.22
Shell Transport & Trading	55,600	273,552	3.28
Uniq	12,000	19,080	0.23
General Manufacturers 4.01% (28 February 2001 – 6.84%)			
AMEC	5,306	22,975	0.28
BAE Systems 7.75p Cum red pref	20,000	34,600	0.41
Balfour Beatty	21,000	47,880	0.57
Bodycote International	12,000	22,920	0.27
FKI	12,000	18,960	0.23
Hanson	7,000	32,690	0.39
Kidde	21,031	14,196	0.17
Rexam	5,000	21,825	0.26
Smiths	9,520	67,497	0.81
Spectris	5,500	25,658	0.31
TI Automotive*	12,000	0	0.00
Wimpey (George)	10,000	26,200	0.31
Consumer Goods 13.32% (28 February 2001 – 12.57%)			
Allied Domecq	7,000	28,140	0.34
AstraZeneca	3,400	121,584	1.46
Cadbury Schweppes	13,000	62,530	0.75
Diageo	12,700	106,680	1.28
GlaxoSmithKline	36,300	625,828	7.50
Gallaher	8,732	43,420	0.52
Imperial Tobacco	3,800	35,606	0.43
Northern Foods	17,000	28,220	0.34
SSL International	3,412	18,561	0.22
Unilever	6,800	39,848	0.48
Services 14.35% (28 February 2001– 15.22%)			
Arriva	7,000	23,555	0.28
Ashtead	50,100	20,541	0.25
Avis Europe	18,000	30,960	0.37
BBA 6.75% cum red pref	16,000	22,320	0.27
Boots	4,441	28,356	0.34
British Sky Broadcasting	4,695	33,710	0.40
Chubb	25,000	42,500	0.51
Compass	5,268	25,392	0.30
Daily Mail & General Trust (non voting)	2,200	14,894	0.18
Davis Service	6,000	26,100	0.31
Debenhams	15,000	55,200	0.66
De La Rue	8,500	35,785	0.43

Portfolio Statement as at 28 February 2002 *(continued)*

	Holding	Market value £	Total net assets %
EMAP	5,000	34,000	0.41
EMI	6,000	18,585	0.22
Firstgroup	9,000	23,040	0.28
GUS	5,000	34,500	0.41
JJB sports	6,000	23,430	0.28
Lex Service	7,000	36,470	0.44
Mersey Dock & Harbour	4,000	20,760	0.25
mmO2	82,000	54,120	0.65
Next	4,200	39,963	0.48
P & O (deferred)	12,000	25,260	0.30
P & O Princess Cruises	3,523	14,444	0.17
Rank	20,000	50,000	0.60
Reed International	6,000	38,010	0.46
Reuters	5,199	27,243	0.33
Safeway	11,800	37,642	0.45
Scottish & Newcastle	4,300	23,865	0.29
Shanks	14,400	24,696	0.30
Six Continents	4,700	33,182	0.40
SMG	11,000	14,575	0.17
Smith (WH)	8,000	39,040	0.47
St Ives	7,000	28,280	0.34
Taylor Woodrow	13,000	25,415	0.30
Tesco	30,700	77,364	0.93
Thistle Hotels	15,000	19,950	0.24
Trinity Mirror	10,000	42,350	0.51
United Business Media	5,272	30,841	0.37
Utilities 8.38% (28 February 2001 – 9.73%)			
BG	19,500	57,038	0.68
British Telecommunications	58,500	149,614	1.79
Cable & Wireless	17,000	37,400	0.45
Kelda	8,866	31,652	0.38
National Grid	10,000	46,225	0.55
Scottish Power	9,300	39,711	0.48
Scottish and Southern Energy	9,000	57,150	0.68
United Utilities	5,000	30,175	0.36
Vodafone	187,750	251,116	3.01
Financials 27.03% (28 February 2001 – 25.28%)			
Abbey National	17,000	162,010	1.94
Alliance & Leicester	10,000	83,300	1.00
Amvescap	4,400	37,532	0.45
Barclays	13,200	273,900	3.28
Bradford & Bingley	14,000	43,260	0.52
Britannic	12,000	78,840	0.94
British Land	11,000	57,035	0.68
Brixton Estate	12,697	32,377	0.39
Cattles	18,000	55,080	0.66
CGNU	15,410	110,567	1.32
Close Brothers	2,000	13,450	0.16
Countrywide Assured	25,000	30,625	0.37

Portfolio Statement as at 28 February 2002 *(continued)*

	Holding	Market value £	Total net assets %
Friends Provident	11,000	19,250	0.23
Halifax	11,000	81,510	0.98
HSBC	40,000	309,000	3.70
ICAP	3,000	25,275	0.30
Legal & General	20,000	30,000	0.36
Lloyds TSB	37,000	251,600	3.01
Provident Financial	8,000	52,000	0.62
Prudential	14,000	92,145	1.10
Royal & Sun Alliance Insurance	12,000	31,320	0.37
Royal Bank of Scotland	16,000	277,120	3.32
Schroders	2,500	19,863	0.24
Singer & Friedlander	16,000	35,200	0.42
Slough Estates 6.25% Cum Cnv Red Pref	36,000	56,160	0.67
Investment Trusts 0.33% (28 February 2001 – 0.49%)			
3i	4,000	27,400	0.33
Government Securities 15.39% (28 February 2001 – 14.45%)			
Conversion 9% 2011	£89,600	116,588	1.40
Treasury 4.25% 2032	£91,500	84,775	1.01
Treasury 5.75% 2009	£56,500	59,156	0.71
Treasury 6% 2028	£100,000	118,150	1.41
Treasury 6.5% 2003	£143,400	147,960	1.77
Treasury 6.75% 2004	£138,000	144,803	1.73
Treasury 7% 2002	£40,400	40,735	0.49
Treasury 7.25% 2007	£55,000	61,089	0.73
Treasury 7.5% 2006	£82,400	91,093	1.09
Treasury 8% 2015	£105,000	136,091	1.63
Treasury 8% 2021	£83,000	114,582	1.37
Treasury 8.5% 2005	£103,800	116,329	1.39
Treasury 9% 2008	£45,000	54,990	0.66
Information technology 0.58% (28 February 2001 – 2.88%)			
MISYS	8,000	20,920	0.25
Morse	7,000	12,320	0.15
Spirent	12,000	15,420	0.18
Portfolio of Investments		8,233,059	98.61
Net current assets		115,920	1.39
Total net assets		8,348,979	100.00

* Suspended security

Unless otherwise stated the above securities are ordinary shares or common stock.

Balance Sheet as at 28 February 2002

	Notes	28 February 2002	28 February 2001
		£	£
Portfolio of Investments		8,233,059	10,968,362
Net current assets			
Debtors	9	174,100	209,870
Cash and bank balances	10	320,590	329,856
		494,690	539,726
<i>Less</i>			
Creditors	11	(246,575)	(309,927)
Distribution payable on income units		(132,195)	(166,358)
		(378,770)	(476,285)
Net current assets		115,920	63,441
Net assets		8,348,979	11,031,803
Unitholders' funds		8,348,979	11,031,803

The notes on pages 60 to 65 form part of these accounts.

Mark White
Chief Executive Officer
JP Morgan Fleming Asset Management (UK) Limited

17 November 2004

Summary of Material Portfolio Changes for the year ended 28 February 2002

Purchases	Cost £
Treasury 8% 2015	139,806
Vodafone	80,891
Prudential	63,992
Treasury 7% 2002	61,157
Treasury 9% 2008	55,539
Debenhams	54,411
Anglo American	54,356
Treasury 6% 2028	46,075
Johnston Press	41,202
Centrica	39,662
Shell Transport & Trading	37,527
Safeway	37,159
De La Rue	36,678
Singer & Friedlander	36,269
Friends Provident	32,589
Countrywide Assured	30,984
Hanson	30,774
United Utilities	29,436
MmO2	28,827
Amersham	28,077
Other securities	592,971
Total of all purchases for the year	£1,558,382
Sales	Proceeds £
Treasury 7% 2002	139,552
Conversion 9% 2011	125,225
Treasury 7.5% 2006	122,738
HSBC	122,255
Treasury 5.75% 2009	71,342
BAE systems 3.75% cum red pref	71,241
Johnston Press	68,786
Barclays	66,866
Shell Transport & Trading	66,476
Legal & General	64,525
GlaxoSmithKline	62,399
BP	54,093
Rexam	53,828
Vodafone	53,353
Treasury 8% 2021	51,360
Amec	48,501
Firstgroup	48,253
CGNU	47,892
Davis Service	46,797
National Express	46,584
Other securities	1,758,576
Total of all sales for the year	£3,190,642

Distribution Statement

Final distribution

Group A—Units purchased prior to 1 September 2001

Group B—Units purchased on 1 September 2001 to 28 February 2002

	Gross income	Tax at 10%	Net income	Equalisation	Distribution payable 15 April 2002	Distribution paid 15 April 2001
	pence per unit	pence per unit				
Group A	7.54	0.75	6.79	0.00	6.79	7.26
Group B	7.54	0.75	6.79	0.00	6.79	7.26

Interim distribution

Group A—Units purchased prior to 1 March 2001

Group B—Units purchased 1 March 2001 to 31 August 2001

	Gross income	Tax at 10%	Net income	Equalisation	Distribution paid 15 October 2001	Distribution paid 15 October 2000
	pence per unit	pence per unit				
Group A	10.76	1.07	9.69	0.00	9.69	9.16
Group B	10.76	1.07	9.69	0.00	9.69	9.16

Equalisation applies only to units purchased during the distribution period (group B units). It is the average amount of income included in the purchase price of all group B units and is refunded to 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.

Details of amounts distributed are provided in note 7.

Notes to the Financial Statements

1 Accounting policies

Basis of accounting

The accounts are subject to an Accounts Direction issued by Treasury (as detailed on page 66) and are prepared under the historical basis as modified by the revaluation of investments and in accordance with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by IMRO in January 1997.

Accounting period end date

The Accounts Direction requires accounts to be prepared for each year of one year ending on the last day of February. The accounts for the period 1 March 2001 to 28 February 2002 will be presented under Section 45 of the Administration of Justice Act 1982.

Valuation

Listed investments have been valued at mid-market value at 28 February 2002, net of any accrued interest which is included in the balance sheet as an income related item.

Income

Dividends receivable from equity investments are credited to the income account when they are first quoted ex-dividend. Interest receivable from bank deposits and fixed interest securities is accounted for on an accruals basis.

Expenses

Expenses of the Fund are charged against income.

Interest on fixed interest securities bought and sold

Interest on fixed interest securities bought and sold is excluded from the capital cost of securities, and is dealt with as part of the income of the Fund.

Distribution policy

Distributions are made on 15 April and 15 October each year and are based on the available net income at 1 March and 1 September respectively. The ordinary element of scrip dividends is treated as income and forms part of the distributable income.

2 Net (losses)/gains on investments

	28 February 2002	28 February 2001
	£	£
The net (losses)/gains on investments during the year comprise		
Proceeds from sales of investments during the year	3,190,642	7,183,133
Original cost of investments sold during the year	(3,663,108)	(6,355,776)
(Losses)/gains realised on investments sold during the year	(472,466)	827,357
Net depreciation thereon already recognised in earlier year	20,925	102,307
	(451,541)	929,664
Net unrealised (depreciation)/appreciation for the year	(651,502)	597,725
Net (losses)/gains on investments	(1,103,043)	1,527,389

3 Other losses

	28 February 2002	28 February 2001
	£	£
Other losses comprise		
Losses on forward foreign exchange contracts	0	(39)

4 Total income

	28 February 2002	28 February 2001
	£	£
UK dividends	249,094	329,561
Interest on debt securities	86,095	117,730
Bank interest	18,134	23,512
	353,323	470,803

5 Expenses

	28 February 2002	28 February 2001
	£	£
Payable to the Investment Manager, associates of the Investment Manager and agents of either of them	48,483	64,394
Investment Manager's periodic charge	48,483	64,394

6 Taxation

	28 February 2002	28 February 2001
	£	£
<i>a Analysis of charge in year</i>		
Corporation tax	11,320	15,370
Prior period adjustment	0	619
Provision for corporation tax	0	(50,000)
Current period tax charge (note 6b)	11,320	(34,011)

b Factors affecting tax charge for year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK for an Authorised Unit Trust of 20%. The differences are explained below

	28 February 2002	28 February 2001
	£	£
Net income before taxation	304,840	406,409
Corporation tax at 20%	60,968	81,282
Effects of		
UK Franked income not subject to Corporation tax	(49,648)	(65,912)
Adjustment in respect of prior periods	0	619
Provision for corporation tax	0	(50,000)
	(49,648)	(115,293)
Current year tax charge (note 6a)	11,320	(34,011)

The Fund is exempt from tax on capital gains, therefore, any capital return is not included in the above reconciliation.

7 Distributions

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

	28 February 2002	28 February 2001
	£	£
<i>Interim</i> Dividend distribution	199,388	242,169
<i>Final</i> Dividend distribution	132,195	166,358
	331,583	408,527
<i>Add</i> Income deducted on cancellation of units	16,028	33,333
Net distribution for the year	347,611	441,860

Details of the distribution per unit are set out in the table on page 59.

8 Movement between net income and distributions

	28 February 2002	28 February 2001
	£	£
Net income after taxation	293,520	440,420
Add undistributed income brought forward	11,816	13,256
Less undistributed income carried forward	(23)	(11,816)
Amounts transferred from capital	42,298	0
Distributions	347,611	441,860

9 Debtors

	28 February 2002	28 February 2001
	£	£
Accrued income	56,699	67,441
Other debtors	45,746	45,746
Sales awaiting settlement	29,357	96,683
Amounts due from Investment Managers	42,298	0
	174,100	209,870

10 Cash and bank balances

	28 February 2002	28 February 2001
	£	£
Cash and bank balances	320,590	329,856

11 Creditors

	28 February 2002	28 February 2001
	£	£
Accrued expenses	34,581	25,692
Due for cancellation of units	40,884	126,822
Purchases waiting settlement	12,866	10,490
Corporation tax payable	49,945	38,624
Income tax payable	12,627	12,627
Prior period distribution payable - High Yield Fund	77,903	77,903
Prior period distribution payable – Gross Income Fund	17,769	17,769
	246,575	309,927

12 Units in issue

The number of units in issue at the end of the year was 1,946,910 (29 February 2001: 2,291,430).

13 Contingent liabilities

The aggregate contingent liabilities not provided for at the balance sheet date was nil (28 February 2001: nil).

14 Related party transactions

The Court Funds Office (CFO), who provide investment management oversight services for the Fund are a related party (as defined by FRS 8). Details of units created and cancelled are shown in the Statement of Movements of Unitholders' Funds. The balances due to and from the Court Fund Office in respect of these transactions are detailed in notes 9 and 11.

JP Morgan Fleming Asset Management (UK) Limited, formerly Fleming Investment Management Limited, who provide investment management services could be regarded as a related party (as defined by FRS 8).

Management fees paid to JP Morgan Fleming Asset Management (UK) Limited are shown in note 5. The balances due at the year end in respect of these fees are shown in Note 11.

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

15 Financial instruments

In pursuing its investment objective as stated on page 45, the Fund holds a number of financial instruments. The Fund's financial instruments comprise securities and other investments, cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for redemptions and debtors for accrued income.

The main risks arising from the Fund's financial instruments and the Investment Manager's policies for managing these risks are summarised below. These policies have been applied throughout the year.

Market price risk

Market price risk is the risk that the value of the Fund's investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises mainly from uncertainty about future prices of financial instruments the Fund holds. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to market price fluctuations, which are monitored by the Investment Manager in pursuance of the investment objective and policy as set out in the Statutory Instrument 1209 (1991).

Adherence to investment guidelines and to investment and borrowing powers set out in the Investment Management Agreement with the Lord High Chancellor and the Statutory Instrument 1209 (1991) mitigates the risk of excessive exposure to any particular type of security or issuer.

Interest rate risk

At the year end date, 19.25% (29 February 2001: 17.44%) of the Fund's assets by value were interest bearing.

The tables below detail the interest rate profile of the Fund's assets as at the year end.

Table 1 as at 28 February 2002

	Total value £	Fixed rate £	Floating rate £	Weighted average interest rate %	Weighted average period (years)
Government stock					
UK sterling	1,286,357	1,286,357	0	7.2%	10.0
Cash at bank					
UK sterling	320,590	0	320,590		
	<u>1,606,947</u>	<u>1,286,357</u>	<u>320,590</u>		

The benchmark rate is LIBOR.

Table 2 as at 28 February 2001

	Total value £	Fixed rate £	Floating rate £	Weighted average interest rate %	Weighted average period (years)
Government stock					
UK sterling	1,594,521	1,594,521	0	7.2%	9.9
Cash at bank					
UK sterling	329,856	0	329,856		
	<u>1,924,377</u>	<u>1,594,521</u>	<u>329,856</u>		

The benchmark rate is LIBOR.

Liquidity risk

The Fund's assets comprise mainly of readily realisable securities. The main liability of the Fund is the redemption of any units that investors wish to sell. Assets of the Fund may need to be sold if insufficient cash is available to finance such redemptions.

Credit risk

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its responsibilities. The Fund only buys and sells investments through brokers which have been approved by the Investment Manager as an acceptable counterparty. In addition, limits are set to the exposure to any individual broker that may exist at any time and changes in brokers' financial ratings are reviewed.

Administration of Justice Act 1982: Common Investment Funds

Accounts Directions given by The Treasury

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 in respect of the period from 20 July 1999 to 29 February 2000 and thereafter for each period of one year ending on the last day of February until the final period from 1 March to 31 August 2003, accounts in respect of the:
 - I Capital Fund; and
 - II High Yield Fund
- 2 The accounts for each of the Funds referred to above shall give a true and fair view of the disposition of the assets and liabilities of the Fund at the year end and of the net income and movement in the net assets of the Fund for the year. Subject to the foregoing requirement, and without limiting the information given, each account shall reflect best commercial accounting practices.
- 3 The Report and accounts shall include
 - a a Foreword;
 - b a Statement of Responsibilities;
 - c a Statement on Internal Control;
 - d a Statement of Total Return;
 - e a Statement of Movements in Unitholder's Funds;
 - f a Portfolio Statement;
 - g a Balance Sheet;
 - h a Summary of Material Portfolio Changes; and
 - i a Distribution Statement.

The accounts for each Fund shall also include such notes as may be necessary to present a true and fair view and for the purposes referred to in the following paragraphs.
- 4 The Foreword shall consist of information concerning the Common Investment Funds. It shall, amongst other things:
 - a state 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;
 - b include an explanation of the statutory background to the accounts.
- 5 When preparing the accounts, the Investment Manager shall comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by IMRO in January 1997 to the extent that such requirements are relevant to the Common Investment Funds.
- 6 This Direction replaces the Direction dated 19 August 1999.

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

26 May 2004

For further information about the National Audit Office please contact:

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

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