

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

Funds in Court in England & Wales Account 2002-2003

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scrutinises public spending
on behalf of Parliament.

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House of Commons. He is the head of the
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He certifies the accounts of all Government
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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 2003. They have been prepared in accordance with the direction given by the Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982. The Accounts record dealings in cash and securities held in court. Deposits under the various enactments referred to in Section 40 of the Act are not segregated in the Accounts.

The Court Funds Office

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

- suitors involved in a civil legal action where money is paid into the Court Funds Office. This could be in relation to 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 them on completion of the case. The Court Funds Office pays interest on them at a competitive rate;
- patients, under the Court of Protection, who are not able to manage their property and affairs and as a result use the services of the Protection and Receivership activities of the Public Guardianship Office. The investment strategy, for patients' funds, is determined by the respective 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 Public Guardianship 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
- children for whose benefit funds are paid into Court and held until attaining majority on their 18th birthday, unless the court order instructs otherwise. The investment strategy for the children's funds, is determined by the respective courts either on a Capital Appreciation or High Income basis or a mixture of both. The investment strategy is implemented by the Investment Division of the Official Solicitor and Public Trustee either in stocks and certain unit and investment trusts, or placed on a special account that pays a competitive gross rate of interest with instant access.

The Court Funds Office is also responsible for the Unclaimed Balances Account. This fund consists of

- money paid into court which has not been claimed after a reasonable time; and
- money paid to the Court Funds Office where the rightful owner cannot be found, and which therefore cannot be returned.

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

Court Funds Office Investment Criteria

Under section 38(2) of the 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 monies held in Court may be paid into either account in accordance with the Court Funds Rules. The rates of interest paid on these accounts are prescribed from time to time by direction made by the Lord Chancellor, with the concurrence of the Treasury.

During the year (1 March 2002 to 28 February 2003), the percentage rates were

Basic	4%
Special	6%

Interest payable on Basic and Special accounts is met from interest earned by the Accountant General's deposits with the National Debt Commissioners.

Results for the year

The accounts on pages 9 to 13 report cash lodgments during the year ending 28 February 2003 of £2.3 billion, with cash payments and transactions out of court of £1.8 billion. This net inflow of cash, plus interest earned of £176 million, were the main reasons for overall cash balances held increasing to £3.67 billion at 28 February 2003.

The 2002-2003 accounts also reported a £10.4 million decrease in the nominal value of securities held, with a closing balance of £42.2 million reported at 28 February 2003. The number of common investment fund units held reduced by 0.86 million with 5.1 million units held at 28 February 2003. Further details of the common investment funds are provided in Part C of the White Paper Accounts.

The administrative costs of the Court Funds Office fall outside the scope of these accounts. Instead, the costs for the year ending 28 February 2003, and their re-imburement from funds held by the National Debt Commissioners, were reported in the 2002-2003 Annual Report and Accounts of the Court Service.

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.

Future developments

The Court Funds Office faces a challenging programme of work over the next few years to strengthen its internal control and governance arrangements. Details of this work are provided in the Statement on Internal Control on pages 5 and 6.

Peter Handcock
Accountant General of the Supreme Court

30 April 2004

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, under section 97(2) of the Supreme Court Act 1981 as amended by the Public Trustee and Administration of Funds Act 1986, appointed Peter Handcock as Accountant General of the Supreme Court. The Permanent Secretary of the Department for Constitutional Affairs has also appointed the Accountant General as the Accounting Officer for Funds in Court. His relevant responsibilities as Accounting Officer, including his responsibilities for the propriety and regularity of the 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

Scope of responsibility

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

The purpose of the system of internal control

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

Capacity to handle risk

The risk management process requires the Court Funds Office to maintain a risk register, which is a complete record of the risks the Court Funds Office faces and management's response to these risks, including the adequacy of the controls in place to manage risks and any actions planned to strengthen these controls. The more significant of these risks is reported upwards and incorporated into the Risk Registers of the Supreme Court Group and the Court Service Board.

The Court Funds Office and the Court Service Corporate Governance team, have developed a schedule of key risk and operational controls. This new control framework forms a key element of the Court Funds Office's wider aim of having risk management processes in place by the end of March 2004.

The risk and control framework

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

- Management Board meetings to discuss exception planning and risks to the business;
- adherence to the Court Service risk strategy;
- a register of operational risks that is reflected as a responsibility for all team section managers; and
- Seminars on Corporate Governance and risk management.

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

Review of effectiveness

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

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

- individual accountability written into Personal Development Plans of business section managers to reflect the need for specific compliance functions to be carried out weekly and certificated monthly;
- regular reports by line managers on the adequacy and effectiveness of the internal management control system in the main operational areas. These reports are then submitted to the Court Funds Office Principal for verification and certification;

- the Court Funds Office Management Board's ongoing review of the Court Funds Office process for formally identifying, evaluating and managing the significant risks to the achievement of its objectives;
- the undertaking of daily and monthly 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 such as action plans to address Internal Assurance recommendations and the Corporate Governance Branch Health check; and
- regular reviews of an annual budget covering the costs of administering the Court Funds Office, which is agreed by the Court Service Board.

The Department for Constitutional Affairs [formerly the Lord Chancellor's Department] has an Internal Assurance Division, which operates to the standards defined in the Government Internal Audit Manual and provides an internal audit service for the Court Funds Office. The work of Internal Audit is informed by an analysis of the 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 for the year ending 28 February 2003 were endorsed by the Court Service Audit Committee and Management Board and approved by the Accountant General.

Internal control issues

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

Reconciliation of outstanding Court of Protection Accounts

Whilst following up issues raised in the Internal Assurance report, the Court Funds Office identified in July 2003, some 14,000 client accounts with outstanding balances to be resolved. Remedial action was urgently undertaken with 12,600 accounts fully reconciled by October 2003. The remaining accounts relating solely to the Suitors and Funds areas were reconciled by the end of December 2003.

Key risk and operational controls

The Risk Management Team from Court Services Corporate Governance Branch undertook an overall health check of systems and procedures at the Court Funds Office in September 2003 to ascertain the key business risks. Remedial action has culminated in the production of a single Key Risk and Operational Control document that will be in place by 31 March 2004 and underpin the internal control framework operating within the Court Funds Office.

Peter Handcock
Accountant General of the Supreme Court

30 April 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 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 4, 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 the system of internal financial 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 5 and 6 complies with Treasury's guidance 'Corporate Governance: statement on the system of 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 2003 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

19 July 2004

National Audit Office
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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 2003

	Receipts and payments account for the year ended 28 February 2003			Receipts and payments account for the year ended 28 February 2002		
	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.	2,264,880,383			1,921,939,453		
Sales of Common Investment Fund units and other securities	103,834,057			38,079,508		
Dividends	17,429,533			9,747,647		
Interest credited to court accounts	175,714,024			175,883,180		
Exchange rate gain	(6,317,982)			417,547		
<i>Securities</i>						
Lodged		4,702,739	10,500		24,531,871	3,913
Purchased		21,352,185	5,409		10,789,234	
Exchange rate gain		(171,408)			29,334	
Total receipts and transfers into court	<u>2,555,540,015</u>	<u>25,883,516</u>	<u>15,909</u>	<u>2,146,067,335</u>	<u>35,350,439</u>	<u>3,913</u>
Less payments and transfers out of court						
<i>Cash</i>						
Payments to suitors etc.	(1,798,889,843)			(1,719,687,089)		
Cost of purchase of Common Investment Fund Units and other securities	(128,000,278)			(84,694,672)		(784,948)
<i>Transfer of fees etc. to</i>						
The Lord Chancellor's Department (Note 8)	(4,438,553)			(4,970,052)		
<i>Securities</i>						
Transferred and delivered		(22,012,582)	(10,500)		(25,957,579)	
Sold		(14,294,827)	(868,657)		(2,581,795)	
Total payments and transfers out of Court	<u>(1,931,328,674)</u>	<u>(36,307,409)</u>	<u>(879,157)</u>	<u>(1,809,351,813)</u>	<u>(28,539,374)</u>	<u>(784,948)</u>
Net movement in year	<u>624,211,341</u>	<u>(10,423,893)</u>	<u>(863,248)</u>	<u>336,715,522</u>	<u>6,811,065</u>	<u>(781,035)</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 2003 *continued*

	Statement of balances at 28 February 2003		
	Cash	Securities nominal value	Common Investment Fund
	Sterling	Sterling	Units
Balance 1 March 2002	3,042,205,732	52,671,273	6,002,989
<i>Add</i>			
Net movement in year	624,211,341	(10,423,893)	(863,248)
Balances 28 February 2002 (see note 2)	<u>3,666,417,073</u>	<u>42,247,380</u>	<u>5,139,741</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

	2003 £	2002 £
Sterling cash balances representing		
Court Funds (including interest) placed on basic account	1,140,678,757	783,385,808
Court Funds (including interest) placed on special account	2,375,662,740	2,064,571,202
Unclaimed Balances	34,746,873	32,028,577
Other Suitors' monies deposited in the Supreme Court	85,845,146	100,107,789
Suitors' monies held as foreign currency	29,483,557	62,112,356
	3,666,417,073	3,042,205,732
The balances were held		
Bank of England (as on account)	12,831,496	2,092,113
Money held as foreign currency (note 3)	29,483,557	62,112,356
National Debt Commissioners (a)	3,635,660,142	2,987,579,474
Amounts awaiting banking	6,016,604	203,339
	3,683,991,799	3,051,987,282
Less cheques issued prior to 1 March and not yet cashed	(17,574,726)	(9,781,550)
	3,666,417,073	3,042,205,732

The National Debt Commissioners balance excludes an estimated £47,319,332.79 of basic and special account interest accrued but not yet credited to Court Funds. The National Debt Commissioner's balance at 28 February 2003 including this accrued interest was £3,683 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 2003.

Currency	Closing Balance	Exchange rates	Sterling conversion
AUD	159	2.5957	61
CAD	177	2.3465	75
DKK	1,002	10.8562	92
SEK	5,768	13.4065	430
EUR	1,753	1.4613	1,200
USD	46,262,892	1.5751	29,371,400
JPY	20,537,908	188.2026	110,299
			29,483,557

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 2003 were as follows

Title of Fund	2003	2002
Capital Fund	3,535,646	4,056,079
High Yield Fund	1,604,095	1,946,910
	<u>5,139,741</u>	<u>6,002,989</u>

After the year-end, the High Yield Fund was merged with the Capital Fund, and from late August 2003 the resulting Capital Fund units were 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 Stocks held 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 2003, further items were held on behalf of the Accountant General as follows

Location	Item	2003	2002
Court Funds Office	National Savings Certificates	£163,125	166,425
Court Funds Office	Two private bonds and one packet		
Bank of England	Financial Documents ordered into Court (Packets)	5 packets	5 packets
Bank of England	Various Unit Trusts	82,776,705 units	68,514,917 units
British Museum	Gold Coins	4 gold coins	4 gold coins
British Museum	Silver Coins	1747 silver coins	1747 silver coins

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

8 Transfer of fees

The £4,438,553.09 shown in respect of transfer of fees to the former Lord Chancellors Department represents

Item	2003	2002
	£	£
1 Court of Protection Fees met directly from funds held in Court	4,432,619	4,964,745
2 Interest earned on foreign currency deposits where no court order has been made for the payment out of interest, dividend fractions and fees on proceedings	5,934	5,307
	<u>4,438,553</u>	<u>4,970,052</u>

Peter Handcock
Accountant General of the Supreme Court

30 April 2004

National Debt Commissioners' Accounts

Funds in Court in England and Wales Accounts 2002-2003

Foreword

The National Debt Commissioners' Accounts (Account B) cover the year ended 28 February 2003. 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 £556.3m to £3,912.3m. This reflected the increase in the liability of the Commissioners to the Accountant General of the Supreme Court from £3040.5m at the beginning of the year to £3,686.7m at 28 February 2003.

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

As Comptroller General to the Commissioners for the Reduction of the National Debt (CRND) I have responsibility for maintaining a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios. I also have responsibility for reviewing the effectiveness of the system of internal controls.

CRND and the Debt Management Office (DMO) were merged in July 2002. CRND is a separate business entity managed within the wider internal control system of DMO. Therefore, as part of my assessment of risk in CRND, I have placed reliance of the statement on internal control for the DMO. I have received assurance from the DMO's Accounting Officer that appropriate steps have been taken to ensure that risks to meeting objectives have been managed. However, I understand that only reasonable and not absolute assurance can be given that risks have been controlled.

Since merger, most of the DMO system of internal control has been implemented for CRND. A review of business processes and controls within CRND began in November 2002 and is likely to lead to changes in the system of controls and a further convergence with DMO control mechanisms to reflect best practice. This will result in a systemic identification and management of risk within CRND.

A memorandum of agreement with each CRND client is in place, outlining the respective responsibilities of CRND and the client. A programme is underway to review and revise each client memorandum of agreement and to introduce investment mandates that will outline investment risks and formalise the detailed investment parameters for each client investment portfolio.

The DMO system of internal control is based on an ongoing process designed to identify the main risks to the achievement of the DMO's (including CRND's) objectives, to evaluate the nature of and extent of those risks and to manage them efficiently, effectively and economically. The DMO system of internal control includes the following elements that have a direct bearing on CRND

- a the DMO has a robust corporate governance management structure comprising
 - an advisory board which meets monthly to consider the plans and strategic direction of the DMO;
 - a managing committee which meets weekly to consider strategic and operational issues;
 - an investment committee held weekly to formulate medium-term investment strategy and review investment policies for CRND, including the range of instruments and credit policy;
 - a fund management review committee which meets monthly to review the performance of the CRND investment funds, appropriateness of investment policies set by the Investment Committee and to review and ratify investment mandates agreed with CRND clients;
 - a credit and risk committee which sets, reviews and monitors compliance with the DMO's Risk Policy; and
 - an audit committee which meets quarterly and is chaired by a non-executive director.
- b the DMO has an internal audit function complying with the Government Internal Audit Standards. The internal audit function has not yet reviewed the operations of CRND pending completion of the CRND Business Process Review and subsequent implementation of its recommendations;
- c management in each business function is responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation;
- d a risk management function provides control advice on risks throughout the DMO. In the DMO's management reporting structure the risk management unit is separate and independent of the DMO's trading operations. The risk management function also conducts risk analysis and provides an operational, market and credit risk capability for the DMO;

- e presentations have been held with all staff on the DMO's risk management framework. All members of staff have job descriptions, including specific key risks to be addressed;
- f senior management have produced a high level risk and controls register for the DMO including CRND activities. Management evaluates current risks and reports them to the Risk Management Unit and Managing Committee quarterly. Risk workshops have been held with all business units;
- g the DMO's business continuity plan, including disaster recovery site and other arrangements, is subject to continual review and update;
- h the DMO is currently developing its portfolio risk management capability and is implementing a system to deliver daily value at risk measurement;
- i the DMO has policies on anti-fraud and whistle blowing. Seminars have been held to raise staff awareness of these issues; and
- j in establishing controls to deter money laundering the DMO has followed best practice, guidance in the Financial Services Authorities handbook and the joint money laundering steering group.

My review of the effectiveness of the system of internal control is informed by assurances given to me by the Accounting Officer of the DMO, the work of managers within CRND and comments made by external auditors in their management letters and other reports.

Jo Whelan
Comptroller General
Commissioners for the Reduction of the National Debt

16 July 2003

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 18 to 20 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 pages 14 to 16. 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 pages 15 to 16 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 2003, 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

Accounts of the Receipts and Payments and Transactions in Securities of the National Debt Commissioners for the year ended 28 February 2003

	Notes	2003 £	2002 £
Cash receipts			
From Accountant General		882,350,000	511,432,000
Interest on securities etc.		189,868,054	183,127,194
Sales of securities etc.	1,5	6,313,168,551	2,563,293,536
		7,385,386,605	3,257,852,730
Cash payments			
To Accountant General		415,550,000	361,690,000
Purchase of securities etc.	5	6,947,388,558	2,891,830,176
Consolidated Fund - surplus income		12,187,290	0
Lord Chancellor's Department for Funds in Court administration		10,190,757	4,275,554
National Debt Commissioners for expenses		70,000	57,000
		7,385,386,605	3,257,852,730
Securities (at cost)			
Purchases	5	6,947,388,558	2,891,830,176
Sales	1,5	6,222,489,258	2,481,949,049
Net movement in securities in year		724,899,300	409,881,127

Statement of Balances at 28 February 2003

	Note	2003 Securities (at cost) £	2002 Securities (at cost) £
Balances at beginning of financial year		3,412,373,421	3,002,492,294
Net movement in year		724,899,300	409,881,127
Balance at end of financial year	2	4,137,272,721	3,412,373,421

The notes which follow form part of this Account.

Notes to the Accounts

1 Received for securities sold

	2003 £	2002 £
Cost of securities sold etc.	6,222,489,258	2,481,949,049
Profit (loss) on disposal	90,679,293	81,344,487
Received for securities sold etc.	<u>6,313,168,551</u>	<u>2,563,293,536</u>

2 Securities held at year end

	Nominal £	Cost £	Market value £
Securities			
Government and government guaranteed stocks	3,912,382,932	4,137,272,721	4,354,025,189

3 Securities, at cost, as in Note 2 above, represent

	£	£	£
<i>Add</i> Liability of the Investment Account to the Accountant General of the Supreme Court			3,682,979,475
<i>Add</i> Accumulated sum retained to provide for depreciation in the value of the securities			3,750,631
<i>Add</i> Accumulated net profit on sales (or transfers) of securities from 1 October 1965 (including £90,679,293 for current year)	448,420,156		
<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>446,630,714</u>
			4,133,360,820
<i>Comprising</i>			
Adjustment for surplus income payable to the Consolidated Fund in respect of 2002-2003			(3,911,901)
Securities at cost			<u>4,137,272,721</u>
			<u>4,133,360,820</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	189,868,054
<i>Less</i> interest due to be paid or credited to Court Accounts	175,695,396
<i>Less</i> paid to Lord Chancellor's Department for fund administration in 2002-2003	10,190,757
<i>Less</i> paid to CRND for management expenses in 2002-2003	70,000
<i>Less</i> amount, determined by Treasury, retained to provide for depreciation in the value of securities	0
Surplus income payable from the Consolidated Fund	<u>3,911,901</u>

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 a 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
Comptroller General
Commissioners for the Reduction of the National Debt

16 July 2003

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 35 and note 6 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 2003. 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 2002 to 28 February 2003 and have been prepared in accordance with a Direction issued by Treasury under section 45(2) of the Act as detailed on page 42

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 21, 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 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 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

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 High Yield Fund on pages 29 to 41 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 36.

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 21, the Lord Chancellor appointed JP Morgan Asset Management to be the Investment Manager for the Common Investment High Yield Fund for the financial 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 23, 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 21 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 24 to 26 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 2003 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 2003 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 2003

	28 February 2003		28 February 2002	
	£	£	£	£
Net losses on investments during the year (Note 2)		(1,710,203)		(1,103,043)
Total income (Note 3)	290,064		353,323	
Expenses (Note 4)	(32,011)		(48,483)	
Net income before taxation	258,053		304,840	
Taxation (Note 5)	(8,453)		(11,320)	
Net income after taxation for the year		249,600		293,520
Total return for the year		(1,460,603)		(809,523)
Distributions (Note 6)		(260,755)		(347,611)
Net decrease in unitholders' funds from investment activities		(1,721,358)		(1,157,134)

Statement of Movements in Unitholders' Funds for the year ended 28 February 2003

	28 February 2003		28 February 2002	
	£	£	£	£
Net assets at the start of the year		8,348,979		11,031,803
Movement due to sales and repurchase of units				
Less Amounts paid on cancellation of units		(2,086,008)		(1,567,988)
Net cash out of Fund		(2,086,008)		(1,567,988)
Net decrease in unitholders' funds from investment activities (see above)		(1,721,358)		(1,157,134)
Other gains		0		42,298
Net assets at the end of the year		4,541,613		8,348,979

The notes on pages 36 to 41 form part of these accounts.

Balance Sheet as at 28 February 2003

	28 February 2003	28 February 2002
	£	£
Portfolio of investments	4,725,442	8,233,059
Net current assets		
Debtors (Note 8)	122,983	174,100
Cash and bank balances (Note 9)	780,338	320,590
	903,321	494,690
<i>Less</i>		
Creditors (Note 10)	(1,001,973)	(246,575)
Distribution payable on income units	(85,177)	(132,195)
	(1,087,150)	(378,770)
Net current (liabilities)/assets	(183,829)	115,920
Net assets	4,541,613	8,348,979
Unitholders' funds	4,541,613	8,348,979

The notes on pages 36 to 41 form part of these accounts.

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

17 November 2004

Portfolio Statement as at 28 February 2003

	Holding	Market value £	Total net assets %
Mineral Extraction 15.42% (28 February 2002 – 15.22%)			
Anglo American	6,270	57,559	1.27
BP Amoco	90,713	362,852	7.99
Centrica	14,752	20,800	0.46
Imperial Chemical Industries	10,831	16,463	0.36
Novar	26,411	30,373	0.67
Rio Tinto	2,928	37,625	0.83
Shell Transport & Trading	47,483	174,619	3.84
General Manufacturers 4.83% (28 February 2002 – 4.01%)			
Balfour Beatty	6,500	10,384	0.23
BOC	2,309	17,352	0.38
BPB	5,396	14,191	0.31
British Vita	6,639	13,942	0.31
DS Smith	17,161	25,742	0.57
Hanson	5,000	14,888	0.33
Kidde	21,031	12,040	0.26
Rexam	4,610	14,879	0.33
Smiths	4,629	27,959	0.62
Spirax Sarco Engineering	4,334	15,819	0.35
Tomkins	7,500	14,100	0.31
TI Automotive*	12,000	0	0.00
Wimpey (George)	13,830	37,479	0.83
Consumer Goods 17.42% (28 February 2002 – 13.32%)			
AstraZeneca	4,334	88,760	1.95
British American Tobacco	7,807	48,403	1.07
Cadbury Schweppes	8,852	28,415	0.63
Diageo	13,830	87,129	1.92
GlaxoSmithKline	28,859	322,066	7.09
Gallaher	8,051	50,158	1.10
GKN	6,500	10,238	0.23
Hilton	15,500	23,095	0.51
Imperial Tobacco	1,594	15,789	0.35
Inchcape	3,000	21,405	0.47
Laird	5,409	8,195	0.18
Northern Foods	22,833	26,486	0.58
Tate & Lyle	5,000	13,888	0.31
Unilever	8,298	46,967	1.03
Services 15.17% (28 February 2002 – 14.35%)			
Arriva	6,454	18,588	0.41
Avis Europe	23,050	20,860	0.46
BBA	8,298	12,053	0.27
Boots	4,095	22,195	0.49
British Sky Broadcasting	6,173	38,797	0.85
Croda International	7,000	16,065	0.35
Daily Mail & General Trust	3,135	15,173	0.33
Davis Service	7,837	25,196	0.55
Debenhams	13,830	37,376	0.82
DFS furniture	7,376	24,156	0.53
EMAP	3,575	25,150	0.55

Portfolio Statement as at 28 February 2003 *(continued)*

	Holding	Market value £	Total net assets %
Greene King	1,300	8,450	0.19
GUS	4,610	23,396	0.52
Interserve	8,391	17,621	0.39
Kingfisher	8,759	20,036	0.44
MmO2	75,603	35,911	0.79
Pearson	4,500	21,600	0.48
RAC	3,688	13,129	0.29
Rank	7,837	18,299	0.40
Reed Elsevier	2,766	12,820	0.28
Safeway	4,610	13,623	0.30
Sainsbury (J)	12,908	29,947	0.66
Scottish & Newcastle	7,930	26,645	0.59
Six Continents	3,688	22,829	0.50
Smith (WH)	4,482	11,832	0.26
St Ives	4,000	12,100	0.27
Taylor Woodrow	20,100	36,281	0.80
Tesco	13,000	21,060	0.46
Trinity Mirror	9,220	36,696	0.81
William Hill	7,000	14,158	0.31
Wolverhampton & Dudley	2,490	14,467	0.32
Woolworths	72,000	22,680	0.50
Utilities 10.77% (28 February 2002 – 8.38%)			
BG	10,142	24,823	0.55
British Telecommunications	55,400	90,579	1.99
Kelda	8,175	33,518	0.74
National Grid	9,220	37,618	0.83
Scottish Power	11,986	43,689	0.96
Scottish and Southern Energy	5,993	37,756	0.83
United Utilities	6,600	38,940	0.86
Vodafone	160,000	182,000	4.01
Financials 28.86% (28 February 2002 – 27.03%)			
Abbey National	10,991	42,865	0.94
Alliance & Leicester	9,220	71,455	1.57
Aviva	14,208	56,228	1.24
Barclays	30,730	112,779	2.48
Bradford & Bingley	9,000	25,560	0.56
British Land	6,731	28,876	0.64
Brixton Estate	11,707	25,580	0.56
Close Brothers	3,135	13,481	0.30
Friends Provident	25,615	22,669	0.50
Halifax	19,915	131,837	2.90
HSBC	40,568	277,485	6.11
Legal & General	46,000	34,385	0.76
Lloyds TSB	36,880	130,555	2.87
Provident Financial	7,376	42,375	0.93
Prudential	11,986	40,513	0.89
Royal Bank of Scotland	14,752	214,347	4.72
Slough Estates	12,000	16,260	0.36
Standard Chartered	3,477	24,235	0.53

Portfolio Statement as at 28 February 2003 *(continued)*

	Holding	Market value £	Total net assets %
Investment Trusts 0.39% (28 February 2002 – 0.33%)			
3i	3,688	17,555	0.39
Government Securities 11.19% (28 February 2002 – 15.39%)			
Conversion 9% 2011	£28,600	38,401	0.85
Treasury 4.25% 2032	£81,500	79,430	1.75
Treasury 5.75% 2009	£58,500	64,631	1.42
Treasury 6.75% 2004	£60,000	63,486	1.40
Treasury 7.25% 2007	£37,000	42,554	0.93
Treasury 7.5% 2006	£37,400	42,434	0.93
Treasury 8% 2013	£15,000	19,854	0.44
Treasury 8% 2021	£62,000	89,782	1.98
Treasury 8.5% 2005	£59,800	67,658	1.49
Portfolio of investments		4,725,442	104.05
Net current liabilities		(183,829)	(4.05)
Total net assets		4,541,613	100.00%

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

* Suspended security

Summary of Material Portfolio Changes for the year ended 28 February 2003

Purchases	Cost £
British American Tobacco	99,330
HBOS	97,170
Imperial Tobacco	65,246
Treasury 8% 2013	46,546
Sainsbury (J)	43,959
Treasury 8% 2003	41,372
Woolworths	41,134
National Express	37,482
William Hill	35,213
Treasury 5.75% 2009	32,475
DFS Furniture	31,017
Avis Europe	29,183
SSL International	28,902
Treasury 8.75% 2017	28,704
HSBC	28,471
Bradford & Bingley	28,436
Centrica	26,841
Friends Provident	26,321
Interserve	26,030
DS Smith	25,913
Other securities	854,500
Total of all purchases for the year	£1,674,245

Sales	Proceeds £
Treasury 6.5% 2003	147,262
Treasury 6% 2028	140,395
Treasury 8% 2015	138,287
GlaxoSmithKline	129,537
Barclays	97,159
Imperial Tobacco	87,231
BP	83,178
Treasury 6.75% 2004	81,698
Conversion 9% 2011	79,605
Treasury 5% 2008	59,865
Cattles	57,900
Rio Tinto	52,751
Shell Transport & Trading	52,083
Treasury 7.5% 2006	49,860
Treasury 8.5% 2005	49,562
British American Tobacco	49,423
BHP Billiton	46,049
Bradford & Bingley	43,212
Prudential	41,601
Treasury 8% 2003	40,698
Other securities	1,944,303
Total of all sales for the year	£3,471,659

Distribution Statement

Final distribution

Group A—Units purchased prior to 1 September 2002

Group B—Units purchased 1 September 2002 to 28 February 2003

	Gross income	Tax at 10%	Net income	Equalisation	Distribution	
	pence per unit	pence per unit	pence per unit	pence per unit	payable 15 April 2003	paid 15 April 2002
					pence per unit	pence per unit
Group A	5.90	0.59	5.31	-	5.31	6.79
Group B	5.90	0.59	5.31	-	5.31	6.79

Interim distribution

Group A—Units purchased prior to 1 March 2002

Group B—Units purchased 1 March 2002 to 31 August 2002

	Gross income	Tax at 10%	Net income	Equalisation	Distribution	
	pence per unit	pence per unit	pence per unit	pence per unit	paid 15 October 2002	paid 15 October 2001
					pence per unit	pence per unit
Group A	9.32	0.93	8.39	-	8.39	9.69
Group B	9.32	0.93	8.39	-	8.39	9.69

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. It is not relevant for the statement above, as there were no units purchased in the period.

Details of amounts distributed are provided in note 6.

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 42) and are prepared under the historical cost basis as modified by the revaluation of investments and in accordance with the disclosure requirements of the Statement of Recommended Practice relating to Authorised 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 2002 to 28 February 2003 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 2003, 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 on investments

	28 February 2003	28 February 2002
	£	£
The net losses on investments during the year comprise		
Proceeds from sales of investments during the year	3,471,659	3,190,642
Original cost of investments sold during the year	(4,076,320)	(3,663,108)
Losses realised on investments sold during the year	(604,661)	(472,466)
Net depreciation thereon already recognised in earlier year	118,068	20,925
	(486,593)	(451,541)
Net unrealised depreciation for the years	(1,223,610)	(651,502)
Net losses on investments	(1,710,203)	(1,103,043)

3 Total income

	28 February 2003	28 February 2002
	£	£
UK dividends	215,787	249,094
Interest on debt securities	62,562	86,095
Bank interest	11,715	18,134
	290,064	353,323

4 Expenses

	28 February 2003	28 February 2002
	£	£
Payable to the Investment Manager, associates of the Investment Manager and agents of either of them		
Investment Manager's periodic charge	32,011	48,483

5 Taxation

	28 February 2003	28 February 2002
	£	£
<i>a Analysis of charge in year</i>		
Corporation tax (note 5b)	8,453	11,320

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 2003	28 February 2002
	£	£
Net income before taxation	258,053	304,840
Corporation tax at 20%	51,611	60,968
Effects of UK Franked income not subject to Corporation tax	(43,158)	(49,648)
Current year tax charge (note 5a)	8,453	11,320

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

6 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 2003	28 February 2002
	£	£
<i>Interim</i> Dividend distribution	152,366	199,388
<i>Final</i> Dividend distribution	85,177	132,195
	237,543	331,583
<i>Add</i> Income deducted on cancellation of units	23,212	16,028
Net distribution for the year	260,755	347,611

Details of the distribution per unit are set out in the table on page 35

7 Movement between net income and distributions

	28 February 2003	28 February 2002
	£	£
Net income after taxation	249,600	293,520
<i>Add</i> undistributed income brought forward	23	11,816
<i>Less</i> undistributed income carried forward	(57)	(23)
Amounts transferred from capital	11,189	42,298
Distributions	260,755	347,611

8 Debtors

	28 February 2003	28 February 2002
	£	£
Accrued income	33,550	56,699
Other debtors	45,746	45,746
Sales awaiting settlement	1,389	29,357
Amounts due from Investment Managers	42,298	42,298
	122,983	174,100

9 Cash and bank balances

	28 February 2003	28 February 2002
	£	£
Cash and bank balances	780,338	320,590

10 Creditors

	28 February 2003	28 February 2002
	£	£
Accrued expenses	30,243	34,581
Due for cancellations of units	801,546	40,884
Purchases awaiting settlement	3,487	12,866
Corporation tax payable	58,398	49,945
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
	1,001,973	246,575

11 Units in issue

The number of units in issue at the end of the year was 1,361,936 (28 February 2002: 1,946,910), which is net of a cancellation of 242,159.

12 Contingent liabilities

The aggregate contingent liabilities not provided for at the balance sheet date was nil (28 February 2002: nil).

13 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 Fund Office in respect of these transactions are detailed in notes 8 and 10.

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 4. The balances due at the year end in respect of these fees are shown in Note 10.

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

14 Financial instruments

In pursuing its investment objective as stated on page 21, 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, 28.37% (28 February 2002: 19.25%) 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 2003

	Total value £	Fixed rate £	Floating rate £	Weighted average interest rate %	Weighted average period (years)
Government stock					
UK sterling	508,230	508,230	0	7.0%	10.4
Cash at bank					
UK sterling	780,338	0	780,338		
	<u>1,288,568</u>	<u>508,230</u>	<u>780,338</u>		

The benchmark rate is LIBOR.

Table 2 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.

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 Direction 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: 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 59 and note 7 also provides 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 2003. 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 2002 to 28 February 2003 and have been prepared in accordance with a Direction issued by Treasury under section 45(2) of the Act as detailed on page 67.

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 43, 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 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 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 plans to address any weaknesses and ensure continuous improvement of the system are in place.

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 51 to 66 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 43, 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 45, 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 43 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 46 to 48 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 Capital Fund at 28 February 2003 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 2003 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 2003

	28 February 2003		28 February 2002	
	£	£	£	£
Net losses on investments during the year (Note 2)		(9,265,956)		(5,918,037)
Other gains (Note 3)		1,343		1,830
Total income (Note 4)	836,434		909,817	
Expenses (Note 5)	(142,725)		(201,916)	
Net income before taxation	693,709		707,901	
Taxation (Note 6)	(18,878)		(18,613)	
Net income after taxation for the year		674,831		689,288
Total return for the year		(8,589,782)		(5,226,919)
Distributions (Note 7)		(679,410)		(711,194)
Net decrease in unitholders' funds from investment activities		(9,269,192)		(5,938,113)

Statement of Movements in Unitholders' Funds for the year ended 28 February 2003

	28 February 2003		28 February 2002	
	£	£	£	£
Net assets at the start of the year		35,133,275		45,136,400
Movement due to sales and repurchase of units				
Amounts received on creation of units	40,379		0	
Less Amounts paid on cancellation of units	(4,125,781)		(4,065,012)	
Net cash out of Fund		(4,085,402)		(4,065,012)
Net decrease in unitholders' funds from investment activities (see above)		(9,269,192)		(5,938,113)
Net assets at the end of the year		21,778,681		35,133,275

The notes on pages 60 to 66 form part of these accounts.

Balance Sheet as at 28 February 2003

	28 February 2003	28 February 2002
	£	£
Portfolio of investments	21,605,343	34,614,001
Net current assets		
Debtors (Note 9)	206,961	231,621
Cash and bank balances (Note 10)	639,758	703,046
	846,719	934,667
<i>Less</i>		
Creditors (Note 11)	(466,899)	(137,552)
Distribution payable on income units	(206,482)	(277,841)
	(673,381)	(415,393)
Net current assets	173,338	519,274
Net assets	21,778,681	35,133,275
Unitholders' funds	21,778,681	35,133,275

The notes on pages 60 to 66 form part of these accounts.

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

17 November 2004

Portfolio Statement as at 28 February 2003

	Holding	Market value £	Total net assets %
Mineral Extraction 14.56% (28 February 2002 – 15.29%)			
Anadarko Petroleum	1,300	38,032	0.17
Anglo American	22,192	203,723	0.93
Bayer	3,400	28,617	0.13
BP	355,385	1,421,540	6.53
Compania Vale Do Rio Doce ADR	2,000	34,633	0.16
Conoco Philips	2,250	72,439	0.33
ENI	10,000	94,225	0.43
Imerys	400	27,002	0.12
Imperial Chemical Industries	38,422	58,401	0.27
Ingersoll-Rand	2,350	58,858	0.27
Kaneka	7,000	21,164	0.10
MIM	79,390	43,586	0.20
Newmont Mining	2,200	38,180	0.17
Premier Oil	188,760	50,493	0.23
Rio Tinto	12,008	154,303	0.71
Shell Transport & Trading	186,000	684,015	3.14
Total Fina	1,734	145,469	0.67
General Manufacturers 7.45% (28 February 2002 – 8.27%)			
Altadis	3,600	54,170	0.25
Balfour Beatty	36,100	57,670	0.26
Barratt Developments	24,298	99,622	0.46
Bayerische Motoren Werke	1,400	24,707	0.11
Berkeley	10,271	64,553	0.30
BOC	8,391	63,058	0.29
BPB	13,270	34,900	0.16
British Vita	41,181	86,480	0.40
Canon	3,000	68,791	0.32
DS Smith	47,539	71,309	0.33
General Motors	7,220	46,664	0.21
Hanson	19,000	56,573	0.26
Holcim	440	45,269	0.21
Honda Motor	2,200	51,037	0.23
Kidde	131,343	75,194	0.34
Laird	19,390	29,376	0.12
Meggitt	30,386	46,491	0.21
Persimmon	15,000	66,113	0.30
Posco	2,000	29,275	0.13
Redrow	20,000	52,800	0.24
Renault	600	16,047	0.07
Spirax Sarco Engineering	16,122	58,845	0.27
Sumitomo	13,000	38,675	0.18
TI Automotive*	17,300	0	0.00
Tomkins	41,439	77,905	0.36
Travis Perkins	4,200	40,383	0.19
Tyco International	4,920	46,276	0.21
Wilson Connolly	50,000	81,000	0.37
Wimpey (George)	38,498	104,330	0.48
Yule Catto	14,600	41,829	0.19

Portfolio Statement as at 28 February 2003 *(continued)*

	Holding	Market value £	Total net assets %
Consumer Goods 18.67% (28 February 2002 – 16.13%)			
Alcon	1,700	42,281	0.19
Altria	5,420	133,083	0.61
Amerisourcebergen	1,200	41,902	0.19
Amersham	11,451	49,297	0.23
Avon	2,000	66,060	0.30
Boots	12,000	65,040	0.30
Bristol-Myers Squibb	5,100	75,443	0.35
British American Tobacco	33,838	209,796	0.96
Chugai Pharmaceutical	4,400	25,448	0.12
Debenhams	26,524	71,681	0.33
Diageo	40,171	253,077	1.16
GKN	22,108	34,820	0.16
GlaxoSmithKline	112,211	1,252,275	5.75
HCA	2,400	62,869	0.29
Inchcape	11,000	78,485	0.36
Johnson & Johnson	3,200	106,569	0.49
Kao	2,000	26,797	0.12
Kraft Foods	3,055	57,431	0.26
Marks & Spencer	59,160	180,734	0.83
May Department Stores	2,900	36,124	0.17
McDonalds	5,200	44,949	0.21
Nestle	660	84,358	0.39
Pfizer	5,300	100,374	0.46
Pharmacia	3,520	92,353	0.42
Proctor & Gamble	550	28,583	0.13
Safeway	18,000	53,190	0.24
Sainsbury (J)	50,485	117,125	0.54
Saint-Gobain	3,520	67,876	0.31
Smith & Nephew	16,686	61,071	0.28
SSL International	26,791	55,323	0.25
Takeda Chemical	2,000	46,827	0.22
Target	2,250	40,926	0.19
Tate & Lyle	23,000	63,883	0.29
Unilever	47,000	266,020	1.22
Wyeth	3,400	76,090	0.35
Services 18.08% (28 February 2002 – 19.33%)			
Accenture	3,400	33,038	0.15
AGA Foodservice	20,314	36,057	0.17
Arriva	17,869	51,463	0.24
Astrazeneca	26,394	540,549	2.48
Aventis	2,380	68,612	0.32
Avis Europe	58,927	53,329	0.24
BBA	17,100	24,838	0.11
British Airways	51,568	53,760	0.25
British Sky Broadcasting	17,607	110,660	0.51
Burlington Northern Santa Fe	3,610	57,321	0.26
Chubb	58,480	35,088	0.16
Circuit City Stores	8,220	23,041	0.11

Portfolio Statement as at 28 February 2003 *(continued)*

	Holding	Market value £	Total net assets %
Daily Mail & General Trust	6,729	32,568	0.15
Deutsche Post	4,708	30,154	0.14
EMAP	14,660	103,133	0.47
Fuji Photo Film	3,000	60,414	0.28
Gannett	1,120	51,290	0.24
Greene King	5,000	32,500	0.15
Greggs	1,300	39,975	0.18
GUS	16,869	85,610	0.39
Interserve	21,804	45,788	0.21
Morrison (WM) Supermarkets	37,336	59,364	0.27
Nintendo	600	30,384	0.14
Nokia	8,000	67,880	0.31
Pearson	13,864	66,547	0.31
RAC	13,464	47,932	0.22
Rank	34,257	79,990	0.37
Reed Elsevier	10,000	46,350	0.21
Rentokil Initial	27,878	50,947	0.23
Selfridges	14,250	32,063	0.15
Six Continents	12,155	75,239	0.35
St Ives	11,000	33,275	0.15
Stanley Leisure	21,884	75,390	0.35
Tesco	30,483	49,382	0.23
Trinity Mirror	13,000	51,740	0.24
Vodafone	1,125,000	1,279,688	5.88
Walt Disney	5,200	56,305	0.26
Waste Management	4,350	55,055	0.25
Whitbread	16,400	85,444	0.39
Wolters-Kluwer	4,540	39,827	0.18
Wolverhampton & Dudley Breweries	7,091	41,199	0.19
Woolworths	130,000	40,950	0.19
Utilities 6.71% (28 February 2002 – 6.33%)			
AWG	7,672	40,355	0.19
BG	17,335	42,427	0.19
BT	157,002	256,698	1.18
Carlton Communications	33,747	28,685	0.13
Consolidated Edison	1,800	44,598	0.20
Exxon Mobil	5,700	123,130	0.57
General Electric	6,521	99,569	0.46
mm02	194,418	92,349	0.42
National Grid Transco	45,785	186,803	0.86
Nippon Telegraph & Telephone	23	52,863	0.24
Pennon	10,729	71,562	0.33
SBC Communications	6,331	83,604	0.38
Scottish Power	50,165	182,851	0.84
SK Telecom	3,400	33,674	0.15
Talisman Energy	2,570	64,935	0.30
United Utilities	10,000	59,000	0.27

Portfolio Statement as at 28 February 2003 *(continued)*

	Holding	Market value £	Total net assets %
Financials 25.30% (28 February 2002 – 22.74%)			
Abbey National	35,376	137,966	0.63
ABN Amro	5,590	56,401	0.26
Alliance & Leceister	18,005	139,539	0.64
American International	2,650	82,936	0.38
Aviva	55,500	219,641	1.01
AXA	4,400	34,143	0.16
Bank of Ireland	3,700	25,896	0.12
Barclays	103,727	380,678	1.75
BNP Paribas	3,200	84,084	0.39
Bradford & Bingley	32,100	91,164	0.42
Brixton	31,399	68,607	0.32
Citigroup	7,500	158,800	0.73
Close Brothers	10,000	43,000	0.20
Fannie Mae	2,350	95,628	0.44
Fleet Boston Financial	3,570	55,689	0.26
Fortis	4,730	41,138	0.19
Friends Provident	44,851	39,693	0.18
Hartford Financial Services	2,200	50,464	0.23
HBOS	73,597	487,212	2.24
HSBC	147,332	1,007,751	4.63
Intermediate Capital	7,585	58,632	0.27
Kookmin Bank	1,600	31,013	0.14
Land Securities	13,342	99,264	0.46
Legal & General	67,146	50,192	0.23
Lloyds TSB	113,681	402,431	1.85
Man	6,261	53,532	0.25
Marsh & McLennan	1,100	28,466	0.13
Nikko Cordial	13,000	29,670	0.14
Nordea	15,000	41,634	0.19
Provident Financial	10,096	58,002	0.27
Prudential	34,886	117,915	0.54
Prudential Financial	3,099	59,094	0.27
Royal Bank of Scotland	48,665	707,102	3.25
Schroders	6,274	26,837	0.12
Standard Chartered	24,599	171,455	0.79
Unibanco	2,017	14,579	0.07
Washington Mutual Services	3,580	78,494	0.36
Wells Fargo	3,200	92,144	0.42
XL Capital	1,060	47,741	0.22
Zurich Financial Services	600	32,305	0.15
Investment Trusts 1.12% (28 February 2002 – 1.14%)			
JF Taiwan Financial	7,400	45,337	0.21
Templeton Emerging Markets	200,000	198,000	0.91

Portfolio Statement as at 28 February 2003 *(continued)*

	Holding	Market value £	Total net assets %
Unit Trusts 4.48% (28 February 2002 – 4.99%)			
JPMF UK Smaller Companies	550,804	723,756	3.32
JPMF US Smaller Companies	260,000	253,708	1.16
Information Technology 2.83% (28 February 2002 – 4.30%)			
ACOM	1,100	22,920	0.11
Cisco Systems	5,000	44,362	0.20
Dassault Systems	2,310	33,613	0.15
Dell Computers	2,100	35,951	0.17
Flextronics International	6,600	36,350	0.17
Hewlett-Packard	8,592	86,488	0.40
Kon Philips Electronics	4,000	42,357	0.19
Lexmark International	1,140	45,170	0.21
Microsoft	8,780	132,193	0.61
Samsung Electronics	550	41,772	0.19
United Technologies	2,500	93,010	0.43
Portfolio of investments		21,605,343	99.20
Net current assets		173,338	0.80
Total net assets		21,778,681	100.00%

* Suspended Security

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

Summary of Material Portfolio Changes for the year ended 28 February 2003

Purchases	Cost £
Unilever	283,289
SSL International	207,963
Vodafone	147,644
Sainsbury (J)	132,154
United Utilities	130,343
HBOS	128,777
Aviva	128,659
Smith & Nephew	121,996
Invensys	108,412
Alliance & Leicester	104,341
Smith (WH)	103,651
Standard Chartered	101,961
Carlton Communications	98,991
Gus	98,939
Marks & Spencer	98,814
Scottish Power	97,768
Bradford & Bingley	92,676
Wilson Connolly	92,026
Bristol Myers Squibb	88,388
Land Securities	88,153
Other securities	5,699,549
Total of all purchases for the year	£8,154,494

Sales	Proceeds £
Vodafone	247,675
Wolseley	244,328
BP	218,880
Allied Domecq	214,083
Hilton	206,438
Amvescap	186,985
Bradford & Bingley	173,932
BHP Billiton	167,281
JPMF UK Smaller Companies	151,142
JPMF Institutional UK Smaller Companies	150,103
BAE Systems	143,058
Safeway	135,476
Merck & Company	134,371
Woolworths	133,826
Smiths	127,010
Bristol Myers Squibb	118,815
Aviva	117,193
British Land	112,066
Reuters	110,839
Cable & Wireless	107,455
Other securities	8,696,240
Total of all sales for the year	£11,897,196

Distribution Statement

Final distribution

Group A—Units purchased prior to 1 September 2002

Group B—Units purchased 1 September 2002 to 28 February 2003

	Gross income	Tax at 10%	Net income	Equalisation	Distribution payable 15 April 2003	Distribution paid 15 April 2002
	pence per unit	pence per unit	pence per unit	pence per unit	pence per unit	pence per unit
Group A	6.49	0.65	5.84	0.00	5.84	6.85
Group B	4.68	0.47	4.21	1.63	5.84	6.85

Interim distribution

Group A—Units purchased prior to 1 March 2002

Group B—Units purchased 1 March 2002 to 31 August 2002

	Gross income	Tax at 10%	Net income	Equalisation	Distribution paid 15 October 2002	Distribution paid 15 October 2001
	pence per unit	pence per unit	pence per unit	pence per unit	pence per unit	pence per unit
Group A	12.89	1.29	11.60	0.00	11.60	9.73
Group B	8.02	0.80	7.22	4.38	11.60	9.73

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 67) 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 2002 to 28 February 2003 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 2003.

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 2003.

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 2003	28 February 2002
	£	£
The net losses on investments during the year comprise		
Proceeds from sales of investments during the year	11,897,196	12,509,506
Original cost of investments sold during the year	(17,035,209)	(14,286,535)
Losses realised on investments sold during the year	(5,138,013)	(1,777,029)
Net depreciation thereon already recognised in earlier years	2,899,874	628,689
	(2,238,139)	(1,148,340)
Net unrealised depreciation for the year	(7,027,817)	(4,769,697)
Net losses on investments	(9,265,956)	(5,918,037)

3 Other gains

	28 February 2003	28 February 2002
	£	£
Other gains comprise		
Currency gains	1,343	1,830

4 Total income

	28 February 2003	28 February 2002
	£	£
UK dividends	675,284	724,947
Overseas dividends	131,600	134,115
Bank interest	29,550	50,755
	836,434	909,817

5 Expenses

	28 February 2003	28 February 2002
	£	£
Payable to the Investment Manager, associates of the Investment Manager and agents of either of them		
Investment Manager's periodic charge	142,725	201,916

6 Taxation

	28 February 2003	28 February 2002
	£	£
a Analysis of charge in year		
Overseas tax	18,878	16,177
Income tax irrecoverable	0	2,436
Current year tax charge (note 6b)	18,878	18,613

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 2003	28 February 2002
	£	£
Net income before taxation	693,709	707,901
Corporation tax at 20%	138,742	141,580
Effects of		
Excess expenses for which no relief taken	0	3,354
Movement in excess expenses	(2,760)	0
UK Franked income not subject to Corporation tax	(135,057)	(144,989)
Overseas tax	18,878	16,177
Miscellaneous	(70)	55
Overseas tax credits	(855)	0
Prior year adjustment	0	2,436
	(119,864)	(122,967)
Current year tax charge (note 6a)	18,878	18,613

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 £93,881 (2002: £107,683). 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 £66,898 (2002: £48,991) 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 2003	28 February 2002
	£	£
<i>Interim</i> Dividend distribution	448,151	413,489
<i>Final</i> Dividend distribution	206,482	277,841
	654,633	691,330
<i>Add</i> Income deducted on cancellation of units	24,926	19,864
<i>Deduct</i> Income received on creation of units	(149)	0
	679,410	711,194

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

8 Movement between net income and distributions

	28 February 2003	28 February 2002
	£	£
Net income after taxation	674,831	689,288
<i>Add</i> undistributed income brought forward	316	319
<i>Less</i> undistributed income carried forward	(310)	(316)
Amounts transferred from capital	4,573	21,903
Distributions	679,410	711,194

9 Debtors

	28 February 2003	28 February 2002
	£	£
Accrued income	97,917	133,190
Other debtors	95,672	95,672
Overseas tax recoverable	13,372	2,759
	206,961	231,621

10 Cash and bank balances

	28 February 2003	28 February 2002
	£	£
Cash and bank balances	639,758	703,046

11 Creditors

	28 February 2003	28 February 2002
	£	£
Due for units cancelled	340,330	519
Accrued expenses	126,569	137,033
	466,899	137,552

12 Units in issue

The number of units in issue at the end of the year was 3,481,189 (2002: 4,056,079), which is net of a cancellation of 54,458.

13 Contingent liabilities

The aggregate contingent liabilities not provided for at the balance sheet date was nil (28 February 2002: Nil paid shares £39,033).

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, who provide investment management services are 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 £977,464 at 28 February 2003 (£1,754,638 at 28 February 2002) and JF Investment Trusts, which had a market of £45,337 at 28 February 2003 (£67,492 at 28 February 2002).

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 43, 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, 23.84% (28 February 2002: 25.30%) 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 currency movements.

	28 February 2003	28 February 2002
	£	£
US Dollar	3,409,301	5,756,604
Euro	994,086	1,826,904
Japanese Yen	475,374	776,952
Swiss Francs	162,338	153,966
Canadian Dollar	64,981	95,299
Australian Dollar	43,518	107,903
Swedish Krona	42,393	78,809
Hong Kong Dollar	0	91,651
	<u>5,191,991</u>	<u>8,888,088</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

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