

Presented to Parliament pursuant to Section 78(3)(2) of the Judicature (Northern Ireland) Act 1978

---

# Funds in Court in Northern Ireland Accounts 2008-2009

Presented to Parliament pursuant to Section 78(3)(2) of the Judicature (Northern Ireland) Act 1978

---

# Funds in Court in Northern Ireland Accounts 2008-2009

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED ON 15 DECEMBER 2011

The National Audit Office scrutinises public spending on behalf of Parliament.

The Comptroller and Auditor General, Amyas Morse,  
is an Officer of the House of Commons.  
He is the head of the NAO, which employs some 880 staff.  
He and the NAO are totally independent of government.

He certifies the accounts of all government departments  
and a wide range of other public sector bodies;  
and he has statutory authority to report to Parliament  
on the economy, efficiency and effectiveness with which departments  
and other bodies have used their resources.

Our work led to savings and other efficiency gains worth more than £1 billion in 2010-11.

© Crown copyright 2011

You may re-use this information (excluding logos)  
free of charge in any format or medium,  
under the terms of the Open Government Licence.  
To view this licence, visit  
<http://www.nationalarchives.gov.uk/doc/open-government-licence/>  
or email [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk).

Where we have identified any third party copyright information you will need to obtain permission  
from the copyright holders concerned.

This publication is available for download at [www.official-documents.gov.uk](http://www.official-documents.gov.uk).

ISBN: 9780102970548

# Contents

	Page
Foreword	2
Statement of Accountant General's responsibilities	6
Statement on Internal Control	7
The Certificate and Report of the Comptroller and Auditor General	10
Income Statement	12
Balance Sheet	13
Cash Flow Statement	14
Notes to the Financial Statements	15
Appendix - Accounts Direction given by HM Treasury	22

## Foreword

### Introduction

The Accountant General is required to keep proper accounts in respect of funds held in Court in accordance with section 78(1) of the Judicature (Northern Ireland) Act 1978 ('the 1978 Act'). This Statement of Accounts has been prepared in accordance with the direction given by HM Treasury in pursuance of section 78(2) of the 1978 Act.

These accounts have been prepared on a basis consistent with Generally Accepted Accounting Practice in the UK. Previously the accounts have been prepared on a cash basis.

### The Court Funds Office

The Court Funds Office (CFO) conducts the business of the Accountant General. It manages the funds held in court on behalf of clients, including:

- suitors involved in legal action where money is paid into CFO. These are cases in the Supreme Court or the county courts. Monies are lodged into Court in satisfaction or against costs as a token of intention to proceed with civil litigation. CFO will hold such monies until authorised to release them on completion of the case;
- persons under disability (i.e. those who are deemed incapable of managing their own affairs due to mental illness), or wards of court. These cases relate predominately to the Supreme Court;
- minors for whose benefit funds are paid into court. These funds are held in court until the client attains majority on their 18th birthday, unless a court order instructs otherwise. These cases will arise both in the Supreme Court and county courts; and
- the Chancery Division of the Supreme Court which acts as a receiver of last resort for the assets of individuals, partnerships or companies.

CFO also hold all monetary bails received in the Supreme Court and the county courts. Bails are retained by CFO until the court directs for them to be remitted once the case has been dealt with.

CFO operates under the Court Funds Rules (Northern Ireland) 1979 ('the Rules'), which have been made by the Lord Chancellor with the concurrence of HM Treasury, in exercise of the powers conferred on him by section 82(1) of the 1978 Act.

### Bank accounts

The Accountant General is required by section 79(1) of the 1978 Act to maintain a bank account for the receipt and payment of Supreme Court and county court monies. Accounts for this purpose are held with the Bank of Ireland, where an aggregate working balance of at least £300,000 is maintained, which enables the Accountant General to meet the bank's costs of servicing the accounts and to meet the immediate cash requirements of CFO clients. Monies in excess of the amount required to satisfy current demands are transferred to the Commissioners for the Reduction of National Debt (CRND) for investment. Funds are then drawn down from CRND when additional money is required to meet payments out of Court.

### Funds held with the Commissioners for the Reduction of National Debt

In accordance with the Rules, the Accountant General operates two interest bearing accounts, namely a deposit account and a short-term investment account. The funds in these accounts are held by CRND, whose main function is the investment and management of major government funds. The rates of interest paid on these accounts are prescribed in the Rules and for the year ended 31 March 2009 the rates were as follows:

- |                                 |    |
|---------------------------------|----|
| ■ Deposit account               | 3% |
| ■ Short-term investment account | 4% |

Funds held on behalf of minors and persons under disability are held in the short-term investment account. Other funds are held in the deposit account in accordance with the Rules.

Income generated by the deposits with CRND is used to pay the interest on the above accounts and also to pay the costs of administering the funds in Court. Any residual surplus in a financial year is due to the Consolidated Fund in accordance with section 39(2) of the Administration of Justice Act 1982 ('the 1982 Act'). Section 39(3) of the 1982 Act provides for any deficiency in a financial year to be made good from the Consolidated Fund.

In December 2003, in view of the deteriorating solvency position of the fund, CRND agreed with HM Treasury that a maximum of £25,000 of surplus income would be paid to the Consolidated Fund in respect of any financial year from 2004-05.

Section 39(5) of the 1982 Act provides a guarantee by the Consolidated Fund for the amounts paid to CRND by the Accountant General.

The arrangements between CRND and CFO in respect of the investment service provided by CRND are set out in a Memorandum of Understanding.

During 2008-09, the funds held by CRND were largely invested in overnight and short-term deposits with the Debt Management Account Deposit Facility, which is a government deposit facility. This facility enables the funds to earn a return closely related to the Bank of England base rate whilst protecting the capital and maintaining liquidity.

However, as the Bank of England reduced its base rate of interest sharply in the second half of the financial year and the interest rates paid to clients remained unchanged at 4 per cent and 3 per cent, part of the funds were invested in high coupon gilts in order to generate sufficient income to meet the liabilities to clients without having to call on the Consolidated Fund to meet the otherwise projected shortfall.

## Investment of funds held in Court

Funds held in Court include both cash and securities. The securities held are predominately the deposit holdings with CRND with additional holdings in government stocks and equity investments. All funds held in Court are vested in the name of the Accountant General and invested by him in accordance with orders of the Court or in securities designated within statutory rules.

## Audit of accounts

Section 78(2) of the 1978 Act requires the Accountant General to send the statement of accounts prepared by him to the Comptroller and Auditor General.

Under section 78(3) of the 1978 Act the Comptroller and Auditor General examines, certifies and reports on the statement of accounts and lays copies of them before each House of Parliament.

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

The audit of the financial statements for 2008-09 resulted in a notional audit fee of £16,000. This charge is included within non staff administration costs within the accounts of the Northern Ireland Court Service. The Comptroller and Auditor General did not provide any non audit services during the year.

## Results for the year

The results for the year are detailed on page 12 and show a deficit of £903,000 (2007-08 surplus of £215,000). The deficit is due to the reduction in the Bank of England base rate (from 5.25 per cent March 2008 to 0.50 per cent in March 2009), resulting in reduced income on the funds held with CRND. However, CFO continued to pay interest

to clients at rates of 4 per cent and 3 per cent throughout the year. The deficit has been offset against accumulated reserves brought forward. As at 31 March 2009, the accumulated reserves carried forward totalled £2,673,000.

Under section 39(2) of the 1982 Act, the accumulated reserves are ultimately payable to the Consolidated Fund. However, agreement has been obtained from HM Treasury that the reserves may be offset against a deficit created by the exceptionally low Bank of England base rate.

## Performance of client portfolio

Client income for the year, including interest allocated to their accounts, totalled £8.9m, equivalent to 3.8 per cent of client holdings at year end (2007-08: £9.2m or 3.9 per cent). Income was maintained at a similar level to last year despite the global economic downturn, as CFO continued to pay interest at rates of 4 per cent and 3 per cent throughout the year.

Total client holdings decreased from £235.8m to £229.9m during the year. Accounting for net payments out to clients of £2.7m, this represents a decrease in value of £3.2m (1.4 per cent of client holdings). The decrease is as a result of a loss in the valuation of securities held of £11.2m (2007-08: loss of £3.8m).

During the year there was a significant movement of funds out of equities and into cash deposits and gilt holdings. Client holdings in equities were reduced from £48.8m to £15.4m, with client gilt holdings increasing from £60.8m to £68.8m and client cash account balances increasing from £125.1m to £145.0m.

Our contracted stockbrokers, Brewin Dolphin, have commented in respect of the client portfolio performance as follows:

*“Global markets have had a turbulent twelve months as the effects of the credit crunch hit home. We have seen unprecedented fiscal and monetary policies being implemented across the world. Traditionally the portfolios have had a high exposure to equity markets. We have obtained the relevant financial information in relation to the individual patients and minors throughout the year and on the back of this we felt that the level of equity exposure was too high and fixed interest exposure was increased.*

*World indices have recovered recently as recession, not depression, is being priced in. With banks continuing to hoard their cash balances and unemployment steadily rising, we believe that the underlying western economies will continue to struggle for the next eighteen months. Having said this, stock markets should begin to gradually recover before any turnaround is evident in the real world.*

*With this in mind we will continue our strategy of reducing cash balances upon any weakness in the market focusing on investments with a strong spread and sustainable dividend policy.”*

## CFO Modernisation Project

The CFO Modernisation Project has been implemented to review all aspects of CFO business policy, practices and operations to ensure a modern, professional, transparent, flexible and cost-effective service which meets the specific needs of clients and stakeholders.

A range of work is ongoing but during the period covered by these accounts the following progress was achieved:

- the re-constitution of a Judicial Liaison Group, under revised terms of reference, to ensure that reforms take account of the judicial perspective;
- the implementation of new senior management and staffing structures providing greater focus on customer service;
- the award of a contract for legal services to provide expert advice on statutory interpretation and longer-term strategic reform;
- the appointment of new stockbrokers (Brewin Dolphin Stockbrokers) to provide investment management services;

- the introduction of UK GAAP compliant accounting and reporting arrangements;
- the design and successful implementation of an interface with the Court Service Integrated Court Operating System (ICOS) to improve the efficiency and effectiveness of data transfer from court orders to the CFO system; and
- the design and successful implementation of an interface to upload management fee data, significantly reducing the amount of manual data entry required.

### Reduction in interest rates after year end

As a result of the decrease in the Bank of England base rate of interest during 2008-09, it has been necessary to reduce the interest rates paid to CFO clients, as it was no longer affordable to continue to pay rates of 4 per cent and 3 per cent without making a call on the Consolidated Fund. An amendment was made to the Rules, taking effect on 20 July 2009, as follows:

- to reduce the interest rate paid on money placed to the deposit account from 3 per cent per annum to 0.3 per cent per annum; and
- to reduce the interest rate paid on money placed to the short-term investment account from 4 per cent per annum to 0.5 per cent per annum.

CFO has procedures in place to continuously monitor the rates of interest paid on these accounts. These procedures will be used to react appropriately to future changes in the Bank of England base rate.

### Deduction of stockbroker management fees

In April 2010, legal advice was received which suggests that there is a doubt as to whether it is permissible to deduct stockbroker management charges in the absence of express legislative authority. The advice confirmed that sufficient powers do exist for the deduction of stockbroker transaction fees. As a result of this advice, the practice of deducting the management fees ceased until the position could be regularised. A clause has been included in the Justice Act (Northern Ireland) 2011 which grants the Accountant General the necessary authority to deduct management charges as of 5 July 2011.

During the financial year 2008-09, a total of £271,000 was deducted from clients in respect of stockbroker management fees.

In order to ascertain whether the Accountant General had the authority prior to 5 July 2011 to deduct stockbroker management fees from CFO clients, an application to the High Court has been prepared for a declaration to be made on the power to deduct such fees. The case commenced in June 2011 and if it is determined that the Accountant General does not have sufficient powers, then consideration will be given to reimbursing those CFO clients from whom fees have been deducted. Any reimbursement of stockbroker fees would be the responsibility of the Northern Ireland Courts and Tribunals Service and the Department of Justice and not made from the funds held in court as these are made up solely of third party monies.

### Devolution of justice powers

Justice powers were devolved to the Northern Ireland Assembly on 12 April 2010. As a result, the powers conferred on the Lord Chancellor by the 1978 Act and the 1982 Act in relation to funds in court in Northern Ireland have been transferred to the newly formed Department of Justice. The responsibilities of HM Treasury have similarly been transferred to the Department of Finance and Personnel.

*DA Lavery*  
Accountant General of the Court  
of Judicature of Northern Ireland

11 October 2011

## Statement of Accountant General's responsibilities

Under section 78(1)(b) of the Judicature (Northern Ireland) Act 1978 the Accountant General is required to prepare a statement of accounts for each financial year in a form directed by HM Treasury. The accounts are prepared on an accruals basis and must properly present the income and expenditure for the financial year and the balances held at the year end.

HM Treasury has appointed the Accountant General as Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the funds and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Managing Public Money*.

# Statement on Internal Control

## Scope of responsibility

As Accountant General of the Court of Judicature in Northern Ireland, I have responsibility, as a statutory officer, for Funds in Court. I have delegated the administrative responsibilities for Funds in Court to the Court Funds Office. The Court Funds Office is a discrete business unit within the Northern Ireland Court Service, which is itself a unified and distinct civil service of the Crown. Managerial responsibility for the Court Funds Office rests with the Finance Director and is managed within the Finance Division. As departmental Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Northern Ireland Court Service's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Northern Ireland Court Service throughout the year ended 31 March 2009 and up to the date of approval of the accounts, and accords with HM Treasury guidance.

## Capacity to handle risk

The Court Service is committed to the principles of risk management as an integral part of the work of the Department at all levels and forms a central element of its corporate governance arrangements. Court Funds Office management actively participates in the preparation of the risk register for Finance Division. Risk management is championed by the Finance Director with Management Board owning the overall risk management framework. Divisional Heads are responsible for ensuring the management systems in their area are robust for accountability, critical challenge and oversight of risk.

Risk management is considered formally at Management Board meetings through the review of the Corporate Risk Register and Corporate Plan monitoring reports. These reports include a section on attendant risks thus ensuring that risk management has been incorporated into the corporate planning and decision-making processes of the Department. Risk management also constitutes a standing item on Branch and Divisional meeting agendas.

A revised Risk Management Policy has been implemented and Risk Coordinators have been appointed across the Department who are responsible for promoting, supporting and coordinating risk management in their business areas. A tailored risk management training package has been rolled out to staff at all levels, which includes all risk coordinators and Heads of Division, and is based on HM Treasury guidance and advice on best practice.

Training material appropriate to authority levels and duties has been provided to staff as part of the training package. Continued support and guidance is facilitated through the Planning and Performance Management Team whose role is to support risk management arrangements. The Planning and Performance Management Team continues to review and develop the Department's risk management skills by keeping up to date with significant risk developments and in the development of a risk management handbook which is compliant with HM Treasury *Orange Book* guidance and is due to be issued during 2009-10.

## The risk and control framework

Risks are considered in tandem with objectives at all levels in the organisation and formally reported on Branch, Divisional and Corporate Risk Registers. The risk process is compliant with HM Treasury *Orange Book* guidance which sets out five key stages.

Risks are primarily identified through risk identification workshops and are assessed in terms of their probability of occurrence and impact on the achievement of objectives, and scored and reported on accordingly.

Responsibility for the management of each risk is assigned to a risk owner and recorded on the risk register, along with controls in place to mitigate the risk, or action plans in place in order to enhance the level of control.

Risk Registers are formally reviewed on a quarterly basis and documentation updated accordingly as a result of the implementation of actions planned. The updated risk registers record any movement of risks in terms of impact and probability of occurrence from one period to another and this enables an appreciation of how the risk has changed over time.

Updates on corporate risks are formally reported quarterly to Management Board where the Board will collectively review, recommend and pursue actions in place to manage the risks. The corporate risk appetite is set by Management Board and used as a starting point for setting levels of risk tolerance down the Department. Managers and Heads of Division escalate risks to the next level of management which have exceeded specific risk appetites.

Our Information Risk Policy supplements our corporate approach to risk management and encourages staff and managers to consider information as assets, supported by the compilation of Information Asset Registers. Therefore, information assets are subject to the risk management processes outlined above. In support of that process, the Information Risk Policy requires Information Asset Owners to provide written assurance to the Senior Information Risk Owner that any information assets within their business areas have been subject to the minimum measures mandated by the Cabinet Office in June 2008 and the policies and procedures of the Northern Ireland Court Service. Additionally, the Northern Ireland Court Service continues to be accredited to ISO27001, the information security standard. Notwithstanding the above, we continue to monitor and review our approach to information risk management.

The Audit and Risk Management Committee is responsible for the maintenance and development of the risk management and review processes through, for example, ensuring compliance with the quarterly review points, biannual formal stewardship reporting in order to ensure continued alignment with planning and monitoring at corporate, divisional and branch level. In challenging the risks identified by executive management the Committee ensures that there is ongoing consideration of the impact of both external and internal initiatives in the planned work for the Department.

Risk management is integrated into the activities of the Department through linking risk directly to the achievement of objectives, visible sponsorship and support from senior management, implementation of revised risk management policy bringing an approach consistent with best practice, inclusion of the risk management and review of key risks on the Board agenda as well as divisional and branch level, a standardised hierarchical suite of risk registers and revised risk documentation, inclusion of risk management responsibilities in job descriptions, and support and provision of guidance on risk issues from the Planning and Performance Management Team.

## Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. The Board receives regular reports from the Audit and Risk Management Committee concerning internal control, risk and governance. At the end of each reporting period, Heads of Division review the stewardship statements completed by Business Managers in order to create a series of divisional statements from which I have been able to take assurance in respect of the management of risk and the achievement of objectives. Court Funds Office management prepare a stewardship statement for submission to the Head of Finance Division on a bi-annual basis.

The Department has a Risk and Assurance Branch which operates to the Government Internal Audit Standards. It submits regular reports, including an independent opinion by the Head of Risk and Assurance on the adequacy and effectiveness of the Department's system of risk management, control and governance.

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 the Northern Ireland Court Service 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. The review processes outlined ensure that there is continuous improvement in the system of internal control.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit and Risk Management Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

## Significant known control issues

### **Stockbroker fees**

Legal opinion obtained suggests that the Court Funds Office may have been acting *ultra vires* by deducting fees for professional Stockbroker advice and management of investments directly from the funds held on behalf of vulnerable persons at the direction of the courts in Northern Ireland. The funds need to be professionally managed, but it may not be permissible to deduct the fees in the absence of express legislative authority. As a result of this advice, the practice of deducting the management fees ceased until the position could be regularised. The situation has now been regularised with the inclusion of a clause within the Justice Act (Northern Ireland) 2011. The clause was commenced on 5 July 2011, but as it is not retrospective, it only applies from this date.

## Review of investment process

In February 2011, the Court Funds Judicial Liaison Group commissioned an end to end review of the investment process, with a view to removing unnecessary delays. When the results of the review were analysed, there appeared to be cases that had been delayed. CFO management has opened an investigation to identify opportunities to improve existing controls and prevent reoccurrence.

*DA Lavery*  
Accountant General of the Court  
of Judicature of Northern Ireland

11 October 2011

# 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 Funds in Court in Northern Ireland for the year ended 31 March 2009 under the Judicature (Northern Ireland) Act 1978. These comprise the Income Statement, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Accountant General and Auditor

The Accountant General, as Accounting Officer, is responsible for preparing the Foreword and the financial statements in accordance with the Judicature (Northern Ireland) Act 1978 and directions made thereunder by HM Treasury and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accountant General's responsibilities.

My responsibility is to audit, certify and report on the financial statements in accordance with the Judicature (Northern Ireland) Act 1978. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Judicature (Northern Ireland) Act 1978 and directions made thereunder by HM Treasury. I report to you whether, in my opinion, the information included in the Foreword is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if proper accounting records have not been kept in respect of the Funds in Court in Northern Ireland, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal Control reflects compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the corporate governance procedures or the risk and control procedures relating to Funds in Court in Northern Ireland.

## Basis of audit opinions

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

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

## Opinions

In my opinion

- the financial statements give a true and fair view, in accordance with the Judicature (Northern Ireland) Act 1978 and directions made thereunder by HM Treasury, of the state of the Funds in Court in Northern Ireland's affairs as at 31 March 2009 and of its deficit for the year then ended;
- the financial statements have been properly prepared in accordance with the Judicature (Northern Ireland) Act 1978 and directions made thereunder by HM Treasury; and
- information included within the Foreword is consistent with the financial statements.

## Opinion on regularity

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

**Emphasis of matter: significant uncertainty over the statutory authority for the payment of stockbroker management fees.**

Without qualifying my regularity opinion, I draw attention to the disclosures in Note 16: Contingent Liabilities. These refer to the Accountant General having received legal opinion which casts doubt on the statutory authority for the payment of stockbroker management fees out of client funds. To ascertain if such authority existed, an application has been made to the High Court for a declaration on the authority to deduct such fees. The outcome of this case is not yet known.

## Report

I have no observations to make on these financial statements.

*Amyas C E Morse*  
Comptroller and Auditor General

3 November 2011

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

## Income Statement for the year ended 31 March 2009

	Notes	Year ended 31 March 2009 £000	Year ended 31 March 2008 £000
<b>Income</b>			
Interest income	3	<b>7,015</b>	7,698
Interest expense	4	<b>(4,922)</b>	(4,464)
Net interest income		<b>2,093</b>	3,234
Dividend income		<b>1,693</b>	2,363
Gains/(losses) arising from securities	5	<b>(10,939)</b>	(3,600)
Transfer from/(to) client holdings		<b>7,242</b>	(889)
<b>Net income</b>		<b>89</b>	1,108
Expenses administrative expenses – CFO		<b>(914)</b>	(814)
Management charges from CRND		<b>(78)</b>	(79)
<b>Total expenses</b>		<b>(992)</b>	(893)
(Deficit)/surplus transferred (from)/to reserves		<b>(903)</b>	215

*The notes on pages 15 to 21 form part of these accounts*

## Balance Sheet as at 31 March 2009

	Notes	<b>31 March 2009 £000</b>	31 March 2008 £000
<b>Assets</b>			
Cash and cash equivalents	6	<b>4,190</b>	1,429
Loans and advances	7	<b>141,165</b>	123,007
Debt securities	8	<b>73,571</b>	65,395
Investment securities	9	<b>15,813</b>	49,255
Other assets : Accrued income	10	<b>431</b>	1,738
<b>Total Assets</b>		<b><u>235,170</u></b>	<u>240,824</u>
<b>Liabilities</b>			
Clients cash account balances	11	<b>144,964</b>	125,122
Clients holdings in securities	12	<b>84,971</b>	110,709
Other liabilities : Creditors	13	<b>5,235</b>	4,993
<b>Total Liabilities</b>		<b><u>235,170</u></b>	<u>240,824</u>

*The notes on pages 15 to 21 form part of these accounts*

*DA Lavery*  
Accountant General of the Court  
of Judicature of Northern Ireland

11 October 2011

## Cash Flow Statement for the year ended 31 March 2009

	Notes	Year ended 31 March 2009 £000	Year ended 31 March 2008 £000
<b>Cash flows from operating activities</b>			
Net loans and advances made	7	(18,158)	(8,947)
Cost of purchases of securities	8, 15	(46,114)	(18,273)
Proceeds from sales of securities	8, 15	59,643	17,685
Interest received		8,237	8,800
Interest paid to consolidated fund	14	(35)	(48)
Dividends received		2,037	1,965
Payment of surplus to consolidated fund	14	(25)	(25)
Expenses		(78)	(893)
<b>Net cash inflow from operating activities</b>		<b>5,507</b>	<b>264</b>
<b>Cash flows from client cash accounts</b>			
Lodgements from clients	15	47,377	48,768
Payments to clients	15	(50,123)	(49,166)
<b>Net cash outflow from client cash accounts</b>		<b>(2,746)</b>	<b>(398)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,761</b>	<b>(134)</b>
Cash and cash equivalents at 1 April		1,429	1,563
Cash and cash equivalents at 31 March		4,190	1,429

*The notes on pages 15 to 21 form part of these accounts*

# Notes to the Financial Statements

## 1 Accounting policies

These accounts have been prepared in accordance with direction made by HM Treasury under section 78 of the Judicature (Northern Ireland) Act 1978.

### 1.1 Basis of preparation

These accounts have been prepared under the historical cost convention modified by the revaluation of certain financial assets and liabilities, and in accordance with applicable Generally Accepted Accounting Practice in the United Kingdom, to the extent that such requirements are relevant to the activities of the Court Funds Office. In previous years the accounts had been prepared on a cash basis.

### 1.2 Recognition of income

Income is recognised in the accounts on the following bases:

- interest on investments is recognised as it accrues rather than on a cash received basis;
- realised gains and losses on disposals or maturities of investments are taken to the Income Statement in the period they arise; and
- valuation gains and losses on securities are recognised in the Income Statement in the same way as realised gains and losses and are included in the carrying value of those securities on the balance sheet.

### 1.3 Valuation of securities

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

### 1.4 Administrative expenses

The Court Funds Office administrative expenses are accounted for in the Northern Ireland Court Service Resource Accounts. The element of these costs that are recovered by the Court Service, and the Management Fees levied by the Commissioners for the Reduction of the National Debt (CRND) are included in the Income Statement.

### 1.5 Foreign currency transactions

Items included in the statement of accounts are measured using UK Sterling, which is the functional and presentational currency.

Foreign exchange gains and losses resulting from revaluations are taken to Income Statement, but as the risk is borne by the clients a balancing transaction is reflected to adjust client holdings in the functional currency. In 2008-09, the level of foreign currency transactions was negligible.

## 2 Financial risk management

The Court Funds Office does not assume any financial risks in relation to its principal activity of holding Funds in Court. The financial risks of investing in securities are borne by the clients.

The financial risks of providing the returns on deposit accounts are covered by a guarantee, on the basis that Section 39(2) of the Administration of Justice Act 1982 requires any surplus to be paid to the Consolidated Fund, and Section 39(3) requires any deficits to be met by the Consolidated Fund.

**3 Interest income**

	<b>Year ended 31 March 2009 £000</b>	Year ended 31 March 2008 £000
Cash and cash equivalents	<b>52</b>	57
Loans and advances	<b>4,565</b>	6,329
Debt securities	<b>2,513</b>	2,650
<b>Total interest receivable</b>	<b>7,130</b>	9,036
Less: surplus income payable to Consolidated Fund	<b>(115)</b>	(1,338)
<b>Total interest income</b>	<b>7,015</b>	7,698

Debt Securities income includes Coupon Interest in relation to Gilt Holdings held by CFO on behalf of clients of £2,252,000 (2008:£2,346,000).

**4 Interest due to clients' accounts**

	<b>Year ended 31 March 2009 £000</b>	Year ended 31 March 2008 £000
Court Funds – Deposit Account	<b>348</b>	352
Court Funds – Investment Account	<b>4,574</b>	4,112
<b>Total Interest Payable</b>	<b>4,922</b>	4,464

**5 Gains/losses on securities**

	<b>Year ended 31 March 2009 £000</b>	Year ended 31 March 2008 £000
Profit/(loss) realised on disposals	<b>75</b>	(21)
Valuation movement on securities	<b>191</b>	250
Gains on CRND debt securities	<b>266</b>	229
Losses on client Security Holdings	<b>(11,205)</b>	(3,829)
<b>Total Losses on Securities</b>	<b>(10,939)</b>	(3,600)

**6 Cash and Cash Equivalents**

Cash and Cash Equivalents include balances held in bank accounts and cash balances within Individual Savings Accounts (ISA's) held on behalf of clients.

	<b>Year ended 31 March 2009 £000</b>	Year ended 31 March 2008 £000
Sterling bank accounts	<b>824</b>	732
Cash ISA's held on behalf of clients	<b>167</b>	167
Accumulated Cash held in Share ISA's	<b>3,199</b>	530
<b>Cash and Cash Equivalent Holdings</b>	<b>4,190</b>	1,429

## 7 Loans and advances

Loans and Advances primarily represent fixed rate time deposits with short-term maturities and call notice deposits, placed with the Debt Management Office by the Commissioners for the Reduction of the National Debt.

	<b>Year ended 31 March 2009 £000</b>	Year ended 31 March 2008 £000
Call notice deposits	<b>141,164</b>	57,922
Fixed term deposits	<b>0</b>	65,084
Ways and means account	<b>1</b>	1
Loans and advances holdings	<b><u>141,165</u></b>	<u>123,007</u>

## 8 Debt securities

Debt Securities comprise UK Government Gilts managed on behalf of the CFO by the Commissioners for the Reduction of National Debt. In addition there are UK Government Gilts held on behalf of clients

	<b>31 March 2009</b>		31 March 2008	
	<b>Nominal £000</b>	<b>Market Value £000</b>	Nominal £000	Market Value £000
Holdings with CRND	<b>4,400</b>	<b>4,788</b>	4,400	4,592
Holdings held on behalf of clients	<b>47,726</b>	<b>68,783</b>	40,338	60,803
<b>Total debt security holdings</b>	<b><u>52,126</u></b>	<b><u>73,571</u></b>	<u>44,738</u>	<u>65,395</u>
<b>Maturity analysis</b>				
Maturing in less than 1 year	<b>3,869</b>	<b>10,219</b>	13,660	13,652
Maturing in more than 1 year but less than 5 years	<b>31,897</b>	<b>45,148</b>	25,293	40,682
Maturing in more than 5 years	<b>16,360</b>	<b>18,204</b>	5,785	11,061
<b>Total debt security holdings</b>	<b><u>52,126</u></b>	<b><u>73,571</u></b>	<u>44,738</u>	<u>65,395</u>

Holdings with CRND: A high coupon gilt was bought and sold during the year in order to generate additional income. A nominal holding of £12m was purchased in January 2009 for £14.1m and subsequently sold in March 2009 for £14.1m.

## 9 Investment securities

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

- holdings of Unit Trusts;
- holdings of stocks, shares and loan notes; and
- holdings of National Savings Certificates and Bonds.

	31 March 2009		31 March 2008	
	Holding 000's	Market Value £000	Holding 000's	Market Value £000
Unit trust holdings	63	145	63	200
Stocks, shares and loan notes	7,794	15,374	11,967	48,767
National savings and other holdings	238	294	288	288
<b>Total investment securities</b>	<b>8,095</b>	<b>15,813</b>	<b>12,318</b>	<b>49,255</b>

## 10 Other assets: accrued income

Accrued income reflects interest that has been contractually earned but remains unpaid at the year end. It does not include unpaid dividends and distributions on stocks and shares where there is no contractual commitment to make such a distribution. The balance is comprised of the following elements

	31 March 2009 £000	31 March 2008 £000
<b>Holdings with CRND</b>		
Accrued interest on deposits	56	1,087
<b>Total CRND accrued interest</b>	<b>56</b>	<b>1,087</b>
<b>Client holdings</b>		
Accrued coupon interest on gilts	322	254
Dividends due	53	397
<b>Total client accrued income</b>	<b>375</b>	<b>651</b>
<b>Total accrued income</b>	<b>431</b>	<b>1,738</b>

## 11 Clients' cash account balances

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

	31 March 2009 £000	31 March 2008 £000
Court funds placed on deposit account	10,161	11,615
Court funds placed on Investment account	129,906	111,468
Unclaimed balances (see note 17)	707	610
Other suitors' monies	4,190	1,429
<b>Total cash balances</b>	<b>144,964</b>	<b>125,122</b>

Other suitors' monies include cash held in ISA's on behalf of clients and monies paid into Court in satisfaction of a judgment, which are only transferred to the Deposit Account if not claimed within 21 days.

**12 Client holdings in securities**

	<b>31 March 2009 £000</b>	31 March 2008 £000
Debt securities	<b>68,783</b>	60,803
Investment securities (see note 9)	<b>15,813</b>	49,255
Accrued income (see note 10)	<b>375</b>	651
<b>Total client holdings in securities</b>	<b><u>84,971</u></b>	<u>110,709</u>

**13 Other liabilities: creditors**

	<b>31 March 2009 £000</b>	31 March 2008 £000
Accumulated reserves held by CRND (see note 14)	<b>2,673</b>	3,521
Interest accrued on clients' accounts	<b>1,648</b>	1,472
CFO administrative expenses	<b>914</b>	0
<b>Total other liabilities : creditors</b>	<b><u>5,235</u></b>	<u>4,993</u>

**14 Accumulated reserves held by CRND**

	<b>31 March 2009 £000</b>	31 March 2008 £000
Opening balance	<b>3,521</b>	2,041
(Deficit)/Surplus for the year	<b>(903)</b>	215
Surplus income due to Consolidated Fund (note 3)	<b>115</b>	1,338
Payments to Consolidated Fund during the year	<b>(60)</b>	(73)
<b>Closing balance</b>	<b><u>2,673</u></b>	<u>3,521</u>

Under section 39(2) of the Administration of Justice Act 1982, the accumulated reserves held by CRND are ultimately payable to the Consolidated Fund.

**15 Clients' receipts and payments during year**

	Year ended 31 March 2009		Year ended 31 March 2008	
	Supreme Court £000	County Courts £000	Supreme Court £000	County Courts £000
<b>Opening Balance</b>	<b>80,830</b>	<b>44,292</b>	73,209	48,272
Receipts from clients	<b>37,971</b>	<b>9,406</b>	39,943	8,831
Sales of securities	<b>42,499</b>	<b>3,062</b>	12,561	1,133
Dividends and interest received	<b>3,841</b>	<b>403</b>	3,626	441
<b>Total Receipts</b>	<b>84,311</b>	<b>12,871</b>	56,130	10,405
Payments to clients	<b>(34,878)</b>	<b>(15,245)</b>	(35,305)	(13,861)
Cost of securities	<b>(30,914)</b>	<b>(1,050)</b>	(16,794)	(1,479)
<b>Total Payments</b>	<b>(65,792)</b>	<b>(16,295)</b>	(52,099)	(15,340)
Interest credited to client accounts	<b>3,050</b>	<b>1,697</b>	2,682	1,863
Transfers between Supreme Court and county courts	<b>770</b>	<b>(770)</b>	908	(908)
<b>Closing Balance</b>	<b>103,169</b>	<b>41,795</b>	80,830	44,292

**16 Contingent liabilities**

There is currently doubt over the powers of the Accountant General to deduct stockbroker management fees directly from Court Funds Office clients. A court case that will test these powers has commenced in the High Court in June 2011. If it is determined that the Accountant General does not have sufficient powers to deduct such fees, then consideration will be given to reimbursing those clients who have had such fees deducted. Any reimbursement of stockbroker fees would be the responsibility of the Northern Ireland Courts and Tribunals Service and the Department Of Justice and not be made from the funds held in court as these are made up solely of third party monies.

At this point, it would be difficult to ascertain the likelihood or value of any potential liability, as it will depend on the determination of the court. The total of fees deducted up to March 2010, when the practice ceased, was approximately £2.87million.

**17 Unclaimed balances**

The Court Funds Office holds a number of accounts that are classified as unclaimed in accordance with rule 55 of the Court Funds Rules (Northern Ireland) 1979. These accounts relate to funds in court where no transactions, other than the credit of annual interest, have been processed for the specified number of years. Before an account is classified as unclaimed the Court Funds Office makes all reasonable efforts to facilitate the transfer of the funds to their beneficial owner. To reduce the risk of current and future cases being classified as unclaimed the Court Funds Office maintains contact with the guardians and controllers of those with funds in Court throughout the life of the case.

Included within the unclaimed balances disclosed in note 11, there are two categories of funds. These are:

- 1 Those cases for which the details are known, but the beneficiary of the funds in Court has not been able to be traced.

	31 March 2009		31 March 2008	
	Supreme Court £	County Courts £	Supreme Court £	County Courts £
Monies on deposit	300,113	67,106	296,806	67,106
Government stocks	153	0	147	0

- 2 Those cases for which the details are unknown

	31 March 2009		31 March 2008	
	Supreme Court £	County Courts £	Supreme Court £	County Courts £
Monies on deposit	75,080	4,836	6,798	4,836
Government stocks	0	0	68,560	0
Equities	6,257	0	4,861	0

Interest and dividends received since 1995 have been pooled for practical reasons, pending allocation to a specific case when a genuine claim is received and paid out. The total pooled balance of interest and dividends is

	31 March 2009		31 March 2008	
	Supreme Court £	County Courts £	Supreme Court £	County Courts £
Monies on deposit	195,261	65,094	174,985	59,825

There were no unclaimed balances paid out during the year.

The Northern Ireland Court Service publishes details of unclaimed balances held by the Court Funds Office on their website.

## 18 Post Balance Sheet Events

For the year ended 31 March 2009, the CFO was part of the Northern Ireland Court Service (NICtS). The NICtS, which was formerly the Lord Chancellor's Department in NI, became the Northern Ireland Courts and Tribunals Service (NICTS) on 12 April 2010 with the transfer of responsibility for policing and justice to the Northern Ireland Assembly. The NICTS is now an Agency of the Northern Ireland Department of Justice.

The 2008-09 financial statements have been prepared on the basis that the Northern Ireland Court Service was the Lord Chancellor's department in Northern Ireland for the entire financial year and these will be laid in Parliament.

There were no other material post balance sheet events for the year ended 31 March 2009.

The Accountant General authorised these financial statements for issue on the same date as they were certified by the Comptroller and Auditor General.

## Appendix

Accounts direction given by HM Treasury in accordance with Section 78(1)(b) of the Judicature (Northern Ireland) Act 1978

- 1 The Accountant General shall prepare accounts for the financial year ended 31 March 2009 comprising:
  - a A Foreword;
  - b A Statement of the Accountant General's responsibilities;
  - c A Statement on Internal Control;
  - d An Income Statement;
  - e A Balance Sheet; and
  - f A Cash Flow Statement.

Including such notes as may be necessary for the purposes referred to in the following paragraphs.

- 2 The accounts shall give a true and fair view of the state of affairs as at the year-end and of the income and expenditure and cash flows for Funds in Court in Northern Ireland for the year then ended.
- 3 Subject to the requirements above, the accounts shall be prepared in accordance with Section 78(1)(b) of the Judicature (Northern Ireland) Act 1978 and the directions made thereunder by HM Treasury which are required to give a true and fair view.
- 4 This direction shall be reproduced as an appendix to the accounts and the Foreword should state that the accounts have been prepared in accordance with s.78 of the Judicature (Northern Ireland) Act 1978.
- 5 This direction replaces that issued in March 2009.

*Chris Wobschall*  
Head, Assurance and Financial Reporting Policy  
HM Treasury

13 April 2010

For further information about the National Audit Office please contact:

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

DG Ref: 009779

Published by TSO (The Stationery Office) and available from:

**Online**

**[www.tsoshop.co.uk](http://www.tsoshop.co.uk)**

**Mail, Telephone, Fax & email**

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/general enquiries: 0870 600 5522

Order through the Parliamentary Hotline Lo-call 0845 7 023474

Fax orders: 0870 600 5533

E-mail: [customer.services@tso.co.uk](mailto:customer.services@tso.co.uk)

Textphone 0870 240 3701

**The Parliamentary Bookshop**

12 Bridge Street, Parliamentary Square,  
London SW1A 2JX

Telephone orders/general enquiries 020 7219 3890

Fax orders 020 7219 3866

Email [bookshop@parliament.uk](mailto:bookshop@parliament.uk)

Internet: <http://www.bookshop.parliament.uk>

**TSO@Blackwell and other accredited agents**

ISBN 978-0-10-297054-8



9 780102 970548