

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

Funds in Court in Northern Ireland Accounts 2009-2010

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is an Officer of the House of Commons.
He is the head of the NAO, which employs some 880 staff.
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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
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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.

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 Court of Judicature 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 Court of Judicature;
- 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 Court of Judicature and county courts; and
- the Chancery Division of the Court of Judicature 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 Court of Judicature 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 Court of Judicature 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 2010 the rates were as follows:

- | | |
|---------------------------------|---|
| ■ Deposit account | 3.0% (1 April 2009 to 19 July 2009)
0.3% (20 July 2009 to 31 March 2010) |
| ■ Short-term investment account | 4.0% (1 April 2009 to 19 July 2009)
0.5% (20 July 2009 to 31 March 2010) |

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 2009-10, 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.

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 2009-10 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 13 and show a deficit of £2,260,000 (2008-09 deficit of £903,000). The increased deficit is due to CFO paying interest to clients at rates of 4 per cent and 3 per cent for the initial part of the year, while the Bank of England base rate remained at 0.5 per cent. The CFO interest rates were reduced to 0.5 per cent and 0.3 per cent on 20 July 2009.

Agreement was obtained from HM Treasury to enable the accumulated reserves carried forward from 2008-09 of £2,673,000 to be utilised to fund the deficit created in the current year as a result of the exceptionally low Bank of England base rate. In order to effect this agreement, a receipt from the Consolidated Fund to cover the interest deficit of £2,195,000 will be matched by an equal and opposite surrender of reserves to the Consolidated Fund. This transaction will take place during 2010-11 and will be reflected in the cash flow in the accounts for that year.

The accumulated reserves carried forward as at 31 March 2010 totalled £2,583,000. This figure includes the amount of £2,195,000 which is due to be surrendered to the Consolidated Fund in 2010-11 as noted above. Under section 39(2) of the 1982 Act, all of the accumulated reserves are ultimately payable to the Consolidated Fund.

Performance of client portfolio

Client income for the year, including interest allocated to their accounts, totalled £6.5m, equivalent to 2.6 per cent of client holdings at year end (2008-09: £8.9m or 3.8 per cent). The reduction in income has resulted from the reduction in the CFO interest rates.

Total client holdings increased from £229.9m to £247.8m during the year. Accounting for net receipts from clients of £5.3m, this represents an increase in value of £12.6m (5.5 per cent of client holdings). The gain in the valuation of securities held was £5.0m (2008-09: loss of £11.2m).

During the year there was a significant movement of funds out of client cash account balances and into gilt holdings. Client cash account balances were reduced from £145.0m to £102.1m, with client gilt holdings increasing from £68.8m to £121.9m. This movement was prompted by the reduction in CFO interest rates to 0.5 per cent, as returns of up to 3.0 per cent could be achieved with an appropriate gilt investment.

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

"Markets have been volatile over the last twelve months. The debate amongst policymakers and investors has shifted away from 'how fast could economies grow in 2010 and 2011' towards 'could there be a renewed recession?' The implications are enormous, for businesses deciding whether to invest and for governments wondering when and how to tighten policy.

The only recent 'double dip' recessions in advanced economies have been the US back in the early 1980s, which was an intentional policy decision to drive inflation out of the system, and Japan in the mid 1990s when a consumer tax increase accidentally coincided with the Asian debt crisis. In this respect, it remains very important that the two largest global economies, namely the US and China, do not slow markedly. Recent policy decisions are helpful. The US is not following Europe down the path of tighter fiscal policy. In China the authorities are guiding growth down but there are no signs that it wants or needs to see a hard landing.

Volatility is likely to continue as consumer spending begins to face the headwinds of higher taxes. We believe that the momentum of future growth is merely slowing rather than an immediate slide back into prolonged recession.

We will continue to diversify risk and look to invest in companies with international earnings. Our strategy is still looking to achieve long-term growth whilst not putting the capital at undue risk."

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 modernisation of the CFO accounts, with the first set of UK GAAP compliant accounts being produced for 2008-09;
- the implementation of a secure web portal to enable direct access to the Brewin Dolphin Stockbroker IT system;
- the adoption of a protocol to provide an investment process which supports the protective and supervisory jurisdiction of the Court; and
- the commencement of a programme of work to result in the closure of sub-accounts held with the Bank of Ireland, which will enable a more efficient reconciliation process.

Reduction in interest rates during the year

As a result of the decrease in the Bank of England base rate of interest during 2008-09, it was 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;
- 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 2009-10, a total of £324,000 was deducted from clients in respect of stockbroker management fees (2008-09: £271,000).

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.

Court of Judicature of Northern Ireland

In accordance with section 59(2) of the Constitutional Reform Act 2005, with effect from 1 October 2009, the Supreme Court of Judicature of Northern Ireland was renamed the Court of Judicature of Northern Ireland.

Any reference in these accounts to the Court of Judicature should be taken to mean the Supreme Court of Judicature prior to this date.

Events after reporting period

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.

D A 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 up until 12 April 2010 was itself a unified and distinct civil service of the Crown.

On 9 March 2010, the political parties in Northern Ireland agreed that policing and justice functions should devolve to the Northern Ireland Assembly on 12 April 2010. During the period up to the date of devolution, the Northern Ireland Court Service complied with the guidance issued by HM Treasury, including *Managing Public Money*. When policing and justice functions in Northern Ireland were devolved to the Northern Ireland Assembly on 12 April 2010, the Department of Justice was established as a new Northern Ireland Department by the Department of Justice Act (Northern Ireland) 2010. From this date, the Northern Ireland Court Service became an executive agency of the Department of Justice and is now known as the NI Courts and Tribunals Service (NICTS). As such, it now complies with the corporate governance and accountability framework arrangements issued by the Department of Justice and also the guidance issued by the Department of Finance and Personnel, including *Managing Public Money Northern Ireland*.

Managerial responsibility for the Court Funds Office rests with the Finance Director and is managed within the Finance Division. As 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 2010 and up to the date of approval of the accounts, and accords with HM Treasury guidance.

Capacity to handle risk

The NICTS is committed to the principles of risk management as an integral part of the work of the Department, and now the Agency, 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 and now the Agency, 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.

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 and now the Agency 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 biannual 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 NICTS 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. The Head of Risk and Assurance has provided overall Satisfactory Assurance based on the work carried out during the year.

Significant known control issues

Internal Audit

Some Internal Audit reports for the Northern Ireland Court Service provided only limited assurance during 2009-10. None of these specifically related to the Court Funds Office, but did include a report on the patients section of the Office of Care and Protection (OCP). Due to a backlog of work within OCP, there could be a delay in funds being invested by the Court Funds Office, or there may be inappropriate investments being held due to the lack of up to date information. A robust follow-up process will report to the Audit Committee on the implementation of the Internal Audit recommendations contained in the report and the assurance rating will be upgraded when the recommendations have all been successfully implemented by OCP.

Stockbroker fees

Recent 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.

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.

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 2010 under the Judicature (Northern Ireland) Act 1978. These comprise the Income Statement, the Statement of Financial Position, the Statement of Cash Flows 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

As explained more fully in the Statement of Accountant General's responsibilities, the Accountant General is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit 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). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Funds in Court in Northern Ireland and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountant General; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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 17: 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. As the outcome of this case is not yet known a contingent liability has been disclosed in the accounts.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Funds in Court in Northern Ireland's affairs as at 31 March 2010 and of its deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Judicature (Northern Ireland) Act 1978 and directions issued thereunder by HM Treasury.

Opinion on other matters

In my opinion the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
3 November 2011

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Income Statement for the year ended 31 March 2010

	Notes	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Income			
Interest income	3	4,443	7,015
Interest expense	4	(1,967)	(4,922)
Net interest income		2,476	2,093
Dividend income		846	1,693
Gains/(losses) arising from securities	5	4,985	(10,939)
Transfer (to)/from client holdings		(9,535)	7,242
Net (deficit)/income		(1,228)	89
Expenses			
Administrative expenses – CFO		(954)	(914)
Management charges from CRND		(78)	(78)
Total expenses		(1,032)	(992)
Deficit transferred from reserves		(2,260)	(903)

The notes on pages 16 to 23 form part of these accounts

Statement of Financial Position as at 31 March 2010

	Notes	31 March 2010	31 March 2009	31 March 2008
		£000	£000	£000
Assets				
Cash and cash equivalents	6	1,486	4,190	1,429
Loans and advances	7	97,353	141,165	123,007
Debt securities	8	126,594	73,571	65,395
Investment securities	9	23,107	15,813	49,255
Other assets	10	2,922	431	1,738
Total Assets		251,462	235,170	240,824
Liabilities				
Clients cash account balances	11	102,129	144,964	125,122
Clients holdings in securities	12	145,650	84,971	110,709
Other liabilities : payables	13	3,683	5,235	4,993
Total Liabilities		251,462	235,170	240,824

The notes on pages 16 to 23 form part of these accounts

D A Lavery
 Accountant General of the Court
 of Judicature of Northern Ireland

11 October 2011

Statement of Cash Flows for the year ended 31 March 2010

	Notes	31 March 2010 £000	31 March 2009 £000
Cash flows from operating activities			
Net loans and advances repaid/(made)	7	43,812	(18,158)
Cost of purchases of securities	15	(87,775)	(46,114)
Proceeds from sales of securities	15	31,956	59,643
Interest received		4,290	8,237
Interest paid to Consolidated Fund	14	(2)	(35)
Dividends received		698	2,037
Payment of surplus to Consolidated Fund	14	(25)	(25)
Expenses		(992)	(78)
Net cash (outflow)/inflow from operating activities		(8,038)	<u>5,507</u>
Cash flows from client cash accounts			
Lodgements from clients	15	55,556	47,377
Payments to clients	15	(50,222)	(50,123)
Net cash inflow/(outflow) from client cash accounts		5,334	<u>(2,746)</u>
Net (decrease)/increase in cash and cash equivalents		(2,704)	<u>2,761</u>
Cash and cash equivalents at 1 April		4,190	1,429
Cash and cash equivalents at 31 March		1,486	4,190

The notes on pages 16 to 23 form part of these accounts

Notes to the Financial Statements

1 Statement of accounting policies

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

1.1 Accounting convention

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 International Financial Reporting Standards (IFRS), to the extent that such requirements are relevant to the activities of the Court Funds Office.

In 2009-10, IFRS1 First-time Adoption of IFRS was implemented. The adoption of IFRS has not resulted in any prior period adjustments, so no comparative balances have been restated.

Certain new standards, interpretations and amendments to existing standards have been published requiring adoption for periods beginning on or after 1 April 2010, but which have not been adopted early for the purposes of these accounts. It is not anticipated that the adoption of these standards will have a material impact on these accounts in the period of initial application.

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 in the statement of financial position.

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 statement of financial position 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 2009-10, the level of foreign currency transactions was negligible.

2 Financial risk management

Financial risks include credit risk, liquidity risk and market risks (interest rate and currency). The Court Funds Office does not assume any financial risks in relation to its principal activity of holding Funds in Court, as the funds comprise solely of third party assets. 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

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Cash and cash equivalents	8	52
Loans and advances	569	4,565
Debt securities	3,868	2,513
Total interest receivable	4,445	7,130
Less: surplus payable to Consolidated Fund	(2)	(115)
Total interest income	4,443	7,015

Debt Securities income includes Coupon Interest in relation to Gilt Holdings held by CFO on behalf of clients of £3,643,000 (2008-09:£2,252,000).

4 Interest due to clients' accounts

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Court Funds – Deposit Account	124	348
Court Funds – Investment Account	1,843	4,574
Total interest payable	1,967	4,922

5 Gains/losses on securities

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Profit/(loss) realised on disposals	0	75
Valuation movement on securities	(55)	191
Gains on CRND debt securities	(55)	266
Gains/(losses) on client security holdings	5,040	(11,205)
Total gains/(losses) on securities	4,985	(10,939)

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.

	31 March 2010 £000	31 March 2009 £000	31 March 2008 £000
Sterling bank accounts	1,054	824	732
Cash ISA's held on behalf of clients	145	167	167
Accumulated cash held in Share ISA's	287	3,199	530
Cash and cash equivalent holdings	1,486	4,190	1,429

7 Loans and advances

Loans and advances primarily represent call notice deposits placed with the Debt Management Office by the Commissioners for the Reduction of the National Debt.

	31 March 2010 £000	31 March 2009 £000	31 March 2008 £000
Call notice deposits	97,352	141,164	57,922
Fixed term deposits	0	0	65,084
Ways and means account	1	1	1
Loans and advances holdings	97,353	141,165	123,007

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.

	31 March 2010		31 March 2009		31 March 2008	
	Nominal £000	Market Value £000	Nominal £000	Market Value £000	Nominal £000	Market Value £000
Holdings with CRND	4,400	4,738	4,400	4,788	4,400	4,592
Holdings held on behalf of clients	106,453	121,856	47,726	68,783	40,338	60,803
Total debt ssecurity holdings	110,853	126,594	52,126	73,571	44,738	65,395
Maturity analysis						
Maturing in less than one year	16,208	16,741	3,869	10,219	13,660	13,652
Maturing in more than one year but less than five years	71,327	80,312	31,897	45,148	25,293	40,682
Maturing in more than five years	23,318	29,541	16,360	18,204	5,785	11,061
Total debt security holdings	110,853	126,594	52,126	73,571	44,738	65,395

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 2010		31 March 2009		31 March 2008	
	Holding £000	Market £000	Holding £000	Market £000	Holding £000	Market £000
Unit Trust Holdings	33	120	63	145	63	200
Stocks, Shares and Loan Notes	11,752	22,754	7,794	15,374	11,967	48,767
National Savings and Other Holdings	190	233	238	294	288	288
Total Investment Securities	11,975	23,107	8,095	15,813	12,318	49,255

10 Other assets

Receivables

Receivables comprise of amounts due from the Consolidated Fund in accordance with Section 39(3) of the Administration of Justice Act 1982.

	31 March 2010 £000	31 March 2009 £000	31 March 2008 £000
Due from Consolidated Fund	2,195	0	0
Total receivables	2,195	0	0

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 2010 £000	31 March 2009 £000	31 March 2008 £000
Holdings with CRND			
Accrued Interest on Deposits	40	56	1,087
Total CRND accrued interest	40	56	1,087
Client holdings			
Accrued coupon interest on gilts	486	322	254
Dividends due	201	53	397
Total client accrued income	687	375	651
Total accrued income	727	431	1,738
Total other assets	2,922	431	1,738

11 Clients' cash account balances

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

	31 March 2010 £000	31 March 2009 £000	31 March 2008 £000
Court Funds placed on deposit account	15,389	10,161	11,615
Court Funds placed on investment account	84,529	129,906	111,468
Unclaimed balances (see note 18)	725	707	610
Other suitors' monies	1,486	4,190	1,429
Total cash balances	102,129	144,964	125,122

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

	31 March 2010 £000	31 March 2009 £000	31 March 2008 £000
Debt securities	121,856	68,783	60,803
Investment securities (see note 9)	23,107	15,813	49,255
Accrued income (see note 10)	687	375	651
Total client holdings in securities	145,650	84,971	110,709

13 Other liabilities: payables

	31 March 2010 £000	31 March 2009 £000	31 March 2008 £000
Accumulated reserves held by CRND (see note 14)	2,583	2,673	3,521
Interest accrued on clients' accounts	146	1,648	1,472
CFO administrative expenses	954	914	0
Total other liabilities: payables	3,683	5,235	4,993

14 Accumulated reserves held by CRND

	31 March 2010 £000	31 March 2009 £000	31 March 2008 £000
Opening balance	2,673	3,521	2,041
(Deficit)/surplus for the year	(2,260)	(903)	215
Receipt due from Consolidated Fund	2,195	0	0
Surplus payable to Consolidated Fund (note 3)	2	115	1,338
Payments to Consolidated Fund during the year	(27)	(60)	(73)
Closing balance	2,583	2,673	3,521

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 2010		Year ended 31 March 2009	
	Court of Judicature £000	County Courts £000	Court of Judicature £000	County Courts £000
Opening Balance	103,169	41,795	80,830	44,292
Receipts from clients	45,461	10,095	37,971	9,406
Sales of securities	28,156	3,800	42,499	3,062
Dividends and interest received	3,796	386	3,841	403
Total Receipts	77,413	14,281	84,311	12,871
Payments to clients	(35,969)	(14,253)	(34,878)	(15,245)
Cost of securities	(76,502)	(11,273)	(30,914)	(1,050)
Total Payments	(112,471)	(25,526)	(65,792)	(16,295)
Interest credited to client accounts	2,375	1,093	3,050	1,697
Transfers between Court of Judicature and county courts	1,161	(1,161)	770	(770)
Closing Balance	71,647	30,482	103,169	41,795

16 Financial instruments

The principle activity of CFO is to hold funds in court on behalf of clients. Funds are held in either an interest bearing bank account or in liquid investments as recommended by the court appointed stockbroker. Highly liquid holdings are held in order to meet cash flows as they fall due and to generate income that is sufficient to meet the interest obligations to clients.

17 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.

18 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 2010		31 March 2009		31 March 2008	
	Court of Judicature £	County Courts £	Court of Judicature £	County Courts £	Court of Judicature £	County Courts £
Monies on deposit	299,659	67,106	300,113	67,106	296,806	67,106
Government Stocks	136	0	153	0	147	0

- 2 Those cases for which the details are unknown

	31 March 2010		31 March 2009		31 March 2008	
	Court of Judicature £	County Courts £	Court of Judicature £	County Courts £	Court of Judicature £	County Courts £
Monies on deposit	75,080	4,836	75,080	4,836	6,798	4,836
Government Stocks	0	0	0	0	68,560	0
Equities	7,582	0	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 2010		31 March 2009		31 March 2008	
	Court of Judicature £	County Courts £	Court of Judicature £	County Courts £	Court of Judicature £	County Courts £
Monies on deposit	209,632	68,850	195,261	65,094	174,985	59,825

During the year, one patient's case was traced and a total of £6,623 was transferred to the Patients' Division.

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

19 Events after reporting period

For the year ended 31 March 2010, 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 2009-10 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 events after the reporting period.

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

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