

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

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# Funds in Court England and Wales Account 2006-2007

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 25 JULY 2007

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# Contents

	Page
<b>Accountant General's Accounts</b>	
Foreword to the Accountant General's Accounts (Part A) of his transactions under Section 38 of the Administration of Justice Act 1982 and presented under Section 45 of the same Act	2
Statement of The Accountant General's responsibilities	5
Statement on Internal Control	6
The Certificate and Report of the Comptroller and Auditor General	9
Income Statement	11
Balance Sheet	12
Cash Flow Statement	13
Notes to the Accounts	14
Accounts Direction	22
<b>Commissioners for the Reduction of the National Debt (CRND)</b>	
Foreword	23
Statement of Secretary and Comptroller General's responsibilities	25
Statement on Internal Control	26
The Certificate and Report of the Comptroller and Auditor General	29
Income and Expenditure Account	31
Balance Sheet	32
Cash Flow Statement	33
Notes to the Accounts	34
Appendix: Accounts Direction	40
<b>DCA Common Investment Fund Equity Index Tracker Fund</b>	
Foreword	41
Investment Manager's Report	44
Manager's Statement on Internal Control	47
Respective responsibilities of the Lord Chancellor and Investment Manager	50
Certificate and Report of the Comptroller and Auditor General	51
Statement of Total Return	53
Statement of Change in Unitholders' Net Assets	53
Portfolio Statement	54
Balance Sheet	55
Summary of Material Portfolio Changes	56
Notes to the Financial Statements	57
Distribution Tables	64
Performance Record	65
Accounts Direction given by Treasury	66
General Information	68

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

## Accountant General's Accounts

The Accountant General's Accounts (Part A) cover the year ended 28 February 2007. They have been prepared in accordance with the direction given by the Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982 (the Act). The Accounts record dealings in cash and securities held in court. Deposits under the various enactments referred to in Section 40 of the Act are not segregated in the Accounts. Other accounts prepared by the Commissioners for the Reduction of National Debt (CRND) – Part B – Court Funds Investment Account (CFIA) and the Investment Manager's Accounts – Part C – Index Tracker Funds, supplement the Funds in Court Part A – Accountant General's Accounts. In order to provide a full understanding of the relationship between the Parts A, B and C, the Part A Accounts consolidate the relevant elements.

## The Court Funds Office

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

- Suitors involved in a civil legal action where money is paid into the CFO. These are cases either in a county court in England or Wales or in the High Court of Justice. The CFO will hold such monies until authorised to release them on completion of the case. The CFO holds these monies in its Basic Account, which during the 2006-2007 accounting period paid interest at a rate of four per cent gross with instant access.
- Patients, under the Court of Protection, who are not able to manage their property and affairs and as a result use the services of the Protection and Receivership activities of the Public Guardianship Office (PGO). The investment strategy for patients' funds is determined by the respective court either on a capital appreciation or high income basis or a mixture of both and reviewed annually. The investment strategy, determined by the court, is implemented by the Investment Division of the PGO, either in stocks and certain unit and investment trusts, or placed with the CFO on its Special Account, which during the 2006-2007 accounting period paid interest at a rate of six per cent gross with instant access.
- Children for whose benefit funds are paid into Court. These funds are held until the clients attain majority on their 18th birthday, unless the court order instructs otherwise. The investment strategy for children's funds is determined by the respective court either on a capital appreciation or high income basis or a mixture of both. The investment strategy is implemented by the Investment Division of the Official Solicitor and Public Trustee (OSPT), either in stocks and certain unit and investment trusts, or placed with the CFO on its Special Account, which during the 2006-2007 accounting period paid interest at a rate of six per cent gross with instant access.

The CFO is also responsible for the Unclaimed Balances Account. This Account consists of

- Money paid into court which has not been claimed by beneficiaries after 10 years from the last point of activity on the account; and
- Money paid to the CFO where the rightful owner cannot be found, and which therefore cannot be returned.

The Unclaimed Balances register is available at the CFO at 22 Kingsway, London WC2B 6LE and is open to the public.

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

## Strategic Investment Board (SIB)

The SIB is a non-executive, non-departmental public body that advises the Department for Constitutional Affairs (DCA) in respect of its client investment activities. The membership of the SIB during the year ended 28 February 2007 was as follows

- Chairman – Dr Colin Price up to 31 December 2006, when he retired, and David Thompson acted as interim from 1 January 2007 to 1 April 2007 when the new chair Alan Clifton was appointed;
- Appointed Members – Dr Ros Altmann, Alan Clifton, Andrew Hutton, Laurence O'Mara and Professor Janette Rutterford (Retired 31 December 2006); and
- Ex Officio Members – Richard Brook, Nick Crew, Rab Harley (Resigned 16 May 2006), Master Denzil Lush, Laurence Oates (Resigned 30 October 2006), Alastair Pitblado (Appointed 30 January 2007) and David Thompson (Appointed 1 August 2006).

## Court Funds Office Investment Criteria

Under section 38(2) of the Act, the Accountant General maintains a bank account. During the year the banking arrangements have been moved from the Bank of England to the Royal Bank of Scotland. From time to time money on that account in excess of an average working balance at an agreed level is remitted to the CRND for investment, drawings being made when additional money is required to meet payments 'out of court'. The Accountant General meets the cost of servicing these accounts.

The Accountant General operates the Basic and Special Accounts and the monies held in court may be paid into either account in accordance with the Court Funds Rules. The rates of interest paid on these accounts are prescribed from time to time by direction made by the Lord Chancellor, with the concurrence of the Treasury.

During the year (1 March 2006 to 28 February 2007), the percentage rates were, Basic Account 4 per cent and Special Account 6 per cent. Interest earned by the Accountant General's deposits with the CRND pays the interest due on Basic and Special Accounts, with any residual surpluses or deficits being due to the Consolidated Fund (CF).

## Results for the year ended 28 February 2007

The Accounts and Notes on pages 11 to 21 demonstrate a deficit of Income over Expenditure for the year ending 28 February 2007 of £87.6 million (2006 surplus of £15.8 million). The main factors resulting in this movement are a 9.5 per cent increase in Interest paid to clients driven by a 6.6 per cent increase in cash balances and a change in mix of the holdings with the more expensive Special Account balances rising by 0.9 per cent to 73.4 per cent of balances held. Interest received remained static at £270 million, prior to payment of surplus income of £16.2 million (2006 £4.9 million) to the CF, see note 3. This resulted in a £33.1 million reduction in Net Interest Income to £3.9 million. During the year the CRND disposed of the majority of the Gilt Holdings, which crystallised net losses, after market revaluations of £63 million (2006 £7 million) see note 5. These disposals reflect a change in Investment Strategy by the CRND to more closely align the investments held in the CFIA with the cash holdings held by the CFO on behalf of clients. The Part B Accounts set out the operation of the CFIA. Other movements in Dividends, Gains/losses on Securities and Gains/losses on Foreign Exchange are all matched by changes in the Income due to clients on Security holdings as the risks and rewards are fully borne by the Clients.

The Balance sheet reports an increase in Assets during the year of £273 million to £5.6 billion. The major change in the assets reflects the divestment of Gilts mentioned above, with Loans & Advances increasing from 37.7 per cent of assets to 64 per cent as a result.

The main liabilities are the Clients' cash balances, which, during the year have increased by £296 million to £4.8 billion due to lodgements of £2.0 billion (2006 – £2.1 billion), with cash payments and transactions out of court of £1.9 billion (2006 – £2.1 billion). This small net inflow of cash together with interest credited of £246 million (2006 – £232 million) explains the increase in cash balances and a full analysis of cash movements is shown in Note 13.

The Accounts (see Note 9) also report a £17 million increase in the market value of securities held, with a closing balance of £283.6 million at 28 February 2007 (2006 – £266.5 million). The units in the Equity Index Tracker Fund (Common Investment Fund) increased during the year by 1.3 million units to 6.85 million units with a market value of £75.7 million (2006 – 5.56 million units with a market value of £57.9 million). Further details of the Equity Index Tracker Fund are provided in the Part C Accounts.

These Accounts reflect the administrative costs recovered from the CFIA in accordance with the Administration of Justice Act 1982, totalling £13.6 million. The detailed breakdown of administrative costs for the CFO fall outside the scope of these accounts, and are reported in the 2006-2007 Annual Report and Accounts of Her Majesty's Courts Service.

## Audit of Accounts

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

So far as I am aware, there is no relevant audit information of which the CFO's 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 CFO's external auditors are aware of that information.

## Other developments

During 2006 the CFO has replaced the Bank of England (Bank), following the Bank's decision to exit from the provision of retail banking as well as custodian services, with new banking arrangements provided by the Royal Bank of Scotland, and the CFO has become a direct member of CREST, in order to maintain its own custodial records.

In the previous two years, a review was undertaken to examine the feasibility of preparing the Funds in Court Accounts on a basis consistent with Generally Accepted Accounting Practices in the UK (UK GAAP). Previously the Accounts were prepared on a purely cash basis. The review has now been successfully concluded, following the restatement of both the 2004-2005 and the 2005-2006 Accounts as a dry run using UK GAAP principles. As a result of this, a new Treasury Direction was issued on 7 August 2006, which is reproduced on page 22. Accordingly these are the first Accounts prepared under the new Treasury Direction and in accordance with relevant elements of UK GAAP.

During the period of the Accounts CFO was part of Her Majesty's Courts Service (HMCS) within the Department for Constitutional Affairs (DCA). With effect from 1 April 2007 the offices of the Official Solicitor, Public Trustee and Court Funds merged their management and corporate functions. At this time, CFO moved from HMCS and both offices formed the Office of Court Funds, Official Solicitor and Public Trustee (OCFOSPT). This will not affect the statutory basis for the three discrete offices nor the statutory appointments associated with them. By maximising the economies of scale in relation to the management and corporate functions, it is aimed that as much resource as possible is directed to the effective delivery of front line responsibilities. Consequently, whilst the three statutory offices will continue to exist and enjoy their unique status, we will work to ensure a single management and corporate team is established to provide the most cost effective support to the three offices.

On 9 May 2007 the DCA was reformed as the Ministry of Justice (MOJ). The OCFOSPT is an associated office of the MOJ.

*Kevin Sadler*  
Accountant General of the Supreme Court

13 July 2007



# Statement of the Accountant General's responsibilities

## Management and Investment of Funds in Court

As set out in section 38 of the Administration of Justice Act 1982 (the Act), the Accountant General of the Supreme Court is responsible for the management and investment of the Funds in Court.

## Statement of Accounts

Under section 45 (1) of the Act, the Accountant General is required to prepare a statement of accounts for each financial year in the form and on the basis as directed by the Treasury. During the year a new Treasury Direction was issued on 7 August 2006 (see page 22) and these accounts are prepared so as to give a true and fair view of the state of affairs as at 28 February 2007 and of the income and expenditure and cash flows of the year just ended.

## Appointment of the Accountant General

The Secretary of State and Lord Chancellor has, under section 97(2) of the Supreme Court Act 1981 as amended by the Public Trustee and Administration of Funds Act 1986, appointed Kevin Sadler as Accountant General of the Supreme Court on 13 September 2005. The Permanent Secretary of the Department for Constitutional Affairs has also appointed the Accountant General as the Accounting Officer for Funds in Court. His relevant responsibilities as Accounting Officer, including his responsibilities for the propriety and regularity of the funds for which he is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in 'Government Accounting'.

# Statement on Internal Control

## Scope of responsibility

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

## The purpose of the system of internal control

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

## Capacity to handle risk

The risk management process requires the CFO to maintain a risk register, which is a complete record of the risks it faces and management's response to these risks, including the adequacy of the controls in place to manage risks and any actions planned to strengthen these controls. The most significant of these risks are reported upwards and incorporated into the Risk Registers of Her Majesty's Courts Service.

The CFO and the DCA Corporate Governance team have developed a schedule of key risk and operational controls. This control framework has been embedded in the risk management processes operated during the current financial year.

## The risk and control framework

In the CFO, the main processes in place for identifying, evaluating and managing risks are

- Senior management meetings to discuss exception planning and risks to the business;
- Adherence to the DCA risk strategy;
- A register of key risks and operational controls that is reflected as a responsibility for all team section managers; and
- A Compliance team, which undertakes a programme of independent tests to ensure that procedures are being effectively implemented.

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

## Review of effectiveness

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

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

- Introduction of more rigorous data input validation to ensure quality control at input stage thus reducing the scope for errors;
- The introduction of daily and weekly exception reporting in the lodgements, suitors, funds, Court of Protection and Securities areas to ensure that any deviations from planned activity are addressed promptly;

- Improvement of communication with all stakeholders, e.g. the PGO, the OSPT and the courts to ensure a seamless flow of information;
- Individual accountability written into personal development plans of business section managers to reflect the need for specific compliance functions to be carried out weekly and certificated monthly;
- The CFO senior management carry out ongoing review of the process for formally identifying, evaluating and managing the significant risks to the achievement of its objectives;
- The undertaking of daily and monthly reconciliation to ascertain and agree the balances held with the Bank of England, Royal Bank of Scotland and the CRND, who hold funds on behalf of the Accountant General;
- The existence of an appropriate control environment, such as clearly defined management responsibilities and evidence of prompt reaction to control failures such as action plans to address internal assurance recommendations;
- For client funds invested via the Common Investment Fund (Equity Index Tracker Fund), review of performance undertaken via quarterly reports submitted to the Strategic Investments Board, together with overall operational control frameworks around dealings in units and the management of the unit register;
- A Compliance function within CFO whose role is to help embed risk management across CFO operations as well as review adherence to the key risks and operational controls that was identified jointly by Corporate Governance branch and CFO; and
- A Customer Service Division dedicated to the provision of a streamlined response to clients. Also provided is an outreach function that provides information on CFO services as well as advising the courts on services offered through familiarisation visits.

The DCA has an Internal Assurance Division (IAD), which operates to the standards defined in the Government Internal Audit Manual and provides an internal audit service for CFO. The work of IAD is informed by an analysis of the risks to which the Department are exposed and annual internal audit plans are based on this analysis. DCA Corporate Audit Committee endorsed the internal audit plans and received an internal audit report when it considered the accounts for the year ending 28 February 2007.

## Internal control

During 2006-2007 IAD carried out reviews of Unclaimed balances, Children's Awards, FAS Systems Administration, and a follow up of Investment Performance of Securities. IAD has reviewed governance arrangements in CFO and is satisfied that previous concerns about Accounting Officer responsibilities have been addressed

The major weaknesses identified related to the Children's Fund Accounts, which are reported below.

A dedicated Compliance team operates within the CFO to monitor progress on implementation of the controls identified in the key risk and operational controls. This team provides an independent assurance to management on compliance issues and is an integral feature of the governance and risk management arrangements. These arrangements were instrumental in identifying the compliance issues in relation to Children's Fund Accounts reported below.

## Children's Fund Accounts

The CFO manages cases relating to Children's Funds, which may be invested either in

- Capital growth, where no funds are anticipated to be required during the lifetime of the fund;
- Capital appreciation with some income where some payments may be required during the lifetime of the fund; or
- High income where payments may be required from time-to-time.

Improvements to processes and controls in this area during 2006-2007 have identified a long-standing weakness that has resulted in funds on some Children's accounts not being invested in accordance with the original instructions. An exercise has been undertaken to identify all the affected accounts, and where the consequence has resulted in a lower rate of return, corrections will be made to ensure affected accounts are not disadvantaged. A provision of £12.5m has been established to cover the expected levels of corrections.

### Unclaimed Balances and Dormant Funds

The special project team has now successfully concluded remedial work to trace the holders of unclaimed balances and dormant accounts across the range of account types held at the CFO.

### Annual Reconciliation of Security Holdings

The annual reconciliation of the Accountant General security holdings at the financial year ending 28 February 2007 was carried out by comparing the Client holdings on the CFO's Funds Accounting System (FAS) records against records held in the name of the Accountant General with authorised Custodians.

*Kevin Sadler*  
Accountant General of the Supreme Court

13 July 2007

# 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 England and Wales (Part A) for the year ended 28 February 2007 under section 45(3) of the Administration of Justice Act 1982. These comprise the Income Statement, the Balance Sheet, the Cashflow 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 accounts of the Funds in Court in England and Wales (Part A) transactions under Section 38 of the Administration of Justice Act 1892 together with financial statements in accordance with Section 45 of the Administration of Justice Act 1982 and HM Treasury directions made thereunder, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Accountant General's Responsibilities. My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and 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 have been properly prepared in accordance with Section 45 of the Administration of Justice Act 1982 and HM Treasury directions made thereunder. I report to you whether, in my opinion, certain information given in the Foreword, which comprises the sections entitled Accountant General's Accounts, The Court Funds Office and Results for the year ended 28 February 2007, are 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, the Court Funds Office has not kept proper accounting records in respect of the Funds in Court in England and Wales (Part A) Accounts, 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 the Court Funds Office's 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 Court Funds Office's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

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 England and Wales (Part A) Account'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

### **Audit opinion**

In my opinion

- the financial statements give a true and fair view, in accordance with Section 45 of the Administration of Justice Act (1982) and directions made thereunder by HM Treasury, of the state of the Funds in Court in England and Wales (Part A) Account's affairs as at 28 February 2007 and of its transactions for the year then ended;
- the financial statements have been properly prepared in accordance with Section 45(2) of the Administration of Justice Act (1982) and directions made thereunder by HM Treasury; and
- information given within the Foreword, which comprises the sections entitled the Accountant General's Accounts, the Court Funds Office and the Results for the year ended 28 February 2007, is consistent with the financial statements.

### **Audit 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.

### **Report**

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

18 July 2007

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London SW1W 9SP

## Income Statement for the year ended 28 February 2007

	Notes	Year ended 28 February	
		2007	2006
		£000	£000
<b>Income</b>			
Interest income	3	<b>254,012</b>	265,458
Interest expense	4	<b>(250,114)</b>	(228,418)
<b>Net interest income</b>		<b>3,898</b>	37,040
Dividend income		<b>7,491</b>	6,340
(Losses)/gains arising from securities	5	<b>(21,729)</b>	34,639
(Losses)/gains arising from Foreign Exchange	6	<b>(1,501)</b>	1,320
Securities income due to clients holdings		<b>(49,604)</b>	(48,405)
<b>Net income</b>		<b>(61,445)</b>	30,934
<b>Expenses</b>			
Administrative expenses – CFO		<b>13,500</b>	15,000
Provisions – CFO		<b>12,500</b>	0
Management charges from CRND		<b>110</b>	90
<b>Total expenses</b>		<b>26,110</b>	15,090
<b>(Deficit)/surplus transferred (from)/to reserves and hereditary revenues</b>		<b>(87,555)</b>	15,844

*The notes on pages 14 to 21 form part of these accounts.*

## Balance Sheet as at 28 February 2007

	Notes	28 February	
		2007	2006
		£000	£000
<b>Assets</b>			
Cash and cash equivalents	7	<b>47,574</b>	15,945
Loans and advances	10	<b>3,588,408</b>	2,012,983
Debt securities	8	<b>1,599,945</b>	2,971,192
Investment securities	9	<b>257,251</b>	241,317
Other assets	11	<b>115,571</b>	94,417
<b>Total assets</b>		<b><u>5,608,749</u></b>	<u>5,335,854</u>
<b>Liabilities</b>			
Cash borrowings	7	<b>18,490</b>	8,406
Clients cash account balances	12	<b>4,767,899</b>	4,471,483
Clients holdings in investment securities	9	<b>283,610</b>	266,522
Other liabilities: creditors	14	<b>538,750</b>	589,443
<b>Total liabilities</b>		<b><u>5,608,749</u></b>	<u>5,335,854</u>

*The notes on pages 14 to 21 form part of these accounts.*

Kevin Sadler  
Accountant General of the Supreme Court

13 July 2007



## Cash Flow Statement for the year ended 28 February 2007

	Notes	28 February	
		2007	2006
		£000	£000
<b>Cash Flows from operating activities</b>			
Cost of purchases of debt securities		(1,822,171)	0
Proceeds from sales of debt securities		3,130,856	138,500
Loans and advances made		(5,073,656)	(6,210,217)
Loans and advances repaid		3,498,231	5,849,366
Interest received		268,432	259,851
Payment of surplus to Consolidated Fund		(8,960)	0
Expenses		(22,110)	(16,585)
Movement on funds in transit		12	6,300
<b>Net cash (out)/inflow from operating activities</b>		<b>(29,366)</b>	<b>27,215</b>
<b>Cash Flows from client cash accounts</b>			
Lodgments from clients	13	2,046,929	2,149,337
Payments to clients	13	(1,996,018)	(2,168,792)
<b>Net cash in/(out)flow from client cash accounts</b>		<b>50,911</b>	<b>(19,455)</b>
<b>Net increase in cash and cash equivalents</b>		<b>21,545</b>	<b>7,760</b>
Cash and cash equivalents at 1 March		7,539	(221)
Cash and cash equivalents at 28 February		29,084	7,539

*The notes on pages 14 to 21 form part of these accounts.*

# Notes to Financial Statements

## 1 Accounting policies

These accounts have been prepared in accordance with direction made by Treasury under section 45 of the Administration of Justice Act 1982, as detailed on page 22.

### 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 (UK GAAP) to the extent that such requirements are relevant to the activities of the Court Funds Office.

### 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 and Expenditure account in the period they arise;

Valuation gains and losses on securities and collective investment schemes are recognised in the Income & Expenditure account 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 and Collective Investment Schemes

All securities and collective investment schemes 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'.

The Debt Securities held by the CRND within the Court Funds Investment Account (CFIA) are covered by the Part B Accounts.

There are certain movements in Securities held directly by the CFO for Clients during the year, where no cash changes hands (lodgements and transfers), covering Securities previously held by Clients which are transferred into Court (lodgements) or Securities held by CFO are transferred to Clients rather than being realised and cash paid out (transfers). For these movements, cash values are estimated by using average values applying to opening and closing balances for the year, and applying these to the quantity of stock affected.

In relation to the Equity Index Tracker Fund (EITF), which are covered in the Part C Accounts, the Net Asset Value is used for valuation purposes in order to ensure consistency between these Accounts and the information presented in the Part C Accounts.

### 1.4. Administrative expenses

The costs incurred by the CFO, and the Management Fees levied by the CRND are included in the Income & Expenditure Account. Management fees levied by EITF are reflected in the unit prices used to value these holdings.

### 1.5. Foreign currency transactions

Items included in the financial statements are measured using UK Sterling, which is the functional and presentational currency.

The only foreign currency positions that are maintained are on behalf of clients who wish to hold funds in court in an alternative currency to Sterling. These funds are held in accounts with correspondent banks and earn interest in the relevant currency. Gains or losses on foreign exchange movements are calculated based upon annual movements in the exchange rates.

Foreign exchange gains and losses resulting from re-valuations are taken to Income & Expenditure, but as the risk is borne by the Clients a balancing transaction is reflected to adjust clients holdings in the functional currency.

### 1.6 Ways and Means

End of day cash surpluses in the CFIA are swept daily to the National Loans Fund (NLF) and are repayable on demand while the NLF makes good any daily shortfall of monies in the CFIA. These investments are known as Ways and Means. The CFIA receives interest on monies swept up to NLF and pays interest on any shortfalls.

## 2 Financial risk management

The CFO does not assume any financial risks in relation to its principal activity of holding Funds in Court.

The financial risks of investing in securities, collective investment schemes, and foreign currency holdings 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>28 February 2007 £000</b>	28 February 2006 £000
Cash and cash equivalents	<b>1,422</b>	795
Loans and advances	<b>127,795</b>	86,724
Debt securities	<b>140,995</b>	182,789
Total interest receivable	<b>270,212</b>	270,308
Less: surplus income payable to Consolidated Fund	<b>(16,200)</b>	(4,850)
Total interest income	<b>254,012</b>	265,458

Debt Securities includes Coupon Interest in relation to Gilts Holdings held by CFO on behalf of Clients of £539,000 (2006 £503,000)

## 4 Interest due to clients accounts

	<b>28 February 2007 £000</b>	28 February 2006 £000
<b>Interest paid</b>		
Court Funds – Basic account	<b>43,325</b>	44,576
Court Funds – Special account	<b>202,259</b>	185,061
Foreign Currency balances	<b>1,422</b>	795
Foreign Currency revaluation	<b>(1,501)</b>	1,320
<b>Total interest paid</b>	<b>245,505</b>	231,752
<b>Interest accrued</b>		
At period end	<b>69,386</b>	64,777
At period start	<b>(64,777)</b>	(68,111)
<b>Total interest due</b>	<b>250,114</b>	228,418

**5 Gains/losses on Securities**

	<b>28 February 2007 £000</b>	28 February 2006 £000
Loss realised on disposals	<b>(100,368)</b>	(18,344)
Valuation movement on Securities	<b>37,065</b>	11,421
Losses on CRND Debt Securities	<b>(63,303)</b>	(6,923)
Gains on Client Security Holdings	<b>41,574</b>	41,562
Total (losses)/gains on Securities	<b>(21,729)</b>	34,639

**6 Gains/losses on Foreign Currency**

	<b>28 February 2007 £000</b>	28 February 2006 £000
US Dollar	<b>(1,478)</b>	1,200
Australian Dollar	<b>(3)</b>	0
Canadian Dollar	<b>0</b>	124
Euros	<b>(20)</b>	(4)
Total (losses)/gains on Foreign Currency	<b>(1,501)</b>	1,320

**7 Cash and cash equivalents**

Cash and Cash Equivalents include Balances held in Bank Accounts, in both Sterling and Foreign Currencies.

	<b>28 February 2007 £000</b>	28 February 2006 £000
<b>Assets</b>		
Foreign Currency Bank Accounts	<b>47,574</b>	15,945
Cash and Cash Equivalent Holdings	<b>47,574</b>	15,945
<b>Liabilities</b>		
Sterling Bank Accounts	<b>(18,490)</b>	(8,406)
Cash and Cash Equivalent Holdings	<b>(18,490)</b>	(8,406)

## 8 Debt Securities

Debt Securities comprise UK Government Gilts, managed on behalf of the CFO by the CRND. In addition there are UK Government Gilts held on behalf of clients.

	Nominal £000	Cost £000	Market Value £000
<b>2007</b>			
Holdings with CRND	1,575,000	1,572,558	1,575,000
Holdings held on behalf of clients	11,352	0	24,945
<b>Total Debt Security Holdings</b>	<b>1,586,352</b>	<b>0</b>	<b>1,599,945</b>
<i>Maturity analysis</i>			
Maturing in less than three months	1,575,000	0	1,575,000
Maturing in more than three months but less than one year	5	0	5
Maturing in more than one year but less than five years	2,228	0	4,386
Maturing in over five years	9,119	0	20,554
<b>Total Debt Security Holdings</b>	<b>1,586,352</b>	<b>0</b>	<b>1,599,945</b>
<b>2006</b>			
Holdings with CRND	2,816,756	2,981,611	2,946,988
Holdings held on behalf of clients	11,430	0	24,204
<b>Total Debt Security Holdings</b>	<b>2,828,186</b>	<b>0</b>	<b>2,971,192</b>
<i>Maturity analysis</i>			
Maturing in less than three months	0	0	0
Maturing in more than three months but less than one year	845,893	0	860,844
Maturing in more than one year but less than five years	1,456,088	0	1,520,166
Maturing in over five years	526,205	0	590,182
<b>Total Debt Security Holdings</b>	<b>2,828,186</b>	<b>0</b>	<b>2,971,192</b>

## 9 Investment Securities

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

Holdings in the Equity Index Tracker Fund, managed on behalf of the CFO by Legal & General (Unit Trust Managers) Limited, and covered in greater detail in the Part C Accounts, which are valued at Net Asset Value;

Holdings of Unit Trusts lodged in court by clients; and

Holdings of Individual Stocks and Shares, Debt Securities and National Savings Certificates lodged in court by clients.

The following table(s) show the period end balances and the movements on these holdings during the year

	Holdings 28 February 2007 £000	Valuation 28 February 2007 £000	Holdings 28 February 2006 £000	Valuation 28 February 2006 £000
<b>Market valuation summary</b>				
Unit Trust Holdings	42,166	140,604	28,928	112,982
Stocks, Shares and Loan Notes	20,585	116,631	23,262	128,319
National Savings and Other Holdings	0	16	0	16
<b>Total Investment Securities</b>	<b>62,751</b>	<b>257,251</b>	<b>52,190</b>	<b>241,317</b>
Gilt Holdings Classified as Debt Securities	11,352	24,945	11,430	24,204
Accrued Income	0	1,414	0	1,001
<b>Total Client Holdings in Securities</b>	<b>74,103</b>	<b>283,610</b>	<b>63,620</b>	<b>266,522</b>
			Total Holdings 28 February 2007 £000	
Balance at start of year			63,620	
Purchases during year			35,002	
Sold during year			(14,711)	
Net transfers (to)/from Clients			(9,808)	
<b>Balance as at year end</b>			<b>74,103</b>	
<b>Market valuation at year end</b>			<b>282,196</b>	

Of the above holdings 6,854,341 units (2006: 5,560,751) relate to the EITF, with a net asset value of £75.7 million (2006: £57.9 million)

## 10 Loans and advances

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

	<b>28 February 2007 £000</b>	28 February 2006 £000
Call Notice Deposits	<b>1,088,407</b>	508,600
Fixed Term Deposits	<b>2,500,000</b>	1,500,000
Ways and Means Account	<b>1</b>	4,383
Loans and Advances Holdings	<b>3,588,408</b>	2,012,983

## 11 Other assets

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, shares and collective investment schemes where there is no contractual commitment to make such a distribution. The balance is comprised of the following elements

	<b>28 February 2007 £000</b>	28 February 2006 £000
<b>Holdings with CRND</b>		
Accrued Coupon Interest on Gilts	<b>34,263</b>	69,636
Accrued interest on deposits and cash	<b>58,894</b>	23,780
<b>Total CRND Accrued Interest</b>	<b>93,157</b>	93,416
<b>Client holdings</b>		
Accrued Coupon Interest on Gilts	<b>69</b>	76
Dividends due	<b>1,345</b>	925
<b>Total Client accrued income</b>	<b>1,414</b>	1,001
<b>Total accrued income</b>	<b>94,571</b>	94,417
Prepayments of CFO administration expenses	<b>8,500</b>	0
Accrual from HMCS	<b>12,500</b>	0
<b>Total other assets</b>	<b>115,571</b>	94,417

## 12 Clients cash account balances

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

	<b>28 February 2007 £000</b>	28 February 2006 £000
Court Funds placed on Basic Account	<b>1,109,953</b>	1,097,320
Court Funds placed on Special Account	<b>3,499,379</b>	3,242,535
Unclaimed balances	<b>49,291</b>	47,423
Other suitors monies deposited in the Supreme Court	<b>61,702</b>	68,260
Clients monies held as foreign currency	<b>47,574</b>	15,945
<b>Total client cash balances</b>	<b>4,767,899</b>	4,471,483

Unclaimed balances represent

- Money paid into court which has not been claimed by beneficiaries after 10 years from the last point of activity on the account; and
- Money paid to the CFO where the rightful owner cannot be found, and which therefore cannot be returned.

Other suitors monies deposited in the Supreme Court represent money paid into Court in Satisfaction of a Judgement, which are held in cash and only transferred to the Basic Account if not claimed within 21 days. In addition, all balances below £10 are held as Cash.

**13 Clients receipts and payments during year**

	<b>28 February 2007 £000</b>	28 February 2006 £000
Opening Balance 1 March	<b>4,471,483</b>	4,259,186
Lodgements by Clients	<b>1,987,785</b>	2,065,945
Sales of CIF units and other securities	<b>51,528</b>	77,045
Dividends	<b>7,616</b>	6,347
Total lodgements from Clients	<b><u>2,046,929</u></b>	<u>2,149,337</u>
Payments to Clients	<b>(1,923,960)</b>	(2,105,468)
Cost of Purchase of CIF Units and other securities	<b>(65,633)</b>	(56,082)
Transfer to DCA	<b>(6,425)</b>	(7,242)
<b>Total payments to Clients</b>	<b><u>(1,996,018)</u></b>	<u>(2,168,792)</u>
<b>Interest credited to Court Accounts</b>	<b><u>245,505</u></b>	<u>231,752</u>
Closing balance 28 February	<b><u>4,767,899</u></b>	<u>4,471,483</u>

**14 Other liabilities – creditors**

	<b>28 February 2007 £000</b>	28 February 2006 £000
Hereditary Revenues held by CRND in Court Funds Investment Account	<b>345,053</b>	456,913
Reserves held by CRND in Court Funds Investment Account	<b>95,599</b>	58,793
Interest Balance due to Consolidated Fund	<b>16,200</b>	8,960
Interest Accrued on Clients Accounts	<b>69,386</b>	64,777
Provisions	<b>12,500</b>	0
Funds in transit	<b>12</b>	0
<b>Other liabilities: creditors</b>	<b><u>538,750</u></b>	<u>589,443</u>

Hereditary revenues comprise realised capital gains on the disposal or maturity of debt securities within the CFIA.

Reserves comprise unrealised capital gains/(losses) on the revaluation of debt securities, together with interest accrued at the period end within the CFIA.

Interest balance due to CF comprises surplus income due to CF but not paid at the period end.

Interest accrued on clients accounts comprises interest due on the Basic and Special accounts but not paid at the period end.

Provisions represent amounts provided to correct Children's Accounts.

**15 Post balance sheet events**

With effect from 1 April 2007 the offices of the Official Solicitor, Public Trustee and Court Funds merged their management and corporate functions. At this time, Court Funds moved from Her Majesty's Courts Service and both offices formed the Office of Court Funds, Official Solicitor and Public Trustee (OCFOSPT). This will not affect the statutory basis for the three discrete offices nor the statutory appointments associated with them.

On 9 May 2007 the Department for Constitutional Affairs was reformed as the Ministry of Justice. The OCFOSPT is an associated office of the Ministry of Justice.



These Accounts are authorised for issue on 24 July 2007.

**16 Related party transactions**

During the year ended 28 February 2007, the Court Funds Office (CFO) was a part of Her Majesty's Courts Service within the Department for Constitutional Affairs. During the year fees of £6.4 million (2006 £7.2 million) were paid to other offices of the DCA in relation to the provision of services to clients of the CFO subject to the Court of Protection. In addition, administrative expenses of running the CFO of £13.5 million (2006 £15 million) were recovered from the Court Funds Investment Account (CFIA) in accordance with the Administration of Justice Act 1982 s39.2(b).

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

## Account of the transactions of the Accountant General under section 38 of the Administration of Justice Act 1982

### Accounts Direction given by HM Treasury

HM Treasury, in pursuance of section 45 of the Administration of Justice Act 1982, hereby gives the following Direction

- 1 The Accountant General of the Supreme Court shall prepare accounts for the financial year ending 28 February 2007 and for each subsequent financial year ending on the last day of February comprising
  - a a Foreword;
  - b a Statement of the Accountant General's Responsibilities;
  - c a Statement on Internal Control;
  - d an Income Account;
  - e a Balance Sheet; and
  - f a Cash Flow Statementincluding such notes as may be necessary, to explain the transactions of the Accountant General under Section 38 of the Administration of Justice Act 1982, and for the purposes referred to in the following paragraphs.
- 2 The accounts shall be prepared so as to give a true and fair view of the state of affairs as at 28 February 2007 and subsequent financial year ends and of the income and expenditure and cash flows of the year just ended.
- 3 Subject to the requirements in (2) above, the accounts shall be prepared in accordance with
  - a Generally Accepted Accounting Practice in the United Kingdom, to the extent that it is relevant. Any departure from UK GAAP is only permissible in the context of providing a true and fair view for this public sector account;
  - b Any other relevant guidance which HM Treasury may issue from time to time in respect of accounts which are required to give a true and fair view.
- 4 A statement of accounts shall be sent to the Comptroller and Auditor General not later than the last day of September following the end of the period in respect of which the statement is made.
- 5 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 a direction given by HM Treasury in pursuance of section 45(2) of the Administration of Justice Act 1982.
- 6 This direction replaces the direction dated 31 July 1991.

*David Watkins*  
Head of Financial Reporting Policy Team,  
HM Treasury

7 August 2006

# Commissioners for the Reduction of the National Debt Court Funds Investment Account

## Foreword

### Introduction

These accounts have been prepared by the Commissioners for the Reduction of the National Debt (CRND). The accounts, which cover the year ended 28 February 2007, are prepared under a direction issued by HM Treasury in accordance with section 45(2) of the Administration of Justice Act 1982 (the Act).

### Brief history and background of the Court Funds Investment Account

The Court Funds Investment Account (the CFIA) backs the basic and special accounts available for suitors' funds paid into Court in England and Wales.

By virtue of rules made under section 38(7) of the Act, on days when the Accountant General of the Supreme Court (the Accountant General) has excess cash in his account he remits the excess amount to CRND for investment; on days when the balance in his account is insufficient to meet demands, CRND make good the shortfall.

Section 39(1) of the Act authorises HM Treasury to make regulations setting out the range of investments in which CRND may invest money transferred to them by the Accountant General. Currently, investment is restricted to securities specified in paragraphs 1, 2, 3, 8, 9 and 9A of Part 2 of Schedule 1 to the Trustee Investments Act 1961. Until required to meet payments, the interest or dividends received on investments held by CRND is reinvested in authorised securities. The investments so made are held in the CFIA.

Section 39(2) of the Act requires the payment into the Consolidated Fund of any surplus interest or dividends received in any accounting year by CRND and Section 39(3) provides for any deficiency of interest or dividends to be made good out of the Consolidated Fund. The amount of any surplus or deficiency is obtained by deducting from the interest and dividends received by CRND the sum of

- the interest due to be paid or credited on funds in court;
- the sum required by the Lord Chancellor in respect of administering funds in court;
- the sum required by CRND in respect of expenses; and
- any sum HM Treasury requires to be set aside for depreciation in the value of securities.

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

The resources that have been used to deliver CRND's objectives are accounted for within the UK Debt Management Office's (DMO) agency vote and reported in the DMO Report and Accounts 2006-2007. The cost of managing the CFIA incurred by CRND is recharged to the CFIA; in 2006-2007, this amounted to £110,000 (2005-2006: £90,000).

### Commissioners for the reduction of the National Debt

CRND's main function is the investment and management of major Government funds. The investment powers differ from fund to fund, but basically investments are restricted to central and local government securities.

There are eight Commissioners, but the Secretary and Comptroller General and Assistant Comptroller, who are appointed by and act on behalf of the Commissioners, make the day-to-day decisions. There is no legislation that determines the specific responsibilities of the Secretary and Comptroller General and the Assistant Comptroller. However, in practice the role of the Secretary and Comptroller General is considered analogous to acting as the

Accounting Officer for CRND. Therefore, the Secretary and Comptroller General takes responsibility for preparing and signing the accounts on behalf of the Commissioners.

The arrangements made between CRND and the client department, the Court Funds Office (CFO), in respect of the investment service provided by CRND are set out in a Memorandum of Understanding, which describes how CRND intend to achieve the agreed investment objectives.

## Audit arrangements

Section 45(1) of the Act requires the Commissioners to send accounts prepared by them to the Comptroller and Auditor General.

Under section 45(3) of the Act, the Comptroller and Auditor General examines, certifies and reports on the accounts and lays copies of them with his report before each House of Parliament.

The Secretary and Comptroller General has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that CFIA's auditors are aware of that information. So far as she is aware, there is no relevant audit information of which the CFIA's auditors are unaware.

## Management Commentary

### Results for 2006-2007

Historically, the investments made by CRND included gilt-edged securities with periods to maturity of up to 20 years. For 2006-2007, pending the outcome of a review of the CFO's investment and banking operations, CRND had initially agreed to maintain the current holdings of gilts and to allow the duration of the portfolio to shorten by non-reinvestment of maturing gilts. In October 2006 it was subsequently agreed with the CFO that the CFIA's assets should more closely match the liabilities (i.e. the need to pay a rate of interest based on the Bank of England Official Bank Rate) and as a consequence the medium and long-dated gilts were sold and the proceeds placed into short-term securities.

During 2006-2007, the CFIA made a net operating surplus from funds invested of £175.1 million (2005-2006: £242.1 million). This comprised interest receivable of £268.2 million (2005-2006: £269.0 million) less interest payable to the Consolidated Fund of £16.2 million (2005-2006: £4.9 million), dealing losses of £63.3 million (2005-2006: £6.9 million) and other expenditure of £13.6 million (2005-2006: £15.1 million).

The CFO deposited £29.3 million (net of withdrawals) into the CFIA over the course of the year (2005-2006: net withdrawal of £18.8 million).

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

12 July 2007

## Statement of Secretary and Comptroller General's responsibilities

- 1 Section 45(2) of the Act requires the Commissioners to prepare accounts for each financial year in the form and on the basis determined by HM Treasury.
- 2 The CFIA annual accounts are prepared on an accruals basis, as directed by HM Treasury and must give a true and fair view of the financial position of the CFIA at the year end and of the surplus or deficit and the cash flows for the financial year.
- 3 The Commissioners have appointed the Secretary and Comptroller General to discharge their statutory responsibilities, a role that is analogous to acting as an Accounting Officer. Therefore the Secretary and Comptroller General has responsibility for preparing the annual accounts and for transmitting these to the Comptroller and Auditor General.
- 4 In preparing accounts an Accounting Officer is required to observe the applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Account, and apply suitable accounting policies on a consistent basis.
- 5 The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, and for the keeping of proper accounting records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in 'Government Accounting'.

# Statement on Internal Control

## 1 Scope of responsibility

The Commissioners for the Reduction of the National Debt (CRND) are responsible for preparing the accounts. They have appointed me as Secretary and Comptroller General of CRND to discharge their responsibilities in this regard. As Secretary and Comptroller General, I also have responsibility for ensuring the operation of a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios whilst safeguarding the public funds for which I am accountable, in accordance with the responsibilities assigned to me.

CRND is a separate business entity managed within the control framework of the DMO. While I am responsible for CRND's system of internal control, the Accounting Officer of the DMO is responsible for the wider control framework within which CRND is managed. In discharging my own control responsibilities I take assurance on the continued sound maintenance of the wider control framework from the Statement of Internal Control for the DMO, although I understand that only reasonable and not absolute assurance can be given that risks have been controlled.

It is also my responsibility to ensure that all CRND fund management activities are conducted with due regard to value for money and operated in line with client instructions. I have put arrangements in place to ensure that there is a proper evaluation of the balance of cost and risk in our operations.

## 2 The purpose of the system of internal control

The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources required to manage them, rather than to eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Relevant elements of the DMO system of internal control have been implemented for CRND. The system of internal control has been in place for the year ended 28 February 2007 and up to the date of approval of this account, and accords with Treasury guidance. The DMO has made additions to the system of internal control over the course of the year.

## 3 Capacity to handle risk

The DMO has a formal risk management strategy and policy, which includes CRND activities, set by the DMO Managing Board. The DMO has a Risk Management Assurance Strategy documenting its risk management processes.

The Managing Board is responsible for setting strategic direction and considering high-level operational issues. An executive sub committee of the Managing Board meets weekly. The terms of reference of these committees and those of the Fund Management Committee and Risk Committee were redefined to improve clarity of their roles and responsibilities and to strengthen the capability of the organisation to consider issues and make relevant decisions at the appropriate level.

Staff have attended presentations on relevant elements of the DMO's risk management framework. These have covered specific issues such as anti-money laundering, whistleblowing, fraud and personal dealing in order to ensure a good level of awareness of DMO's risk policies and controls. All members of staff have job descriptions, including specific key risks to be addressed.

Management in each business function is responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation. Most functional managers are responsible for maintaining compliance arrangements across the DMO in their area of specialism. The Risk Management Unit has issued guidance to the CRND Portfolio Manager on those sections of the Financial Services Authority handbook that are most pertinent to CRND activities in order to support him in meeting his responsibilities in this regard.

#### 4 The risk and control framework

During the year, responsibility for supporting me as Secretary and Comptroller General in matters relating to oversight of the governance, internal control and risk management processes was brought under the supervision of the Exchequer Funds Audit Committee. The Exchequer Funds Audit Committee performs this role for the Accounting Officers of each of the Exchequer Funds which are the Commissioners for the Reduction of the National Debt, Debt Management Account, Public Works Loan Board, Exchange Equalisation Account, National Loans Fund, Consolidated Fund and the Contingencies Fund. Members of the Committee are appointed for periods of up to three years, extendable by no more than one additional three-year period. The Chair of the Committee reports to me on matters relating to the CRND. The current membership of the Committee is

- Colin Price, Chair, non-executive member of the DMO's Managing Board, until December 2006 Chair of the Lord Chancellor's Strategic Investment Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;
- Brian Larkman, non-executive member of the DMO's Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland PLC; and
- Mark Clarke, Director General Finance and Strategy at the Department of Trade and Industry.

The Exchequer Funds Audit Committee met for the first time on 23 January 2007 and again on 29 March 2007, and will meet four times a year.

The DMO has various formal mechanisms for managing CRND's risks but it is recognised that the most important aspect is that a strong risk management culture pervades the organisation at all levels. This is embedded in both regular operations and the approach taken to new business initiatives. The DMO includes risk management considerations as part of normal business management. The DMO is making on-going efforts to embed a strong risk management culture in every part of the organisation. In support of this Internal Audit and an external risk consultancy firm have carried out reviews on operational risk management during the year. Work is in hand to implement recommendations from these reviews.

The DMO's risk management strategy seeks to achieve a strong risk management culture by linking organisational objectives to the business planning process. Organisational objectives cascade down to individual objectives and job descriptions. Progress has been made in documenting main team objectives with comprehensive coverage planned during 2007-2008. This is intended to promote a clear understanding of the ownership of each risk within the organisation.

Heads of business units and functional teams assess regularly whether risks to their operations are being managed effectively. The DMO has Senior Risk Owners who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. Project teams use risk registers to monitor and manage identified risks for each DMO project. Managing Board has reviewed during the year the high level risks that the organisation faces, and the adequacy of the relevant controls. This process is supported by the maintenance of exception logs, which identify control weaknesses and resultant actions to improve controls. Key risks, progress on treatment actions, and exceptions are documented in a quarterly report produced by the Risk Management Unit for the Senior Risk Owners and the Managing Board.

A key component of the CRND control framework is the segregation of duties to promote independent checking and avoid concentration of key activities or related controls in individuals or small groups of staff. In particular segregation of duties takes place between front and back office duties. All teams have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.

An up-to-date memorandum of understanding is in place with each client, outlining the respective responsibilities of CRND and the client. CRND has adopted a passive style of fund management for each client. CRND has established effective communication channels with each of its clients.

The DMO has policies on anti-fraud measures, money laundering and whistleblowing that cover CRND activities. An independent review of the DMO's money laundering controls was undertaken in 2006-2007. Recommendations to move to a risk based approach in line with market practice will be implemented in 2007-2008. The DMO has its own anti-money laundering handbook. DMO staff report on anti-money laundering developments and process to the Managing Board.

The DMO's Business Continuity Plan (BCP), including disaster recovery site and other arrangements, is subject to continual review and update with the Senior Risk Owners taking a more active role during the year in progressing BCP improvements. The DMO tested the main elements of the BCP during the year by use of both internal and market-wide test exercises with external stakeholders. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives.

## 5 Review of effectiveness

As Secretary and Comptroller General, my review of the effectiveness of the system of internal control is informed by the work of executive managers in the DMO who have been delegated responsibility for the development and maintenance of the internal control framework, and by the reports and comments made by the internal and external auditors. I have been supported by the Audit Committee and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. The Exchequer Funds Audit Committee considered the 2006-2007 accounts in draft and provided me with its views before I formally signed the accounts

- The Fund Management Committee, comprising CRND managers, other senior managers and DMO specialist staff, meets regularly to review CRND operational issues. In particular it monitors and advises on development of CRND governance mechanisms.
- A controls team met periodically to review issues affecting the DMO's system of internal control (including CRND), recommend actions to management and to implement changes where appropriate. The controls team comprises senior representatives of the DMO teams responsible for finance, risk, control, compliance and internal audit. The controls team reports periodically to the Audit Committee on progress to improve the internal control system during the year.
- The DMO's Risk Management Unit provides control advice on risks throughout the DMO. In the DMO's management reporting structure the risk management unit is separate and independent of the DMO's trading operations. The risk management function also conducts risk analysis and provides an operational, market and credit risk capability for the DMO.
- The DMO's Risk Management Unit conducts monthly Controls and Compliance testing providing the executive sub-committee of Managing Board with independent assurance on the effectiveness of operational controls and compliance with relevant FSA rules in the dealing and settlements areas.
- During the period of this Statement on Internal Control, Internal Audit has provided reports on the effectiveness of the risk management, control and governance processes for the DMO, including those covering CRND, to the Audit Committee throughout the period. The audits make a series of recommendations that are addressed as part of our focus on continuous improvement in this area. The Internal Audit work programme is approved by the Audit Committee at the start of the year.
- Internal Audit attended each meeting of the Audit Committee to report the results of audit work and the results of follow-up work to confirm that appropriate management action had been taken to address audit recommendations.
- Internal Audit's view was that assurance could be given over the risk management, control and governance arrangements relevant to the accounts. There are no matters arising from the work of Internal Audit in the period that would give rise to a separate comment in the Statement on Internal Control.

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

12 July 2007



# 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 Court Funds Investment Account for the year ended 28 February 2007 under the Administration of Justice Act 1982. These comprise the Income and Expenditure Account, 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 National Debt Commissioners, the Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt and the Auditor

As described in the Foreword on pages 2 to 4 the Commissioners have a statutory duty to prepare accounts in respect of their transactions. They have appointed the Secretary and Comptroller General to discharge their responsibilities for the preparation of financial statements in accordance with the Administration of Justice Act 1982 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions.

The Secretary and Comptroller General is also responsible for preparation of the other contents of the accounts. These responsibilities are set out in the Statement of Secretary and Comptroller General's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and 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 Administration of Justice Act 1982 and HM Treasury directions made thereunder. I also report whether in all material respects the financial transactions of the Court Funds Investment Account conform to the authorities which govern them.

I also report to you, if in my opinion, the Foreword is not consistent with the financial statements, if proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities is not disclosed. I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

I review whether the Statement on Internal Control reflects the Commissioners for the Reduction of the National Debt's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider, nor have I considered whether the Secretary and Comptroller General's Statement on Internal Control covers all risks and controls or form an opinion on the effectiveness of the Commissioners for the Reduction of the National Debt's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with 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 in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Comptroller in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Court Funds Investment Account'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 financial transactions conform with the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinions

### **Audit opinion**

In my opinion

- the financial statements give a true and fair view, in accordance with the Administration of Justice Act 1982 and directions made thereunder by HM Treasury, of the financial position of the Court Funds Investment Account as at 28 February 2007 and of the surplus and cash flows for the year ended 28 February 2007; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and directions made thereunder by HM Treasury.

### **Audit opinion on regularity**

In my opinion, in all material respects the transactions of the Court Funds Investment Account conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General  
17 July 2007

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

## Income and Expenditure Account for the year ended 28 February 2007

	Notes	<b>2007</b> <b>£000</b>	2006 £000
Interest receivable	2	<b>268,251</b>	269,010
Dealing (losses)/profits	3	<b>(63,303)</b>	(6,923)
Total investment income		<b>204,948</b>	262,087
Surplus interest payable to the Consolidated Fund	4	<b>(16,200)</b>	(4,850)
Other expenditure	5	<b>(13,610)</b>	(15,090)
Operating surplus		<b>175,138</b>	242,147

*The notes on pages 34 to 39 form part of these accounts.*

## Balance Sheet as at 28 February 2007

	Notes	2007 £000	2006 £000
<b>Assets</b>			
Debt securities	6	<b>1,575,000</b>	2,946,988
Loans and advances	7	<b>3,588,408</b>	2,012,983
Accrued interest	8	<b>93,157</b>	93,416
Other assets	9	<b>8,500</b>	0
Total assets		<b><u>5,265,065</u></b>	<u>5,053,387</u>
<b>Liabilities</b>			
Client Funds	10	<b>4,808,243</b>	4,540,243
Other liabilities	11	<b>16,200</b>	8,960
Hereditary Revenues due to the Consolidated Fund	12	<b>345,023</b>	445,391
Reserves	13	<b>95,599</b>	58,793
Total liabilities		<b><u>5,265,065</u></b>	<u>5,053,387</u>

*The notes on pages 34 to 39 form part of these accounts.*

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

12 July 2007

## Cash Flow Statement for the year ended 28 February 2007

	Notes	<b>2007</b> <b>£000</b>	2006 £000
Net cash flow from operating activities	14	<b>(29,300)</b>	18,800
Financing	14	<b>29,300</b>	(18,800)
Increase/(decrease) in cash		<b>0</b>	0

*The notes on pages 34 to 39 form part of these accounts.*

# Notes to the Accounts for the year ended 28 February 2007

## 1 Accounting policies

These accounts have been prepared in accordance with a direction made by HM Treasury under section 45(2) of the Administration of Justice Act 1982.

### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified by the inclusion of certain investments at market valuation, and in accordance with applicable Generally Accepted Accounting Practice in the United Kingdom (UK GAAP) in so far as is appropriate to the CFIA. Securities transactions are included in the accounts on a trade date accounting basis.

### 1.2 Valuation of Securities (UK Government Gilts)

All securities held by the Commissioners for the Reduction of the National Debt (CRND) on behalf of the CFIA have been included in the balance sheet at market value.

### 1.3 Gains and losses on trading operation

Gains and losses on trading operations are calculated as the difference between the sale proceeds (excluding interest) and the cost of the stock, which is calculated on a first in, first out basis.

### 1.4 Income recognition

Income is recognised within the accounts on the following bases

- Interest on investments is recognised as it accrues rather than on a cash received basis.
- Realised gains and losses on trading activities are taken to the Income and Expenditure Account in the period in which they arise.
- Valuation gains and losses on dealing securities are recognised in the Income and Expenditure Account in the same way as realised gains and losses and are included within the carrying value of those securities on the balance sheet.

### 1.5 Administrative expenditure

The administrative costs recovered from clients are accounted for in the UK Debt Management Office Agency Account.

### 1.6 Ways and Means

End of day cash surpluses that have not been invested in other ways are swept daily to the National Loans Fund (NLF) and are repayable on demand while the NLF makes good any daily shortfall in monies on the CFIA. These investments are known as Ways & Means. The CFIA receives interest on monies swept up to the NLF and pays interest on shortfalls covered by the NLF.

**2 Interest receivable**

	<b>2007</b>	2006
	<b>£000</b>	£000
Interest receivable on gilt edged securities	<b>140,456</b>	182,286
Interest receivable on deposits given	<b>127,729</b>	86,466
Interest receivable on Ways and Means	<b>66</b>	258
	<b><u>268,251</u></b>	<u>269,010</u>

**3 Dealing (losses)/profits**

	<b>2007</b>	2006
	<b>£000</b>	£000
Profit/(loss) realised on disposal of securities	<b>(100,368)</b>	(18,344)
Valuation movement on gilts	<b>37,065</b>	11,421
	<b><u>(63,303)</u></b>	<u>(6,923)</u>

**4 Surplus interest payable to the Consolidated Fund**

	<b>2007</b>	2006
	<b>£000</b>	£000
Interest received in the year	<b>268,510</b>	257,736
Interest payable on Funds in Court	<b>(238,700)</b>	(237,796)
Management expenses payable	<b>(13,610)</b>	(15,090)
	<b><u>16,200</u></b>	<u>4,850</u>

**5 Other expenditure**

	<b>2007</b>	2006
	<b>£000</b>	£000
Management expenses – payable to the client	<b>(13,500)</b>	(15,000)
– payable to CRND	<b>(110)</b>	(90)
	<b><u>(13,610)</u></b>	<u>(15,090)</u>

**6 Debt securities***6a Debt Securities*

	<b>2007 Nominal</b>	<b>2007 Cost</b>	<b>2007 Clean Market value</b>	2006 Nominal	2006 Cost	2006 Clean Market value
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000	£000	£000
<i>UK Government gilts</i>						
Marketable	0	0	0	16,000	18,646	18,129
<i>UK Government gilts</i>						
Non marketable	<b>1,575,000</b>	<b>1,572,558</b>	<b>1,575,000</b>	2,800,756	2,962,965	2,928,859
	<b>1,575,000</b>	<b>1,572,558</b>	<b>1,575,000</b>	2,816,756	2,981,611	2,946,988

*6b Debt securities (Maturity Analysis)*

	<b>2007 Nominal</b>	<b>2007 Cost</b>	<b>2007 Clean Market value</b>	2006 Nominal	2006 Cost	2006 Clean Market value
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000	£000	£000
Maturing in less than three months	<b>1,575,000</b>	<b>1,572,558</b>	<b>1,575,000</b>	0	0	0
Maturing in over three months but less than one year	0	0	0	845,700	924,029	860,584
Maturing in over one year but less than five years	0	0	0	1,455,156	1,489,121	1,519,309
Maturing in over five years	0	0	0	515,900	568,461	567,095
	<b>1,575,000</b>	<b>1,572,558</b>	<b>1,575,000</b>	2,816,756	2,981,611	2,946,988

**7 Loans and advances**

	<b>2007 £000</b>	2006 £000
Fixed rate deposits given to DMA	<b>2,500,000</b>	1,500,000
Call notice deposits given to DMA	<b>1,088,407</b>	508,600
Ways and Means	<b>1</b>	4,383
	<b>3,588,408</b>	2,012,983

**8 Accrued interest**

	<b>2007 £000</b>	2006 £000
Accrued coupon interest	<b>34,263</b>	69,636
Accrued interest on deposits	<b>58,894</b>	23,766
Accrued interest on Ways and Means	<b>0</b>	14
	<b>93,157</b>	93,416

**9 Other assets**

	<b>2007 £000</b>	2006 £000
Management expenses prepaid to the Client	<b>8,500</b>	0
	<b>8,500</b>	0



**10 Client Funds – Liability to the Accountant General**

	<b>2007</b>	2006
	<b>£000</b>	£000
At start of period	<b>4,540,243</b>	4,321,247
Financing	<b>29,300</b>	(18,800)
Interest payable on Funds in Court	<b>238,700</b>	237,796
	<b>4,808,243</b>	4,540,243

**11 Other liabilities**

	<b>2007</b>	2006
	<b>£000</b>	£000
Surplus interest due to the Consolidated Fund	<b>16,200</b>	8,960
Management expenses due to the Client	<b>0</b>	0
	<b>16,200</b>	8,960

**12 Hereditary Revenues Payable to the Consolidated Fund**

	<b>2007</b>	2006
	<b>£000</b>	£000
At start of period	<b>445,391</b>	463,735
Profit/(loss) realised on disposal of securities	<b>(100,368)</b>	(18,344)
	<b>345,023</b>	445,391

Hereditary Revenues are net capital profits realised by CRND on the sale or disposal of gilt-edged securities, which might ultimately be surrendered to the Consolidated Fund when no longer required to provide a working surplus to insulate the CFIA against interest rate fluctuations.

**13 Reserves**

	<b>2007</b>	2006
	<b>£000</b>	£000
At start of period	<b>58,793</b>	36,098
Valuation movement on gilts	<b>37,065</b>	11,421
Increase/(decrease) in interest accrual	<b>(259)</b>	11,274
	<b>95,599</b>	58,793

*14a Reconciliation of operating profit to net Cash Flow from operating activities (Indirect method)*

	<b>2007</b>	2006
	<b>£000</b>	£000
Operating surplus	<b>175,138</b>	242,147
(Increase)/decrease in debt securities	<b>1,409,053</b>	156,843
(Increase)/decrease in movement in valuation of debt securities	<b>(37,065)</b>	(11,421)
(Increase)/decrease in loans and advances (inc. Ways and Means) given	<b>(1,575,425)</b>	(360,851)
(Increase)/decrease in other assets: accrued interest	<b>259</b>	(11,273)
(Increase)/decrease in other assets: debtors	<b>(8,500)</b>	0
Increase/(decrease) in other liabilities: creditors	<b>7,240</b>	3,355
Net cash flow from operating activities	<b>(29,300)</b>	18,800
<b>Financing</b>		
Advanced by the client	<b>405,600</b>	406,700
Withdrawn by the client	<b>(376,300)</b>	(425,500)
	<b>29,300</b>	(18,800)

*14b Reconciliation of operating profit to net Cash Flow from operating activities (direct method)*

	<b>2007</b>	2006
	<b>£000</b>	£000
Cost of purchases of debt securities	<b>(1,822,171)</b>	0
Proceeds from sales of debt securities	<b>3,130,856</b>	138,500
Loans and advances (inc. Ways and Means) given	<b>(5,073,656)</b>	(6,210,217)
Loans and advances (inc. Ways and Means) received	<b>3,498,231</b>	5,849,366
Interest received	<b>268,510</b>	257,736
Payment of prior year surplus interest to the Consolidated Fund	<b>(8,960)</b>	0
Expenses	<b>(22,110)</b>	(16,585)
Net cash flow from operating activities	<b>(29,300)</b>	18,800
<b>Financing</b>		
Advanced by the client	<b>405,600</b>	406,700
Withdrawn by the client	<b>(376,300)</b>	(425,500)
	<b>29,300</b>	(18,800)

Purchases/sales of debt securities does not include purchased accrued/(rebate) interest. Net accrued/(rebate) interest of £19,056,630 on purchases of securities and net accrued/(rebate) interest of £20,087,367 on sales of securities is included within interest receivable (2005-2006: there was no accrued or rebate interest on either purchases or sales).

## 15 Related parties

CRND is a separate entity within the UK Debt Management Office (DMO). CRND conducts a fund management service for a range of governmental clients. On behalf of HM Treasury, DMO undertakes Government debt and cash management activities and operates the Debt Management Account (DMA). Although located together and sharing many support services, internal controls and processes exist to ensure CRND and DMA operate independently of one another. Jo Whelan is the Secretary and Comptroller General of CRND and also the Deputy Chief Executive of the DMO. She is involved in determining and agreeing investment policy for both CRND and DMA on a basis that maintains the independence of each. Surplus cash in CRND client accounts is regularly deposited with DMA via the DMO cash management desk. The DMO gilt desk from time to time undertakes gilt purchases and sales on behalf of CRND. These transactions are carried out on an arm's length basis and in line with a Memorandum of Understanding between the two entities.

The total amount of cash deposits placed with DMA over the period was £5,074 million (2005-2006: £6,210 million). During the year, the CFIA purchased gilts of nominal value £1,825 million from DMA and sold gilts of nominal value £2,205 million to DMA (2005-2006: Purchases nil, Sales nil). The value of deposits held with DMA as at the balance sheet date was £3,588 million (2005-2006: £2,009 million).

## Appendix

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

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

- 1 The Commissioners for the Reduction of the National Debt shall prepare accounts for the financial year ended 29 February 2004 and subsequent financial years comprising:
  - a a Foreword;
  - b a Statement of Internal Control;
  - c an Income and Expenditure Account;
  - d a Balance Sheet; and
  - e a Cash Flow 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 income and expenditure, and cash flows for the financial year, and the state of affairs as at the end of the financial year.
- 3 Subject to this requirement, the accounts shall be prepared in accordance with
  - a Generally Accepted Accounting Practice in the United Kingdom (UK GAAP) to the extent that it is relevant. Any departure from UK GAAP is only permissible in the context of providing a true and fair view for this public sector account,
  - b any other relevant guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view.
- 4 This direction shall be reproduced as an appendix to the accounts.

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

22 November 2004

# DCA Common Investment Fund Equity Index Tracker Fund

## Foreword

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

### The Equity Index Tracker Fund

The Equity Index Tracker Fund was established on 1 September 2003. Within the Common Investment Fund, it replaced the previous Capital and High Yield Funds (which had merged on 10 April 2003).

#### 1 What is the Common Investment Fund?

The Fund is only available for investment of money belonging to clients or former clients of the Department for Constitutional Affairs (DCA) individually or under a trustee arrangement, or under the control of certain Courts in England and Wales. It operates in a similar way to a unit trust where investors can buy units in a Fund. New investment monies are added to those already invested in the Fund and the fund manager uses it to buy a mixture of index tracking unit trusts. Depending on how the Fund performs, the value of units change and so does the income paid out to the investors each year. Units can be sold back to the Fund and the investor will receive the value of the units at that time.

#### 2 What does this report cover?

This report covers the performance of the Fund for the year ended 28 February 2007, together with some information for investors and their advisers.

#### 3 What is the legal basis for the Fund?

The Fund is an Unauthorised Unit Trust and was created under the Act which authorises the Lord Chancellor to make Common Investment Schemes for the purposes of investing funds held in Court and money held by any other person authorised to hold units in the Fund. The current scheme is governed by the Common Investment Scheme 2004 (SI 2004 No. 266).

On 1 March 2004, the right to own units in the Fund was extended to the Official Solicitor, the Public Trustee and clients of the Public Guardianship Office (PGO)/Court of Protection wishing to hold units out of Court. In addition, certain former clients of the PGO/Court of Protection, the Court Funds Office (CFO) and The Official Solicitor and the Public Trustee (OSPT) were authorised to retain units in the Fund on termination of their connection with those offices.

These changes came into effect as a result of authorisation by the Lord Chancellor pursuant to section 42(5)(b) of the Act.

#### 4 Why invest in the Fund?

The Equity Index Tracker Fund is a simple and cost-effective means of investing in the stock market over the medium to long term. Legal & General manages the Fund's assets on an index tracking basis aiming to match the returns of the major stock markets. 80 per cent of the Fund has exposure to UK shares with the remainder investing in the US, Europe, Japan and the Pacific Basin.

Index trackers invest in a representative sample of all of the companies that make up the index that they are tracking, instead of the Fund manager actively choosing which stocks to hold in the Fund. The intention is simply to deliver the return of the index being tracked.

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

### I The Lord Chancellor's responsibilities

Under Section 42(1) of the Act, the Lord Chancellor may make schemes (Common Investment Schemes) establishing common investment funds for the purpose of investing funds in court and other monies defined under Section 42(5)(b) of the Act.

Under Section 42(2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be appointed by the Lord Chancellor to manage and control the common investment funds established. As indicated above, the Lord Chancellor appointed Legal and General (Unit Trust Managers) Limited to be the Investment Manager for the Equity Index Tracker Fund for the financial period from 1 September 2003. Under Section 42(5) units in the Common Investment Scheme shall be allotted to and held by the Accountant General and the Accountant General of the Supreme Court of Judicature of Northern Ireland and any other person authorised by the Lord Chancellor. In this context, since the inception of this Common Investment Scheme, the list of authorised investors to whom units in the Common Investment Fund may be allotted and held by, has been extended to include 'other' investors from the following:

- i the Public Trustee either in his sole name or jointly with any person or persons with whom he acts as trustee or personal representative;
- ii the Official Solicitor either in his sole name or jointly with any person or persons with whom he acts as trustee or personal representative;
- iii any trustee or trustees, if more than one, of a trust from which the Public Trustee or Official Solicitor has retired as trustee, in relation to any units held in the trust immediately prior to such retirement;
- iv any beneficiary of a trust or estate in respect of which the Public Trustee or Official Solicitor acts solely or jointly with any other person or persons as trustee or personal representative, in relation to any units held in the trust or estate to which the beneficiary has become absolutely entitled;
- v any beneficiary of a trust from which the Public Trustee or Official Solicitor has retired as trustee, in relation to any units held in the trust to which the beneficiary has become absolutely entitled;
- vi any patient whose property and affairs are managed by the Court of Protection and whose funds are not held in court in the name of the Accountant General;
- vii any person who is restored to the management of his property and affairs by order of the Court of Protection, in relation to any units held by him or by the Accountant General on his behalf immediately prior to the making of such an order;
- viii any person entitled by a direction of the court to withdraw funds retained in court under Part 21.11 of the Civil Procedure Rules 1998 on the ground that he is no longer incapable of managing and administering his own affairs, in relation to any units held on his behalf by the Accountant General immediately prior to the making of such a direction;
- ix any person who has attained majority and on whose behalf units were held by the Accountant General during his minority, in relation to any units held on his behalf by the Accountant General upon the attainment of his majority;
- x any person entitled to withdraw funds from court by application under section 5(2) of the Law Reform (Miscellaneous Provisions) Act 1971, in relation to any units held by the Accountant General on her behalf immediately prior to the making of such an application;
- xi the investment manager of the Fund on his own account in the ordinary course of fund management, subject to the terms of his appointment; and
- xii any person acting in his capacity as nominee for any person included in (i) to (viii) above.

The total value of 'other' investors is shown in Note 15.

## II Appointment of the Accountant General

The Secretary of State and Lord Chancellor has, under section 97(2) of the Supreme Court Act 1981 as amended by the Public Trustee and Administration of Funds Act 1986, appointed Kevin Sadler as Accountant General of the Supreme Court on 13 September 2005. The Permanent Secretary of the Department for Constitutional Affairs has also appointed the Accountant General as the Accounting Officer for Funds in Court. His relevant responsibilities as Accounting Officer, including his responsibilities for the propriety and regularity of the funds for which he is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by Treasury and published in *Government Accounting*.

## III Management and Investment of Funds in Court

As set out in section 38 of the Act, the Accountant General of the Supreme Court is responsible for the management and investment of the Funds in Court and under section 43 of the same Act, is responsible for making good defaults with respect to any money, securities and effects for which he is responsible.

### 6 How does the Accountant General honour his responsibilities?

The Accountant General manages his responsibilities and associated risks through the Court Funds Office (CFO). The Court Funds Office (CFO) manages funds held in Court in the name of the Accountant General of the Supreme Court under the Act. Certain funds may be invested in Common Investment Schemes. Under the direction of the Court and on behalf of the Accountant General, the responsibilities of the Court Funds Office includes

- buying and selling units in the Common Investment Scheme (on behalf of eligible investors);
- maintenance of a register of unit holders in the Common Investment Fund (albeit only on behalf of beneficiaries of the Court Funds Office – see note 15 for the segmentation analysis);
- distribution to unit holders of dividends calculated by the Manager;
- payment of Investment Manager's fees;
- investment management oversight through the Strategic Investment Board (SIB) which advises the Department for Constitutional Affairs on investment strategy and performance monitoring;
- the implementation of a control framework with the Investment Manager to provide sufficient assurance to the Accounting Officer.

### 7 Accounts and Audit

These accounts are in respect of the Equity Index Tracker Fund for the year ended 28 February 2007 and have been prepared in accordance with an Accounts Direction issued by Treasury under section 45(2) of the Act as detailed on page 66. The Comptroller and Auditor General is appointed external auditor under section 45(3) of the Act. The responsibilities of the Comptroller and Auditor General are set out in the Certificate and Report as detailed on pages 51 and 52.

The Managing Director and the Accountant General have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Fund's auditors are aware of that information. So far as they are aware, there is no relevant audit information of which the Fund's auditors are unaware.

Chris Radford  
Managing Director  
Legal and General (Unit Trust Managers) Limited  
20 June 2007

Kevin Sadler  
Accountant General  
of the Supreme Court  
20 June 2007

## Investment Manager's Report

### Investment strategy

The Fund strategy is to track the capital return of the composite benchmark by investing in Legal & General Index Tracking Unit Trusts.

The Fund benchmark is as follows

	<b>Control ranges</b>
80 per cent FTSE All-Share Index	+/- 2 per cent
20 per cent FTSE All-World (ex-UK) Index	+/- 2 per cent

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

The FTSE All-World (ex-UK) Index exposure will be provided by the purchase of units in the following unit trusts

Legal & General US Index Trust  
Legal & General European Index Trust  
Legal & General Pacific Index Trust  
Legal & General Japan Index Trust

The combination of unit holdings in these trusts will reflect their relevant market weightings in the FTSE World (excluding UK) Index subject to the control range.

The target tracking deviation for the scheme is plus/minus 0.5 per cent (measured on an ex ante basis) in two out of every three consecutive years before fees.

The Investment Strategy has been set after consultation with the DCA, acting on the advice of the Strategic Investment Board (SIB). The SIB is a public body which advises on the investment activities of the Public Guardianship Office, the Official Solicitor, the Public Trustee and the Court Funds Office.

The FTSE All-Share and All-World (ex-UK) indices are calculated by FTSE International Limited (FTSE). FTSE does not sponsor, endorse or promote this product.

All copyright in the indices values and constituent list belongs to FTSE. Legal & General (Unit Trust Managers) Limited has obtained full licence from FTSE to use such copyright in the creation of this product.

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### Manager's Investment Report

Over the year under review, the published price of units in the Equity Index Tracker Fund rose by 6.82 per cent.

Past performance is not a guide to future performance.

The value of investments and income from them may go down as well as up.

Exchange rate changes may cause the value of any overseas investments to rise or fall.



## Tracking deviation

The table below shows the Fund Performance for the period from 1 March 2006 to 28 February 2007, with the benchmark performance which comprises 80 per cent FTSE All-Share Index and 20 per cent FTSE All-World (ex-UK) Index.

	Mar 2006	Apr 2006	May 2006	Jun 2006	Jul 2006	Aug 2006	Sep 2006
Total Fund	3.07	0.26	-5.42	1.57	0.89	0.17	1.84
Benchmark	3.07	0.30	-5.48	1.58	0.89	0.19	1.79
Relative	0.00	-0.04	0.06	-0.01	0.00	-0.02	0.05
	Oct 2006	Nov 2006	Dec 2006	Jan 2007	Feb 2007	One year	
Total Fund	2.59	-0.64	3.12	-0.01	-0.51	6.84	
Benchmark	2.62	-0.64	3.12	-0.02	-0.49	6.83	
Relative	-0.03	0.00	0.00	0.01	-0.02	0.01	

In order to calculate the tracking performance of the Fund, the capital-only performance of the underlying unit trusts is compared with the capital performance of the composite benchmark. This is because adjustments have to be made for accrued income within the underlying trusts. We also use special close of trade prices for the underlying unit trusts in order to make a valid comparison with the indices.

## Distribution review

Distributions were made by Legal & General UK Index Trust, the Legal & General US Index Trust, the Legal & General Japan Index Trust, the Legal & General Pacific Index Trust and the Legal & General European Index Trust. These distributions are held in a cash income account within the Equity Index Tracker Fund until they are paid out at the dividend dates on 10 April and 12 October. The distributions for the year are set out in the Distribution tables on page 64.

## Market/economic review

In the year to 28 February 2007, the performance of equity markets representing the Fund's investments varied substantially.

The UK (+11.6 per cent), Europe (+14.5 per cent) and Asia-Pacific (+10.7 per cent) produced strong overall returns, while the USA (+0.3 per cent) and Japan (-0.51 per cent) performed poorly. Within the UK market, which represents 80 per cent of the portfolio, the mid-cap section produced a better return (+20.2 per cent) than either smaller companies (+13.5 per cent) or the largest 100 companies (10.1 per cent). The returns from overseas markets were subdued by the extent to which Sterling rose against other major currencies; US\$ 11.9 per cent, Japanese Yen 14.5 per cent and Euro 1.0 per cent (Source: Datastream).

Generally, economic growth proved stronger than originally anticipated last year. This resulted in the authorities raising short term interest rates in order to keep inflationary pressures at bay. In the UK and the USA, this led to interest rates rising from 4.50 per cent to 5.25 per cent.

Some dominant themes influenced equity prices during the year. The gyrations of commodity prices were reflected in the share prices of companies in related industries. Oil for example rose over 30 per cent by early August 2006, only to drop 35 per cent by January 2007. The level of merger and acquisition activity continued and among those that fell victim to takeover bids were some well known names in the UK Industry. They included P&O, Pilkington, BAA, Associated British Ports and John Laing. The healthy state of corporate finances was exemplified by those companies who repaid excess cash to shareholders and this was generally reflected in strengthening share prices.

Details of the management of the underlying unit trusts can be found in those trusts' reports and accounts which are available on request from Legal & General on 0870 050 0955.

Call charges will vary. We may record and monitor calls.

Legal & General Investment Management Limited

(Investment Adviser)

20 June 2007

# Manager's Statement on Internal Control

## 1 Scope of responsibility

As Managing Director, I have responsibility for maintaining a sound system of internal control that supports the achievement of Equity Index Tracker Fund policies, aims and objectives, whilst safeguarding the public funds and assets of unit holders for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The operation of the Equity Index Tracker Fund is governed by the Investment Strategy, which was set by the Lord Chancellor on the advice of the Strategic Investment Board (SIB). The performance of the Fund is reported via quarterly management information, which ensures that the objectives of index tracking are fulfilled.

Quarterly meetings are also held between Legal & General and the SIB (which includes personnel from the Department for Constitutional Affairs) to discuss operational issues and investment strategies.

The accounts produced at the accounting year end are audited by the Comptroller and Auditor General, to ensure the Fund has operated within its stated strategy and the accounts are in line with best accounting and commercial practice. In this way, the testing of all material amounts within the accounts are verified to ensure the safeguarding of assets.

Assets of the Fund are held by an appointed Custodian who is separate to Legal & General, to ensure that the assets are safe guarded against misuse by ensuring all are held in the Fund's name.

## 2 Purpose of system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in Equity Index Tracker Fund for the year ended 28 February 2007 and up to the date of approval of the final report and accounts.

## 3 Capacity to handle risk

Legal & General Retail Investments (LGRI) have a Risk function, staffed by a Risk Analyst, Risk Manager and headed by the Risk Director who has a seat on the Board. The function was established in September 2002, and has been developing a framework in conjunction with requirements under the Financial Services Authority's (FSA) Integrated Prudential Sourcebook. The Risk function operates within the Legal & General group risk management framework.

The Risk Director reports directly to the Managing Director of LGRI, and is authorised under the FSA's Approved Person regime, with responsibility for Controlled Function 14 Risk Assessment.

LGRI have in place documented risk policies, as follows

- Credit Risk Policy;
- Market Risk Policy;
- Liquidity Risk Policy; and
- Operational Risk Policy.

Each policy, prepared in accordance with Group standards, documents the company's appetite for that particular risk. All policies have been approved by the LGRI Risk and Compliance Committee (RCC). Compliance with the

policies is monitored through the reporting of Key Risk Indicators to the RCC, which meets monthly. All risk policies are ratified by the RCC on an annual basis.

#### 4 The risk and control framework

LGRI maintains a Risk Database, with risk scores calculated using the product of impact and likelihood scores. The database facilitates the recording of risk owners (at Approved Person level), controls in place, key risk indicators and control weaknesses. The Risk Database has formed the basis for recording and reviewing risks across the company.

The Risk and Compliance Committee (RCC), a formal sub committee of the Board, has oversight of risk management within the company. The committee was formed during 2002, and meets monthly. Membership is as follows

- Group Executive Director (Wealth Management), Chair;
- Managing Director;
- Director (Compliance), L&G Group Compliance;
- Risk Director;
- Operations Director;
- Finance Director;
- Finance Director UK Operations Finance;
- Managing Director, Individual Wealth; and
- Managing Director, Platforms and Distribution.

The schematic below demonstrates the risk framework within LGRI

The framework

- Sits within the regulatory environment (FSA, HM Revenue & Customs, etc.)
- Has defined risk policies, describing the risk tolerance and management and reporting processes
- Follows formalised processes to identify, assess, monitor and control risk

Embedding the risk framework within the business remains a key objective and priority for LGRI Risk, who have provided clear reporting lines for all risk events. This ensures that risk events are communicated and escalated appropriately.

#### 5 Review of effectiveness

As Managing Director, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the internal control is informed by the work of the internal auditors and the executive managers within LGRI who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and Risk and Compliance Committee, and a framework to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the control environment is tested through risk-based monitoring, carried out by Business Standards, Group Compliance and Internal Audit. In addition, external reviews are undertaken by external auditors. Any recommendations made to address control weaknesses are recorded by LGRI Risk on the Audit Recommendations Database. Progress on actions is reported to the RCC. Monthly reports are presented to the RCC covering both Business Standards and Compliance activity; Internal Audit present on a six monthly basis.

## 6 Significant internal control problems

There are no significant internal control problems to report.

*C M Radford*  
Managing Director  
Legal & General (Unit Trust Managers) Limited

20 June 2007

## Respective responsibilities of the Lord Chancellor and Investment Manager

### Lord Chancellor's responsibilities

Under section 42 (1) of the Administration of Justice Act 1982 (the Act), the Lord Chancellor may make schemes (Common Investment Schemes) establishing Common Investment Funds for the purpose of investing funds in court and other monies defined under section 42(5)(b) of the Act.

Under section 42 (2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be appointed by the Lord Chancellor to manage and control the Common Investment Funds established.

On 1 September 2003, the Lord Chancellor appointed Legal & General (Unit Trust Managers) Limited as the Investment Manager of the Fund.

### Investment Manager's responsibilities

Under section 45 (1) (c) of the Act, and in accordance with directions issued by Treasury, the Investment Manager is responsible for preparing the financial statements in respect of the Common Investment Scheme Equity Index Tracker Fund.

Treasury Direction requires the Investment Manager to follow best practice. In preparing the Funds Accounts, the Manager follows the disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in December 2005 as updated by additional requirements from the Financial Services Authority (from time to time) and to the extent that such requirements are relevant to the Common Investment Fund.

These require the Investment Manager to prepare accounts for each annual accounting period which give a true and fair view of the financial affairs of the Fund and of income/expenditure for the period. In preparing the accounts the Manager is required to

- select suitable accounting policies and apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds to the extent that such requirements are relevant to the Common Investment Funds;
- follow applicable accounting standards; and
- keep proper accounting records, which enable the Investment Manager to demonstrate that the accounts as prepared comply with the above requirements.

The Investment Manager is responsible for the management of the Funds in accordance with the Deed of Appointment with the Lord High Chancellor dated 3 July 2003 and the Common Investment Scheme Statutory Instrument 2004 No. 266.

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

I certify that I have audited the financial statements of Equity Index Tracker Fund for the year ended 28 February 2007 under section 45 (3) of the Administration of Justice Act 1982. These comprise the Statement of Total Return, the Statement of Change in Unitholders' Net Assets, the Portfolio Statement, the Balance Sheet, the Summary of Material Portfolio Changes, the Distribution Tables and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

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

As explained in the Foreword, under Section 42 (1) of the Administration of Justice Act 1982 (the Act), the Lord Chancellor may make schemes (Common Investment Schemes) establishing Common Investment funds for the purpose of investing funds in court and other monies defined under Section 42(5)(b) of the Act.

Under Section 42(2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be appointed by the Lord Chancellor to manage and control the Common Investment Funds established.

As explained in the Foreword, the Lord Chancellor appointed Legal and General Unit Trust Managers Ltd to be the Investment Manager for the Equity Index Tracker Fund for the period 1 March 2006 to 28 February 2007.

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

The Investment Manager is responsible for preparing the Investment Manager's Report and the financial statements in accordance with Section 45 (1) (c) of the Administration of Justice Act 1982 and HM Treasury directions made thereunder.

These responsibilities are set out in the Statement of the Respective Responsibilities of the Lord Chancellor and the Investment Manager.

### **The Auditor's responsibilities**

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and 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 Administration of Justice Act 1982 and HM Treasury directions made thereunder. I report to you whether, in my opinion, certain information given in the Foreword, which comprises the Lord Chancellor's Responsibilities and the Investment Manager's is consistent with the financial statements. I also report whether, in all material respects, the financial transactions of the Equity Index Tracker Fund conform to the authorities which govern them.

In addition, I report to you if Legal & General Unit Trust Managers Ltd has not kept proper accounting records, 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 Investment Manager's Statement on Internal Control reflects the Investment Manager's governance and internal control arrangements, and I report if it does not. I am not required to consider whether the Investment Manager's statement covers all risks and controls, or form an opinion on the effectiveness of Legal & General Unit Trust Managers Ltd corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword, the Performance Record and General Information and consider whether it is consistent with the audited financial statements.

I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

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 Investment Manager in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Equity Index Tracker Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects 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.

### Opinion

In my opinion

- the financial statements give a true and fair view, in accordance with the Administration of Justice Act 1982 and directions made thereunder by HM Treasury, of the financial position of Equity Index Tracker Fund as at 28 February 2007 and of the total return and change in unitholders' net assets for the year ended 28 February 2007;
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and HM Treasury directions made thereunder; and
- information given within the Foreword, which comprises the Lord Chancellor's responsibilities and the Investment Manager's Report is consistent with the financial statements.

### Audit opinion on regularity

In my opinion, in all material respects, the financial transactions of the Equity Index Tracker Fund conform to the authorities which govern them.

### Report

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General  
23 July 2007

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



## Statement of Total Return for the year ended 28 February 2007

	Notes	28 February 2007		28 February 2006	
		£	£	£	£
Net gains on investments	2		<b>4,737,162</b>		10,315,703
Other gains/(losses)	3		-		-
Income	4	<b>2,196,488</b>		1,394,684	
Expenses	5	(134,512)		(93,587)	
Finance costs: Interest	7	-		-	
Net income before taxation		2,061,976		1,301,097	
Taxation	6	(130,314)		(78,972)	
Net income after taxation for the year			1,931,662		1,222,125
Total return before distributions			6,668,824		11,537,828
Finance costs: Distributions	7		(1,932,437)		(1,222,910)
Change in net assets attributable to Unitholders			4,736,387		10,314,918

## Statement of Change in Unitholders' Net Assets for the year ended 28 February 2007

	28 February 2007		28 February 2006	
	£	£	£	£
Net assets at the start of the year		67,511,811		41,557,711
<i>Movement due to sales and repurchases of units</i>				
Amounts received on creation of units	15,889,018		19,300,324	
Less: Amounts paid on cancellation of units	(963,256)		(3,661,142)	
		14,925,762		15,639,182
Change in net assets attributable to Unitholders (see Statement of Total Return above)		4,736,387		10,314,918
Net assets at the end of the year		87,173,960		67,511,811

The notes on pages 57 to 65 form part of these accounts.

## Portfolio Statement as at 28 February 2007

All investments are in distribution units unless otherwise stated. The percentages in brackets show the equivalent sector holdings at 28 February 2007.

Investment	Holding/ nominal value	Market value £	% of net assets
<b>Unit Trusts investing in UK shares — 79.88 per cent (79.83 per cent)</b>			
Legal & General UK Index Trust	54,274,621	69,634,339	79.88
<b>Unit Trusts investing in overseas shares — 20.15 per cent (20.18 per cent)</b>			
Legal & General European Index Trust	2,107,939	4,192,691	4.81
Legal & General Japan Index Trust	5,630,686	2,001,709	2.29
Legal & General Pacific Index Trust	2,611,717	1,453,159	1.67
Legal & General US Index Trust	6,877,597	9,917,495	11.38
		17,565,054	20.15
<b>Portfolio of investments</b>		87,199,393	100.03
<b>Net other liabilities</b>		(25,433)	(0.03)
<b>Net assets</b>		87,173,960	100.00

## Balance Sheet as at 28 February 2007

	Notes	28 February 2007		28 February 2006	
		£	£	£	£
<b>Assets</b>					
Portfolio of investments			<b>87,199,393</b>		67,520,935
Debtors	8	<b>179,731</b>		129,747	
Cash and bank balances	9	<b>1,110,556</b>		735,142	
Total other assets			<b>1,290,287</b>		864,889
<b>Total assets</b>			<b>88,489,680</b>		68,385,824
<b>Liabilities</b>					
Derivative liabilities			-		-
<b>Creditors</b>	10	<b>(216,200)</b>		(149,412)	
Bank overdrafts	9	<b>(23,565)</b>		(8,082)	
Distribution payable on distribution units		<b>(1,075,955)</b>		(716,519)	
Total other liabilities			<b>(1,315,720)</b>		(874,013)
<b>Total liabilities</b>			<b>(1,315,720)</b>		(874,013)
Net assets attributable to Unitholders			<b>87,173,960</b>		67,511,811

*The notes on pages 22 to 29 form part of these accounts.*

CM Radford  
 Managing Director  
 Legal & General (Unit Trust Managers) Limited

20 June 2007

## Summary of Material Portfolio changes for the year ended 28 February 2007

<b>Major purchases</b>	<b>Cost £'000</b>
Legal & General UK Index Trust	11,783
Legal & General US Index Trust	2,344
Legal & General European Index Trust	911
Legal & General Japan Index Trust	519
Legal & General Pacific Index Trust	359
<b>Total purchases for the year</b>	<b>£15,916</b>
<b>Major Sales</b>	<b>Proceeds £'000</b>
Legal & General UK Index Trust	500
Legal & General US Index Trust	390
Legal & General European Index Trust	60
Legal & General Japan Index Trust	10
Legal & General Pacific Index Trust	15
<b>Total sales for the year</b>	<b>£975</b>

# Notes to the Financial Statements as at 28 February 2007

## 1 Accounting policies

### *a Basis of accounting*

The accounts are subject to an Accounts Direction given by the Treasury (as detailed on pages 66 to 67) and are prepared under the historical cost basis as modified by the revaluation of investments and in accordance with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the Investment Management Association in December 2005 (the IMA SORP 2005), to the extent that such requirements are relevant to the Common Investment Funds.

### *b Recognition of income*

Income from distribution and accumulation units in collective investment schemes is recognised when the distribution is declared. Interest and income from fixed interest stocks is recognised on an accruals basis. All other income is recognised on an accruals basis.

Equalisation on distributions received from the underlying investments is treated as capital property of the Fund.

### *c Treatment of expenses*

The Fund receives a rebate for managerial fees suffered by underlying collective investment schemes. These are treated as income or capital depending on the treatment of the Manager's fees in the underlying investment.

The Manager's periodic fee is deducted from income for the purpose of calculating the distribution.

### *d Distribution policy*

Realisable income, after deduction of those expenses which are chargeable in calculating the distribution, will be paid to those unitholders with a holding at ex-dividend date. In order to conduct a controlled dividend flow, interim distributions will be at the Manager's discretion, up to a maximum of the distributable income for the period. All remaining income is distributed in accordance with the Collective Investment Schemes Sourcebook.

Distributions which have remained unclaimed by Unitholders for over six years are credited to the capital property of the Fund.

### *e Investments*

All investments are valued at their fair value as at 12 noon on 28 February 2007, being the last working day of the accounting year. The fair value for collective investment schemes is the cancellation price or bid price for dual priced funds and single price for single priced funds. Prior to adopting the IMA SORP 2005 all investments were valued at their mid-market price. In accordance with paragraph 1.15 of the IMA SORP 2005 the Fund has continued to apply its pre-existing accounting policies to comparative information. If comparative information had been restated the nature of the main adjustments required would be to reduce the value of investments by the spread between mid-market and bid-market values with an equal reduction in net gains on investments.

Investments in securities by Legal & General on behalf of the Equity Index Tracker Fund are carried out on an arm's length basis following the best execution principles thereby ensuring that Legal & General meets its regulatory obligations in respect of best execution.

*f* Taxation

Provision is made for taxation at current rates on the excess of unfranked investment income over expenses.

Deferred tax is provided for on all timing differences that have originated but not reversed by the balance sheet date, other than those differences that are regarded as permanent. Any liability to Deferred tax is provided for at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

**2 Net gains on investments**

	<b>28 February 2007</b>	28 February 2006
	£	£
<i>The net gains on investments during the year comprise</i>		
Non-derivative securities	<b>4,737,162</b>	10,315,703
Net gains on investments	<b>4,737,162</b>	10,315,703

**3 Other gains/(losses)**

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

**4 Income**

	<b>28 February 2007</b>	28 February 2006
	£	£
Franked dividend distributions	<b>1,411,180</b>	907,019
Unfranked dividend distributions	<b>333,686</b>	188,595
Bank interest	<b>21,338</b>	11,581
Management fee rebates from Legal & General Investment Management Limited	<b>430,284</b>	287,463
Interest supplement	<b>0</b>	26
	<b>2,196,488</b>	1,394,684

**5 Expenses**

*Payable to the Manager, associates of the Manager and agents of either of them*

Manager's periodic fee	<b>125,592</b>	87,970
Registration fees	<b>4,028</b>	0
	<b>129,620</b>	87,970

*Payable to the Trustee, associates of the Trustee and agents of either of them*

Safe custody fees	<b>4,117</b>	4,832
Transaction charges	<b>775</b>	785
	<b>4,892</b>	5,617

**Total expenses**

	<b>134,512</b>	93,587
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## 6 Taxation

### a Analysis of taxation charge in year

	<b>28 February 2007</b>	28 February 2006
	£	£
Corporation tax	<b>130,314</b>	78,972
Current tax [note 6 (b)]	<b>130,314</b>	78,972
Deferred tax [note 6 (c)]	<b>0</b>	0
Total taxation	<b>130,314</b>	78,972

### b Factors affecting taxation charge for the year

The current tax charge excludes capital gains and losses for the reason that Authorised Unit Trusts are not subject to Corporation Tax on these items. Although the Equity Index Tracker Fund is not in itself an Authorised Unit Trust, it invests exclusively in other Authorised Unit Trusts operated by the Manager. The Corporation tax benefit is therefore passed onto the Equity Index Tracker from its underlying holdings. Current tax differs from taxation assessed on net income before taxation as follows

Net income before taxation	<b>2,061,976</b>	1,301,097
Net income before taxation multiplied by the applicable rate of Corporation tax at 20 per cent (2006: 20 per cent)	<b>412,395</b>	260,219
<i>Effects of</i>		
Income not subject to taxation	<b>(282,236)</b>	(181,404)
Disallowable expenditure	<b>155</b>	157
Current tax	<b>130,314</b>	78,972

### c Provision for Deferred tax

At the year end there is a potential deferred tax asset of £33,752 (£33,752 as at 28 February 2006) due to excess unutilised foreign tax available for double taxation relief. The Fund is not expecting to accrue foreign dividends against which this can be offset in the foreseeable future and therefore no deferred tax asset has been recognised.

## 7 Finance costs

### Distributions

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

	<b>28 February 2007</b>	28 February 2006
	£	£
Interim distribution	<b>972,582</b>	626,611
Final distribution	<b>1,075,955</b>	716,519
	<b>2,048,537</b>	1,343,130
<i>Add</i> Income deducted on cancellation of units	<b>11,345</b>	38,867
<i>Less</i> Income received on creation of units	<b>(127,445)</b>	(159,087)
<b>Distributions for the year</b>	<b>1,932,437</b>	1,222,910
<b>Interest</b>		
Bank overdraft interest	0	0
<b>Total finance costs</b>	<b>1,932,437</b>	1,222,910

The differences between the net income after taxation and the distributions for the year are as follows

	<b>28 February 2007</b>	28 February 2006
	£	£
Net income after taxation for the year	<b>1,931,662</b>	1,222,125
<i>Add</i> Transaction charges	<b>775</b>	785
<b>Distributions for the year</b>	<b>1,932,437</b>	1,222,910

## 8 Debtors

	<b>28 February 2007</b>	28 February 2006
	£	£
Amounts receivable for creation of units	<b>150,002</b>	99,998
Accrued income	<b>26,743</b>	28,062
Bank interest	<b>2,986</b>	1,687
	<b>179,731</b>	129,747

## 9 Cash and bank balances

	<b>28 February 2007</b>	28 February 2006
	£	£
Cash and bank balances	<b>1,110,556</b>	735,142
Bank overdrafts	<b>(23,565)</b>	(8,082)
Net uninvested cash	<b>1,086,991</b>	727,060



**10 Creditors**

	<b>28 February 2007</b>	28 February 2006
	£	£
Purchases awaiting settlement	<b>150,000</b>	100,000
Accrued expenses	<b>2,607</b>	8,159
Corporation tax payable	<b>63,593</b>	41,253
	<b><u>216,200</u></b>	<u>149,412</u>

**11 Contingent liabilities and outstanding commitments**

There were no contingent liabilities or outstanding commitments at the balance sheet date.

**12 Risk in relation to financial instruments**

The Fund's investment objective is stated on page 44. In pursuing its objective, the Fund holds financial instruments which expose it to various types of risk. The main risks, and the Manager's policy for managing these risks, which were applied consistently throughout the current and preceding year, are set out below.

*a Credit and liquidity risk*

Credit risk is the risk of suffering loss due to another party not meeting its financial obligations. The primary sources of this risk to the Fund are the potential for borrowers to fail to meet their redemption commitments and for trade counterparties to fail to meet their transaction commitments. This risk is managed by appraising the credit profile of financial instruments and trade counterparties.

Liquidity risk relates to the capacity to meet liabilities. The primary source of this risk to the Fund is the liability to Unitholders for any cancellation of units. This risk is minimised by holding cash and readily realisable securities and via access to overdraft facilities.

*b Market risk*

Market risk arises mainly from uncertainty about future prices. The primary source of this risk to the Fund is the potential movement in the value of financial instruments held as a result of price fluctuations. Given that the Fund invests in other collective investment schemes, there is market risk exposure in respect of the financial instruments held by these entities. The Manager adheres to the investment guidelines and borrowing powers established in the Trust Deed, the Scheme Particulars and the Collective Investment Schemes Sourcebook. In this way, the Manager monitors and controls the exposure to risk from any type of security, sector or issuer.

*c Foreign currency risk*

Foreign currency risk is the risk of movements in the value of overseas financial instruments as a result of fluctuations in exchange rates. At the balance sheet date the Fund had no significant exposure to currencies other than Sterling.

However, the underlying collective investment schemes may have currency risk exposure.

*d Interest rate risk*

Interest rate risk is the risk of movements in the value of financial instruments as a result of fluctuations in interest rates. The Fund's only interest bearing financial instruments were its bank balances and overdraft facilities as disclosed in note 9. Cash is deposited, and overdraft facilities utilised, on normal commercial terms and earn or bear interest based on LIBOR.

*e Derivative risk — Sensitivity analysis*

Derivative risk arises from uncertainty about future market movements. This risk is managed by the policies shown within Market risk.

At the balance sheet date, no derivatives were held that could impact the Fund in a significant way.

*f Fair value*

The fair value of a financial instrument is the amount for which it could be exchanged between knowledgeable, willing parties in an arm's length transaction. There is no significant difference between the value of the financial assets and liabilities, as shown in the financial statements, and their fair value.

### **13 Post balance sheet events**

The accounts were authorised for issue on 24 July 2007.

During March 2007, VAT has been applied to the management charge of the Equity Index Tracker Fund, in line with the required regulations. The charge reflects a retrospective adjustment of £49,029 which is not material and has not been adjusted for.

Subsequent to the balance sheet date the Ministry of Justice assumed Governance of this Fund from the Department of Constitutional Affairs.

### **14 Ultimate controlling party and related party transactions**

The CFO, who provide investment management oversight services for the Fund, are a related party (as defined by Financial Reporting Standard (FRS) 8). Details of units created and cancelled are shown in the Statement of Change in Unitholders' Net Assets. Note 15, shows the split of existing assets by investment channel.

Legal & General Investment Management Limited, who provide investment management services are a related party (as defined by FRS 8). Investments made on behalf of the Fund include those in L&G unit trusts, which had a market value of £87,199,393 at 28 February 2007 (28 February 2006: £67,520,935).

Management fees paid to Legal & General Investment Management Limited are shown in note 5. The balances due in respect of these fees is £10,827 (28 February 2006: £7,123). Management fee rebates received from Legal & General Investment Management are shown in note 4. Rebates receivable at the year end amount to £37,570 (28 February 2006: £28,062).

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

**15 Split of Assets by Investment Channel**

Investment Channel 28 February 2007	Net asset value of fund	Net asset value per unit	Number of units in issue	%
Court Funds Office (CFO)	£75,696,055	1,104.35p	6,854,341	86.83
Official Solicitor and Public Trustee (OSPT)	£4,727,537	1,104.35p	428,082	5.42
Other(t)	£6,750,368	1,104.35p	611,252	7.75
	<u>£87,173,960</u>	<u>1,104.35p</u>	<u>7,893,675</u>	<u>100.00</u>

  

Investment Channel 28 February 2007	Net asset value of fund	Net asset value per unit	Number of units in issue	%
Court Funds Office (CFO)	£57,872,055	1,040.72p	5,560,751	85.72
Official Solicitor and Public Trustee (OSPT)	£3,649,267	1,040.72p	350,647	5.41
Other <sup>(t)</sup>	£5,990,489	1,040.72p	575,608	8.87
	<u>£67,511,811</u>	<u>1,040.72p</u>	<u>6,487,006</u>	<u>100.00</u>

(t) The Other Investment Channel comprises unitholders who invested directly through Legal & General, rather than through the CFO or OSPT.

## Distribution Tables for the year ended 28 February 2007

Group 1: units purchased prior to a distribution period

Group 2: units purchased during a distribution period

Equalisation is the average amount of income included in the purchase price of all Group 2 units and is refunded to holders of these units as a return of capital. As capital it is not liable to Income tax but must be deducted from the cost of units for Capital Gains tax purposes.

### Interim dividend distribution in pence per unit

	Net Income	Equalisation	Period	
			1 March 2006 - 31 Distribution 12 October 2006	August 2006 Distribution 12 October 2005
<b>Distribution units</b>				
Group 1	13.0467	0	13.0467	11.4675
Group 2	5.6191	7.4276	13.0467	11.4675

### Final dividend distribution in pence per unit

	Net Income	Equalisation	Period	
			1 September 2006 - 28 February 2007 Distribution 10 April 2007	Distribution 10 April 2006
<b>Distribution units</b>				
Group 1	13.6305	0	13.6305	11.0454
Group 2	2.6115	11.0190	13.6305	11.0454

## Performance Record

### Net asset values

Accounting date	Net asset value of fund	Net asset value per unit	Number of units in issue
28 February 2005	£41,557,711	867.38p	4,791,158
28 February 2006	£67,511,811	1,040.72p	6,487,006
28 February 2007	£87,173,960	1,104.35p	7,893,675

### Unit price range and net income

Year	Highest offer	Lowest bid	Net income
Distribution units 2003 <sup>(1)</sup>	773.30p	722.60p	0
2004	850.30p	757.20p	15.2262p
2005	1,012.00p	839.30p	21.9787p
2006	1,127.00p	984.10p	24.0921p
2007 <sup>(2)</sup>	1,166.00p	1,114.00p	13.6305p

1 Since inception at 1 September 2003.

2 The above table shows highest offer and lowest bid prices to 28 February 2007 and net income per unit to 10 April 2007.

Past performance is not a guide to future performance.

The value of investments and income from them may go down as well as up.

Exchange rate changes may cause the value of any overseas investments to rise or fall.

# Administration of Justice Act 1982: Common Investment Fund Accounts Direction given by the Treasury

## Foreword

Section 45 (1) of the Administration of Justice Act, 1982 states

“Accounts shall be prepared and shall at such times as the Treasury shall direct be sent to the Comptroller and Auditor General in respect of transactions in a fund established by a common investment scheme, by the investment manager”.

## Treasury Direction

The Treasury, in pursuance of section 45(2) of the Act, hereby gives the following Direction

- 1 The Investment Manager of the Common Investment Funds shall prepare accounts for the Equity Index Tracker Fund in respect of the period from 1 September 2003 to 29 February 2004 and thereafter for each period of one year ending on the last day of February.
- 2 The accounts shall give a true and fair view in accordance with generally accepted accounting practice of the financial position of the Fund at the period end and of the net income and movement in the net assets of the Fund for the year.
- 3 The accounts shall be prepared in accordance with a format and content to be agreed between the Investment Manager, the Comptroller and Auditor General and the Court Funds Office, with the consent of Treasury, and shall include
  - i a Foreword;
  - ii a Statement of Responsibilities;
  - iii a Statement on Internal Control;
  - iv a Statement of Total Return;
  - v a Statement of Change in Unitholders' Net Assets;
  - vi a Balance Sheet;
  - vii a Portfolio Statement;
  - viii Summary of Material Portfolio Changes;
  - ix a Distribution Table; and
  - x such notes as may be necessary to present a true and fair view.
- 4 The Foreword shall include among other items
  - i a statement that the accounts have been prepared in accordance with directions given by Treasury in pursuance of Section 45(2) of the Act;
  - ii relevant information in respect of the statutory background of the Fund;
  - iii the name and period of appointment of the Investment Manager;
  - iv details of the arrangements for reporting financial performance of the Fund to unitholders;
  - v a statement on the external audit arrangements for the Fund, including commentary on the roles of the Comptroller and Auditor General and the auditors.

- 5 The Notes shall include among other items
  - i the accounting policies;
  - ii a statement of the regulatory basis of the accounts, with reference to best practice principles which apply to the funds in which the Equity Index Tracker Fund is invested;
  - iii disclosure of the way in which the Investment Manager applies best execution principles when making investments;
  - iv a breakdown on material items within the Accounts;
  - v the tax computation;
  - vi distribution information;
  - vii statement of movements between net income and distributions;
  - viii any contingent liabilities and contingent assets;
  - ix any units in issue;
  - x disclosure of fees and expenses in accordance with the tariff set out in the contract;
  - xi post balance sheet events;
  - xii related party transactions, recognising that the Court Funds Office and various entities within Legal and General are both related parties to the Fund, and therefore the disclosure principles laid down in FRS 8 need to be applied;
  - xiii a summary of the fund structure and the instruments invested in;
  - xiv a statement of any material errors made good by the Investment Manager and the impact of those errors on the accounts had they not been made good; and
  - xv the risk management policy.
- 6 When preparing the accounts, the Investment Manager shall comply with, and use as a best practice guideline, the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the Investment Management Association in December 2005 (the IMA SORP 2005), to the extent that such requirements are relevant to the Equity Index Tracker Fund.
- 7 The Investment Manager will support the Accounts with a General Representation Letter, containing material matters that need to be confirmed to the Comptroller and Auditor General and the Court Funds Office.
- 8 The Investment Manager will also submit the annual taxation computation to the Inland Revenue within the timescales defined by the Inland Revenue.
- 9 The Investment Manager will employ best endeavours to complete the Accounts and enable the Comptroller and Auditor General to lay the Accounts before Parliament within nine months of the year end in respect of the accounts for the year ended on 28 February 2004 and thereafter within three months of the year-end.
- 10 This Direction shall be reproduced as an annex to the accounts.
- 11 This Direction replaces the Direction dated 26 May 2004.

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

28 March 2007

## General Information

### Accounting/Distribution Dates

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

Accounting dates	Distribution dates
28 February	10 April
31 August	12 October

### Buying and selling units

#### Unit prices

Unit prices may be found in the Financial Times under the DCA Common Investment Funds heading or are available from the DCA.

The Fund is valued daily and the prices for buying and selling units rise and fall depending on the market value of the Fund's investments at that time. If the prices are published as 'ex-dividend', a purchaser will not be entitled to the next income payment.

#### Management fee

There is no initial fee on the issue of units and no redemption charge is applied. The annual management fee is based on fund size as follows

0.17 per cent for the first £50m

0.14 per cent between £50m and £100m

0.13 per cent between £100m and £150m

0.12 per cent between £150m and £200m

0.11 per cent thereafter

The management charge is paid in arrears out of the total assets of the Fund at the end of each month.

Individual accounts are unaffected by the management charge deduction.

#### Buying and selling securities

The Investment Manager buys and sells units in the underlying unit trusts on behalf of the Equity Index Tracker Fund using forward prices at the date of investment. The prices of the underlying trusts are shown in the Independent on a daily basis, on the day after valuation.

The Manager of the underlying trusts effects transactions based on Best Execution at all times and may, subject to Investment Restrictions, deal on any such markets or exchanges and with or through such brokers or counterparties as it thinks fit. The Manager will act with good faith and due diligence in its choice and use of brokers and counterparties.



**Manager**

Legal & General (Unit Trust Managers) Limited  
Registered in England No. 1009418  
Registered Office until 30 September 2007  
Temple Court, 11 Queen Victoria Street  
London EC4N 4TP  
Telephone: 020 7528 6200  
With effect from 1 October 2007 the registered office will be  
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London EC2R 5AA  
Authorised and regulated by the Financial Services Authority

**Directors of the Manager**

CRR Avery (appointed 10 August 2006)  
JM Bury (resigned 5 December 2006)  
S Cartlidge  
MW Dedman (resigned 30 April 2007)  
GTA Newitt (appointed 1 November 2006)  
M Pengilly  
SR Pistell  
JB Pollock (resigned 10 August 2006)  
C Rees  
CM Radford (appointed 15 January 2007)  
RP Sewell

**Overall governance**

Department for Constitutional Affairs

**Auditor**

Comptroller & Auditor General  
National Audit Office  
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Victoria  
London SW1W 9SP

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**Prepared and issued by**

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11 Queen Victoria Street  
London EC4N 4TP  
Authorised and regulated by the Financial Services Authority

The members of the Strategic Investment Board are

**Chairman**

Dr Colin Price (retired 31 December 2006)

Mr David Thompson (acted as interim from 1 January 2007 until the new chairman (Mr Alan Clifton) was appointed on 1 April 2007.

**Appointed members**

Dr Ros Altmann  
Mr Alan Clifton  
Mr Andrew Hutton  
Mr Laurence O'Mara  
Professor Janette Rutterford (retired 31 December 2006)

**Ex Officio members**

Mr Richard Brook (appointed 6 February 2006)  
Mr Nick Crew  
Mr Rab Harley (resigned 16 May 2006)  
Master Denzil Lush  
Mr Laurence Oates (resigned 30 October 2006)  
Mr Alistair Pitblado (appointed 30 January 2007)  
Mr David Thompson (appointed 1 August 2006)

**Secretary**

Mr Alan Palmer

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