



HM Courts &
Tribunals Service

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Trust Statement 2012–13



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Her Majesty's Courts & Tribunals Service is an Executive Agency of the Ministry of Justice.

Trust Statement presented to the House of Commons pursuant to section 7 of the Government Resources and Accounts Act 2000.

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Accounting Officer's Foreword to the Trust Statement

This Trust Statement reflects the collective efforts of a number of Agencies that work together to collect and enforce payments due from offenders relating to fines, confiscation orders and other financial penalties imposed by the courts and police forces.

I am pleased to report that collectively, we have continued the year-on-year improvement in the levels of collection. During 2012–13 courts imposed fines totalling £194m and collected £158m in fine receipts. Courts also imposed confiscation orders of £344m. Confiscation orders are one of the key mechanisms available to the Government to deprive criminals of the proceeds of their crimes. The value of the order is based on the criminal benefit attributed to the crime, and may therefore exceed the value of the assets that are known to the Court at the time of imposition. In addition to confiscating the proceeds of crime and depriving the criminal of their assets, a confiscation order aims to disrupt and deter criminality, reduce harm caused to communities and reassure the public that crime does not pay.

We do everything in our power to trace criminals and their money, including taking deductions from offenders' benefits or earnings, seizing property and working with authorities abroad to track criminals who have left the country. We are using ever more sophisticated means to combat offenders who can go to extraordinary lengths to conceal their assets.

Overall, we saw an increase in the amount of money collected with offenders paying more than £132m in Confiscation Order collections during 2012–13. We also collected £11m in respect of victim surcharge which is used to fund services to support victims and witnesses of crime.

Last year the Comptroller and Auditor General's report and opinion highlighted the difficulties in extracting financial information required by the Trust Statement from the main case management systems. Given the nature of these systems, challenges will continue to be presented in the extraction of financial reporting information. However, significant improvements have been made and acknowledged in this regard.

Each of the agencies involved has plans and strategies in place to further improve the rate of collection. My own organisation is in the process of appointing a commercial partner to take responsibility for collecting court fines, fixed penalties and the primarily low value confiscation orders for which HM Courts & Tribunals Service has responsibility. This will provide much needed investment in technology and market leading expertise to improve the rate of collection. We also support the recommendations in the NAO's recent review into confiscation orders and agree that clearer accountabilities and even

closer joint working between partner agencies can only benefit the system to ensure even more offenders pay what they owe.

Peter Handcock
Accounting Officer and Chief Executive
HM Courts & Tribunals Service

Introduction to the Trust Statement

Introduction

A Trust Statement provides an account of the collection of revenues which by statute or convention are due to the Consolidated Fund¹ where the entity undertaking the collection acts as agent rather than principal. The legislative requirement for the HM Courts & Tribunals Service Trust Statement is set out in section 7 of the Government Resources and Accounts Act 2000.

HM Courts & Tribunals Service acts as an agent responsible for collecting financial penalties imposed by the judiciary and the police. These impositions comprise court fines, prosecutors' costs, compensation to victims, fixed penalty notices, confiscation orders and victim surcharge.

The Trust Statement records income and expenditure relating to these impositions, the third party bodies to which the funds are disbursed and the year-end balance owed to the Consolidated Fund.

The Trust Statement accounts do not include the costs of running HM Courts & Tribunals Service. These are reported separately in the HM Courts & Tribunals Service Annual Report & Accounts 2012–13 (HC 239) which also sets out the general direction and priorities for the agency, details of its management and the Chief Executive's report.

Scope

HM Courts & Tribunals Service collects the following types of financial imposition as described below:

Fines, prosecutors' costs and compensation orders – These items are imposed by both magistrates' and Crown courts but are enforced by magistrates' courts. Fines monies collected by HM Courts & Tribunals Service are surrendered to the Consolidated Fund after costs of enforcement and collection are retained by the MoJ under specified fine incentive schemes. Prosecutors' costs and compensation order monies are passed by HM Courts & Tribunals Service to either Crown or private prosecutors and the victims of the crimes committed respectively.

Confiscation Orders – Confiscation orders are imposed by the Crown Court under the Proceeds of Crime Act 2002. The majority of Confiscation Orders (60% by value) are enforced by agencies other than HM Courts & Tribunals

¹ The Consolidated Fund is the central account administered by HM Treasury which receives government revenues and makes issues to fund expenditure by Government Departments.

Service. These agencies include the Crown Prosecution Service (CPS), Serious Fraud Office (SFO), Department for Work and Pensions and local authorities. The composition of confiscation orders is characterised by a small volume of high value orders and a larger volume of low value orders. Confiscation order receipts are surrendered to the Home Office, with a portion subsequently returned to HM Courts & Tribunals Service under the Asset Recovery Incentive Scheme.

Fixed Penalty Notices – Penalty Notices are imposed by the police and include both Fixed Penalty Notices (FPNs) for traffic rule violations and Anti-Social Behaviour Orders (ASBOs). Notices that remain unpaid after 28 days are converted into fines and enforced as detailed above. Receipts of Penalty Notices and the associated fines are surrendered to the HM Treasury Consolidated Fund.

Victim Surcharge – An additional surcharge is added to fines that are imposed and are enforced as detailed above. The receipts obtained from the collection of these monies by HM Courts & Tribunals Service are passed to the Justice Reform Directorate of the MoJ to fund victims' services.

The HM Courts & Tribunals Service Trust Statement reflects expenditure for the write off of fines and impairment of outstanding fines and confiscation orders. With the agreement of HM Treasury the MoJ is permitted to retain an element of fines collected as income through two netting-off schemes and a fine incentive scheme. The Warrant Enforcement netting off scheme permits MoJ to retain revenue equal to the Pre Courts Act 2003 cost of enforcing and collecting fines whilst the Courts Act national roll-out netting off scheme permits the retention of an amount equal to the employment costs of the court officers appointed in compliance with the Courts Act 2003. The Fine Incentive Scheme permits MoJ to retain an amount of fines collected equating to 75% of fine receipts in excess of receipts attributable to a 75% payment rate, a measure of fine collection rates, up to maximum of £20m.

Receipts of confiscation orders, prosecution costs and compensation orders are remitted to appropriate third parties, including government departments and the victims of crime. These remittances are reflected through the disbursements disclosed in the Statement of Revenue and Expenditure.

The Trust Statement reflects the complex interdependencies between HM Courts & Tribunals Service and a number of other departments and agencies involved in the enforcement process including the Home Office (HO), CPS and SFO.

Business overview

Financial performance

Impositions revenue

Total imposition revenue increased from £459m in 2011–12 to £781m in 2012–13, an increase of £322m. This was driven by an increase in Confiscation Order revenues of £285m. The increase in Confiscation Order revenues is caused by two factors. Firstly, a higher volume of high value orders were issued in 2012–13 compared to 2011–12. Secondly, legal cancellations of Confiscation Orders were significantly higher in 2011–12 (£242m compared to £37m in 2012–13) which has had the effect of depressing net Confiscation Order revenue in 2011–12.

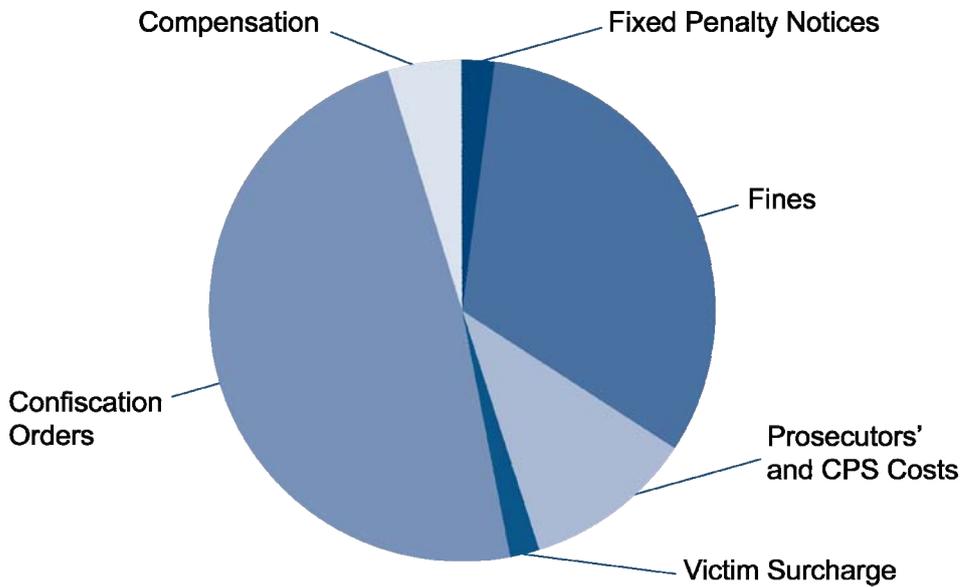
Imposition revenue relating to Court Fines has increased by £14m and revenue relating to FPNs has increased by £9m. Victim Surcharge has increased in 2012–13 to £14m from £11m in 2011–12 as a result of an increase in Victim Surcharge rates imposed from 1 October 2012.

Disbursements and expenditure

Total disbursements have increased by £154m from £231m in 2011–12 to £385m in 2012–13. The most significant increase in disbursements relates to Confiscation Orders which have increased by £140m from £24m in 2011–12 to £164m in 2012–13 due to the increase in Confiscation Order revenue recorded during the year.

Total expenditure has increased by £120m as a result of the introduction of a revised impairment model relating to outstanding impositions. A review of the underlying processes and assumptions used to calculate the value of outstanding impositions which management assess to be recoverable has been completed. The objective of the review was to ensure underlying economic conditions and previous payment patterns relating to outstanding impositions were used. Following the review, a revised impairment model has been developed resulting in an increase in the value of outstanding impositions which management believe are not recoverable of £71m as at 2011–12. The value of outstanding impositions which have been fully written off has increased by £7m from £65m in 2011–12 to £72m in 2012–13.

Each class of outstanding financial imposition, or debt, has been separately assessed to calculate the appropriate level of impairment required to reflect the value of debt which is assessed as recoverable. The total value of debt estimated to be recoverable as at 31 March 2013 is £320m (2011–12: £274m). This comprises:



Confiscation Orders

The gross value of Confiscation Order debt as at 31 March 2013 is £1,407m and has been impaired for accounting purposes to a net present value of £177m. In practice the recoverability of debt is influenced by a significant number of factors including outstanding Confiscation Orders which are assessed as unlikely to be enforced. These include, but are not limited to:

	2012–13	2011–12
	£000	£000
Interest	338,615	277,769
Assets are assessed as hidden and there are no other assets against which enforcement action can be taken.	136,395	110,454
Offenders are deceased, deported or cannot be located	109,257	103,405
Orders are subject to appeal and cannot be enforced	83,919	23,798
Assets are overseas	8,128	5,276
Sub-total	676,314	520,702
Other Confiscation Orders	730,324	674,466
Total outstanding debt	1,406,638	1,195,168

In addition to the values shown in the above table there are confiscation orders included in the “other confiscation orders” category where a proportion of the assets are considered to be hidden or overseas. As a result, the full value of confiscation orders in this category is unlikely to be fully enforceable.

Further analysis of Confiscation Order debt by value and lead enforcement agency is provided in note 4 to the Trust Statement.

The overall impact is that net revenue due to the Consolidated Fund during 2012–13 was £162m, an increase of £48m compared to 2011–12.

Future developments and initiatives

Data sharing legislation

Legislation was secured as part of the Crime and Courts Act 2013 which allows HM Courts & Tribunals Service to obtain data from HM Revenue & Customs (HMRC) and DWP to be used for the purposes of setting fines and enforcing outstanding amounts. This builds on current arrangements with DWP where data can only be obtained only after the offender has defaulted on their payment and will enable HM Courts & Tribunals Service to utilise the data held by DWP and HMRC on individuals at the sentencing stage. This allows fines to be set at a level which is realistic for the offender's income level. In addition access to data held by HMRC will help to increase the use of the attachment of earnings enforcement sanction. The provisions have been enacted from 11th December 2013 and options of how to access and use the data are being considered.

Account analysis and review

As a result of information gathered last year for the Cross Government Debt programme HM Courts & Tribunals Service has worked with the Analytical Services Team in the Ministry of Justice (MoJ) to develop a national database of all live fine accounts from the Libra system. Each month a snapshot of the data across all of the Libra databases is downloaded enabling analysts to build up a picture of the volume of accounts at each stage of the enforcement process, when the last enforcement action was taken and what the most common enforcement pathways are.

This work has highlighted that certain accounts should be reviewed manually and areas within the enforcement service have been tasked with reviewing specific accounts to ensure they are being effectively enforced. This process will become an ongoing element of the current business transformation work. In addition, a further download is being developed which will provide details of all accounts paid and cancelled within a month which will enable the analysts to develop a propensity-to-pay model using all of the data that is available from the accounts.

Direct debit payments

HM Courts & Tribunals Service has been working to roll out the use of direct debit payments across all areas. Direct debit payments enable offenders who are ordered to make instalment payments to set these up as regular payments without them having to remember to make the payment each month and are easier for the enforcement staff to administer than standing orders.

Civil Enforcement for confiscation orders

A central Civil Enforcement Team (CET) was set up during 2011–12. Local Regional Confiscation Units (RCU) will soon take the responsibility for making applications to the County Court to apply for a charging order against the Defendant's property. The charging order secures the debt, but still allows the house to be sold. There have been numerous examples of defendants realising assets and spending the money without satisfying the confiscation order. By using a charging order HM Courts & Tribunals Service can ensure that if the property is sold, the proceeds are applied to the confiscation order thereby reducing or removing the period in default.

The Proceeds of Crime Act (POCA) 2002 amends s87 of the Magistrates' Courts Act and makes civil enforcement of a confiscation order recoverable by the designated officer of the magistrates' court. As a result HM Courts & Tribunals Service can use this enforcement tool in appropriate cases even where other enforcement action is being taken or enforcement has been adjourned to allow a house sale to take place. This action can also be taken if a property has been transferred to a third party.

HM Courts & Tribunals Service has instructed Treasury Solicitors to act in contested charging order applications or in cases where the application is transferred to the defendant's local court. They will also be instructed to act should an application for an order for sale be made.

The future delivery of enforcement services

To build on improvements made in recent years in the collection of criminal financial penalties, HM Courts & Tribunals Service is actively looking to work with an external provider for the future delivery of compliance and enforcement services. This will bring the commercial experience, innovation and investment in technology that HM Courts & Tribunals Service needs to further improve performance and efficiency.

The commercial process to seek an external provider for compliance & enforcement services formally commenced in July 2013.

Basis for the Preparation of the Trust Statement

The HM Treasury accounts direction, issued under Section 7(2) of the Government Resources and Accounts Act 2000, requires HM Courts & Tribunals Service to prepare the Trust Statement to give a true and fair view of the state of affairs relating to the collection and allocations of fines, penalties, costs awarded by the courts, compensation and confiscation orders ordered by the courts and the revenue income and expenditure and cash flows for the financial year. Regard shall be made to all relevant accounting and disclosure requirements given in *Managing Public Money* and other guidance issued by HM Treasury and the principles underlying International Financial Reporting Standards (IFRS).

HM Courts & Tribunals Service has worked closely with HM Treasury to ensure that the accounting policies that underpin these accounts are comprehensive, appropriate, and supported to a sufficient level of detail by reports from the business systems.

Selection of Appropriate Accounting Policies for the Trust Statement and Use of Judgements and Estimates

As Accounting Officer, it is my responsibility to apply suitable accounting policies in the preparation of the Trust Statement. The underlying approach to accruals measurement is that revenues from fines and penalties are deemed to accrue at the point at which the imposition is imposed. Revenues are recognised in the period in which the event that generates the revenue occurs.

We have used estimates to calculate the impairment of the outstanding debt balance. In preparing our estimates we have to take account of areas of uncertainty around those factors which determine future revenue flows. We therefore have to make judgments concerning some of these factors and we have procedures in place to do this. These calculations have been undertaken for each income stream and take into account previously set impairment thresholds and historical collections data. In addition, items with a value in excess of £7 million have been assessed on an individual basis. However, because of the areas of uncertainty involved, there will inevitably be differences between our forecasts and future outturns. These differences arise because of the need to make judgments on areas of uncertainty and are not considered to be indicative of deficiencies in our procedures.

Auditors

The Trust Statement is audited by the Comptroller and Auditor General under Section 7(4) of the Government Resources and Accounting Act 2000. The C&AG's fee for the audit of the 2012–13 Trust Statement was £130,000 (2011–12 £100,000). This is charged on a notional basis and recognised in the resource accounts of the MoJ. No non-audit work was carried out by the auditors for HM Courts & Tribunals Service.

Peter Handcock
Accounting Officer

16 December 2013

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed HM Courts & Tribunal Service to prepare for each financial year a Trust Statement detailing the impositions revenue collected by the department as an agent for others, in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the HM Courts & Tribunals Service Trust Statement and of its revenue and expenditure, financial position and cash flows for the financial year.

In preparing the statement, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the statement; and
- prepare the statements on a going concern basis.

HM Treasury has appointed the Permanent Secretary of MoJ as Principal Accounting Officer of the Department. Peter Handcock as Chief Executive of HM Courts & Tribunals Service holds the role of Accounting Officer for the purposes of the Trust Statement.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding HM Courts & Tribunals Services' assets, are set out in *Managing Public Money* published by HM Treasury.

Governance Statement 2012–13

1. Introduction

This Governance Statement is provided in my role as Accounting Officer for HM Courts & Tribunals Service.

HM Courts & Tribunals Service is an agency of the MoJ whose key aim is to run an efficient and effective courts and tribunals system which enables the rule of law to be upheld and provides access to justice for all.

As Accounting Officer, I have established a governance framework and management structure to support me in the management of our key risks. I am satisfied that I have the necessary systems and processes in place to maintain an effective system of internal control which supports the achievement of policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally accountable. This statement describes the control framework in place over the recording and collection of financial impositions, including the penalties imposed by the police service and also the onward remitting of these collections to the relevant parties and ultimately the Consolidated Fund. The HM Courts & Tribunals Service Annual Report and Accounts for 2012 –13 (HC 239) provides a more detailed explanation of the wider control framework operated by HM Courts & Tribunals Service.

HM Courts & Tribunals Service operates in accordance with its published Framework Document, which sets out the basis of an operating partnership between the Lord Chancellor (Secretary of State for Justice) and the Lord Chief Justice. As Chief Executive I am responsible to both, for the day-to-day operations and administration of the agency and leadership of its staff. As Chief Executive and Accounting Officer I am also accountable to the MoJ Permanent Secretary and ultimately to Parliament.

During the course of this year we have had a number of risks and control issues to manage and these are reported on throughout this statement; including the risk and control framework that has enabled us to deal with them effectively.

2. Governance Framework and Management Structure

Significant aspects of the management structure and framework are detailed below. To ensure continual effectiveness, self-assessment reviews were carried out during February and March 2013 for the key Boards and committees detailed below. These reviews followed the light touch reviews undertaken during 2011–12.

The results of the reviews were found to be largely positive and good progress has been made against actions identified during 2011–12. Further actions to ensure ongoing and continued effectiveness have been identified for implementation during 2013–14. Further detail on the results and ongoing progress can be found in the HM Courts & Tribunals Service Annual Report and Accounts for 2012–13 (HC 239)

HM Courts & Tribunals Service Board – the Board provides a vital role in shaping and directing the organisation ensuring we are equipped to deliver high quality and cost effective services to court and tribunal users. It provides leadership on the broad direction for the organisation in delivering the aims and objectives agreed by the Lord Chancellor and the Lord Chief Justice. The Board has overall responsibility for Corporate Governance within HM Courts & Tribunals Service.

The Board operates within the parameters of the Framework Document and the agreed Terms of Reference. Both of these documents are published on the organisation's intranet.

There are two formal sub-Committees to the Board which are involved in the oversight and monitoring of the Trust Statement which are:

The Audit Committee – the Audit Committee is an advisory body which supports the Chief Executive in his role as Accounting Officer, and the Board in their responsibilities for risk management, control and governance. The Committee reviews the comprehensiveness of assurances from internal and external audit, executive management and other sources, and reviews the reliability and integrity of those assurances. The Chair of the Committee provides a report highlighting and escalating issues to the Board after each quarterly meeting.

The Change and Modernisation sub-Committee – the Committee has overall responsibility for developing and promoting change to deliver the strategic objectives for the organisation on behalf of the Board, supporting the Board in its delivery of the agency strategy, policies and services.

Full details of the membership and attendance records of the Board and its sub-Committees are shown in tables one to three in the Appendix.

The following form part of the wider HM Courts & Tribunals Service management structure including the management structure within the enforcement function.

The HM Courts & Tribunals Service Senior Management Team (SMT) – the Chief Executive and his lead Directors of all functions make up the SMT. The team meet weekly to review performance across the organisation and deal with all other business that may arise. SMT is also responsible for reviewing the corporate risk register on an alternate monthly basis.

Governance Working Group – an internal group, comprising senior operational and policy staff, established to oversee the development of a proportionate assurance framework for the new organisation. The key aim of the group is to ensure that appropriate and proportionate assurance controls are in place to deal effectively with risk. A key activity for the group this year has been oversight of the development and implementation of the new operational assurance Standard Operating Control Self Assessment tool, which is described in more detail later.

Trust Statement Management Board – The Trust Statement Management Board co-ordinates the preparation of the Annual Trust Statement. Membership is drawn from across the HM Courts & Tribunals Service incorporating all areas impacted by the Trust Statement including finance, IT, enforcement, governance, audit and performance.

Enforcement Senior Management Team (SMT) meets monthly to review the performance and effectiveness of the Enforcement function.

The Cross Government Debt Programme Board – chaired by the Efficiency and Reform Team in the Cabinet Office have worked with key departments including HMRC, DWP and HM Courts & Tribunals Service to develop a 5 year strategy of what Government operating model and systems changes will be needed by 2018 in order to meet the ambitious proposals to reduce fraud, error and debt across all Government departments.

HM Courts & Tribunals Service PentiP Project Board – the remit of this board is to implement the new IT system (PentiP) which is used to record fixed penalty notices issued by the police. The project board has overseen the rollout of PentiP across HM Courts & Tribunals Service Fixed Penalty Offices. The Home Office retains overall responsibility for the PentiP system.

Corporate Governance in Central Government Departments – Code of Good Practice

During this reporting year the “Corporate Governance in Central Government Departments – Code of Good Practice” was published through HM Treasury. The code applies directly to the MoJ. HM Courts & Tribunals Service has adopted key principles as best practice where appropriate. A review of the code this year has identified that we are compliant with key principles that are relevant to the Trust Statement.

Ministerial Directions

There have been no ministerial directions relating to the Trust Statement.

3. Risk Management

Risk Management systems are in place to identify, assess and prioritise risk efficiently and effectively and to ensure risk is managed to an acceptable level.

The risk policy, encompassing Regional, Directorate and Corporate level risks enables risk to be managed at the appropriate level and escalating where necessary.

Risks are reviewed regularly by the senior executive team and the Board, to ensure that management plans are effective. The most significant risks are escalated to the MoJ Corporate Risk Register. Risks to the successful completion of the Trust Statement were identified and reviewed regularly by the Trust Statement Management Board.

As a result, I am content that risks have been managed and mitigated through effective actions.

Data Security

There has been one significant data incident relevant to the Trust Statement. A breach occurred relating to PentiP after failings led to the integrity of a number of cases being affected and duplicate fines and notices being issued. The Home Office and HM Courts & Tribunals Service voluntarily reported the incident to the Information Commissioner who has decided to take no further action. Additional measures have now been put in place in conjunction with the Home Office to tighten procedures and reduce the likelihood of recurrence.

PentiP Enforcement System – the implementation of PentiP to Fixed Penalty Offices has been affected by some performance and reliability issues which resulted in processing backlogs at HM Courts & Tribunals Service sites. The issues also led to delays in the reconciliation process and a small, quantified number of variances have not been fully reconciled. As a result, the NAO were not able to complete their audit on fixed penalty notice transactions and balances and the Comptroller and Auditor General's report reflects the issues encountered.

Technical improvements have been implemented and significant work continues to resolve reconciliation differences and to develop more detailed reporting to improve the accuracy of data reported in the Trust Statement.

There continues to be a robust control framework in place around these systems to ensure that they are fit for operational purpose in terms of the recording and monitoring of impositions. This control framework has been in place throughout 2012–13.

Key features of this control framework are:

- Segregation of duties and system access rights;
- Monthly and quarterly verification and checking of all system control totals including receipts, payments, outstanding impositions and monies held for third parties;
- Monthly returns to the central finance team, Liberata (the case processing team) and the Crown Prosecution Service (CPS). Standard templates and Finance Guidance Letter (FGL) ensure consistency of format and review and timeliness of preparation;
- Verification of cash balances through completion of daily, monthly and quarterly bank reconciliations at individual accounting centres;
- Changes to defendant records are monitored on a regular basis to ensure that they are fully supported by documentary evidence and approved by an appropriate officer;
- All cases that are presented in court are entered onto the Libra system prior to the case being heard mitigating the risk of cases not being recorded on the Libra system. Following the conclusion of each case the record must undergo a process of being 'resulted' in Libra to record the penalty imposed. All un-resulted records are monitored to mitigate the risk of any fines not being recorded on the system;

Resulting processes – we reported last year that a member of staff at a magistrate's court was found guilty of offences under the Bribery Act after manipulating the recording of traffic offences for personal gain. After a thorough internal investigation new mandatory controls were implemented to address potential weaknesses in internal systems. The police investigation is ongoing.

An unrelated case with similar circumstances is also subject to legal proceedings.

Unenforced accounts – following a review of unenforced accounts a population of unenforced accounts where limited enforcement activity had occurred for an unacceptable length of time was identified. This has been addressed by setting up teams of enforcement staff to work through the relevant accounts and cleanse the database.

4. Oversight and Assurance

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of my executive managers who have responsibility for the development and maintenance and reporting of the internal control framework, together with observations made by the external auditors in their management letters and other reports.

The Board are updated on the risk profile and effectiveness of the systems of internal control through the receipt of minutes from the Audit Committee, through a review of the HM Courts & Tribunals Service performance reports and through direct feedback from the Chair of the Audit Committee. Specifically in relation to the Trust Statement the Board have been provided with an improved level of data for this year's statement which supports the improvements noted in the report of the C&AG.

Other key process designed to provide assurance include:

Director level Quarterly and Annual Governance Statements – all Central and Regional Directors submit quarterly statements, which include control issues raised by directorate and regional management teams, and escalated and reviewed by Senior Management Teams. These statements include reporting on sources of internal control and this in turn provides assurance of managements' compliance with operational policies, procedures and established key controls. The process has been enhanced this year with the development of a refined annual statement providing closer alignment to the corporate level statement and providing an opportunity to ensure issues are appropriately escalated.

Standard Operating Controls (SOC) Self Assessment Tool – during this reporting year HM Courts & Tribunals Service has rolled out a new operational assurance reporting tool to all its courts, tribunals and operational units including enforcement teams. The SOC is an assurance tool designed to report the level of compliance with mandatory controls set out in Standard Operating Procedures (SOPs) in place at operational level.

As part of our approach to continuous improvement, we are acting on feedback that there are too many SOPs and that the essential controls are not always highlighted for staff. Work has already commenced on improving the design and implementation of SOPs to ensure they support and meet the needs of staff and customers and clearly identify those processes that carry the highest risk and are crucial to the delivery of our key objectives. This work has continued into the new reporting year.

In the interim period the SOC tool itself is still being embedded. Staff and managers are being supported and receiving ongoing guidance and training to ensure the tool is fully understood and effective in providing the organisation with operational assurance. The tool has been further enhanced by the development and implementation of a database which will provide managers

with reports on assurance activity and identifying control weaknesses, risks and trends.

National Audit Office – Value for money reviews

The National Audit Office (NAO) has completed a value for money assessment of the management and enforcement of confiscation orders. The study focussed on the leadership and governance of confiscation orders and the efficiency and effectiveness of the process.

The key findings from the study reinforce the importance of the work which is being undertaken to invest in our ICT systems and to develop effective performance and payment mechanisms through the future delivery of enforcement services by an external partner.

We recognise the importance of the Trust Statement as the only formal financial reporting mechanism for confiscation order impositions, collections and debts. We have worked with other partner agencies involved in the confiscation order process to improve transparency by disclosing their contributions to the enforcement of confiscation orders in this Trust Statement.

HM Courts & Tribunals Service recognises the importance of developing a coherent cross government strategy for confiscation orders and to develop more effective governance arrangements. HM Courts & Tribunals Service will assess the actions required to address the recommendations made by the NAO.

Fixed Penalty Notices – Inter-agency accountability

As Accounting Officer for HM Courts & Tribunals Service I am responsible under the Road Traffic Offenders Act 1988 for the collection of Penalty Notices and for their subsequent remittance to the Consolidated Fund.

I maintain effective systems of control in the Fixed Penalty offices which operate as part of my organisation. However, the end-to-end system of controls and reporting for Fixed Penalties stretches outside of HM Courts & Tribunals Service, and into areas for which I have no responsibility. For example roadside penalties are issued and registered by front line police operating within 43 different constabularies.

We have held discussions with those responsible for reviewing controls which operate outside of HM Courts & Tribunals Service but I have made no assessment of their effectiveness in this statement.

Audit Committee

The Audit Committee oversees the adequacy and effectiveness of the risk management processes and the system of internal control for the organisation. The Committee regularly reviewed the corporate risk register and the production of the Trust Statement. The Audit Committee Chair has free and confidential access to the MoJ Audit Committee Chair, the Internal Audit and Assurance Division and the external auditors as required.

HM Courts & Tribunals Service Banking and Cash Processing Arrangements

Following the external audit of the HM Courts & Tribunals Service 2011–12 Annual Report and Accounts the NAO made a recommendation to streamline the HM Courts & Tribunals Service banking and cash processing arrangements in order to further improve the level of control.

During 2012–13 work has been completed to implement changes to the cash processing arrangements to ensure the separability of the cash flows relating to the Trust Statement from those of the Agency and create a system which accounts for the end-to-end movement of cash relating to the Trust Statement.

Internal Audit

I agreed a programme of Internal Audit reviews with the MoJ Head of Internal Audit. The Audit programme was based on a joint assessment of the HM Courts & Tribunals Service Risk Register. The Head of Internal Audit's overall opinion for 2012–13 is 'reasonable assurance'. This represents an improvement on the opinion provided last year. The majority of internal audit reports issued in the last year have been rated Green or Amber/Green as a result of an improvement in controls. There have still been some areas of weakness identified in 2012–13, notably in relation to the 'resulting' systems in the courts and collection of court fees and fines arising through fixed penalties, but these are isolated to specific systems and processes, and when taken in aggregate they are not pervasive to the system of internal control as a whole

I have made no assessment of the effectiveness of controls over fixed penalty recording that operate outside of HM Courts & Tribunals Service.

Peter Handcock CBE
Chief Executive and Accounting Officer

Attendance at HM Courts & Tribunals Service Board and Committees

Table 1: – HM Courts & Tribunals Service Board

Members	No. meetings attended out of a possible 10
Robert Ayling – Independent Chairman	10
Francis Dobbyn – Non Executive Member	8
Alison White – Non Executive Member	9
Lord Justice Carnwath – Senior President of Tribunals (until 16/04/12)	0
Phillip Sycamore – Interim Senior President of Tribunals (from 17/04/12 to 24/06/12)	2
Lord Justice Sullivan – Senior President of Tribunals from 25/06/12)	7
Lord Justice Goldring – Senior Presiding Judge (until 31/12/12)	6
Lord Justice Gross – Senior Presiding Judge (from 01/01/13)	2
District Judge Michael Walker – Judicial Member	10
Peter Handcock – Chief Executive	10
Steve Gillespie – Director of Finance and Governance	10
Shaun McNally – Director of Crime (until 19/10/12)	3
Chris Jennings – Covering Director of Crime (from 22/10/12 to 31/12/12)	3
Guy Tompkins – Director of Crime (from 01/01/13)	2
Kevin Sadler – Director of Civil, Family and Tribunals	10

Other members of the SMT attend the Board regularly as the business agenda dictates. External Auditors have also attended to observe governance in practice.

Table 2: HM Courts & Tribunals Service Change and Modernisation Sub Committee

Members	No. meetings attended out of a possible 11
Director of Strategy and Change – Chair	10
Deputy Director of Strategy and Change	8
Director of Finance and Governance	9
HR Director	9
IT Director	9
District Judge – Judicial Representative – Courts	10

	No. meetings attended out of a possible 11
Members	
Judicial Representative – Tribunals	10
Director of Civil, Family and Tribunals (or representative)	11
Delivery Director for the South East	8
Deputy Director of Crime (or representative)	8
Alison White – Non Executive Member	9
Project Office Management representative	10

Other members of executive management attend as required.

Table 3: HM Courts & Tribunals Service Audit Committee

	No. meetings attended out of a possible 5
Members	
Francis Dobbyn – Non Executive – Chair	5
Alison White – Non Executive Member	4
District Judge Michael Walker – Judicial Member	5
Judge Nick Warren – Judicial Committee Member (from 25/04/12)	4
Regular Attendees	
Peter Handcock – Chief Executive	4
Steve Gillespie – Finance Director	5
Penny Seera – Head of Financial Accounts	5
Gary Spooner – Head of Operational Assurance and Compliance	3
Joyce Drummond Hill – Head of Internal Audit and Assurance (or representative)	4
Tim Watkinson – Head of MoJ Internal Audit and Assurance (from 26/11/12)	5
National Audit Office	5

The Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the Trust Statement of HM Courts & Tribunals Service for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the HM Courts & Tribunals Service Trust Statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by HM Courts & Tribunals Service; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the sections entitled "Foreword", "Introduction" and "Business Overview" to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Basis for qualified opinion on financial statements

With respect to fixed penalties transactions and balances, the audit evidence available to me was limited because HM Courts & Tribunals Service could not provide accruals based records for the majority of transactions, and because key reconciliations had not been performed in time for my audit.

Separately, evidence over prior period cash flows was limited because of deficiencies in HM Courts & Tribunals Service's banking and accounting processes in 2011–12. This means that I do not have assurance that any comparison between the cash flows for 2011-12 and 2012-13 would be valid. I have obtained sufficient appropriate evidence in respect of 2012–13 cash flows.

Qualified opinion on financial statements

In my opinion, except for the possible effects of the matters described in the *Basis for qualified opinion paragraph*:

- the HM Courts & Tribunals Service Trust Statement gives a true and fair view of the state of affairs of the collection and settlement of fines, penalties, and related expenditures and disbursements administered by HM Courts & Tribunals Service as at 31 March 2013, and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the section entitled "Business Overview" for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect solely of the issues described in the *Basis for qualified opinion paragraph*:

- I have not received all of the information and explanations I require for my audit; and
- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff.

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

- the financial statements are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

My report, which follows, provides further detail on my audit opinions.

Amyas C E Morse

Comptroller and Auditor General

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

16 December 2013

Report of the Comptroller and Auditor General to the House of Commons on the HM Courts & Tribunals Service Trust Statement for the year ended 31 March 2013

Introduction

1. HM Courts & Tribunals Service, an Executive Agency of the Ministry of Justice, is responsible for the collection of fines and confiscation orders (imposed by the judiciary in magistrates' and Crown courts) and penalties (imposed by the police). On receipt, HM Courts & Tribunals Service remits monies to other relevant parties including victims of crime, the Home Office, the Ministry of Justice, and for any remaining balance, to the Consolidated Fund.² The Trust Statement accounts for these activities.
2. I was unable to form an opinion on the financial statements for 2011–12 because HM Courts & Tribunals Service was not able to produce the records to support significant areas of the accounts; receivables, cash and fixed penalties. The supporting IT systems, which are case management systems, were not designed for financial reporting.
3. HM Courts & Tribunals Service has made good progress in addressing these issues, leading to significant improvements in the quality of financial reporting for 2012–13. This improvement is also reflected in my audit opinion.
4. My opinion is, however, modified in two specific areas, which reflect the transitional nature of improvements to systems and reporting. I explain my audit opinions below. The rest of my report outlines the improvements made by HM Courts & Tribunals Service in the significant areas set out in my 2011–12 report,³ and summarises other challenges for HM Courts & Tribunals Service to improve performance further.

² The Consolidated Fund is the central account administered by HM Treasury which receives government revenues and makes issues to fund expenditure by Departments.

³ Report of the C&AG on the 2011–12 Trust Statement, available at <http://www.nao.org.uk/report/hm-courts-and-tribunals-service-trust-statement-for-the-year-ended-31-march-2012/>

Audit Opinions

Unqualified opinion on regularity

5. For 2012–13 I have gained assurance over the regularity of the income and expenditure relating to the Trust Statement. This means that in my opinion, in all material respects, the transactions relating to fines and penalties in the financial statements conform to the relevant authorities, and the intentions of Parliament.

Qualified opinion on financial statements

6. I have, for the first time, been able to give an audit opinion on the Trust Statement financial statements. My opinion is that these present a true and fair view of transactions and balances reported in the financial statements, except for the following two exceptions:
 - transactions and balances relating to *fixed penalties*; and
 - comparative figures for *cash flows relating to the prior period* (2011–12). I have, however, provided a clear opinion in respect of cash balances and cash flows for 2012–13.

Significant developments since 2011–12

7. In my report on the 2011–12 Trust Statement, I was unable to form an opinion on the financial statements due to the possible effects of significant issues affecting receivables, cash and fixed penalties. I have set out progress made against these three issues below.

Debt – assurance over the opening receivables balance

8. In 2011–12, I was not able to obtain sufficient evidence to support the opening receivables balances for fines and confiscation orders. Management have provided sufficient evidence for 2012–13 to provide assurance that the opening receivables balance is materially correct. This included both direct evidence for older debts and significant improvements to the impairment model.

Cash and cash flows

9. HM Courts & Tribunals Service has not previously been able to separately identify cash and cash flows relating to the Trust Statement from those relating to HM Courts & Tribunals Service's operating activities.
10. HM Courts & Tribunals Service has now separated cash accounts and balances relating to the Trust Statement from those relating to its operating activities. I was therefore able to obtain sufficient evidence over the cash balance at 31 March 2013.

11. I was also able to audit records of cash flows in 2012–13, and the opening cash balance at 1 April 2012. However, HM Courts & Tribunals Service was not able to provide me with sufficient evidence for cash movements before 1 April 2012. I have therefore modified my opinion in respect of the 2011–12 cash flows because I do not have assurance that any comparison between these and the cash flows for 2012–13 would be valid.
12. Since the underlying issues related to cash have been resolved and provided the current processes and controls continue to operate effectively, I do not expect to repeat this modification of my opinion in future years.

Fixed penalties

13. HM Courts & Tribunals Service's legacy fixed penalty systems were not able to produce accruals-based accounting records for 2011–12, meaning I was unable to give an opinion on the related impositions and debt balances last year.
14. These systems have remained in place for some areas throughout 2012–13, with others transferring to a new system during the year. However, the majority of fixed penalty transactions for 2012–13 were accounted for on legacy systems.
15. The new fixed penalty system, PentiP, does maintain accruals-based accounting records. HM Courts & Tribunals Service, together with the Home Office and police forces, has made significant progress with its implementation. However, a number of key reconciliations of fixed penalty cash and debtors to underlying records remain incomplete. Large backlogs arose in processing items during the first months of PentiP's operation. The problems with the implementation of PentiP and management's responses are outlined in the governance statement.
16. I have modified my opinion in respect of fixed penalties because of the possible effects of these issues with PentiP, and also because of the continued use of cash-based legacy systems during 2012–13.

Further steps planned and required by HM Courts & Tribunals Service

17. Significant progress has been made by HMCTS in addressing the issues raised in my previous report relating to debt, cash and cash flows, as outlined above.
18. HM Courts & Tribunals Service has resolved some underlying issues with PentiP's performance, and work is underway to eliminate the resulting backlog of reconciliations. Management will need to progress this work quickly in order to provide full reconciliations supporting the 2013–14 Trust Statement.
19. Further challenges remain for HM Courts & Tribunals Service and government more widely, particularly to develop a coherent strategy for

confiscation orders, improving performance data and the efficiency and effectiveness of enforcement.

Confiscation orders

20. Confiscation orders are imposed by judges to recover the proceeds of crime from offenders. They are recognised as revenue in the Trust Statement on their imposition, and unpaid amounts are recorded as debt (receivables). This debt is presented net of an impairment, which reflects HM Courts & Tribunals Service's estimate of how much debt will be recovered.
21. HM Courts & Tribunals Service has made significant improvements in the reliability of financial information in the Trust Statements, for example to estimate the impairment and assess recoverability of confiscation orders, and is reflected in my improved audit opinion. However, significant challenges remain, which are outlined in my cross government study on confiscation orders, published alongside this report.
22. As described in note 4 to the Trust Statement, HM Courts & Tribunals Service have estimated net confiscation order debt at £177 million, against total unpaid orders of £1,407 million – an impairment of 87.4%. This reflects the significant challenges faced by all enforcement agencies as a whole in enforcing confiscation orders. These challenges arise partly as a result of the inherently complex nature of confiscation orders. However, there are further actions that HM Courts & Tribunals Service and government could take to improve the outcomes from the confiscation orders process.
23. Full details of my findings and recommendations on this subject are available in my Value for Money report, *Criminal Justice System: Confiscation Orders* (HC738, Session 2013-14).

Amyas C E Morse

Comptroller and Auditor General

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

16 December 2013

Statement of Revenue and Expenditure for the year ended 31 March 2013

	Notes	2012–13 £000	Restated 2011–12 £000
Impositions Revenue			
Fines and Penalties			
Court Fines		193,897	180,056
Miscellaneous Consolidated Fund Receipts		4,214	940
Fixed Penalty Notices		94,503	85,179
Crown Prosecutors' Costs		39,298	40,801
Prosecutors' Costs		56,960	54,234
Compensation		33,855	28,162
Confiscation Orders	4.1	343,907	59,031
Victim Surcharge		14,331	10,990
Total Impositions Revenue		780,965	459,393
Less Expenditure			
Credit Losses	2	234,574	114,667
Total Expenditure		234,574	114,667
Less Disbursements			
Revenue retained under statute by Ministry of Justice towards the cost of collection and administration	3	93,500	93,500
Prosecutors' Costs Revenue for the Crown Prosecution Service		35,648	35,722
Prosecutors' Costs Revenue		46,875	39,317
Compensation Revenue for other parties		31,870	27,876
Confiscation Order Revenue		164,389	23,914
Victim Surcharge Revenue for the Ministry of Justice		12,563	10,598
Total Disbursements		384,845	230,927
Total Expenditure and Disbursements		619,419	345,594
Net Revenue for the Consolidated Fund	6	161,546	113,799

Statement of Financial Position as at 31 March 2013

	Notes	2012–13 £000	Restated 2011–12 £000
Current assets			
Receivables	4	320,495	273,773
Cash at bank – Fines & Other Impositions		68,039	65,640
Cash at bank –Fixed Penalties		16,360	9,089
Total assets		404,894	348,502
Current liabilities			
Payables	5	269,396	230,799
Total liabilities		269,396	230,799
Total net assets		135,498	117,703
Represented by:			
Balance on Consolidated Fund	6	135,498	117,703

Peter Handcock
Accounting Officer
16 December 2013

The notes on pages 33 to 52 form part of this statement.

Statement of Cash Flows for the year ended 31 March 2013

	Notes	2012–13 £000	2011–12 £000
Net cash flow from operating activities	7	153,421	159,457
Cash paid to the Consolidated Fund	6	(143,751)	(154,328)
Increase in cash in the period		9,670	5,129

Analysis of Changes in Net Funds

	2012–13 £000	2011–12 £000
Net Funds at beginning of period – 1 April	74,729	69,600
Net Funds at end of period – 31 March	84,399	74,729
Increase in cash in the period	9,670	5,129

The notes on pages 33 to 52 form part of this statement.

Notes to the Trust Statement

1. Statement of accounting policies

The Trust Statement is prepared in accordance with:

- the 2012–13 Financial Reporting Manual (FReM) issued by HM Treasury, in particular Chapter 13 which deals with Trust Statements. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as interpreted for the public sector.
- the 2012–13 accounts direction issued by HM Treasury under section 7(2) of the Government Resources and Accounts Act 2000.

The particular policies adopted in the Trust Statement are described below. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. Where policies have been changed during the year, the comparatives have been restated to reflect the effect of the change on prior periods.

1.1 Basis of Preparation

The Trust Statement has been prepared under the historical cost convention modified to account for the valuation of receivables and payables.

The preparation of the accounts in conformity with IFRS requires the use of certain critical accounting estimates (see note 1.8). It also requires management to exercise its judgement in the process of applying the accounting policies.

The income and associated expenditure recognised in these statements reflect those flows of funds which HM Courts & Tribunals Service receives and surrenders, in its capacity as agent, on behalf of the Consolidated Fund and other entities.

1.2 Revenue Recognition

Fines and penalties are measured in accordance with Financial Reporting Manual (FReM), chapter 13. They are measured at the fair value of amounts received or receivable net of judicial remissions. Revenue is recognised when a fine or penalty is validly imposed and an obligation to pay arises. Where a penalty is cancelled subsequent to appeal, other legal reasons or settlement by other valid means (including imprisonment or undertaking a training course), revenue is derecognised and the de-recognition of revenue is recorded as a reduction against revenue.

1.3 Expenditure

Credit losses (imposition write-offs and the change in the value of impairment for the year) are accounted for on an accruals basis. Debts written off as uncollectible and any change in value of impairment are shown as expenditure. Underlying legislation precludes the write-off of Confiscation Order debt and adjustments to reflect recoverability are included in the impairment.

1.4 Disbursements

Disbursements are shown net of impairments and write-offs in accordance with the requirements of the FReM and IAS 39. An accrual for disbursements is made based on the value of impositions payable to parties other than the Consolidated Fund.

The MoJ is permitted to retain an element of fines collected as income. This is shown as revenue retained under statute by the MoJ and is accounted for in the Statement of Revenue and Expenditure as a disbursement to MoJ. This treatment is required by the FReM where legislation permits retention of part of the revenue collected by the entity. The amounts retained comprise netting-off and fine incentive scheme income. There are two netting-off schemes; the Warrant Enforcement Scheme which permits the retention of an amount equal to the pre-courts act 2003 cost of enforcing and collecting fines; the Courts Act national roll-out scheme, permitting MoJ to retain an amount equal to the employment costs of the court officers appointed in compliance with the Courts Act 2003. There is only one Fine Incentive Scheme. The scheme permits MoJ to retain 75% of fine receipts in excess of the value of receipts equating to a 75% payment rate.

The associated revenue from which the amount retained under statute is derived is recorded within Court Fines imposition revenue at the gross amount of the imposition.

1.5 Net revenue for the Consolidated Fund

Net Revenue for the Consolidated Fund is the value of impositions for the year from Court Fines and Fixed Penalty Notices, net of impairment, write-offs and revenue retained under statute by the MoJ.

1.6 Receivables

Receivables are shown net of impairments in accordance with the requirements of the FReM and IAS 39. Each class of debt has been assessed separately using performance reports to provide data concerning recoverability and the length of time it takes for debt to be repaid.

The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at HM Treasury's interest rate, currently 2.2% (2011–12: 2.2%).

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on any market. Receivables are derecognised when the rights to receive cash flows from the assets have expired.

1.7 Payables

Payables are accounted for on an accruals basis. Because HM Courts & Tribunals Service is acting as agent in the collection of all financial penalties imposed, the total value of payables, excluding the amount on which cash has been received at year end, is derived from the fair value of receivables net of impairment at the balance sheet date.

1.8 Critical accounting judgments and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

When preparing the Trust Statement, HM Courts & Tribunals Service makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of debt and credit losses

Receivables are shown net of impairments in accordance with the requirements of the FReM and IAS 39. The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at HM Treasury's interest rate. The fair value of receivables is dependent on ongoing collection rates as well as the discount rate used in the valuation. The current year's impairment has been calculated based on a review of specific high value receivables combined with a collective assessment for all other debt. The collective impairment assessment is based on an analysis of past collection history projected forward to provide a payment stream which is then discounted back at the Treasury rate of 2.2% (2012: 2.2%) to calculate the net present value.

1.9 Prior period adjustments

Following a disclaimer of opinion in the 2011–12 Trust Statement based partly on the availability of evidence to support the receivables balance, there has been a review of the underlying processes and assumptions to calculate the impairment of receivables to better reflect the underlying economic conditions and historical receipt of cash from debtors. The effect of the new process is to align the accounting policy for valuing receivables with the principles of fair valuing financial instruments under IAS 39. As such, this represents a change in accounting policy for the valuation of receivables. The policy is outlined in 1.6 above.

The approach to estimating the impairment in 2012–13 has been applied and reflected in the restated 2011–12 Statement of Financial Position presented in the financial statements. The effect of the restatement is presented in note 8 to the accounts.

Additional information has come to light in respect of accruals of payables on which cash was received as at 31 March 2012. As a result, the prior period payables balance has been restated to reflect this information. The effect of the restatement is presented in note 8 to the accounts.

2. Credit Losses

	Notes	2012–13 £000	Restated 2011–12 £000
Debts written off	2.1	72,155	65,142
Increase/(decrease) for year in impairment of receivables	4	162,419	49,525
Total		234,574	114,667

2.1 Debts written off

	2012–13 £000	2011–12 £000
Court Fines	53,663	48,802
Crown Prosecutors' costs	4,153	4,451
Prosecutors' Costs	11,285	8,611
Compensation	1,448	1,842
Victim Surcharge	1,606	1,436
Total	72,155	65,142

Debts written off are the amounts reportable to Parliament under rules on disclosure of losses and write-offs in *Managing Public Money* Annex A.4.10.24. under the category of 'Claims waived or abandoned'.

3. Expenditure

Revenue retained under statute by Ministry of Justice towards the cost of collection and administration

	2012–13 £000	2011–12 £000
Warrant enforcement revenue	66,600	66,600
Fine incentive revenue	20,000	20,000
Courts Act revenue	6,900	6,900
Total	93,500	93,500

MoJ is entitled under statute to retain elements of fines collected as revenue. These costs of collection and administration are charged as expenditure in the Trust Statement.

4. Receivables

2012–13	Fines £000	Fixed Penalty Notices £000	Crown Prosecutors' Costs £000	Prosecutors' Costs £000	Compensation £000	Confiscation Orders £000	Victim Surcharge £000	Total £000
Impositions outstanding								
At 1 April 2012 as previously reported	396,766	6,059	58,704	74,713	70,249	1,195,168	10,121	1,811,780
Restatement of accruals ⁴	(8,474)	-	(1,651)	(1,664)	(1,765)	-	(244)	(13,798)
At 1 April 2012 restated	388,292	6,059	57,053	73,049	68,484	1,195,168	9,877	1,797,982
New impositions	193,897	94,224	39,298	56,960	33,855	343,907	14,331	776,472
Collections	(157,935)	(78,326)	(36,681)	(45,952)	(33,327)	(132,437)	(10,518)	(495,176)
Write-offs	(53,663)	-	(4,153)	(11,285)	(1,448)	-	(1,606)	(72,155)
At 31 March 2013	370,591	21,957	55,517	72,772	67,564	1,406,638	12,084	2,007,123
Impairment								
At 1 April 2012 as previously reported	285,168	348	42,192	53,699	50,490	1,013,647	7,274	1,452,818
Restatement ⁵	23,379	-	2,018	5,406	4,973	36,159	(544)	71,391

⁴ Post year-end transaction data is analysed in order to ascertain the value of impositions recorded after year end which relates to the period before year end. An accrual is then made for these transactions. As a result of refining the methodology to extract the data, the accrual included in the opening balances reported in the 2011–12 Trust Statement has been restated.

⁵ During the year the underlying processes and assumptions to calculate the impairment of receivables were reviewed in order to better reflect the underlying economic conditions and historical receipt of payments from debtors. The fair value of receivables is now determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at HM Treasury's interest rate, currently 2.2% (2011–12: 2.2%). As a result, the 2011–12 impairments as previously reported have been restated.

2012–13	Fines £000	Fixed Penalty Notices £000	Crown Prosecutors' Costs £000	Prosecutors' Costs £000	Compensation £000	Confiscation Orders £000	Victim Surcharge £000	Total £000
At 1 April 2012 restated	308,547	348	44,210	59,105	55,463	1,049,806	6,730	1,524,209
Increase/(decrease) for the year	(16,094)	-	(503)	(1,200)	536	179,518	162	162,419
At 31 March 2013	292,453	348	43,707	57,905	55,999	1,229,324	6,892	1,686,628
Receivables Net Book Value at 31 March 2013	78,138	21,609	11,810	14,867	11,565	177,314	5,192	320,495
Receivables Net Book Value at 31 March 2012 (Restated)	79,745	5,711	12,843	13,944	13,021	145,362	3,147	273,773

4.1 Confiscation Order Revenue

Confiscation order revenue comprises:

	2012–13 £000	Restated 2011–12 £000
Imposed	320,541	233,021
Interest	60,846	68,506
Judicial cancellations	(37,480)	(242,496)
Total	343,907	59,031

In accordance with the FReM, confiscation order revenue is measured at the fair value of amounts received or receivable net of judicial cancellations.

4.2 Confiscation Order debt – value banding by lead agency

	2012–13				2011–12			
	HMCTS	SFO	CPS	Total	HMCTS	SFO	CPS	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Gross debt								
Up to £250,000	164,542	1,446	111,078	277,066	112,618	1,455	126,169	240,242
£250,001 – £500,000	64,924	3,198	58,315	126,437	32,446	2,907	76,084	111,437
£500,001 – £1,000,000	77,812	3,338	75,856	157,006	43,853	4,238	95,030	143,121
Over £1,000,000	258,437	117,923	469,769	846,129	95,243	85,275	519,850	700,368
Total gross debt	565,715	125,905	715,018	1,406,638	284,160	93,875	817,133	1,195,168
Impairment								
Up to £250,000	136,850	1,296	92,672	230,818	98,921	1,278	110,824	211,023
£250,001 – £500,000	53,932	2,939	47,897	104,768	28,500	2,553	66,830	97,883
£500,001 – £1,000,000	70,280	3,196	64,030	137,506	38,519	3,722	83,472	125,713
Over £1,000,000	232,580	114,736	408,916	756,232	83,659	74,905	456,623	615,187
Total impairment	493,642	122,167	613,515	1,229,324	249,599	82,458	717,749	1,049,806
Net book value								
Up to £250,000	27,692	150	18,406	46,248	13,697	177	15,345	29,219
£250,001 – £500,000	10,992	259	10,418	21,669	3,946	354	9,254	13,554
£500,001 – £1,000,000	7,532	142	11,826	19,500	5,334	516	11,558	17,408
Over £1,000,000	25,857	3,187	60,853	89,897	11,584	10,370	63,227	85,181
Total net book value	72,073	3,738	101,503	177,314	34,561	11,417	99,384	145,362

The total debt is made up of 8,728 cases, of which 8,131 (93%) fall within the up to £250,000 debt category, 269 (3%) are between £250,001 – £500,000, 163 (2%) are between £500,001 – £1,000,000 and 165 (2%) are over £1,000,000.

4.3 Confiscation Order debt – aged debt profile by lead agency

	2012–13				2011–12			
	HMCTS £000	SFO £000	CPS £000	Total £000	HMCTS £000	SFO £000	CPS £000	Total £000
Gross debt								
0 – 1 year	112,768	32,093	97,491	242,352	58,914	1,201	62,060	122,175
1 – 2 years	42,346	198	50,252	92,796	36,621	27,011	177,284	240,916
2 – 5 years	169,046	29,380	266,255	464,681	72,340	52,739	232,571	357,650
Over 5 years	241,555	64,234	301,020	606,809	116,285	12,924	345,218	474,427
Total gross debt	565,715	125,905	715,018	1,406,638	284,160	93,875	817,133	1,195,168
Impairment								
0 – 1 year	65,694	31,568	59,352	156,614	40,094	784	25,913	66,791
1 – 2 years	32,795	153	38,518	71,466	28,773	21,223	139,294	189,290
2 – 5 years	155,107	29,189	222,155	406,451	65,322	47,622	210,008	322,952
Over 5 years	240,046	61,257	293,490	594,793	115,410	12,829	342,534	470,773
Total impairment	493,642	122,167	613,515	1,229,324	249,599	82,458	717,749	1,049,806
Net book value								
0 – 1 year	47,074	525	38,139	85,738	18,820	417	36,147	55,384
1 – 2 years	9,551	45	11,734	21,330	7,848	5,788	37,990	51,626
2 – 5 years	13,939	191	44,100	58,230	7,018	5,117	22,563	34,698
Over 5 years	1,509	2,977	7,530	12,016	875	95	2,684	3,654
Total net book value	72,073	3,738	101,503	177,314	34,561	11,417	99,384	145,362

The total debt is made up of 8,728 cases, of which 2,883 (33%) fall within the 0 – 1 year debt category, 1,181 (14%) are between 1 – 2 years old, 2,400 (27%) are between 2 – 5 years old and 2,264 (26%) are over 5 years old.

5. Payables

			2012–13
2012–13	On which cash received £000	On which cash receivable £000	Total £000
Home Office	28,054	177,313	205,367
Crown Prosecution Service	169	11,810	11,979
Prosecutors' costs, compensation	6,717	26,431	33,148
Victim surcharge	2,067	5,193	7,260
Other	11,642	-	11,642
Total	48,649	220,747	269,396

			Restated 2011–12
2011–12	Restated On which cash received £000	Restated On which cash receivable £000	Total £000
Home Office	27,477	145,361	172,838
Crown Prosecution Service	172	12,843	13,015
Prosecutors' costs, compensation	7,819	26,965	34,784
Victim surcharge	890	3,147	4,037
Other	6,125	-	6,125
Total	42,483	188,316	230,799

6. Balance on the Consolidated Fund Account

	2012–13 £000	Restated 2011–12 £000
Balance on the Consolidated Fund at 1 April – as previously reported	147,223	126,729
Restatement (note 8)	(29,520)	31,503
Balance on the Consolidated Fund at 1 April – restated	117,703	158,232
Net Revenue for the Consolidated Fund	161,546	113,799
Less: Amount paid to the Consolidated Fund	(143,751)	(154,328)
Balance on the Consolidated Fund at 31 March	135,498	117,703

The balance on the Consolidated Fund comprises:

2012–13	On which cash received £000	On which cash receivable £000	2012–13 Total £000
Balance on Consolidated Fund Account as at 1 April	32,246	85,457	117,703
Balance on Consolidated Fund Account as at 31 March	35,750	99,748	135,498

2011–12	On which cash received £000	Restated On which cash receivable £000	Restated 2011–12 Total £000
Balance on Consolidated Fund Account as at 1 April	34,465	123,767	158,232
Balance on Consolidated Fund Account as at 31 March	32,246	85,457	117,703

7. Notes to the Statement of Cash Flows

		2012–13	2011–12
	Notes	£000	£000
Net cash flow from operating activities is derived as follows:			
Net revenue for the Consolidated Fund	6	161,546	113,799
Adjustment for non-cash items:			
Impairment write-off / (write-back)	2	162,419	49,525
		323,965	163,324
(Increase) / decrease in gross receivables		(209,141)	90,922
Increase / (decrease) in payables		38,597	(94,789)
Net cash flow from operating activities		153,421	159,457

Included in the net cash flow from operating activities of £153,421,000 are operating cash flows relating to Fixed Penalties of £78,606,000.

8. Changes in Accounting Policy and Prior Period Errors

Following a disclaimer of opinion in the 2011–12 Trust Statement based partly on the availability of evidence to support the receivables balance, there has been a review of the underlying processes and assumptions to calculate the impairment of receivables to better reflect the underlying economic conditions and historical receipt of cash from debtors. The effect of the new process is to align the accounting policy for valuing receivables with the principles of fair valuing financial instruments under IAS 39. As such, this represents a change in accounting policy for the valuation of receivables. The policy is outlined in note 1.6 above.

The approach to estimating the impairment in 2012–13 has been applied and reflected in the restated 2011–12 Statement of Financial Position presented in the financial statements.

Additional information has come to light in respect of accruals of payables on which cash was received as at 31 March 2012. As a result, the prior period payables balance has been restated to reflect this information.

Outlined below are the details of the prior period adjustments for each financial statement line affected and a reconciliation of the items comprising the net adjustment to the Statement of Revenue and Expenditure and the Statement of Financial Position.

Restatements affecting Statement of Revenue and Expenditure for the year ended 31 March 2012 and the Statement of Financial Position at 31 March 2012

Statement of Revenue and Expenditure	31 March 2012		31 March 2012
	As previously reported £000	Adjustment £000	Restated £000
Impositions Revenue			
Court Fines	188,530	(8,474)	180,056
Fixed Penalty Notices	85,179	-	85,179
Miscellaneous Consolidated Fund Receipts	-	940	940
Crown Prosecutors' Costs	42,452	(1,651)	40,801
Prosecutors' Costs	55,898	(1,664)	54,234
Compensation	29,927	(1,765)	28,162
Confiscation Orders	59,031	-	59,031
Victim Surcharge	11,234	(244)	10,990
Total impositions revenue	472,251	(12,858)	459,393
Less: Expenditure			
Write-offs	(65,142)	-	(65,142)
Impairment	21,673	(71,198)	(49,525)
Total credit losses	(43,469)	(71,198)	(114,667)
Less: Disbursements			
Revenue retained by MoJ under statute	(93,500)	-	(93,500)
Crown Prosecutors' costs	(43,842)	8,120	(35,722)
Prosecutors' costs	(54,999)	15,682	(39,317)
Compensation	(36,455)	8,579	(27,876)
Confiscation orders	(60,073)	36,159	(23,914)
Victim surcharge	(11,735)	1,137	(10,598)
Total Disbursements	(300,604)	69,677	(230,927)
Total Expenditure and Disbursements	(344,073)	(1,521)	(345,594)
Net Revenue for the Consolidated Fund	128,178	(14,379)	113,799

The net decrease of £14,379,000 in the net revenue for the Consolidated Fund as previously reported is made up as follows:

	Adjustment £000
Increase in impairment as a result of change in accounting policy	(71,391)
Portion of increase in impairment netted off against disbursements	48,012
Miscellaneous Consolidated Fund receipts previously not recorded	940
Correction of overstated accrued impositions at 31 March 2012	(13,798)
Reversal of related disbursement on overstated accruals	5,324
Write-back of impairment on Fixed Penalty Notices not previously reflected in the Statement of Revenue and Expenditure	193
Write-offs not previously netted off against disbursements	16,341
Net adjustment to Net Revenue for the Consolidated Fund	(14,379)

Statement of Financial Position	31 March 2012		31 March 2012
	As previously reported £000	Adjustment £000	Restated £000
Current Assets			
Gross receivables	1,811,780	(13,798)	1,797,982
Impairment	(1,452,818)	(71,391)	(1,524,209)
Net receivables	358,962	(85,189)	273,773
Cash at bank	68,818	5,911	74,729
Total assets	427,780	(79,278)	348,502
Current liabilities			
Payables on which cash received	(38,905)	(3,578)	(42,483)
Payables on which cash receivable	(241,652)	53,336	(188,316)
Total payables	(280,557)	49,758	(230,799)
Net assets	147,223	(29,520)	117,703
Represented by:			
Balance on consolidated Fund	147,223	(29,520)	117,703
Balance on which cash received	29,913	2,333	32,246
Balance on which cash receivable	117,310	(31,853)	85,457

The net decrease of £29,520,000 in net assets and the Consolidated Fund balance as previously reported is made up as follows:

	Adjustment to Consolidated Fund £000	Adjustment to other assets and liabilities £000	Total adjustment £000
Decrease in net receivables as a result of change in accounting policy for impairment of debt	-	(71,391)	(71,391)
Corresponding decrease in payables on which cash receivable as a result of change in accounting policy for impairment of debt	23,379	48,012	71,391
Decrease in gross receivables to correct overstated accrued impositions at 31 March 2012	-	(13,798)	(13,798)
Corresponding decrease in payables on which cash receivable in respect of over accrual of related receivable at 31 March 2012	8,474	5,324	13,798
Increase in bank balance for under accrued payables on which cash received	-	5,911	5,911
Corresponding increase in payables on which cash received to adjust for under accrual as at 31 March 2012	(2,333)	(3,578)	(5,911)
Net decrease in net assets and balance on Consolidated Fund	29,520	(29,520)	-

Restatements affecting Statement of Financial Position at 31 March 2011

The net increase of £31,503,000 in the opening Consolidated Fund Balance as previously reported is due to a reclassification from current liabilities to the Consolidated Fund Balance as follows:

	31 March 2011		31 March 2011
	As previously reported	Adjustment	Restated
	£000	£000	£000
Current liabilities			
Payables on which cash received	35,135		35,135
Payables on which cash receivable	321,956	(31,503)	290,453
Total payables	357,091	(31,503)	325,588
Balance on consolidated Fund			
Balance on which cash received	4,288	30,177	34,465
Balance on which cash receivable	122,441	1,326	123,767
Balance on consolidated Fund	126,729	31,503	158,232

9. Financial Instruments

HM Courts & Tribunals Service on behalf of the Consolidated Fund and other parties is party to financial instrument arrangements as part of its normal operations. These financial instruments include bank accounts, receivables and payables.

IFRS 7, 'Financial Instruments: Disclosures', requires disclosure of the role that financial instruments have had during the year in creating or changing risks an entity faces in the course of its operations. As HM Courts & Tribunals Service is acting as agent on behalf of the Consolidated Fund and other parties in collecting and surrendering financial penalties imposed by the judiciary and the police, it cannot incur losses through the Trust Statement since its obligation to surrender financial penalties is limited to the amount it is able to collect in revenue. HM Courts & Tribunals Service, on behalf of the Consolidated Fund and other parties, has no requirement to borrow or invest surplus funds. As such, HM Courts & Tribunals Service, in its capacity as agent, is not exposed to the degrees of financial or market risk facing a business entity acting as principal.

a) Carrying amount and fair values

The fair value of cash balances approximate their carrying amount largely owing to the short term maturity of this financial instrument which is less than three months.

The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at HM Treasury's interest rate, currently 2.2% (2011–12: 2.2%).

The fair value of payables on which cash is receivable at the balance sheet date is derived from the fair value of the related receivables balance.

b) Liquidity risk

Liquidity risk is the risk that HM Courts & Tribunals Service, on behalf of the Consolidated Fund and other parties, will encounter difficulty raising liquid funds to meet commitments as they fall due. HM Courts & Tribunals Service is obliged to surrender only those funds that it has collected and banked. As such, HM Courts & Tribunals Service, in its capacity as agent, does not have significant liquidity risk.

c) Credit risk

Credit risk is the risk that a third party will default on its obligation to HM Courts & Tribunals Service on behalf of the Consolidated Fund and other parties, thereby causing the Consolidated Fund and other parties, for whom HM Courts & Tribunals Service acts as agent, to incur a loss.

Credit risk arises from deposits with banks and receivables. The maximum exposure to credit risk at the balance sheet date is:

	2012–13	2011–12
	£000	£000
Cash at bank	84,399	74,729
Receivables	320,495	273,773
	404,894	348,502

Cash at bank comprises liquid bank balances held with commercial banks, including those administered through the GBS.

The size of the risk inherent within the trade receivables balance (shown net of impairment above) is reflected in the receivables impairment which totals £1,686,628,000 (2011–12 restated: £1,524,209,000). HM Courts & Tribunals Service, through the Governance and Risk management structures outlined in the Governance Statement, continues to assess and implement programmes to increase collection of receivables.

d) Currency risk and interest rate risk

There is no exposure to currency risk as all financial penalties are imposed, collected and payable in sterling. Whilst interest is charged on unpaid Confiscation Orders, the interest charged on the outstanding receivable balance is only payable to the Home Office when received from the debtor.



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