

# Funds in Court in England and Wales Account 2016-17

# Funds in Court in England and Wales Account 2016-17

Presented to Parliament pursuant to Section 45(3)(1) of the Administration of Justice Act 1982

Ordered by the House of Commons to be printed on 12 July 2017

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £734 million in 2016.



© Crown copyright 2017

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated.

To view this licence, visit [nationalarchives.gov.uk/doc/open-government-licence/version/3](http://nationalarchives.gov.uk/doc/open-government-licence/version/3) or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk).

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

ISBN: 978-1-910305-75-1

Printed on paper containing 75% recycled fibre content minimum

# Contents

## **Accountant General's Accounts**

Annual Report for the Accountant General's Accounts (Part A) of the 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	11
Governance Statement	12
The Certificate and Report of the Comptroller and Auditor General	20
Statement of Comprehensive Net Expenditure	22
Statement of Financial Position	23
Statement of Cash Flows	24
Notes to the Financial Statements	25
Accounts Direction	35

## **Commissioners for the Reduction of the National Debt (CRND)**

Overview	35
Accountability report	37
Statement of Secretary and Comptroller General's responsibilities	38
Governance Statement	39
Parliamentary accountability and audit report	48
The Certificate and Report of the Comptroller and Auditor General	49
Statement of Comprehensive Income	51
Statement of Financial Position	52
Cash Flow Statement	53
Statement of Changes in Client Funds	54
Notes to the Accounts	55
Accounts Direction	58

## **Ministry of Justice Equity Index Tracker Fund**

Foreword	59
Investment Manager's Report	63
Governance Statement	66
Respective responsibilities of the Lord Chancellor, Accountant General and Investment Manager	68
The Certificate and Report of the Comptroller and Auditor General	69
Portfolio Statement	71
Statement of Total Return	72
Statement of Change in Net Assets attributable to Unitholders	72
Balance Sheet	73
Notes to the Financial Statements	74
Distribution Tables	82
Fund Information	83
Accounts Direction	85
General Information	87

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

## Accountant General's Accounts in Respect of Funds in Court

The Accountant General's Accounts cover the year ended 28 February 2017. They have been prepared in accordance with the direction given by HM Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982 (the Act). The Accounts record dealings in cash, securities and physical effects held in the civil courts of England and Wales. Deposits under the various enactments referred to in Section 40 of the Act are not segregated in the Accounts. The Accounts Direction can be found on page 34.

Money and securities are paid into court under the provisions of a wide variety of legislation and circumstances. Such funds fall into three main categories:

- damages awarded to children as a result of civil legal action in a county court in England or Wales or the High Court of Justice. These assets are held on their behalf until the child reaches majority (18 years of age);
- assets belonging to people who lack the capacity to manage their own financial affairs where the Court of Protection (CoP) has appointed someone else to manage their affairs; and
- cases where money is held in court pending settlement of civil court action, or on behalf of dissenting shareholders, widows and other clients whose funds are held under a variety of different statutes.

There are three parts to the accounts:

- Part A covers cash and securities paid in court;
- Part B covers the activity of the Commissioners for the Reduction of the National Debt (CRND) to invest those funds and is prepared by the UK Debt Management Office; and
- Part C presents the full accounts of all monies invested in the Lord Chancellor's Common Investment Fund (CIF) which is managed by Legal & General (L&G) on behalf of the Lord Chancellor. The CIF is an Equity Index Tracker Fund and holds funds for the Accountant General as well as other parties. Part C is prepared by Legal & General.

The Part A Accounts consolidates the relevant elements of Part B and Part C to provide a full understanding of the relationship between them.

## The Accountant General

As the Accountant General I am the designated Accounting Officer for "Funds in Court". This means I am responsible for the safeguarding and investment of client funds paid into court. This includes, but is not limited to, ensuring:

- funds ordered into court are correctly accounted for and protected once received;
- funds receive the correct amount of interest or any equivalent earnings from dividends; and
- funds are paid out of court to the client at the correct time and they receive the correct amount due.

Inherent in this responsibility is the requirement to ensure there is a robust governance and control framework in place so that the above requirements are met; that the fund balances and control framework are audited externally each year by the National Audit Office; and I implement promptly any recommendations that arise from such audit.

As the Accounting Officer for Funds in Court, I delegate the day to day discharge of my responsibilities to the Deputy Accountant General. At the date of signing the Deputy Accountant General is John Little who has been in this role since September 2016. He in turn is supported by the Office of the Accountant General (OAG).

I am also Chief Financial Officer for the Ministry of Justice (MoJ) and OAG sits within my business group. These two roles do not, in my judgement, themselves create any conflict of interest because one is overseeing MoJ Voted Funds and the other third party client funds. The only potential area of overlap is where the OAG's in-year financial position results in a deficit. I have to decide as Chief Financial Officer to cover any such deficit from Voted funds. The decision under the legislation must be independently verified and agreed by HM Treasury. More widely, to provide assurance that any conflict, or perception of conflict is avoided, I will discuss with the MoJ Accounting Officer (Richard Heaton) as required.

# Performance Report

## Strategic Report

My primary objective is to ensure client funds are safeguarded, administered correctly and protected from fraud or loss.

Whilst I am satisfied the current operational model achieves this objective I am keen to improve the service provided to clients. I therefore asked the Deputy Accountant General to carry out a Strategic Review of the Court Funds Office. The aim of the review is to present options to achieve the following:

- modernise the Court Funds Office to improve the client service;
- to reduce the costs of the Court Funds Office; and
- improve the rate of return for clients particularly those covered in the Special Accounts, these being children and Court of Protection patients.

As at the signing date this review is underway and I have reviewed the first draft of the Strategic Outline Business Case. When the final business case is completed in autumn 2017, I will decide which option or options will be taken forward for implementation. This work is being taken forward in consultation with key stakeholders, internal and external to the Ministry of Justice, including HM Treasury whose concurrence is required under legislation on such matters as investment strategy.

## Financial Results

### Court Funds Investment Account

Over the year, the total client funds held in the Court Funds Investment Account (CFIA) increased by £77.240million (3%). Special Accounts remained steady with a small reduction of £3.082million (0.3%). Basic Accounts relating to civil actions and other miscellaneous legislation reduced by £90.665million (10%), the majority as a result of a change in policy how specific statutory deposits were treated led to such funds transferring immediately to the Unclaimed Balances Account. The Unclaimed Balances Account increased by £153.366million (93%) as a result of this project. Other Suitors Deposited in the Senior Courts Accounts increased by £7.261million (8%) which was in line with the expected forecast.

The Statement of Comprehensive Net Expenditure reports a deficit of £0.441million This is a notional loss and relates to a timing difference between accounting for interest received, a cash figure, and interest receivable, an accruals figure. This accounting treatment is applied because the enabling legislation mandates the balances to be presented in this way. Interest income and interest due to clients were both affected by the reduction of the Bank of England base rate to 0.25% in August 2016.

Interest earned was not sufficient to cover interest due to clients and the administrative costs of the CFO operational service. This required a subsidy of £4.435million from the parent department, the Ministry of Justice to ensure a breakeven position. The long term funding model is currently being reviewed by OAG as explained in the Strategic Report.

**Lord Chancellor's Common Investment Fund (Equity Index Tracker Fund)**

The Fund currently invests in three sectors: the FTSE All-Share Index UK, FTSE World (excluding UK) and FTSE All-World Emerging Markets. From 1 March 2016 to 28 February 2017 the Fund's composite benchmark was:

- FTSE All-Share Index 55%
- FTSE World (excluding UK) Index 35%
- FTSE All-World Emerging Markets Index 10%

The fund performed very well in light of current economic conditions and compared to similar investment products. The Net Asset Value (NAV) per unit rose from a year opening position of 1,281.23p to a year closing value of 1,618.32p an increase of 337.09p (26%). The volume of units held decreased from the opening position of 6,322,322 to 5,562,341, a decrease of 759,981 (12%). Taking both factors the overall total NAV of the fund fell by £9.027million.

The fund is managed by Legal and General who also present through OAG a set of accounts providing detailed information on the fund – Part C. This document can be referred to for further analysis and explanation.

**Administrative Expenses - OAG**

Administrative expenses cover the costs of running the CFO operational service to clients and OAG such as contract management of the outsourced supplier, financial management, governance and policy. Gross costs in 2016-17 were lower than 2015-16, reducing from £6.187million to £6.149million, a reduction of £0.038million or 0.6%.

In broad terms over 90% of OAG's administrative expenses pay for the CFO client service managed by National Savings & Investments (NS&I). The Memorandum of Understanding (MoU) was renegotiated in 2014-15 to deliver savings to the contract end point in 2020-21.

## Operational Performance

The CFO Service is managed by OAG through a MoU with NS&I. The MoU defines the terms of how the service is delivered and is measured by Performance Indicators (PIs). If a PI is breached, there is a defined penalty mechanism which is deducted from the following month's charge.

The table of PI results for 2016-17 is below and is the average annual performance for each indicator. Of the fifteen indicators, all were either met or exceeded giving an overall accumulated average performance for the year of 99.68%.

<b>PI</b>	<b>Process</b>	<b>Average Annual Performance</b>	<b>Target</b>	<b>Met/Not Met/Exceeded</b>
1	Cheque Deposits	100%	97%	Exceeded
2	Transferred Funds	100%	100%	Met
3	Deposits	99.93%	97%	Exceeded
4	Form 212 Investment	100%	100%	Met
5	EITF Investment	100%	100%	Met
6	Form 212 Non Securities	98.92%	97%	Exceeded
7	Dividends	100%	100%	Met
8	Transfers	100%	100%	Met
9	Non EITF Sale & Purchase	100%	100%	Met
10	EITF Sale	100%	100%	Met
11	Payments	98.72%	97%	Exceeded
12	General Correspondence	97.77%	97%	Exceeded
13	Majority Statements	100%	100%	Met
14	Review of Child Accounts	100%	100%	Met
15	Telephone Helpline	100%	90%	Exceeded

# Investment Policy

## Liquidity

Under the provisions of the Administration of Justice Act 1982, liquid funds paid into court are transferred to CRND. The funds and liquidity risk is managed by UK Debt Management Office (DMO) on behalf of CRND.

Liquid funds transferred to the CRND are placed in the Court Funds Investment Account (CFIA) and invested by the DMO in short term deposits. Such deposits are generally of fixed term and short duration, typically up to seven days. The DMO pays interest on funds in the CFIA at a rate equivalent to the Bank of England base rate.

The objectives of this strategy are:

- clients are protected against capital loss and will receive their capital amount as a minimum repayment;
- maximum liquidity is maintained and clients can be paid on demand or when due under the terms of the court order; and
- the client receives a return on the funds held in court which reflects the above two conditions.

Funds are transferred to and from the CRND on a daily basis as required by business need.

Under the provisions of the Administration of Justice Act 1982, if in any year the interest and dividends earned on the funds held in the CFIA exceed the sum payable to clients and that required to meet the operational costs of the service, the Commissioners' costs in respect of the CFIA, and any depreciation, the surplus must be surrendered to the Consolidated Fund. The Act also provides where there is a shortfall in interest and dividends, the Consolidated Fund will provide the funds required. In 2016-17, OAG obtained additional funds from its parent department, the Ministry of Justice, rather than making a call on the Consolidated Fund.

## Interest Rates

The interest rate earned on client funds invested in the CFIA is set at the Bank of England Base Rate. The rate applicable during the year was:

- 1 March 2016 to 3 August 2016 – 0.5%.
- 4 August 2016 to 28 February 2017 – 0.25%.

The interest rate payable on client funds is set by the Lord Chancellor with the concurrence of HM Treasury. The specific interest rate paid to clients depends on how they are categorised:

Special Accounts - 0.5% interest was paid on:

- damages awarded to children as a result of civil legal action in a county court in England or Wales or the High Court of Justice;
- Assets belonging to people who lack the capacity to manage their own financial affairs, mainly where the Court of Protection (CoP) has appointed someone else to manage their affairs; and
- Widows and other beneficiaries where sums were invested prior to March 1983.

Basic Accounts - 0.3% interest was paid until 6 June 2016 thereafter at 0.1% on:

- Cases where money is held in court pending settlement of civil court action, or on behalf of other clients whose funds are held under a variety of different statutes.

Other Cash Accounts - 0.0%

- Monies paid into court on behalf of dissenting shareholders and monies received from county courts as unclaimed are held as cash, as are some child funds where religious observance does not allow for the accrual of interest.

#### Unclaimed Balances - 0.0%

- The Court Funds Rules 2011 set out the criteria for identifying funds deemed to be unclaimed. The Rules provide that such funds may be transferred to the Unclaimed Balances Account. This includes funds paid into court under certain statutes where the funds are unclaimed at the point of receipt. Funds within the account do not accrue interest but is credited if an authority to release the funds is received, at which point simple interest at the current basic rate for the period the fund has been unclaimed will be applied.

During the year there were two interest rate decisions. The first was to reduce Basic Accounts to 0.1% to reflect that as the BoE Base rate was likely to remain low that it could not be justified to continue to pay 0.3% to non-vulnerable clients (although when the BoE base rate was reduced to 0.25% in August 2017 the decision was taken not to reduce further). The second was when the BoE base rate reduced to 0.25% in August 2017, to maintain Special Accounts interest rate at 0.5% to protect clients in this group i.e. Children, Court of Protection Clients and Protected Beneficiaries. This is not a long term policy decision and will be reviewed as part of the CFO Strategic Review.

### **Growth**

Clients may be eligible for their funds to be invested in the Lord Chancellor's Common Investment Fund (CIF), which is in the form of an Equity Index Tracker Fund (EITF) managed by Legal & General on behalf of the Lord Chancellor (Part C to the Accounts). Access to the EITF is governed by the Court Funds Rules 2011 and is only available to Special Account holders with cash of £10,000 or more in court and where the funds are expected to be held in court for five years or more. It is important to note, as with any investment in securities, investment in the CIF carries with it the risk of capital loss dependent on market movement. This risk is borne by the clients and not the OAG or the Consolidated Fund.

The EITF provides clients with long term growth and income through dividends in a low risk investment environment.

### **Securities**

Certain clients may hold in court portfolios of securities e.g. stocks, shares and unit trusts. These are mainly Court of Protection clients where the securities were paid into court prior to changes in the Court Funds Rules 2011. OAG acts solely as a custodian for these securities including the administrative functions of carrying out any instructions to buy, sell or transfer such securities or to deposit dividends received. OAG does not provide any investment advice to clients. Clients may have their own private brokers to provide investment advice but OAG has no relationship with such brokers other than in its custodianship role.

### **Foreign Currency**

Foreign currency deposits are held at the request of the client and at the discretion of the court. These deposits are invested in short term accounts with the Royal Bank of Scotland and the client earns the full interest paid on the funds and bears the risk associated with exchange rate movement. The client is also responsible for any fees and charges for foreign currency accounts. OAG acts solely as custodian for these accounts and carries out any administrative functions whilst the funds are held in court.

### **Other Key Events**

The management of the Common Investment Fund (CIF) was subject to a retender exercise in 2016. There was one bidder at best and final offer stage, Legal & General, whose bid was approved by the Lord Chancellor with a new Deed of Appointment signed on 17 February 2017 for a five year period.

# Accountability Report

## Director's Report

The Office of the Accountant General (OAG) is a business unit of the MoJ and sits within the Chief Financial Officer's Group (CFOG). OAG is not a formal Arm's Length Body so does not have a board of directors or its own corporate functions, audit committee or remuneration committee. These services are delivered by the MoJ. John Little and his staff are all permanent employees of the MoJ and are employed on standard Civil Service terms and conditions including pension arrangements.

OAG does not have any Non-Executive Directors (NEDs) but as Accountant General I am a member of the Lord Chancellor's Strategic Investment Board (SIB) which has two advisors to provide independent advice and technical expertise on investment matters.

OAG's responsibilities and duties cover all aspects of my obligations under the Administration of Justice Act 1982 and other related legislation. Its objectives are defined in its annual Business Plan which is approved by me and covers:

- financial control and management of funds, including responsibility for overseeing the movement of funds to and from the Commissioners for the Reduction of the National Debt (CRND);
- policy and related legislative matters, including investment policy;
- service delivery and contract management, including responsibility for ensuring the correct administration of client accounts by the outsourced provider, along with service and contract management of their performance;
- corporate governance and risk; and
- communications with internal and external stakeholders.

Appointment to the OAG is through MoJ policies and procedures for recruitment.

For clarity, the following definitions apply in this statement:

- The Court Funds Office: The client facing service for those with funds in court.
- The Court Funds Office Service: Those elements of the overall client facing service (back office operations and help desk).

The CFO Service to clients is outsourced to National Savings & Investments (NS&I) who carry out all the administrative and help desk functions relating to clients. The definition of the service requirements for clients, including Performance Indicators (PIs) and the underlying control framework are defined in the Memorandum of Understanding (MoU) and supporting schedules.

The governance framework of OAG is described in the governance statement.

## 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 OAG's external auditors are unaware and I have taken all steps that ought to be taken to make myself aware of any relevant audit information and to establish that OAG's external auditors are aware of that information.

The notional audit fee for the Funds in Court Part A financial statements for the year ended 28 February 2017 was £63,000 (fee for 2015-16 was £63,500). There have been no fees paid to the auditors in respect of non-audit work.

# 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 Senior Courts is responsible for the management and investment of 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 HM Treasury. These Accounts are prepared so as to give a true and fair view of the state of affairs as at 28 February 2017 and of the income and expenditure and cash flows of the year.

## Appointment of the Accountant General

The Secretary of State and Lord Chancellor has, under Section 97(2) of the Senior Courts Act 1981, as amended by the Public Trustee and Administration of Funds Act 1986, appointed Mike Driver as Accountant General of the Senior Courts on 1 October 2016. The Permanent Secretary of the Ministry of Justice has also appointed the Accountant General as the Accounting Officer for Funds in Court. The latter's relevant responsibilities as Accounting Officer, including 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 *Managing Public Money*.

The Accounting Officer is required to confirm that the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

# Governance Statement

## Introduction

I am the Accountant General of the Senior Courts and the Accounting Officer for the Funds in Court. I was appointed to both posts on 1 October 2016. As Accountant General, I am responsible for monies, securities and other assets held under the control of the civil courts of England and Wales, including the Court of Protection (CoP), and for the discharge of the statutory responsibilities of the Accountant General of the Senior Courts as set out in the Administration of Justice Act 1982.

For clarity, the following definitions apply in this statement:

- The Office of Accountant General (OAG): The Ministry of Justice (MoJ) body responsible for supporting me as Accountant General in discharging my statutory duties. It ensures the overall client facing function operates correctly and manages delivery of those elements provided by National Savings & Investments (NS&I). It also has responsibility for strategic, financial, legal, policy and communications matters relating to the Court Funds Office.
- The Court Funds Office: The client facing service that those with funds in court receive. It is the public brand for the arrangements with NS&I.
- The Court Funds Office Service: Those elements of the overall client facing service (back office operations and help desk) provided by NS&I.

I understand my responsibilities as Accounting Officer as set out in *Managing Public Money*, including the need to ensure that:

- operational internal controls are effective;
- financial systems and procedures promote the efficient and economic conduct of business and safeguard financial propriety and regularity;
- financial considerations are fully accounted for in policy decisions; and
- risk is considered in relation to assessing value for money.

I understand and comply with the requirements of *Corporate Governance in Central Government Departments: Code of Good Practice 2011* to the extent they apply to these accounts. This Governance Statement explains how, as Accountant General, I meet those requirements.

There were no Ministerial directions given to me as the Accountant General in the year ending 28 February 2017.

## Governance Framework

### Office of the Accountant General

I delegate responsibility for the day-to-day discharge of my responsibilities to the Deputy Accountant General. He is supported in this role by the Office of the Accountant General (OAG).

OAG operates within the core boundary of the MoJ as part of the CFOG. OAG is subject to all MoJ policies, procedures and governance framework. In formal governance terms this means OAG reports to and is reviewed by MoJ corporate functions. OAG does not have its own independent audit and risk committee but is subject to review by the MoJ Audit and Risk Committee.

OAG has a complement of ten staff. All OAG employees, including the Deputy Accountant General, are permanent civil servants on standard MoJ terms and conditions including salary and pension arrangements. For this reason, OAG does not have a remuneration committee. All OAG employees are bound by the Civil Service Code to act at all times with honesty and integrity. There have been no departures from the code.

OAG's responsibilities and duties are wide ranging and cover all aspects of my obligations under the Administration of Justice Act 1982 and other related secondary legislation. Its objectives are defined in its annual Business Plan which I approve. To ensure effective delivery of its objectives, the OAG is structured into three teams:

- Financial Control and Management Team, responsible for overseeing the control of funds, financial reporting and financial governance.
- Policy Team, responsible for policy and related legislative matters.
- Service Delivery and Contract Management Team, responsible for ensuring the correct administration of client accounts by the outsource provider along with service and contract management of their performance.

I hold monthly meetings with the Deputy Accountant General to discuss performance against the objectives in the Business Plan.

### **Management Team Effectiveness**

All OAG staff members are subject to MoJ's performance management framework. Each member has individual objectives aligned to the annual Business Plan. Individual performance is managed through the line management chain to the Head of OAG, who is the Deputy Accountant General. My monthly meetings with the Deputy Accountant General include review of team performance and delivery against objectives.

Posts within the OAG are filled in accordance with the MoJ recruitment policy, which is competency based. Advertisements include a job description and person specification setting out the required competencies and skills. Applications and interviews are conducted against the competencies required for the post.

There were no performance or conduct concerns relating to OAG staff identified during the year.

I am satisfied with the performance of the OAG over the year and the support it has provided to me in meeting my obligations as Accountant General.

### **Governance**

OAG has a formal written governance framework which operates to provide me with assurance on the efficient and effective delivery of its objectives.

The OAG Management Team meets each month to review performance against the Business Plan and the standing agenda covers all areas of responsibility. The meetings are chaired by the Deputy Accountant General and are attended by all permanent employees of OAG. Where appropriate, others may be invited to attend meetings to observe or advise but are not part of the decision making process. Management Team members are provided with an information pack that includes reports on performance against PIs provided by NS&I, together with reports on other matters such as change requests, policy, legislation and finance.

All OAG decisions and actions are minuted and I am made aware of them to the extent and as required by the Deputy Accountant General. Copies of minutes together with any associated papers are retained by OAG and are available for inspection by internal and external audit. At the reporting date, OAG was content with the accuracy and completeness of its internal Management Information (MI) and the external PI and financial information provided by NS&I.

The Deputy Accountant General is supported by two Review Groups which provide advice and information on specific areas of OAG business:

- Risk Review Group – Responsible for assessing and monitoring potential risks to the OAG meeting the Business Plan. The group reports to the monthly OAG Management Team Meeting for formal sign off.
- Finance Review Group – Responsible for discussing strategic financial issues and meets monthly. The output of the group is reported back to the monthly OAG Management Team meeting.

### **Lord Chancellor's Common Investment Fund**

The Lord Chancellor's Strategic Investment Board is responsible for provision of advice and governance on the investment of funds including:

- advice on investment strategy, performance benchmarks and related investment matters including guidelines for external managers;
- advice on the appointment of external managers to invest the client monies coming within the care of the Ministry of Justice; and
- oversight of the Fund's performance against established industry benchmarks, providing robust challenge, advice and direction to the external managers as appropriate.

The board is comprised of two non-executive investment advisors and representatives from each of the investing bodies. The Lord Chancellor is regularly informed of the board's activity and provides direction as required.

I attend the Strategic Investment Board on behalf of Court Funds Office clients.

### **CFO Service**

The client operational service is outsourced to NS&I who carry out all the back office and help desk functions relating to clients. The definition of the service requirements for clients, including PIs and the underlying control framework, are defined in the MoU between the Accountant General and NS&I.

Day-to-day oversight of the CFO Service is carried out by the Head of Service Delivery and Contract Management. NS&I reports formally to OAG on the CFO Service through the Operational Delivery Group (ODG). The ODG is chaired by NS&I and is attended by OAG. Its function is to receive reports on the CFO Service delivery, ensuring operational objectives are achieved, risks, issues and major incidents are managed and change requests progressed. It provides OAG with a regular opportunity to investigate and challenge any failures of service quality, including PI breaches or delays in change requests. The ODG meets monthly and all decisions and actions are minuted. The output from the ODG is reported to the OAG Management Team meeting each month.

The Deputy Accountant General and the NS&I Director for Business to Business (B2B) attend the ODG on a quarterly basis to receive reports on performance and provide any strategic direction required by the Group.

NS&I and Atos both have their own internal assurance team and control framework covering the CFO Service. To ensure that the control framework is operating correctly an annual ISAE3402 Type II review is carried out each year. The ISAE3402 report provides an assurance the control framework operates as designed, the controls are effective and achieve the control objectives. This report is subject to an external independent audit by a contractor selected by NS&I. NS&I will formally report the outcomes for OAG review, who will discuss and challenge as appropriate.

### **Internal Audit**

MoJ Internal Audit and Assurance Division (IAAD), part of the Government Internal Audit Agency, acts on behalf of MoJ and reviews or inspects any area of OAG's activities they deem necessary. The schedule of work is discussed and agreed between OAG and IAAD at the beginning of each financial year. This allows both parties to plan for the work but does not constrain IAAD from carrying out further work should the need arise.

IAAD does not normally include the outsourced operations of NS&I in its annual plan. However, under the terms of the MoU with NS&I, IAAD have right of access if either OAG or MoJ decide this is necessary to ensure the statutory duties of the Accountant General have been or are being correctly discharged.

IAAD has no authority to audit Legal & General in respect of the Common Investment Fund.

IAAD carried out one audit review on the ISAE3402 Report issued by NS&I. Their opinion was that the report provided a reasonable level of assurance that previously identified control issues have been satisfactorily addressed and mitigated.

## Risk Management

OAG manages risks against its Business Plan objectives through the Risk Review Group and the monthly Management Team meetings. The Risk Review Group meets at the beginning of each year to assess the nature and scale of the risks associated with the objectives in the Business Plan, and to identify effective controls in place and decide what further actions are necessary to mitigate the risks.

The Risk Review Group meets monthly to review the Risk Register and Issues Log, and provides an updated report to OAG's monthly management meeting.

High level risks are closely monitored and action is taken against all risks with a view to reducing the risk as per the risk appetite. The nature of some risks means they cannot be avoided, prevented or resolved, and must be managed by OAG.

The wider key risks are explained in the following paragraphs.

### Liquidity Risk

Under the provisions of the Administration of Justice Act 1982, funds paid into court must be transferred to the CRND. Liquidity risk is managed by DMO by placing cash in the Court Funds Investment Account (CFIA) which DMO invests in short term deposits. Such deposits are either fixed term but of short duration, typically up to seven days, or instant access deposits with funds available on demand. This creates a return on investments equal to the Bank of England base rate and ensures sufficient cash is always available to fund any payments requested by clients.

### Investment Risk

Funds in court are guaranteed to the extent the Administration of Justice Act 1982 provides that any shortfall in funds payable to clients will be met from the Consolidated Fund. The process adopted by DMO for managing the liquidity risk means the return to clients of the cash held in court is likely to be limited to a rate at or near the Bank of England base rate but with no risk of capital loss. It is not the function of the Court Funds Office to grow the value of funds held in court.

The Court Funds Rules 2011 provide that in certain cases, subject to minimum limits on time and value of investment, funds can be transferred to the CIF. The CIF is a tracker fund managed by Legal & General that offers clients a balance of risk and reward by spreading funds across three different underlying investment funds: (UK, International, and Emerging Markets). Investment in the CIF in part transfers risk to the client in that:

- any loss in value suffered by the CIF is carried by the client and cannot be claimed back from CFIA, but,
- in the majority of cases, only a proportion of a client's fund would be invested in the CIF, the remainder being held in the CFIA.

This approach provides some clients with an opportunity to achieve capital growth but at their own risk, whilst assisting them in managing the risk.

## **Operational Risk**

OAG manages its operational risk primarily by outsourcing the administration of client funds to NS&I. NS&I is obliged to provide the CFO Service in accordance with the terms of the MoU which details how the service to clients will be delivered, including Performance Indicators (PIs). Where NS&I fail to meet the PI targets, financial penalties are applied and if a client suffers financial loss through an error by NS&I liability for the financial impact sits with them.

To provide assurance on the control framework NS&I carry out an ISAE3402 Type II audit which seeks to check that the control framework is clearly defined and is operating effectively.

During 2015-16 Deloitte provided an ISAE3402 type II report to the NS&I board on the operational systems and controls for CFO. The report was qualified, identifying eight control objective failures out of a total of thirty two. During 2016-17 OAG and NS&I agreed and implemented a comprehensive plan of work to address these failures in preparation for the ISAE3402 audit in February 2017.

In February 2017, PWC conducted the annual external review, on behalf of the NS&I board, of the operational systems and process controls and provided an ISAE3402 Type II report with a qualified opinion on three control objectives. Two of the controls were known issues from 2015-16 but cannot be rectified until a software upgrade in 2017-18. In the interim these will be monitored and supported by compensating controls. The third related to a new control that had been implemented during the year to address sanctions checking which is explained in more detail in the control incidents section of the governance statement.

## **Management Risk (OAG)**

OAG is a small organisation of ten people and the primary risk relates to capability either from staff absence or departures. The absence rate was in line with the MoJ average for 2016-17 and all four senior posts remained filled throughout the reporting period. The Deputy Accountant manages the succession and cover strategy for the three branches to manage the overall delivery of objectives.

## **Foreign Exchange Risk**

Where client funds are paid into court in a currency other than sterling, OAG acts solely as custodian and is responsible for the appropriate administrative functions to support any client transactions. Such functions are covered under operational risk. Any foreign exchange risk associated with holding funds in a foreign currency is borne by the client both gain and loss. Therefore, OAG bears no foreign exchange risk.

## **Market Risk (Securities)**

Where clients have securities paid into court, OAG acts as custodian and is responsible for the appropriate administrative functions to support any subsequent transactions. Where clients have funds invested in the EITF they bear the risk of any movements in the unit market value. Administrative functions are covered under operational risk. Any market risk associated with the holding of securities is borne by the client. Therefore, OAG bears no market risk relating to securities.

## **Control Incidents**

The following control incidents arose during 2016-17:

### ■ Calculating interest due to clients in leap years

Business Rule 49 defines how the outsourced supplier must calculate interest payable on client accounts in leap years. It specifies that clients are paid at a daily rate of 1/366 in leap years and 1/365 in other years. In November 2016, NS&I identified that when CFO was transferred to the outsourced supplier in 2011, BR49 was not implemented. This means that interest was calculated wrongly in 2012 and for the first half of 2016.

The error in the calculation was that during leap years the system calculated a daily balance as 1/365th of the interest rate. During a leap year this should have been 1/366th. As a consequence interest calculations for 2012 and the first half of 2016 were based on 365 days with consequential overpayment of interest to clients who received the equivalent of one day more interest than entitled in 2012 and half a day in 2016. They also received fractionally more interest than entitled for 2013 to 2016 because the compounding calculation for each of those years commenced from the higher account balance at the end of 2012.

The NS&I review of system configuration against the business rules in 2015 did not highlight any issues as the daily interest for that year was based on 365 days and so the rule was deemed compliant.

Although no individual client suffered any financial loss it did mean the general client fund was overcharged. A permanent fix was implemented in February 2017. Analysis of account balances since 2012 calculated an approximate financial impact and commercial discussions on liability were completed in February for a total final settlement of £0.042million. The funds from the settlement was credited back to the general client fund. This incident is now closed.

#### ■ Failure to apply a court order freezing payment to a client until completion of further proceedings

Business Rules 150 and 151 specify that where a court issues a stop order or a court places a charge against a client account no payments can be made until the order is revoked by the court. In September 2016, NS&I identified a case where they failed to apply a freezing order correctly.

A case started in 2015 reached the Court of Appeal in 2016 and the account was correctly frozen by CFO in compliance with a court order pending final decision in an appeal. Separately a second set of proceedings was commenced against one party to the first case with a second court order issued to freeze the funds in the first case pending a hearing in the second.

When the first court approved release of funds from its freezing order, the outsourced supplier did not contact the second court to confirm whether their freezing order was still in place and therefore incorrectly released payment of £0.360million to a party in the first case whilst a valid freezing order was in place.

On hearing the second application, the second court subsequently released the second freezing order and allowed payment to the first party.

The matter was resolved without loss to any client and without loss to CFO. However the outsourced provider had to pay the legal costs of representing CFO at the second hearing and would also have been liable for the value of the payment had the second court decided in favour of another party.

The outsourced supplier has now amended procedures and operation of such orders will be reviewed jointly in 2017 by OAG and NS&I. This incident is now closed.

#### ■ Failure to apply process checks and International Sanctions checks before accepting a payment into court

Business Rule 5 requires CFO only accept general deposits accompanied by correctly completed and signed documentation. Such forms can only be signed by the parties to the case and consequently deposits by third parties are not allowed. Separately, a licence from HMT is required for funds intended to be deposited by countries or individuals who are subject to international sanctions.

In January 2016, CFO accepted a sum paid into court via a third party on behalf of a company from a sanctioned country. The court order did not recognise the need for a license to deposit these funds, however CFO should not have accepted funds from a third party in any case. Attempts by the defendant's solicitors to stay the order whilst seeking a license were rejected. The third party therefore made an emergency payment to CFO on behalf of the company to avoid potential contempt of court.

In August 2016, the company then tried to pay in a second sum to replace the third party sum. This was rejected by CFO's operational banking provider, Royal Bank of Scotland, who identified the transaction may be subject to sanctions. It was RBS querying this transaction which alerted CFO to the potential breach in sanction compliance.

A licence for the second transaction was obtained following confirmation that these funds were not subject to sanctions, and the original deposit was subsequently refunded to the third party.

CFO practice at the time was to check only individuals against the sanction list rather than both individuals and companies. Until this control failure came to light, the need for any additional controls had not been identified by NS&I or the outsourced supplier because the core NS&I business only needs to check sanctioned individuals. The same business model had been applied to CFO. Human error was also a factor in accepting the deposit from a third party.

A review of all accounts was undertaken which confirmed no other funds had been accepted in error. The business processes at the outsourced supplier have been amended to include checks on sanctioned companies as well as individuals. Staff training to recognise potential sanctioned parties has been undertaken as has further training on accepting payments from third parties.

The incident is now closed but OAG will carry out follow up work on the operation of sanctions checks as part of its assurance review in 2017.

The following control incidents were reporting in 2015-16:

■ Effective date in the past

There are certain client accounts where the CFO Business Rules state the effective date of withdrawal is the date of the court order not the date a transaction is processed. The 2015 review of business rules established that the outsource provider used the processing date as the effective date. In some cases the effective date was later than the order date resulting in some clients receiving more interest than they were due. This was estimated to have potentially affected c13,000 accounts to a total deposit value of c£475 million. Although no individual client suffered any financial loss it did mean the general client fund was overcharged. In 2015 the financial impact was estimated at circa £0.120 million (or an average of less than £10 per account). A permanent fix was implemented in May 2016. During 2016-17 further analysis showed a much lower financial impact and commercial discussions on liability were completed for a total final settlement of £0.015 million. The funds from the settlement was credited back to the general client fund. This incident is now closed.

■ Unclaimed Balances with no valid address

Children, on reaching majority, are contacted by the Court Funds Office so they can receive their funds. They are given a year to respond, with reminder letters sent at three monthly intervals. If no response is received by their 19th birthday then the fund is transferred to the Unclaimed Balances Account until such time as a valid claim is made. Where no valid address was held on the system the policy was not to transfer to the Unclaimed Balances Account until all reasonable efforts were made to trace the client and then start the process of reminder letters. This policy was not followed by the outsource supplier which meant for some clients upon reaching their 19th birthday, the Court Funds Office transferred their fund to the Unclaimed Balances Account without an opportunity to claim their fund. Although transfer to the Unclaimed Balances Account does not limit the client's right to claim their fund, the failure to contact them meant they would not have received their funds at the right time and would receive a lower rate of interest on claiming them. During the year a review identified 3,680 accounts were potentially affected. Subsequent analysis showed that 2,005 had been treated correctly with remedial action required on 1,675. As at 26 May 2017, 800 had been completed with the target of completing the remaining 875 in 2017-18. Commercial negotiations settled the liability for costs at 50/50 with the outsourced provider.

■ OAG Business Process Review

The NAO Audit Completion Report for year ending 28 February 2015 included a recommendation that the OAG perform additional procedures to satisfy itself the business rules are working as intended. OAG accepted the recommendation and agreed two specific pieces of work in partnership with the outsource provider in 2016-17 to provide assurance regarding operation of the rules:

- i. NS&I reviewed Thaler configuration (IT banking system) to confirm it operates client accounts and manages client funds as required by the Rules. Some limited and specific exceptions were identified and corrected by October 2015. A subsequent joint review of the rules against Thaler operation identified further Thaler non-compliance. At February 2017 fixes have been completed and this activity is now closed.

- ii. OAG reviewed procedures and the electronic workflow system used by CFO operational staff in Glasgow for compliance with the Rules. Appropriate activity steps and workflow restrictions supported correct application of the Rules when processing transactions and when carrying out other account administration tasks. No fundamental errors were identified but a number of weaknesses in areas such as second operator validation on some transactions were identified. These have been corrected by NS&I and this activity is now closed.

The following control incident was reported in 2014-15:

#### ■ Incorrect Majority Date

An investigation into a client account concerning their majority date identified that where such accounts had no majority date on transition of the outsourced operation on 5 December 2011, the new system gave the account a default date of birth of 30 November 2011. This affected 723 accounts. As at 31 May 2016, only 14 of the most complex accounts remained for further action and another 48 were transferred to the Unclaimed Balances Account after correction of legacy errors in the account details. During the year these remaining cases were resolved. This incident is now closed.

## Administrative Obligations

#### ■ Information Assurance

Information Assurance, particularly relating to the clients, is a critical activity to me as Accountant General and as part of MoJ. OAG follows MoJ policy on information assurance to ensure that I am compliant with the rules as they apply to public sector bodies. There is an OAG Information Asset Owner who follows the process for reporting and escalating to the Senior Information Risk Owner (the Deputy Accountant General) who will keep me advised of any issues as appropriate.

#### ■ Health & Safety (H&S)

There is a system in place to manage H&S risks, control weaknesses and comply with the MoJ Corporate Health and Safety Policy (Statement of Intent). This system also supports any local policies and arrangements as appropriate.

## Overall Assessment of Governance Framework

Although the ISAE3402 report described on page 11 was qualified I am content that significant progress has been made since 2015-16 and that action on the three control objectives has been agreed and will be implemented during 2017-18.

I have also asked for further assurance work on high level strategic risks (such as sanctions) because whilst I am satisfied that controls are in place I want to see them strengthened over the next financial year to reflect the impact such areas have on the reputation of the Court Funds Office. This work should be completed by autumn 2017.

Overall, and taking into account the above areas, I am satisfied that the governance framework as described in this statement is correct and that there are the necessary systems and processes in place which enable me to maintain an effective system of internal control throughout OAG that supports the achievement of policies, aims and objectives, whilst safeguarding the funds and assets for which I am personally accountable.

*Mike Driver*  
Accountant General of the Senior Courts

15 June 2017

# 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 Funds in Court in England and Wales (Part A) for the year ended 28 February 2017 under the Administration of Justice Act 1982. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, 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 the Accountant General's responsibilities, the Accountant General, as 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 Administration of Justice Act 1982. 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 relevant to Funds in Court in England and Wales (Part A) have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made in respect of Funds in Court in England and Wales (Part A) and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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.

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of affairs relating to Funds in Court in England and Wales (Part A) as at 28 February 2017 and of the related net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and HM Treasury directions issued thereunder.

**Opinion on other matters**

In my opinion:

- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

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

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

**Report**

I have no observations to make on these financial statements.

*Sir Amyas C E Morse*  
Comptroller and Auditor General

4 July 2017

National Audit Office  
57-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

## Statement of Comprehensive Net Expenditure for the year ended 28 February 2017

		<b>28 February 2017 £000</b>	29 February 2016 £000
	Notes		
<b>Income</b>			
Interest income	2	<b>8,247</b>	11,485
Interest due to clients' accounts	3	<b>(6,880)</b>	(8,375)
<b>Net interest income</b>		<b>1,368</b>	3,110
Dividend Income	4	<b>2,980</b>	2,786
Gains/(Losses) arising from securities	5	<b>(21,881)</b>	(9,782)
Gains/(Losses) arising from foreign exchange	6	<b>12,031</b>	14,699
Income due to clients' holdings	7	<b>(36,892)</b>	(7,703)
<b>Net investment income</b>		<b>1,367</b>	3,110
Contribution from Ministry of Justice	8	<b>4,435</b>	3,051
<b>Net income</b>		<b>5,802</b>	6,161
<b>Expenses</b>			
Administrative expenses – OAG	8	<b>(6,149)</b>	(6,187)
Management charges from CRND		<b>(94)</b>	(101)
<b>Total expenses</b>		<b>(6,243)</b>	(6,288)
<b>Total comprehensive net expenditure transferred (from)/ to reserves and hereditary revenues</b>		<b>(441)</b>	(127)

*The notes on pages 25 to 33 form part of these accounts.*

## Statement of Financial Position as at 28 February 2017

	Notes	28 February 2016 £000	29 February 2016 £000
<b>Assets</b>			
<b>Current assets</b>			
Cash and Cash Equivalents	9	<b>164,709</b>	151,203
Deposits and Advances	10	<b>2,249,464</b>	2,193,286
Debt Securities	11	<b>4,287</b>	5,086
Investment Securities	12	<b>110,549</b>	102,141
<b>Total assets</b>		<b><u>2,529,009</u></b>	<u>2,451,716</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Cash Borrowings	9	-	5,694
Clients' Holdings in Debt Securities	11	<b>4,287</b>	5,086
Clients' Holdings in Investment Securities	12	<b>110,549</b>	102,141
Clients' Cash Account Balances	13	<b>2,412,104</b>	2,334,864
Other Liabilities	14	<b>1,713</b>	3,134
<b>Total current liabilities</b>		<b><u>2,528,653</u></b>	<u>2,450,919</u>
<b>Total assets less total liabilities</b>		<b><u>356</u></b>	<u>797</u>
<b>Reserves</b>	15	<b><u>356</u></b>	<u>797</u>

The notes on pages 25 to 33 form part of these accounts.

Mike Driver  
Accountant General of the Senior Courts

15 June 2017

## Statement of Cash Flows for the year ended 28 February 2017

	<b>28 February 2017 £000</b>	29 February 2016 £000
Notes		
<b>Cash flows from operating activities</b>		
Operating surplus / (Deficit)	<b>(441)</b>	(127)
(Increase)/decrease in deposits and advances	<b>439</b>	126
(Increase)/decrease in debt securities	<b>799</b>	3,277
(Increase)/decrease in investment securities	<b>(8,408)</b>	29,013
Increase/(decrease) in client cash accounts	<b>77,240</b>	(99,536)
Increase/(decrease) in client holdings in debt securities	<b>(799)</b>	(3,277)
Increase/(decrease) in client holdings in investment securities	<b>8,408</b>	(29,013)
Increase/(decrease) in other liabilities	<b>(980)</b>	(352,833)
Increase/(Decrease) in reserves	<b>(441)</b>	(127)
<b>Net cash flows from operating activities</b>	<b>75,817</b>	(452,497)
<b>Cash flows from investing activities</b>		
Net movement in short-dated cash deposits	<b>(56,617)</b>	485,149
<b>Net cash flows from investing activities</b>	<b>(56,617)</b>	485,149
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>19,200</b>	32,652
Cash and cash equivalents at 1 March	<b>145,509</b>	112,857
<b>Cash and cash equivalents at 28 February</b>	<b>164,709</b>	145,509
9		

*The notes on pages 25 to 33 form part of these accounts.*

# Notes to the Financial Statements

## 1 Statement of accounting policies

These financial statements have been prepared in accordance with the direction made by HM Treasury under section 45 of the Administration of Justice Act 1982, as detailed on page 3 of the Annual Report and Accounts. In applying this direction, due regard is given to the Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Funds in Court in England & Wales (Part A), for the purpose of giving a true and fair view has been selected. The particular policies adopted are described below. They have been applied consistently in dealing with items that are considered material to the Accounts.

### 1.1. Accounting Convention

These Accounts have been prepared under the historical cost convention, modified to account for the revaluation of certain financial assets and liabilities to the extent that such requirements are relevant to the activities of the Court Funds Office (CFO).

### 1.2. Consolidation Boundaries

There are three parts to the Accounts:

- Part A - Funds in Court – Accountant General's Accounts.
- Part B - Court Funds Investment Account (CFIA) - Commissioners for the Reduction of the National Debt (CRND)'s Accounts.
- Part C - The Equity Index Tracker Fund (EITF) - Investment Manager's Accounts.

All three parts of the accounts are prepared on an accruals basis. Part A accounts consolidate the Part B accounts and the elements of the Part C accounts that relate to CFO clients, together with the cash and securities paid into court and OAG's administrative expenses.

The Accountant General's Accounts (Part A) have been prepared in accordance with the direction given by HM Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982 (the Act). Deposits under the various enactments referred to in Section 40 of the Act are not segregated in the Accounts.

### 1.3. Recognition of Income

Interest earned, and due, for all interest-bearing financial instruments are recognised in "Interest Income" and "Interest Due to Clients' Accounts" in the Statement of Comprehensive Net Expenditure using the Effective Interest Rate (EIR) method of allocating interest over the relevant period. Interest earned, and due, is recognised from the settlement date.

Income is recognised in the Accounts on the following bases:

- interest on investments is recognised as it accrues on an EIR basis rather than on a cash received basis; dividends are accrued as they are declared;
- realised gains and losses on disposals or maturities of investments are recognised in the period they arise; and
- Valuation gains and losses on securities and collective investment schemes are recognised in the Statement of Comprehensive Net Expenditure and are included in the carrying value of those securities in the Statement of Financial Position.

#### *1.4. 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 Statement of Financial Position at market value. This reflects the nature of the client holdings which can be ordered to be repaid at any time and it would therefore be inappropriate to designate holdings as "Held to Maturity".

Fair values of investment securities are determined by reference to published price quotations in an active market.

There are certain movements in securities where no cash transfer occurs (lodgments and transfers). These include securities previously held by clients that are transferred into Court (lodgments) or securities held which are transferred to clients rather than being sold (transfers). For these movements, cash values are estimated by using closing market prices applicable on the date the transaction occurs.

The EITF is valued using Net Asset Value as at 28 February 2017.

#### *1.5. Reserves held by CRND*

Other Reserves held by CRND relate to surplus or accrued interest in the CFIA as at 28 February 2017. See note 15.

#### *1.6. Administrative Expenses - OAG*

The administrative expenses of OAG are paid in advance by the Ministry of Justice who then recover the costs from surplus interest earned on client funds in the year. OAG only incurs costs that are directly attributable to the delivery of its responsibilities to the clients. There are corporate services such as ICT, Human Resources, and Legal Services that are provided by the Ministry of Justice because it is more cost effective than OAG sourcing provision of such services itself.

#### *1.7. Client Fees*

OAG clients do not pay fees towards the costs of the services provided. OAG costs are recovered through the surplus interest earned on client funds in the CFIA. Clients with funds in the EITF pay management fees at source to Legal & General and these are reflected in the Net Asset Value of these holdings.

#### *1.8. Foreign Currency*

Assets and liabilities included in the Statement of Financial Position that have a functional currency different from the presentational currency are translated into the presentational currency at the closing rate at 28 February 2017.

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 and losses on foreign exchange movements are calculated based on monthly movements in the exchange rates.

Foreign exchange gains and losses resulting from revaluations are taken to the Statement of Comprehensive Net Expenditure, but as the risk is borne by the clients a balancing transaction is reflected to adjust clients' holdings in the functional currency.

#### *1.9. 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 & Means. The CFIA receives interest on monies swept up to NLF and pays interest on any shortfalls.

#### *1.10. Changes in Structure and Format*

There have been no major changes in structure and format to the Annual Report and Accounts.

**2 Interest Income**

	<b>28 February 2017 £000</b>	29 February 2016 £000
Foreign currency	<b>254</b>	149
Deposits and advances	<b>7,906</b>	11,222
Debt securities	<b>87</b>	114
<b>Total interest receivable</b>	<b>8,247</b>	11,485
Surplus income payable to Consolidated Fund	-	-
<b>Total Interest Income</b>	<b>8,247</b>	<b>11,485</b>

**3 Interest Due to Clients' Accounts**

	<b>28 February 2017 £000</b>	29 February 2016 £000
<b>Interest paid</b>		
Court funds – basic account	<b>(1,230)</b>	(2,769)
Court funds – special account	<b>(5,309)</b>	(5,343)
Foreign currency	<b>(254)</b>	(149)
Debt securities	<b>(87)</b>	(114)
<b>Total interest due to clients' accounts</b>	<b>(6,880)</b>	<b>(8,375)</b>

**4 Dividend Income**

	<b>28 February 2017 £000</b>	29 February 2016 £000
Dividends received in year	<b>2,912</b>	2,805
Dividends accrued – period end	<b>1,290</b>	1,222
Dividends accrued – period start	<b>(1,222)</b>	(1,241)
<b>Total dividend Income</b>	<b>2,980</b>	<b>2,786</b>

**5 Gains/(Losses) arising from securities**

	<b>28 February 2017 £000</b>	29 February 2016 £000
Client securities	<b>(21,881)</b>	(9,782)
<b>Total gains/(losses) arising from securities</b>	<b>(21,881)</b>	<b>(9,782)</b>

**6 Gains/(Losses) Arising from foreign exchange**

	<b>28 February 2017 £000</b>	29 February 2016 £000
US Dollars	<b>12,019</b>	14,684
Euros	<b>12</b>	15
<b>Total gains/(losses) arising from foreign exchange</b>	<b><u>12,031</u></b>	<b><u>14,699</u></b>

**7 Income Due to Clients' Holdings**

	<b>28 February 2017 £000</b>	29 February 2016 £000
Dividend Income	<b>(2,980)</b>	(2,786)
Gains/(losses) arising from securities	<b>(21,881)</b>	9,782
Gains/(losses) arising from foreign exchange	<b>(12,031)</b>	(14,699)
<b>Total income due to clients' holdings</b>	<b><u>(36,892)</u></b>	<b><u>(7,703)</u></b>

All income earned on securities and foreign currency accounts, and the associated risk on market movements, is solely attributable to the clients.

**8 Administrative Expenses – OAG**

	<b>28 February 2017 £000</b>	29 February 2016 £000
Staff costs	<b>(639)</b>	(649)
General support	<b>(54)</b>	(16)
Third party supplier	<b>(5,456)</b>	(5,522)
<b>Total gross expenses</b>	<b><u>(6,149)</u></b>	<b><u>(6,187)</u></b>
Contribution from Ministry of Justice	<b>4,435</b>	3,051
<b>Total net administrative expenses</b>	<b><u>(1,714)</u></b>	<b><u>(3,136)</u></b>

**9 Cash and Cash Equivalents**

	<b>28 February 2017 £000</b>	29 February 2016 £000
<b>Assets – Foreign Currency Bank Accounts</b>		
Balance at 1 March	<b>151,203</b>	113,144
Net change in cash and cash equivalents balances	<b>10,349</b>	38,059
<b>Balance at year end</b>	<b><u>161,552</u></b>	<u>151,203</u>
<b>Liabilities – Sterling Bank Accounts</b>		
Balance at 1 March	<b>(5,694)</b>	(287)
Net change in cash and cash equivalents balances	<b>8,851</b>	(5,407)
<b>Balance at year end</b>	<b><u>3,157</u></b>	<u>(5,694)</u>
<b>Net cash and cash equivalent holdings</b>	<b><u>164,709</u></b>	<u>145,509</u>

**10 Deposits and Advances**

	<b>28 February 2017 £000</b>	29 February 2016 £000
Call notice deposits	2,249,464	2,193,286
Ways & Means Account	-	-
<b>Total Deposits and Advances</b>	<b><u>2,249,464</u></b>	<u>2,193,286</u>

**11 Clients' Holdings in Debt Securities**

	<b>Nominal £000</b>	<b>Market Value £000</b>
<b>2017</b>		
Holdings held on behalf of Clients	2,134	4,262
Dividends and coupons due	–	25
<b>Total debt security holdings</b>	<b>2,134</b>	<b>4,287</b>
	<b>Nominal £000</b>	<b>Market Value £000</b>
<b>2016</b>		
Holdings held on behalf of Clients	2,554	5,058
Dividends and coupons due	–	28
<b>Total debt security holdings</b>	<b>2,554</b>	<b>5,086</b>
	<b>Nominal £000</b>	<b>Market Value £000</b>
<b>2017</b>		
Maturing in less than three months	–	–
Maturing in more than three months but less than one year	842	1,201
Maturing in more than one year but less than five years	524	1,837
Maturing in over five years	768	1,224
<b>Total debt security holdings</b>	<b>2,134</b>	<b>4,262</b>
	<b>Nominal £000</b>	<b>Market Value £000</b>
<b>2016</b>		
Maturing in less than three months	–	–
Maturing in more than three months but less than one year	3	10
Maturing in more than one year but less than five years	1,806	3,931
Maturing in over five years	745	1,117
<b>Total debt security holdings</b>	<b>2,554</b>	<b>5,058</b>

**12 Clients' Holdings in Investment Securities**

	<b>28 February 2017 £000</b>	29 February 2016 £000
<b>Market valuation summary</b>		
Equity Index Tracker Fund	<b>90,016</b>	80,989
Unit trust holdings	<b>11,207</b>	12,253
Stocks, shares and loan notes	<b>8,036</b>	7,677
<b>Total</b>	<b><u>109,259</u></b>	<b><u>100,919</u></b>
<b>Dividends and coupons due</b>		
Equity Index Tracker Fund	<b>1,163</b>	1,208
Unit trust holdings	<b>122</b>	13
Stocks, shares and loan notes	<b>5</b>	1
<b>Total</b>	<b><u>1,290</u></b>	<b><u>1,222</u></b>
<b>Total value of investment securities</b>		
Equity Index Tracker Fund	<b>91,179</b>	82,197
Unit trust holdings	<b>11,329</b>	12,266
Stocks, shares and loan notes	<b>8,041</b>	7,678
<b>Total</b>	<b><u>110,549</u></b>	<b><u>102,141</u></b>
<b>Market holdings summary (Units)</b>		
Equity Index Tracker Fund	<b>5,603</b>	6,322
Unit trust holdings	<b>7,498</b>	9,244
Stocks, shares and loan notes	<b>841</b>	1,181
<b>Total investment securities</b>	<b><u>13,942</u></b>	<b><u>16,747</u></b>
<b>Movements in holdings during the year (units)</b>		
Balance at start of year	<b>16,747</b>	21,319
Purchases during year	<b>1,058</b>	2,042
Sold during Year	<b>(1,428)</b>	(2,176)
Net transfers (to)/from clients	<b>(2,435)</b>	(4,438)
<b>Balance as at year end</b>	<b><u>13,942</u></b>	<b><u>16,747</u></b>

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

- Holdings in the Equity Index Tracker Fund (EITF) managed by Legal & General (Unit Trust Managers) Limited.
- Holdings of unit trusts lodged in court by clients; and
- Holdings of individual stocks and shares, and National Savings Certificates lodged in court by clients.

The note sets out the market value of these holdings along with the associated accrued income. The note also provides an analysis of the number of units held for investment securities and details the in-year movements in terms of purchases, sales and transfers.

EITF holdings as at 28 February 2017 were valued at a Net Asset Value of 1,618 pence (1,281 pence as at 29 February 2016).

**13 Clients' Cash Account Balances**

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

	<b>28 February 2017 £000</b>	29 February 2016 £000
Court Funds placed on Basic Account	<b>795,301</b>	885,956
Court Funds placed on Special Account	<b>1,041,397</b>	1,044,479
Unclaimed balances	<b>317,896</b>	164,530
Other suitors deposited in the senior courts	<b>95,957</b>	88,696
Clients' monies held as Foreign Currency	<b>161,553</b>	151,203
<b>Total client cash balances</b>	<b><u>2,412,104</u></b>	<b><u>2,334,864</u></b>

**13a Clients' receipts and payments during year**

	<b>28 February 2017 £000</b>	29 February 2016 £000
<b>Opening balance</b>	<b>2,334,864</b>	<b>2,434,400</b>
Lodgments by clients	<b>518,706</b>	426,777
Sales of EITF units and other securities	<b>14,487</b>	18,330
Dividends and Interest paid on securities	<b>2,859</b>	2,964
<b>Total lodgments from clients</b>	<b><u>536,052</u></b>	<b><u>448,071</u></b>
Payments to clients	<b>(484,447)</b>	(580,401)
Purchase of EITF units and other securities	<b>7,500</b>	9,836
Transfer of surplus funds to Exchequer (HMT)	-	-
<b>Total payments to clients</b>	<b><u>(476,947)</u></b>	<b><u>(570,565)</u></b>
Interest Paid and Credited to Court Accounts NAIFCD	<b>4,533</b> -	5,899 -
Gains/(Losses) Arising from Foreign Exchange	<b>12,031</b>	14,699
<b>Closing balance</b>	<b><u>2,410,533</u></b>	<b><u>2,332,504</u></b>
<b>Add accrued interest</b>	<b>1,571</b>	2,360
<b>Total client balances</b>	<b><u>2,412,104</u></b>	<b><u>2,334,864</u></b>

**14 Other Liabilities**

	<b>28 February 2017 £000</b>	29 February 2016 £000
Interest due to Consolidated Fund	-	-
Administrative expenses – OAG	<b>1,713</b>	3,134
<b>Total other liabilities</b>	<b>1,713</b>	<b>3,134</b>

Other liabilities relate to costs against the CFIA which were outstanding at the end of the financial year.

**15 Reserves**

	<b>28 February 2017 £000</b>	29 February 2016 £000
<b>Interest Reserves held by CRND</b>		
Opening Balance	<b>797</b>	924
Total Comprehensive Net Expenditure	<b>(441)</b>	(127)
<b>Closing Balance</b>	<b>356</b>	797
<b>Total Reserves</b>		
Opening Balance	<b>797</b>	924
Total Movements	<b>(441)</b>	(127)
<b>Closing Balance</b>	<b>356</b>	797

**16 Events after the Reporting Period**

There were no post balance sheet events.

**17 Provisions for Liabilities and Charges**

There were no provisions made for liabilities and charges within the reporting period.

**18 Contingent Liability**

There were no contingent liabilities as at 28 February 2017 or 29 February 2016.

**19 Physical Effects**

The Accountant General acts as custodian for client physical effects that have been paid into court. These assets generally have no financial value consisting of legal documents, deeds and wills.

There are two assets that have a notional financial value as follows:

- Sixteen gold US Dollar coins paid into court in the early 20th Century. These are held in a safety deposit box with the Royal Bank of Scotland; and
- A bag of 1,746 silver and 4 gold coins paid into court in the 18th Century. These are currently on loan to the British Museum but remain under the custodianship of the Accountant General. These have an estimated value of £60,000.

During the production of the 2016-17 accounts both sets of coins were counted and verified.

## Accounts Direction given by HM Treasury

Funds in court in England And Wales – account of the transactions of the Accountant General Under Section 38 of the Administration Of Justice Act 1982

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 Senior Courts shall prepare accounts for the financial year ending 28 February 2010 and for each subsequent financial year ending on the last day of February. The financial statements shall include the following information:

- Annual Report;
- Statement of the Accountant General's Responsibilities;
- Statement on Internal Control;
- Income Statement;
- Statement of Financial Position; and
- Statement of Cash Flows.

The financial statements shall include 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 financial statements shall be prepared so as to give a true and fair view of the state of affairs as at 28 February 2010 and subsequent financial year ends and of the income and expenditure and cash flows of the year then ended.

3. Subject to the requirements in (2) above, the financial statements shall be prepared in accordance with

- International Financial Reporting Standards, adapted and interpreted for the public sector context. In applying the Standards, the entity shall have regard to the *Government Financial Reporting Manual*.
- Any other relevant guidance which HM Treasury may issue from time to time in respect of financial statements which are required to give a true and fair view.

4 The financial statements shall be sent to the Comptroller and Auditor General not later than the last day of July following the end of the accounting period.

5 The Management Report shall state that the financial statements 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 shall be reproduced as an appendix to the financial statements.

7 This direction replaces the direction dated 7 August 2006.

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

19 February 2010

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

## Accounts for the year ended 28 February 2017

### Performance Report

#### Overview

The purpose of the overview is to provide sufficient information to understand the Court Funds Investment Account (CFIA), its purpose, the key risks to the achievement of its objectives, and how it has performed during the year.

These accounts have been prepared by the Commissioners for the Reduction of the National Debt (CRND) under a direction issued by HM Treasury in accordance with section 45 of the Administration of Justice Act 1982 (the Act).

#### **Purpose and principal activities of the Court Funds Investment Account**

The CFIA facilitates the operation of the basic and special accounts operated by the Office of the Accountant General (OAG) for suitors' funds paid into court in England and Wales; it also contains funds due to the Consolidated Fund.

By virtue of rules made under section 38(7) of the Act, on days when the Accountant General of the Senior Courts (the Accountant General) has excess cash in her account she remits the excess to CRND for investment in the CFIA, and on days when the balance in her account is insufficient to meet demands she makes a withdrawal from the CFIA to 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 limited 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 are reinvested in authorised securities. The resulting investments are held in the CFIA.

In recent years, CRND predominantly placed the funds of the CFIA with the Debt Management Account (one of HM Governments central Exchequer accounts) and occasionally transacted in UK Government gilt-edged securities (gilts). During 2016-2017, CRND placed the funds of the CFIA with the Debt Management Account or the National Loans Fund.

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:

- any sum required by HM Treasury to be set aside to provide for depreciation in the value of investments so made;
- such sum as the Lord Chancellor may with the concurrence of HM Treasury direct to be paid to him in respect of the cost to him in that year of administering funds in court;
- an amount equal to the expenses incurred by CRND in that year in making the investments above and disposing of investments so made; and
- the interest due to be paid or credited on funds in court.

Section 39(5) of the Act provides a guarantee by the Consolidated Fund of the capital paid to CRND by the Accountant General in an instance when CRND are unable to pay a sum due to the Accountant General.

A deficit that exceeds the remaining reserves would lead to a call on the Consolidated Fund to meet any shortfall under section 39(3) of the Act.

### **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.

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 OAG 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.

### **Performance summary**

During 2016-2017, in accordance with the Memorandum of Understanding, the CFIA was invested in short-term deposits with the Debt Management Account. This strategy enabled the CFIA to earn a rate of interest very closely correlated with prevailing short-term sterling interest rates, whilst protecting its capital position and access to liquidity.

In the event of the CFIA having insufficient interest to meet its obligations, reserves would be used to cover the shortfall. Where reserves were insufficient to meet the obligations to suitors in any given year, the necessary funds would be recovered from the Consolidated Fund.

In accordance with section 39(2)(b) of the Act, the OAG obtained HM Treasury's concurrence to make a charge of £1.7 million (2015-2016: £3.1 million) in respect of the cost of administering funds in court. (OAG also received a subsidy from the Ministry of Justice which covered the remainder of the costs of administering funds in court and this subsidy meant that the charge to the CFIA was lower than the full costs incurred by OAG.)

The CFIA generated sufficient interest to meet its obligations to suitors (interest payable on funds in court) after deducting the relevant amounts in respect of CRND's management expenses, OAG's costs of administering funds in court and any surplus payable to the Consolidated Fund.

### **Performance analysis**

During 2016-2017, total income before client expenses was £7.9 million (2015-2016: £11.2 million). The reduction in income was primarily due to the fall in interest rates on the CFIA's investments with the Debt Management Account, which corresponded to the fall in the official Bank Rate from 0.5% to 0.25% on 4 August 2016. Interest payable on funds in court was £6.5 million (2015-2016: £8.1 million), CRND's management expenses were £0.1 million (2015-2016: £0.1 million), surplus due/deficit receivable from the Consolidated Fund was nil (2015-2016: nil) and the OAG's costs of administering funds in court were £1.7 million (2015-2016: £3.1 million). This resulted in an overall deficit for the year of £0.4 million (2015-2016: £0.1 million deficit).

The OAG deposited £51.5 million (net of withdrawals) in the CFIA over the course of the year (2015 2016: £140.3 million net withdrawal).

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

13 June 2017

# Accountability Report

The accountability report comprises two sections: a corporate governance report and a parliamentary accountability and audit report. The corporate governance report includes the following information: the responsibilities of the Secretary and Comptroller General; the composition, responsibilities and actions of the Managing Board and Audit Committee and how they have supported the Secretary and Comptroller General and enabled the objectives of the CFIA; the key risks faced by the CFIA and how it seeks to manage them. The parliamentary accountability and audit report includes a formal opinion by the CFIA's external auditor to certify that the financial statements give a true and fair view of the state of the CFIA's affairs for the year and that they have been prepared in accordance with all relevant rules.

These two sections contribute to the CFIA's accountability to parliament and comply with best practice in relation to corporate governance norms and codes. In particular, the corporate governance report seeks to do so by describing the key mechanisms the CFIA employs to ensure it maintains high standards of conduct and performance. This includes the statement of Secretary and Comptroller General's responsibilities which describes her accountability to Parliament for the CFIA's use of resources and compliance with rules set by HM Treasury to ensure best practice in financial management. The governance statement reflects the applicable principles of the Corporate Governance Code for Central Government Departments. The parliamentary accountability and audit report confirms that expenditure and income of the CFIA have been applied to the purposes intended by Parliament and confirms that information in the parliamentary accountability disclosures has been audited and approved by external auditors.

## Corporate governance report

### Directors' report

Operationally, the CRND is part of the DMO and its staff are employees of the DMO. The CRND therefore has no staff of its own. The structure of the CRND is described on page 36.

### **Directors' conflicts of interest**

In 2016-2017, no material conflicts of interest were noted by DMO Managing Board members in the Register of Interests.

### **Reporting of personal data related incidents**

The CFIA had no protected personal data related incidents during 2016-2017.

*Jo Whelan* 13 June 2017  
Secretary and Comptroller General to the  
Commissioners for the Reduction of the National Debt

## Statement of Secretary and Comptroller General's responsibilities

Section 45(2) of the 1982 Act requires the Commissioners to prepare for each financial year a statement of accounts 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 CFIA, its income and expenditure, changes in client funds and cash flows for the financial year.

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.

In preparing the accounts, the Secretary and Comptroller General is required to observe the applicable accounting standards and be consistent with the relevant requirements of the Government Financial Reporting Manual (FRoM), and in particular to:

- observe the relevant 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 have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going-concern basis.

As the role of the Secretary and Comptroller General is analogous to acting as an Accounting Officer, it is considered that the responsibilities of an Accounting Officer, as set out in *Managing Public Money* published by HM Treasury, apply to the Secretary and Comptroller General. These include responsibility for the propriety and regularity of the public finances for which the Secretary and Comptroller General is answerable, for keeping proper records, and for safeguarding the CFIA's assets.

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

# Governance Statement

## Scope of responsibility

As Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt (CRND), I am responsible 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 governance statement 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.

CRND is committed to the highest standards of corporate governance and is guided by the Corporate Governance Code for central government departments (the Code) and the following principles laid down in that Code:

- parliamentary accountability;
- the role of the Board;
- board composition;
- board effectiveness; and
- risk management.

CRND does not conduct any part of its business with or through arm's length bodies (ALBs) and therefore has not applied principle six which covers departmental governance arrangements with ALBs.

## Managing Board

The Secretary and Comptroller General was supported during 2016-2017 by the DMO Managing Board (the Board) which, in addition to the Secretary and Comptroller General, is comprised of:

Sir Robert Stheeman  
DMO Chief Executive and Accounting Officer

Jim Juffs  
Chief Operating Officer

Jessica Pulay  
Co-Head of Policy and Markets

James Richardson (resigned 31 March 2016)  
Non-executive HM Treasury representative

Richard Hughes (appointed 1 August 2016)  
Non-executive HM Treasury representative

Brian Larkman (resigned 31 December 2016)

Non-executive director – Brian Larkman was Global Head of Money Markets at the Royal Bank of Scotland PLC from 2000 to 2001 and Managing Director, Global Money Markets at National Westminster Bank PLC from 1991 to 2000. He was a member of the Regulatory Decisions Committee of the Financial Services Authority until 2006.

Brian Duffin

Non-executive director – Brian Duffin was Chief Executive of Scottish Life from 1999 to 2007 and Executive Director of Royal London Mutual from 2001 to 2007.

Paul Fisher (appointed 1 December 2016)

Non-executive director – During a 26 year career at the Bank of England, Paul Fisher served as a member of the Monetary Policy Committee from 2009 to 2014, the interim Financial Policy Committee from 2011 to 2013 and the PRA Board from 2015 to 2016. He has a number of current roles including Chair of the London Bullion Market Association.

Non-executive directors are appointed by the DMO Accounting Officer following a formal process and have fixed terms defined in their contracts of service. All non-executive Board members receive an induction on joining and have access to additional information and training where it is considered necessary for the effective discharge of their duties.

One of the roles of the Board is to advise the Secretary and Comptroller General on any key decisions affecting CRND.

An executive sub-committee of the Board generally meets weekly and supports the Secretary and Comptroller General on operational decisions.

The Board has put in place a formal process to self-evaluate its performance on a regular basis. The Board undertook a self-evaluation of its performance in 2015 and concluded that it has operated effectively in delivering the objectives set out in its Terms of Reference, and that the information used by the Board was accurate and relevant. The Terms of Reference underwent a review by the Board in 2017.

## 2016-17 Managing Board activities

Board meetings were held throughout 2016-2017 and covered regular agenda items, including risk management, staffing and progress against the operational business plan.

Board and Audit Committee attendance is outlined in the table below:

	Managing Board			
	Possible	Actual		
Robert Stheeman	8	8		
Jo Whelan	8	8		
Jim Juffs	8	8		
Jessica Pulay	8	8		
James Richardson	1	1	Audit Committee	
Richard Hughes	4	2	Possible	Actual
Brian Larkman	7	5	3	0*
Brian Duffin	8	7	4	4
Paul Fisher	2	2	1	0
Caroline Mawhood	n/a	n/a	4	4

(\*) Not present, comments received

## Audit Committee

The Secretary and Comptroller General was supported during 2016-2017 by the Audit Committee on matters relating to risk, internal control and governance. The members of the Audit Committee during 2016-2017 were:

Brian Larkman (resigned 31 December 2016)

Brian Duffin (Chairman)

Paul Fisher (appointed 1 December 2016)

Caroline Mawhood – Caroline Mawhood was an Assistant Auditor General at the National Audit Office until 2009 and President of the Chartered Institute of Public Finance and Accountancy for 2008 - 2009. She is a non-executive member of the Audit Committees of the Department of Energy and Climate Change (until June 2016) and the Corporation of London and one of two external members of the Audit Progress Committee of the European Commission. She is also the Honorary Treasurer of Breast Cancer Now charity (until September 2016) and a trustee of the Wimbledon Guild charity.

Audit Committee meetings are typically attended by the DMO Accounting Officer, the Secretary and Comptroller General, the Co-Heads of Policy & Markets, the Chief Operating Officer, the Head of Internal Audit and the National Audit Office.

One of the Audit Committee's objectives is to give advice to the Secretary and Comptroller General on:

- the overall processes for risk, control and governance and the governance statement;
- management assurances and appropriate actions to follow from internal and external audit findings, risk analysis and reporting undertaken;
- the financial control framework and supporting compliance culture;
- accounting policies and material judgements, the accounts and the annual report and management's letter of representation to the external auditors;
- whistle-blowing arrangements for confidentially raising and investigating concerns over possible improprieties in the conduct of the DMO's business;
- processes to protect against money laundering, fraud and corruption; and
- the planned activity and results of both internal and external audit.

During the period under review the Audit Committee paid particular attention to the following areas:

- business continuity management;
- operational risk management;
- IT access controls;
- staff development and retention;
- IT resilience, recovery and security environment;
- trading system interface control;
- effectiveness of whistleblowing arrangements;
- anti-money laundering arrangements.

The Audit Committee covers a regular programme of agenda items, together with other current topics, through an annual schedule of four meetings. All scheduled meetings were held and no additional meetings were deemed necessary.

The Secretary and Comptroller General has also been informed by the following operational committees throughout the period under review:

### **Fund Management Review Committee**

The Fund Management Review Committee monitors CRND activity relating to the performance of the government funds under management, including any reporting on compliance activities undertaken in relation to the funds.

The Fund Management Review Committee met four times in 2016-2017.

### **Business Delivery Committee**

The Business Delivery Committee reviews the status of the delivery of DMO's business and work plan as a collective cross functional body, resolving emerging issues in a timely way, and agreeing priorities to ensure the plan stays on track.

The Business Delivery Committee met regularly (typically weekly) throughout 2016-2017.

### **Risk Committees**

The Secretary and Comptroller General is informed by three risk committees covering credit and market risk, operational risk and risk control. More detail on the roles, responsibilities and activities of these committees can be found in the sections below.

## **Risk management and internal control**

The Secretary and Comptroller General is responsible for maintaining 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 she is accountable, in accordance with the responsibilities assigned to her.

CRND is managed within the wider DMO system of internal control which is based upon what the DMO Accounting Officer, with the support of the Board, considers to be appropriate taking account of the DMO's activities, the materiality of risks inherent in those activities and the relative costs and benefits of implementing specific controls to mitigate those risks. The DMO's position differs to that of a commercial organisation in that it must always be in a position to transact the underlying business required to meet its remit. As a result the risks associated with this activity cannot be avoided and the system of internal control can only provide reasonable assurance against failure to achieve aims and objectives.

## **The risk and control Framework**

The Board has designed and put in place a formal risk management framework covering all the activities conducted and overseen by the DMO. This Framework helps ensure that the DMO Accounting Officer is appropriately informed and advised of any identified risks and also allows the management of risks to be monitored. The risk management framework covers both regular operations and new business initiatives, and evolves as the range and nature of the DMO's activities change. The Framework is supported by a clear 'three lines of defence' model:

### **First line of defence**

Day-to-day management of risk is the responsibility of management staff within business areas. The DMO considers effective risk management to be central to its operations and fosters a risk aware culture in which all members of staff, including Board members, are encouraged to understand and own the risks that are inherent in those operations. In particular the DMO seeks to promote an environment in which staff feel comfortable to identify new risks and changes in previously identified risks, as well as weaknesses so that these may be assessed and appropriate mitigating actions put in place.

Mitigating actions typically include segregation of duties, staff training, clear lines of management delegation and robust business continuity arrangements.

### **Second line of defence**

Oversight of risk is provided by the Board and risk committees, whose role is to provide regular and systematic scrutiny of risk issues which lie within their remit and to support the DMO Accounting Officer in exercising his overall responsibility for risk management.

The DMO considers that the principal risks it faces arise in three broad areas: credit risk, market risk and operational risk. It has established committees to meet regularly to review the changing risk pattern for each of these areas and to set up appropriate responses. The work of these committees is described in more detail below.

#### **Credit and Market Risk Committee**

The Credit and Market Risk Committee (CMRC) meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. It monitors and reviews the management of market, credit, and liquidity risk. It sets limits across a range of exposures including counterparties, countries, instruments held as collateral as well as setting absolute limits on net daily flows across the DMA. The CMRC met eleven times during 2016-2017.

#### **Operational Risk Committee**

The Operational Risk Committee (ORC) meets regularly to monitor operational risks and to review significant risk issues. The ORC is responsible for reviewing risk incidents identified through the DMO's risk incident reporting process, and considering whether planned mitigating action is appropriate. The Committee also reviews and tracks the progress of actions identified by Internal Audit. The Committee's scope includes issues relating to information risk, IT security, business continuity, anti-fraud and key supplier risks.

The ORC has advised the DMO Accounting Officer and the Board, during the year, on significant operational risk concerns, significant risk issues and trends as well as actions to mitigate such risks. The Committee has focused this year on transaction processing risks and controls, IT and data security and business continuity planning. The ORC met nine times during 2016-2017.

#### **Controls Group**

The Controls Group meets periodically to review issues affecting the DMO's system of internal control and to analyse material changes to the control environment. The Group recommends actions to management to implement changes where appropriate. The Controls Group consists of representatives from Finance, Risk, Compliance and Internal Audit.

The Controls Group has advised the DMO Accounting Officer, the Board and senior management on any significant risk concerns stemming from the introduction of new business activities as well as risks relating to other change management activities. The Group has also advised the DMO Accounting Officer on suitable mitigating action where appropriate.

During the year the Controls Group review work has covered the DMO's core trading system, project work to strengthen changes to the control environment, enhancements to transaction processes and improvements in IT change management processes.

### **Risk Management Unit (RMU)**

The risk committees are supported by the DMO's Risk Management Unit (RMU) which ensures key risk issues arising from these committees are communicated to the DMO Accounting Officer and senior management on a regular basis, with additional ad hoc reporting if an emerging issue requires it. The RMU also supports the formal risk reporting processes with defined outputs, including regular detailed risk reports which are reviewed by the Board and senior management.

As well as supporting the risk committee structure, the RMU provides control advice on risks. As part of the second line of defence the RMU is separate from, and independent of, the DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risk is facilitated by the RMU via quarterly consultations with heads of business units and functional teams. Significant risk issues are assessed for materiality and probability of occurrence. New risks, and risks to which exposure is increasing, are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. The RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Progress against treatment actions is monitored on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines.

### **Third line of defence**

The DMO's Internal Audit function provides the DMO Accounting Officer with independent and objective assurance on the overall effectiveness of the Agency's system of internal control. It does this through a risk based work programme which is approved by the Audit Committee at the start of each year. All audits make a series of findings relating to control weaknesses. Remedial actions once agreed with management, are monitored for implementation. Progress against treatment actions is monitored on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines. The function is independent of the DMO's trading activities and operations and has a direct reporting line to the DMO Accounting Officer. The work of Internal Audit includes assessing the effectiveness of both control design and control performance. With its independence and overall remit, Internal Audit provides a third line of defence against the risks that might prevent the DMO delivering its objectives.

### **Risk policies and procedures**

The DMO's risk policies reflect the high standards and robust requirements which determine the way in which risks are managed and controlled. The DMO Accounting Officer, with the support of the Board, ensures that policies are regularly reviewed to reflect any changes in the DMO's operations and/or best practice. In 2016-2017, this included the DMO's Anti-Fraud Policy, the Data Protection Policy and Whistleblowing Policy.

Staff are required to signify that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the use of information systems and technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies on whistle blowing, fraud and anti-money laundering. The DMO ensures that this exercise is undertaken on an annual basis allowing staff to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions which include reference to the specific key risks they are expected to manage.

Managers in each business function are responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation.

## Risk profile

The Secretary and Comptroller General and the DMO Board believe that the principal risks and uncertainties facing CRND are outlined in the table below together with the key actions taken to manage and mitigate them:

Principal risks and uncertainties	Mitigation and management
<b>IT Systems and infrastructure</b>	
<p>C RND relies on a number of IT and communications systems to conduct its operations effectively and efficiently.</p> <p>A number of the operational systems and services on which CRND relies are provided or supported by third party suppliers.</p>	<p>During the year the DMO has undertaken a review of its most significant IT systems in the context of current and anticipated business requirements including those of CRND and is working to enhance and improve transaction processing systems. These improvements include the technology contingency processes and the ease of operating from alternative sites. The DMO has put in place structured business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business operations.</p> <p>To mitigate the risk of failure of a key third party the DMO undertakes a corporate risk assessment of each potential supplier in order to assess financial strength and operational capacity. The DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against agreed Service Level Agreements.</p>
<b>Transaction processing</b>	
<p>CRND relies on its operational processes to successfully execute a significant number of high value transactions on a daily basis. Reliance on the accurate execution of processes exposes CRND to operational risk arising from process breakdown and human error.</p>	<p>A key component of CRND's control framework is the segregation of duties to ensure independent checking and reconciliation, and to 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 activities.</p> <p>All teams, including CRND, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.</p> <p>The RMU conducts regular control and compliance testing of CRND activities, providing the executive sub-committee of the Board with assurance on the effectiveness of operational controls and compliance with relevant Financial Conduct Authority and Prudential Regulation Authority rules in the dealing and settlement areas.</p> <p>The DMO also maintains a strong audit and control environment which includes a well embedded incident reporting procedure which extends to cover CRND. This promotes early identification and resolution of risk incidents and provides visibility to the DMO Accounting Officer and Board.</p> <p>DMO recruitment policies help ensure that individuals with the appropriate level of skill and experience are appointed at all levels within the organisation. This helps mitigate the level of human error resulting in process failures.</p>

<b>People risk</b>	
<p>The DMO, including CRND, relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, and to deliver its strategic objectives.</p> <p>The DMO is exposed to an increased risk of operational failure if it is unable to compete for, and retain, sufficiently skilled staff over time. Competition for skilled staff is generally against employers from the private financial services sector which is not subject to public sector remuneration policies and which have historically offered higher remuneration than either the private sector in general or the public sector.</p>	<p>The DMO's Training and Development policy is designed to help ensure that staff have the right skills to meet its objectives.</p> <p>The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates.</p> <p>The DMO has put in place a formal performance appraisal process and all staff are given clear and achievable objectives. Where appropriate, staff are encouraged to engage in activities which promote development and the DMO provides regular training opportunities and support for professional studies to enhance the skills base of its employees. The DMO also provides cross-training for different roles to help improve staffing flexibility and reduce turnover pressure.</p> <p>Salaries are reviewed annually, taking account of benchmarks derived from equivalent private sector pay levels. During the year particular consideration has been given to the issues faced by staff working increased hours and weekends on the programme to strengthen IT infrastructure. The DMO has a policy to recognise those staff who have performed well in their roles through the payment of one off performance related awards. Any awards are assessed annually by the DMO Pay Committee, are determined by individual performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay.</p> <p>A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been an effective conduit for wider communication and consultation with all staff.</p> <p>On an annual basis all DMO staff are encouraged to take part in the Civil Service employee engagement survey and any issues raised, including mitigating action if required, will be considered by the DMO Accounting Officer and Board.</p> <p>The DMO is accredited as an Investor in People.</p>

<b>IT and data security</b>	
<p>Through its activities the DMO gathers, disseminates and maintains sensitive information including market sensitive information and personal data about staff and market participants. The DMO seeks to ensure the highest standards of data protection and information management.</p> <p>The DMO is exposed to risk of an external attack on its IT systems and infrastructure.</p>	<p>The DMO continues to work to maintain the required level of protective security covering physical, personnel and information security and is particularly aware of the growing threat posed by cyber security risk. IT and data security risks continued to be a specific area of focus in 2016-2017 and the DMO's IT team have been enhancing the security environment and appropriateness of transaction systems and processes.</p> <p>Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. The DMO has a Senior Information Risk Owner (SIRO) who is responsible for the information risk policy and the assessment of information risks. The SIRO is a member of the Board and provides advice to Board members on the management of information risk.</p> <p>The DMO has put in place several layers to defend against external attack and its infrastructure undergoes an annual penetration test.</p>

**Review of effectiveness**

I have reviewed the effectiveness of the system of internal control and confirm that an ongoing process designed to identify, evaluate and prioritise risks to the achievement of CRND's aims and objectives has been in place throughout 2016-2017. This review included an assessment of any material risk and control issues identified and reported during the relevant period.

My review has been informed by the advice of the risk committees and by the work of the internal auditors and the executive managers within the DMO, who have been delegated 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.

In my role as Secretary and Comptroller General I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee.

In 2016-2017, no ministerial directions were given and no material conflicts of interest have been noted by the Board or Audit Committee members in the Register of Interests.

In my opinion, CRND's system of internal control was effective throughout the financial year and remains so on the date I sign this statement.

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

13 June 2017

## Parliamentary accountability and audit report

### Regularity of expenditure

The investments, income and expenditure of the CFIA were applied to the purposes intended by Parliament.

The above statement has been audited.

### Fees and charges

The CFIA received no fees or charges during the year.

The above statement has been audited.

# 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 2017 under the Administration of Justice Act 1982. The financial statements comprise: the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Client Funds; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Parliamentary Accountability disclosures that are described in that report as having been audited.

Respective responsibilities of the Commissioners for the Reduction of National Debt, the Secretary and Comptroller General to the Commissioners for the Reduction of National Debt and the Auditor

As explained more fully in the Statement of Secretary and Comptroller General's Responsibilities, the Commissioners are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. They have appointed the Secretary and Comptroller General to discharge these responsibilities.

My responsibility is to audit, certify and report on the financial statements in accordance with the Administration of Justice Act 1982. 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 Court Funds Investment Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Secretary and Comptroller General; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Performance Report and Accountability Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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.

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Court Funds Investment Account's affairs as at 28 February 2017 and of its net deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and HM Treasury directions issued thereunder.

### **Opinion on other matters**

In my opinion

- the parts of the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance the Administration of Justice Act 1982 and HM Treasury directions issued thereunder; and
- the information given in Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements

### **Matters on which I report by exception**

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

- adequate accounting records have not been kept; or
- the financial statements and the parts of the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

### **Report**

I have no observations to make on these financial statements.

Sir Amyas C E Morse  
Comptroller and Auditor General

15 June 2017

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

## Court Funds Investment Account Statement of Comprehensive Income for the year ended 28 February 2017

	Notes	2017 £000	2016 £000
Interest income		<b>7,905</b>	11,221
<b>Total income</b>		<b>7,905</b>	11,221
CRND management expenses		<b>(94)</b>	(101)
OAG cost of administering funds in court		<b>(1,713)</b>	(3,134)
Interest payable on funds in court		<b>(6,539)</b>	(8,111)
Payable to the Consolidated Fund	3	-	-
Deficit for the year		<u><b>(441)</b></u>	<u>(125)</u>

*The notes on page 55 to 57 form part of these accounts.*

## Court Funds Investment Account Statement of Financial Position as at 28 February 2017

	Notes	2017 £000	2016 £000
<b>Assets</b>			
Demand deposits with			
the Debt Management		<b>2,249,464</b>	2,193,287
the National Loans Fund			
<b>Total</b>		<b><u>2,249,464</u></b>	<u>2,193,287</u>
<b>Liabilities and Client funds</b>			
<b>Liabilities</b>			
OAG costs of administering funds in court		<b>1,713</b>	3,134
HMT funds			
Surplus payable to the Consolidated Fund	3	-	-
		<u>-</u>	<u>-</u>
<b>Client funds</b>			
OAG funds		<b>2,247,393</b>	2,189,354
Reserves		<b>358</b>	799
		<b><u>2,247,751</u></b>	<u>2,190,153</u>
<b>Total</b>		<b><u>2,249,464</u></b>	<u>2,193,287</u>

*The notes on page 55 to 57 form part of these accounts.*

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

13 June 2017

## Court Funds Investment Account Statement of Cash Flows for the year ended 28 February 2017

	2017 £000	2016 £000
<b>Operating activities</b>		
Interest received on demand deposits with the Debt Management Account and the National Loans Fund	<b>8,346</b>	11,346
Decrease in demand deposits the Debt Management Account and the National Loans Fund	<b>(56,618)</b>	485,149
CRND management expenses	<b>(94)</b>	(101)
OAG cost of administering funds in court	<b>(3,134)</b>	(4,603)
Payment to the Consolidated Fund	-	-
<b>Net cash from operating activities</b>	<b>(51,500)</b>	491,791
 <b>Financing activities</b>		
Funds received from the OAG	<b>199,000</b>	130,700
Funds paid to the OAG	<b>(147,500)</b>	(271,000)
Payment of Hereditary Revenues to the Consolidated Fund	-	(351,491)
<b>Net cash used in financing activities</b>	<b>51,500</b>	(491,791)
 <b>Increase in cash</b>	<b>-</b>	-

*The notes on page 55 to 57 form part of these accounts.*

## Court Funds Investment Account Statement of changes in Client Funds for the year ended 28 February 2017

	OAG funds (excluding reserves) £000	Reserves £000	Total Client funds £000
<b>At 1 March 2015</b>	<b>2,321,543</b>	<b>924</b>	<b>2,322,467</b>
Deficit for the year	-	(125)	(125)
Interest payable on funds in court	8,111	-	8,111
Funds received from the OAG	130,700	-	130,700
Funds paid to the OAG	(271,000)	-	(271,000)
<b>At 29 February 2016</b>	<b><u>2,189,354</u></b>	<b><u>799</u></b>	<b><u>2,190,153</u></b>
Deficit for the year	-	(441)	(441)
Interest payable on funds in court	6,539	-	6,539
Funds received from the OAG	199,000	-	199,000
Funds paid to the OAG	(147,500)	-	(147,500)
<b>At 28 February 2017</b>	<b><u>2,247,393</u></b>	<b><u>358</u></b>	<b><u>(2,247,751)</u></b>

*The notes on page 55 to 57 form part of these accounts.*

# Notes to the accounts for the year ended 28 February 2017

## 1 Accounting policies

### 1.1 Basis of preparation

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 in accordance with International Financial Reporting Standards (IFRS) in so far as they are appropriate, and under the historical cost convention and on a going concern basis. In particular, the following standards have been applied:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements (revised 2007)
- IAS 7 Statement of Cash Flows
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Reporting Period
- IAS 18 Revenue
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement

Certain IFRS have been issued or revised, but are not yet effective. Those issues or revisions expected to be relevant in subsequent reporting periods are:

- IAS 7 Statement of Cash Flows, which has been revised as part of the IASB's 'Disclosure Initiative (Amendments to IAS 7)'. Application is required for reporting periods beginning on or after 1 January 2017. The CFIA expects to apply these revisions to IAS 7 in 2017-2018. The application of these revisions, which ensure that users can evaluate changes in financing, may result in additional disclosures regarding changes in liabilities arising from financing activities of the CFIA.
- IFRS 9 Financial Instruments, which will replace IAS 39. Application is required for reporting periods beginning on or after 1 January 2018. The CFIA expects to apply IFRS 9 in 2018-2019. The application of IFRS 9, which sets out requirements for recognition, measurement, impairment and derecognition of financial instruments, is not expected to alter the reporting of financial instruments in the CFIA.

A separate income statement, as required by the accounts direction, has not been presented as the content would be identical to the statement of comprehensive income. A statement of comprehensive income is required by IAS

### 1.2 Assets

#### Demand deposits

Deposits with the Debt Management Account and the National Loans Fund are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are therefore treated as loans and receivables measured at amortised cost.

### 1.3 Income recognition

Interest income is recognised using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the instrument.

## 2 Hereditary Revenues

Hereditary Revenues are net capital profits realised in the CFIA on the sale or disposal of gilts in prior years.

On 26 March 2015, the CFIA paid to the Consolidated Fund all £351.5 million of its Hereditary Revenues. This followed agreement with OAG and HM Treasury that these funds should be surrendered to the Consolidated Fund in accordance with the Civil List Act 1952.

Hereditary Revenues at 28 February 2017 were therefore nil (29 February 2016: nil).

## 3 Surplus payable to the Consolidated Fund

The surplus payable to the Consolidated Fund at the end of each year is paid over during the following year.

	2017 £000	2016 £000
Interest received	8,346	11,346
Interest payable on funds in court	(6,539)	(8,111)
Cost of administering funds in court		
OAG costs	(1,713)	(3,134)
CRND management expenses	(94)	(101)
	<u>(1,807)</u>	<u>(3,235)</u>
<b>Surplus payable to the Consolidated Fund at 29 February</b>	<u>–</u>	<u>–</u>

## 4 Risk

### 4.1 Credit risk

Credit risk is the risk that a counterparty, or security issuer, will fail to discharge a contractual obligation resulting in financial loss to the CFIA.

The investments of the CFIA comprised deposits with the Debt Management Account and the National Loans Fund. These deposits were considered to have no exposure to credit risk because they are obligations of HM Government.

There were no renegotiated assets or assets considered impaired at 28 February 2017 (29 February 2016: no renegotiated or impaired assets).

### 4.2 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the CFIA was considered to comprise interest rate risk.

The interest returns on deposits were closely linked to the official Bank Rate.

CRND monitored interest rate movements to help inform the OAG of potential issues and events. The CFIA was not subject to active management and thus no formal market risk parameters were in place.

#### 4.3 *Liquidity risk*

Liquidity risk is the risk that the CFIA will encounter difficulty in meeting obligations associated with client withdrawal requests.

Assets held by the CFIA were highly liquid to enable all client obligations to be met as they fell due.

### **5 Related party transactions**

CRND is a separate entity within the DMO. CRND client mandates are kept distinct from other DMO business.

During the year, the CFIA had a significant number of material transactions with the Debt Management Account, which is operated by the DMO. CRND's client mandates required the bulk of the funds to be invested in gilts or deposited with the Debt Management Account.

During the year, the CFIA had a significant number of material transactions with the OAG due to the CFIA facilitating the operation of the basic and special accounts operated by the OAG for suitors' funds paid into court in England and Wales. During the year, the OAG deposited £51.5 million (net of withdrawals) in the CFIA (2015-2016: £140.3 million net withdrawal).

### **6 Date of authorisation for issue**

The Secretary and Comptroller General authorised these financial statements for issue on 15 June 2017.

## 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 This direction applies to the Funds in Court in England and Wales Investment Account.
- 2 The Commissioners for the Reduction of the National Debt shall prepare accounts for the financial year ended 28 February 2012 (29 February in a leap year) and subsequent financial years which give a true and fair view of the state of affairs of the Account at the reporting date, and of its income and cash flows for the year then ended.
- 3 The accounts shall be prepared in accordance with applicable accounting standards, and shall be consistent with relevant requirements of the extant Government Financial Reporting Manual.
- 4 The accounts shall present an income statement, a statement of comprehensive income, a statement of financial position, a statement of cash flows, and a statement of changes in client funds. The statement of financial position shall present assets and liabilities in order of liquidity.
- 5 The notes to the accounts shall include disclosure of assets and liabilities, and of income and expenditure, relating to other central government funds including the National Loans Fund.
- 6 The report shall include:
  - a brief history of the Account, and its statutory background;
  - an outline of the scope of the Account, its relationship to HM Treasury and other central funds, and its management arrangements;
  - a management commentary, including information on financial performance and financial position, which reflects the relationship between the Account and other central funds; and
  - a governance statement.
- 7 This accounts direction shall be reproduced as an appendix to the accounts

This accounts direction supersedes all previous Directions issued by HM Treasury.

*Chris Wobschall* 23 March 2012  
Deputy Director, Assurance and Financial Reporting Policy  
Her Majesty's Treasury

# Ministry of Justice Equity Index Tracker Fund

## Foreword

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

### The Ministry of Justice Equity Index Tracker Fund

The Ministry of Justice 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).

### What is the Common Investment Fund?

The Fund is only available for investment of money belonging to Clients or former Clients of the Ministry of Justice (MoJ), 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 Authorised Fund Manager uses it to buy a mixture of Index tracking unit trusts. Depending on how the Fund performs, the value of units changes 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.

### What does this report cover?

This report covers the performance of the Fund for the year ended 28 February 2017, together with some information for investors and their advisers.

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

The Fund is a Common Investment Fund 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 Office of the Public Guardian (OPG)/Court of Protection wishing to hold units out of Court. In addition, certain former Clients of the OPG/Court of Protection, the Office of the Accountant General (OAG) 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.

### Why invest in the Fund?

The Ministry of Justice 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. 55% of the Fund has exposure to UK shares with the remainder invested in other global markets. Index trackers invest in a representative sample of all of the companies that make up the Index that they are tracking, instead of the Authorised Fund Manager actively choosing which stocks to hold in the Fund. The intention is simply to deliver the return of the Index being tracked.

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

### 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.

The management contract for the Fund expired on 17 February 2017. The Ministry of Justice ran an open competitive tender exercise with Legal & General being the successful bidder. The Deed of Appointment confirming the award of the new contract will run from 18 February 2017 to 17 February 2022 unless otherwise determined.

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 his 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;
- 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 17.

## Appointment of the Accountant General

The Secretary of State and Lord Chancellor has, under Section 97(2) of the Senior Courts Act 1981, as amended by the Public Trustee and Administration of Funds Act 1986, appointed Michael Driver as Accountant General on 1 October 2016. The Permanent Secretary of the Ministry of Justice has also appointed the Accountant General as the Accounting Officer for Funds in Court. His relevant responsibilities as Accounting Officer, including 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 *Managing Public Money*.

## Management and Investment of Funds in Court

As set out in Section 38 of the Act, the Accountant General of the Senior Courts is responsible for the management and investment of the Funds in Court. Under Section 43 of the same Act, the Lord Chancellor is empowered to make any decisions relating to defaults with respect to any money, securities and effects for which he is responsible.

The operation of the investment fund itself is the responsibility of Legal & General (Unit Trust Managers) Limited as the appointed fund management company. The Accountant General's responsibilities as Accounting Officer for Funds in Court therefore do not extend to these accounts and they are therefore signed by the Unit Trust Managers only.

## How does the Accountant General honour his responsibilities?

The Accountant General manages his responsibilities and associated risks through the Office of the Accountant General (OAG).

The OAG manages funds held in Court in the name of the Accountant General of the Senior Courts 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 OAG include:

- 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 (CFO) - see note 17 for the Split of Assets by Investment Channel);
- distribution to unitholders of dividends calculated by the Manager;
- payment of Investment Manager's fees;
- Investment management oversight through the OAG Management Team which advises the Ministry of Justice on investment strategy and performance monitoring;
- the implementation of a control framework with the Investment Manager to provide sufficient assurance to the Accounting Officer.

## Accounts and Audit

These accounts are in respect of the Ministry of Justice Equity Index Tracker Fund for the year ended 28 February 2017 and have been prepared in accordance with an Accounts Direction issued by Treasury under Section 45(2) of the Act. 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 16 and 17. The notional audit fee for the audit of the Ministry of Justice Equity Index Tracker Funds Financial Statements for the year ended 28 February 2017 is £18,500, this fee is borne by the Ministry of Justice.

The Legal & General (Unit Trust Managers) Limited Board of Directors 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. The Accountant General's responsibility only extends to CFO clients. For other clients, separate arrangements apply.

*S. D. Thomas*  
Director  
On behalf of Legal & General  
(Unit Trust Managers) Limited  
15 June 2017

*M. Driver*  
Accountant General of the Senior Courts

15 June 2017

# Investment Manager's Report

## Investment Strategy

The Fund's strategy is to track the capital return of the composite benchmark by investing in Legal & General Authorised Unit Trusts. The Fund's performance benchmark is a composite of the following:

### Control Range

FTSE All-Share Index	55%	+/- 2%
FTSE World (excluding UK) Index	35%	+/- 2%
FTSE All-World Emerging Markets Index	10%	+/- 0.5%

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

The FTSE World (excluding UK) Index exposure is provided by the purchase of units in the Legal & General International Index Trust.

The FTSE All-World Emerging Markets Index exposure is provided by the purchase of units in the Legal & General Global Emerging Markets Index Fund.

The target tracking deviation for the Fund is +/- 0.5% (measured on an ex-ante basis) in two out of every three consecutive years before fees.

The Lord Chancellor's Strategic Investment Board is responsible for provision of advice and governance on the investment of funds including:

- a Advice on investment strategy, performance benchmarks and related investment matters including guidelines for external managers;
- b Advice on the appointment of external managers to invest the client monies coming within the care of the Ministry of Justice; and
- c Oversight of the Fund's performance against established industry benchmarks, providing robust challenge, advice and direction to the external managers as appropriate.

The board is comprised of two non-executive investment advisors and representatives from each of the investing bodies. The Lord Chancellor is regularly informed of the board's activity and provides direction as required.

All rights in the FTSE All Share Index, the FTSE World ex-UK Index and the FTSE All World Emerging Index (the "Indices") vest in FTSE International Limited ("FTSE"). "FTSE" is a trade mark of the London Stock Exchange Group companies and is used by FTSE under licence. The Equity Index Tracker Fund (the "Fund") has been developed solely by Legal & General (Unit Trust Managers) Limited. The Indices are calculated by FTSE or its agent. FTSE and its licensors are not connected to and do not sponsor, advise, recommend, endorse or promote the Fund and do not accept any liability whatsoever to any person arising out of (a) the use of, reliance on or any error in the Indices or (b) investment in or operation of the Fund. FTSE makes no claim, prediction, warranty or representation either as to the results to be obtained from the Fund or the suitability of the Indices for the purpose of which they are being put by Legal & General (Unit Trust Managers) Limited.

## Manager's Investment Report

During the year under review, the published price of units in the Ministry of Justice Equity Index Tracker Fund rose by 26.06%.

## Tracking Deviation

The table below shows the Fund performance for the year 1 March 2016 to 28 February 2017, with the benchmark performance, which comprises of 55% FTSE All-Share Index, 35% FTSE World (excluding UK) Index and 10% FTSE All-World Emerging Markets Index:

	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	
<b>Total Fund (%)</b>	3.15	0.06	0.03	5.48	4.47	1.43	
<b>Benchmark (%)</b>	3.17	0.06	0.01	5.52	4.46	1.42	
<b>Relative (%)</b>	(0.02)	0.00	0.02	(0.04)	0.01	0.01	
	Sept-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Year
Total Fund (%)	1.43	2.63	(2.32)	3.97	0.38	3.21	23.31
Benchmark (%)	1.44	2.64	(2.33)	4.00	0.35	3.15	23.32
Relative (%)	(0.01)	(0.01)	0.01	(0.03)	0.03	0.06	(0.01)

Source: LGIM, as at 28 February 2017

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

**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.**

## Distribution Review

Distributions were made by the Legal & General UK Index Trust, Legal & General International Index Trust and the Legal & General Global Emerging Markets Index Fund. 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.

## Market/Economic Review

Data releases highlighted divergent trends in the major economies over the review year. The US economy continued to grow steadily, despite fluctuations in quarterly GDP, while Donald Trump's victory in the November presidential election focused investors on the prospect of increased infrastructure spending and tax cuts. As the year drew to a close, investors anticipated a further rise in interest rates, which duly occurred in December but were surprised when the Federal Reserve signalled three further rate hikes in 2017. In contrast, the Bank of England cut interest rates to 0.25% in Q3 and extended its asset purchase programme, known as quantitative easing (QE), to support the economy following the EU referendum. Inflationary pressures remained relatively subdued despite oil prices rising strongly on balance throughout the year.

With the Eurozone experiencing very low levels of inflation, the European Central Bank (ECB) continued to sanction large-scale QE to shore up business and consumer confidence. In Japan, economic growth remained weak while inflation was well below its 2% target, although a stronger labour market did begin to lift wages

as the Bank of Japan had become the latest central bank to adopt the unorthodox policy of negative interest rates. The Chinese economy slowed as it continued its transition from export and investment-driven growth towards consumption. This led the authorities to continue the liberalisation of its exchange rate policy, which resulted in the Yuan steadily weakening against the US Dollar. Following a weak 2015 as commodity prices sank, both the Brazilian and Russian economies saw a turn of fortunes as 2016 progressed, given the tailwind of a strong recovery in commodity prices.

## UK equities

UK shares rose on the back of gains for globally-focused large cap stocks, as the weakness of Sterling translated into higher international earnings. As the second quarter drew to a close, attention focused on the EU referendum in June, with an unexpected result in favour of Brexit heightening volatility. Post-referendum, there was initially a marked divergence in performance by market capitalisation, with more domestically focused mid-cap stocks underperforming FTSE 100 constituents. However, UK mid cap stocks also delivered positive returns for the year as a whole. In the final few months of the year, the FTSE 100 Index moved to new all-time highs above 7000.

## Overseas equities

Returns from international markets were relatively modest in local currency terms, but were substantially enhanced for UK-based investors as Sterling plunged to a 31-year low against the US Dollar in the aftermath of the UK referendum result. US stocks outperformed other major overseas markets, particularly following Trump's election victory as investor expectations increased for more government spending and pro-business policies. European markets underperformed the World Index as the UK referendum result highlighted the prospect of a prolonged period of political uncertainty. A resurgent Yen clouded the earnings outlook for Japanese equities. Asian and emerging equity markets rallied strongly over the summer months as concern over the health of the Chinese economy abated and commodity markets rallied.

## Outlook

We see steady global growth continuing in 2017, aided by increasingly supportive US government spending. While global equity markets have been buoyed by diminishing deflation concerns, the perception of a 'goldilocks' economy, with good growth and low inflation, might prove short lived. Equity markets could be well on their way to anticipating the next global recession by the end of the year.

With limited upside for corporate earnings, any equity re-pricing has to come from higher valuations. However, valuations are towards the higher end of the range we feel comfortable with, but not so high that they become an overriding negative factor. The most likely upside comes from relative valuations versus bonds.

The main reason for our medium-term caution is that there are a number of pertinent risks that appear to be under-priced by investors. For example, Chinese economic growth is overly dependent on credit growth, there is economic malaise in Europe (compounded by ample political risk), while the US Federal Reserve is currently at the forefront with its possible decision to raise interest rates. Each of these factors has the potential to derail financial markets. Central bank easing has suppressed these risks, but any sign of a turn in ever loser monetary policy or markets questioning the efficacy of further easing may change this.

Details of the management of the underlying unit trusts can be found in those trusts' report and accounts which are available on request from Legal & General on 0370 050 0955.

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

Legal & General Investment Management Limited  
(Investment Manager)  
28 February 2017

## Governance Statement

### Scope of responsibility

As the Chief Administration Officer and a member of the Legal & General (Unit Trust Managers) Limited Board of Directors, I have responsibility for maintaining a sound system of internal controls that supports the achievement of the Ministry of Justice Equity Index Tracker Fund policies, aims and objectives, whilst safeguarding the assets of unitholders.

The operation of the Ministry of Justice 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) up to its disbandment on 30 June 2008 and thereafter by the Office of the Accountant General (OAG) Management Team. Ministers then agreed that the SIB should be reinstated and oversight of the CIF was passed to the SIB with effect from the Board's first meeting which took place on 4 September 2014. The performance of the Fund is reported via quarterly management information, which ensures the objectives of Index tracking are fulfilled. Quarterly meetings are also held between Legal & General and the SIB to discuss operational issues and investment strategies.

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

### System of internal controls

The system of internal controls is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable, not absolute assurance of effectiveness. The system of internal controls 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, the impact should they be realised and to manage them efficiently, effectively and compliantly.

### Risk Framework

Legal & General (Unit Trust Managers) Limited (UTM) of Legal & General Investment Management (Holdings) Limited (LGIMH), as a subsidiary of Legal & General Group Plc (L&G), operates within a group-wide risk management framework.

The risk framework seeks to ensure all risks are identified and that appropriate strategies are in place for their management. The framework consists of formal committees, risk management policies, risk assessment and reporting processes and oversight functions. These enable the directors and senior management to debate key risks and draw assurance that risks are being appropriately identified and managed, and that an independent assessment of risk is being performed.

Legal & General operates a 'three lines of defence' model of risk management and assurance. Business management manage risks, Risk and Compliance functions and Group level committees oversee and challenge the management of risk and Internal Audit provide independent assurance that risks are effectively managed and that there is appropriate oversight.

Risk assessment is carried out on a bottom up and top down basis. On a monthly basis business management carry out a self-assessment of the performance of controls that operate to mitigate risk. This assessment is carried out using OSX and RMS risk management systems. This self-assessment feeds into the Directors Certification process, part of the firm's Combined Code on Corporate Governance.

Legal & General Compliance functions operate a Conduct Risk Universe carrying out periodic assessments of controls using a conduct risk-based model. In addition, the Internal Audit function operates a similar risk-based universe of periodic reviews and assessments of control. These functions report findings to key committees and these findings are recorded on the risk management systems, which ensure that required actions are tracked and evidenced. During the period, no material findings have been contained within the published reports.

The control assurance model incorporates a self-assessment and independent assurance of the full risk exposure of the firm. This will range from transaction processing to risk management and governance. The bottom up assessments are carried out monthly, with the independent assurance subject to a risk-based approach, with an appropriate frequency agreed by the Audit Committee (for Internal Audits) or the Compliance functions.

## Corporate Governance

Legal & General (Unit Trust Managers) Limited is a company authorised and regulated by the FCA and its Board members are persons approved by the FCA to carry out significant management and control functions. The Company is a subsidiary company of Legal & General Investment Management (Holdings) Limited, which is itself a subsidiary of Legal & General Group Plc.

The UTM Board consists of eight Directors (including one Non-executive Director), each with approved person responsibility for UTM and other Legal & General companies. The independent Chief Compliance Officer and Risk Director also attend the Board meetings. The Chairman of the Board also sits on the board of Legal & General Group Plc and the LGIM Risk & Compliance Committee. The Board of Legal & General Group Plc has a number of Non-Executive Directors.

The UTM Board is the legally accountable governance forum for the management of the firm and meets quarterly. The Board delegates the management of inherent risks to a series of Governance Committees with Terms of Reference that meet monthly. These include (but are not limited to) the LGIM Risk & Compliance Committee and Fund Management Oversight Committee, which respectively manage operational risks and fund risk on its behalf. These delegated authorities are periodically monitored and reviewed by the Board.

On an annual basis the Board approves the firm's financial statements and the findings of the external auditor's report, which is then filed with the FCA. The business also approves the full documentation and output from the stress and scenario analysis of the firm's risks and capital, including the process and costs of winding the firm down in an orderly fashion, as required by the regulations. The output of this assessment is filed with the FCA according to an agreed cycle, currently every two years.

## Review of effectiveness

As Chief Administration Officer, I have responsibility for reviewing the effectiveness of the system of internal controls. My review of internal control is informed by the work of the internal auditors, support functions and the Executive Managers within UTM who have responsibility for the development and maintenance of the risk management framework, and comments made by the external auditor in their management letter and other reports. On the basis of this information, I can confirm there are no significant internal control issues to report.

*S. D. Thomas*  
Chief Administration Officer  
Legal & General (Unit Trust Managers) Limited

15 June 2017

## Respective responsibilities of the Lord Chancellor, Accountant General 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.

### Accountant General's responsibilities

The Secretary of State and Lord Chancellor has, under Section 97(2) of the Senior Courts Act 1981, as amended by the Public Trustee and Administration of Funds Act 1986, appointed Michael Driver as Accountant General on 1 October 2016. The Permanent Secretary of the Ministry of Justice has also appointed the Accountant General as the Accounting Officer for Funds in Court. His relevant responsibilities as Accounting Officer, including 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 *Managing Public Money*.

However, the operation of the investment fund is the responsibility of Legal & General (Unit Trust Managers) Limited as the appointed fund management company. The Accountant General's responsibilities as Accounting Officer for Funds in Court therefore do not extend to these accounts and are therefore signed by the Unit Trust Managers only.

### 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, Ministry of Justice Equity Index Tracker Fund.

The HM Treasury Accounts 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 Financial Statements of UK Authorised Funds issued by the Investment Management Association in May 2014 as updated by additional requirements from the Financial Conduct 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 Financial Statements of UK 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. The Deed of Appointment confirming the award of the new contract will run from 18 February 2017 to 17 February 2022 unless otherwise determined.

# 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 Ministry of Justice Equity Index Tracker Fund (“EITF”) for the year ended 28 February 2017 under the Administration of Justice Act 1982. These comprise the Statement of Total Return, the Statement of Change in Net Assets attributable to Unitholders, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Investment Manager and Auditor

As explained more fully under respective responsibilities of the Lord Chancellor, Accountant General and Investment Manager, the Investment Manager 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 Administration of Justice Act 1982. 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 EITF’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the EITF; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report 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 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 financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on the financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the EITF as at 28 February 2017 and of the change in net assets attributable to unitholders for the year then ended; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and directions issued there under by HM Treasury.

### **Opinion on other matters**

In my opinion the information given in the Foreword and Investment Manager’s Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

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

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

**Report**

I have no observations to make on these financial statements.

*Sir Amyas C E Morse*  
Comptroller and Auditor General

4 July 2017

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

## Portfolio Statement as at 28 February 2017

All investments are in distribution units unless otherwise stated.

The percentages in brackets show the equivalent sector holdings at 29 February 2016.

	Holding/ Nominal Value	Market value £	% of net assets
<b>Investment</b>			
<b>Unit Trusts investing in UK shares – 54.92 per cent (54.92 per cent)</b>			
Legal & General UK Index Trust	37,319,180	<u>59,449,453</u>	<u>54.92</u>
<b>Unit Trusts investing in overseas shares – 45.02 per cent (45.00 per cent)</b>			
Legal & General Global Emerging Markets Index Fund	19,731,710	10,657,096	9.84
Legal & General International Index Trust	35,994,556	<u>38,082,240</u>	<u>35.18</u>
		<u>48,739,336</u>	<u>45.02</u>
<b>Portfolio of investments</b>		<u>108,188,789</u>	<u>99.94</u>
<b>Net other assets</b>		<u>67,613</u>	<u>0.06</u>
<b>Total net assets</b>		<u>108,256,402</u>	<u>100.00</u>

Total purchases for the year: £3,389,677.

Total sales for the year: £15,435,864.

## Statement of Total Return for the year ended 28 February 2017

	Notes	28 February 2017		29 February 2016	
		£	£	£	£
Income					
Net capital gains/(losses)	3		<b>(24,064,244)</b>		9,284,574
Revenue	4	<b>3,092,744</b>		3,165,276	
Expenses	5	<b>(215,075)</b>		(224,331)	
Finance costs:					
Interest payable and similar charges	7		<b>(44)</b>		(2)
Net revenue before taxation		<b>2,877,625</b>		2,940,943	
Taxation	6		-		(52,750)
Net revenue after taxation for the year			<b>2,877,625</b>		2,888,193
Total return before distributions			<b>(26,941,869)</b>		(6,396,381)
Finance costs:					
Distributions	7		<b>(2,877,625)</b>		(2,888,193)
Change in net assets attributable to Unitholders from investment activities			<b>(£24,064,244)</b>		(9,284,574)

## Statement of Change in Net Assets attributable to Unitholders for the year ended 28 February 2017

		28 February 2017		29 February 2016	
		£	£	£	£
Opening net assets attributable to Unitholders			<b>96,201,356</b>		116,678,813
Amounts received on issue of units		<b>1,709,017</b>		3,053,080	
Amounts paid on cancellation of units		<b>(13,718,215)</b>		(14,245,963)	
			<b>(12,009,198)</b>		(11,192,883)
Change in net assets attributable to Unitholders from investment activities			<b>24,064,244</b>		(9,284,574)
Closing net assets attributable to Unitholders			<b>108,256,402</b>		96,201,356

## Balance Sheet as at 28 February 2017

	Notes	28 February 2017		29 February 2016	
		£	£	£	£
<b>Assets</b>					
Investment assets			<b>108,188,789</b>		96,165,155
Debtors	8	<b>879,467</b>		161,933	
Cash and bank balances	9	<b>1,408,658</b>		2,141,114	
<b>Total assets</b>			<b>110,476,914</b>		<b>98,468,202</b>
<b>Liabilities</b>					
Investment liabilities			–		–
Creditors					
Bank overdrafts	9	<b>(687,555)</b>			
Distributions payable		<b>(1,398,829)</b>		(1,434,513)	
Other creditors	10	<b>(134,128)</b>		(832,333)	
<b>Total liabilities</b>			<b>(2,220,512)</b>		<b>(2,266,846)</b>
<b>Net assets attributable to Unitholders</b>			<b>£108,256,402</b>		<b>96,201,356</b>

*The notes on pages 74 to 81 form part of these accounts.*

*S D Thomas*  
 Director  
 Legal & General (Unit Trust Managers) Limited  
 15 June 2017

# Notes to the Financial Statements

## 1 Statement of Compliance

The Financial Statements have been prepared in compliance with UK Financial Reporting Standard 102 (FRS 102) and in accordance with the Statement of Recommended Practice for UK Authorised Funds issued by the Investment Association in May 2014 (2014 SORP).

## 2 Summary of Significant Accounting Policies

### *a Basis of Preparation*

The Financial Statements have been prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss.

The Fund has early adopted the amendment to FRS 102 in respect of the fair value hierarchy/valuation techniques disclosure. The principal accounting policies which have been applied consistently are set out below.

### *b Functional and Presentation Currency*

The functional and presentation currency of the Fund is Sterling.

### *c Recognition of revenue*

Revenue from distribution and accumulation units in Collective Investment Schemes is recognised when the Fund goes ex-dividend.

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

All other revenue is recognised on an accruals basis.

### *d Treatment of expenses*

All expenses (other than those relating to the purchase or sale of investments) are charged against revenue on an accruals basis.

The Fund receives a rebate for managerial fees suffered by investments in underlying Collective Investment Schemes. These are treated as revenue or capital depending on the treatment of the Manager's fees in the underlying investment.

### *e Distribution Policy*

Realisable revenue, after deduction of those expenses which are chargeable in calculation of the distribution, will be paid to those Unitholders with a holding at ex-dividend date.

All expenses charged to the Fund are deducted from revenue for the purpose of calculating the distribution.

In order to conduct a controlled dividend flow, interim distributions will be at the Manager's discretion, up to a maximum of the distributable revenue for the period.

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

### *f Basis of valuation of investments*

All investments are valued at their fair value as at 12 noon on 28 February 2017, being the last working day of the accounting year. The fair value for units in Collective Investment Schemes is the cancellation price or bid price for dual priced funds and single price for single priced funds.

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

*g* **Taxation**

Provision is made for taxation at current rates on the excess of investment revenue 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.

**3 Net capital gains**

	<b>28 February 2017</b>	29 February 2016
	£	£
The net capital gains/(losses) during the year comprise:		
Non-derivative securities	<b>(24,065,424)</b>	(9,283,634)
Transaction charges	<b>(1,180)</b>	(940)
Net capital gains/(losses)	<b><u>(24,064,244)</u></b>	<u>(9,284,574)</u>

**4 Revenue**

	<b>28 February 2017</b>	29 February 2016
	£	£
Franked dividend distributions	<b>2,991,130</b>	2,677,191
Bank interest	<b>1,081</b>	1,989
Rebates from Legal & General Investment Management Limited	<b>100,533</b>	486,096
	<b><u>3,092,744</u></b>	<u>3,165,276</u>

\* Please see 'Changes to underlying investment holdings' section on page 88 of the accounts.

**5 Expenses**

	<b>28 February 2017</b>	29 February 2016
	£	£
Payable to the Manager, associates of the Manager and agents of either of them:		
Manager's periodic fee	<b>190,246</b>	194,955
Registration fees	<b>19,822</b>	24,473
	<b><u>210,068</u></b>	<u>219,428</u>
Payable to the Custodian, associates of the Custodian and agents of either of them:		
Safe custody fees	<b>5,007</b>	4,903
Total expenses	<b><u>215,075</u></b>	<u>224,331</u>

## 6 Taxation

### a Analysis of taxation charge in year

	<b>28 February 2017</b>	29 February 2016
	£	£
Corporation tax	–	52,750
Current tax [note 6(b)]	–	52,750
Deferred tax [note 6(c)]	–	–
Total taxation	–	52,750

\* Please see 'Changes to underlying investment holdings' section on page 88 of the accounts.

### b Factors affecting taxation charge for the year

The current tax charge excludes capital gains and losses for the reason that Common Investment Funds are not subject to Corporation Tax on these items. Current tax differs from taxation assessed on net revenue before taxation as follows:

	<b>28 February 2017</b>	29 February 2016
	£	£
Net revenue before taxation	<b>2,877,625</b>	2,940,943
Net revenue before taxation multiplied by the applicable rate of Corporation Tax at 20% (2016: 20%)	<b>575,525</b>	588,189
<i>Effects of:</i>		
Revenue not subject to taxation	<b>(598,226)</b>	(535,439)
Excess management expenses not utilised	<b>22,701</b>	–
Current tax	–	52,750

### c Provision for deferred tax

There is no deferred tax provision in the current or preceding year. At the year end, there is a potential deferred tax asset of £22,701 (29 February 2016: £Nil) due to surplus management expenses.

It is unlikely the Fund will generate sufficient taxable profits in the future to utilise this amounts and therefore no deferred tax asset has been recognised.

## 7 Distributions

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

	<b>28 February 2017</b>	29 February 2016
	£	£
Interim distribution	<b>1,353,873</b>	1,354,537
Final distribution	<b>1,398,829</b>	1,434,513
	<b>2,752,702</b>	2,789,050
<i>Add: Revenue deducted on cancellation of units</i>	<b>143,910</b>	136,053
<i>Less: Revenue received on creation of units</i>	<b>(18,987)</b>	(36,910)
<b>Distributions for the year</b>	<b>2,877,625</b>	2,888,193
<b>Interest</b>		
Bank overdraft interest	<b>44</b>	2
<b>Total finance costs</b>	<b>2,877,669</b>	2,888,195

## 8 Debtors

	<b>28 February 2017</b>	29 February 2016
	£	£
Sales awaiting settlement	<b>871,728</b>	124,108
Fee rebates receivable	<b>7,739</b>	6,828
Amounts receivable for creation of units	–	30,997
	<b>879,467</b>	161,933

## 9 Net uninvested cash

	<b>28 February 2017</b>	29 February 2016
	£	£
Cash and bank balances	<b>1,408,658</b>	2,141,114
Bank overdraft	<b>(687,555)</b>	–
Net uninvested cash	<b>721,103</b>	2,141,114

**10 Creditors**

	<b>28 February 2017</b>	29 February 2016
	£	£
Amounts payable for cancellation of units	<b>117,993</b>	71,999
Purchases awaiting settlement	-	715,202
Accrued expenses	<b>16,135</b>	22,382
Corporation tax	-	22,750
	<u><b>134,128</b></u>	<u>832,333</u>

**11 Contingent liabilities and outstanding commitments**

There were no contingent liabilities or outstanding commitments at the balance sheet date (29 February 2016: same).

**12 Financial Instruments and Associated Risks**

The investments of a Fund in financial securities and derivatives are subject to normal market fluctuations and other risks inherent in investing in such instruments. Legal & General (Unit Trust Managers) Limited (UTM) is the Authorised Fund Manager and has responsibility for ensuring appropriate risk management processes are implemented for each Unit Trust.

The UTM Board has delegated the risk oversight function to the Unit Trust Funds Committee (UTMFC), a sub-committee of the UTM Board that meets monthly. The primary objective of the UTMFC is to ensure proper oversight of investment management activity for UTM in its capacity as Authorised Fund Manager. The committee members are: the Vice Chairman of Investments (Chair), the Chief Administration Officer (UTM), the Finance Director (UTM), Head of Fund Governance, Head of Operational Risk, Head of Investment Operations and the Head of Retail Distribution. Members of the Fund Operations Team also attend from a Fund Governance and Regulatory Fund Oversight perspective.

Each Fund has an investment objective and investment policy, against which the Fund manager will operate. Each Fund has a Investment Objectives and Guidelines ("IOG") document which contains these and forms part of the Investment Management Agreement between LGIM and UTM. The IOG contains a list of the instruments and agreed investment weightings for those instruments that can be used by the Fund to achieve its objective. These are maintained by each fund manager, reviewed by the LGIM Operational Risk and Compliance Teams and approved by UTM on behalf of the UTM board. The IOGs provide the detail needed to determine the risk profile for each fund. Fund managers are not permitted to invest into any new instruments without first gaining approval from UTM for their addition into the IOG.

The Investment Strategy of this Fund is detailed on page 63.

*a Market Risk arising from other price risk*

Market Risk arises mainly from uncertainty about future prices. It represents the potential loss the Fund may suffer through holding market positions in the face of market movements.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar instruments traded in the market.

The assets held by the Fund can be seen in the Portfolio Statement starting on page 71. 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 Fund Deed and Prospectus. In this way, the Manager monitors and controls the exposure to risk from any type of security, sector or issuer.

At 28 February 2017, if the price of the investments held by the Fund increased or decreased by 5%, with all other variables remaining constant, then the net assets attributable to unitholders would increase or decrease by approximately £5,409,439 (29 February 2016: £4,808,258).

*b 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 or its overseas equivalent.

In the event of a change in interest rates, there would be no material impact upon the assets of the Fund.

*c Foreign currency risk*

Foreign Currency Risk is the risk of movements in the value of financial instruments as a result of fluctuations in exchange rates. At 28 February 2017, the Fund had no significant exposures to currencies other than Sterling, however, the underlying Collective Investment Schemes may have currency risk exposure (29 February 2016: same).

*d Credit risk*

Credit Risk is the risk of suffering financial loss as a result of a counterparty to a financial transaction being unable to fulfil their financial obligations as they fall due. This risk is managed by appraising the credit profile of financial instruments and issuers in line with the Fund's investment strategy.

*e Liquidity risk*

Liquidity Risk relates to the capacity to meet liabilities as they fall due. 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 a large proportion of readily realisable assets, cash balances and via access to overdraft facilities.

*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 material difference between the value of the financial assets and liabilities, as shown in the financial statements, and their fair value.

The Statement of Recommended Practice for Financial Statements of UK Authorised Funds issued by the Investment Management Association in May 2014, and subsequently amended by Financial Reporting Exposure Draft 62 (FRED62), requires the classification of the Fund's financial instruments held at the year end into a 3 tiered fair value hierarchy. The 3 tiers of the hierarchy and the classification of the Fund's financial instruments as at the balance sheet date were:

	Assets £	Liabilities £
<b>28 February 2017</b>		
<b>Valuation technique</b>		
Level 1	–	–
Level 2	108,188,789	–
Level 3	–	–
<b>Total</b>	<b><u>108,188,789</u></b>	<b><u>–</u></b>
<b>29 February 2016</b>		
<b>Valuation technique</b>		
Level 1	–	–
Level 2	96,165,155	–
Level 3	–	–
<b>Total</b>	<b><u>96,165,155</u></b>	<b><u>–</u></b>

**Level 1**

The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

**Level 2**

Inputs other than quoted prices included within Level 1 that are observable (i.e., developed using market data) for the asset or liability, either directly or indirectly.

**Level 3**

Inputs are unobservable (i.e., for which market data is unavailable) for the asset or liability.

**13 Portfolio transaction costs**

As the Fund mainly invests in Collective Investment Schemes, there are no transaction costs (29 February 2016: same).

Total purchases for the year: £3,389,677.  
(29 February 2016: £3,663,065).

Total sales for the year: £15,435,864.  
(29 February 2016: £14,887,256).

## 14 Unit classes

The Fund currently has one unit class: Distribution. The annual management charge on the unit class can be found on page 84. The net asset value per unit of the unit class and the number of units in the class are given in the comparative table on page 83. The distributions per unit class are given in the distribution tables on page 82. All classes have the same rights on winding up.

	<b>Distribution</b>
Opening Units	7,508,521
Units issued	119,532
Units cancelled	(938,602)
Units converted	—
Closing Units	6,689,451

## 15 Post balance sheet events

As at the accounts authorisation date, no material post balance sheet events have occurred.

## 16 Ultimate controlling party and related party transactions

Details of units created and cancelled are shown in the Statement of Net Assets attributable to Unitholders. Note 17 shows the split of existing assets by investment channel.

Investments made on behalf of the Fund include those in Legal & General unit trusts, which had a market value of £108,188,789 at 28 February 2017 (29 February 2016: £96,165,155).

Management fees paid to Legal & General Investment Management Limited are shown in note 5. The balance due in respect of this fee is £13,658 (29 February 2016: £14,583).

Management fee rebates received from Legal & General Investment Management are shown in note 4. Rebates receivable at the year end amount to £7,739 (29 February 2016: £6,828).

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.

## 17 Split of Assets by Investment Channel

<b>Investment Channel</b>	<b>Net Asset Value of Fund</b>	<b>Net Asset Value Per Unit</b>	<b>Number of Units in issue</b>	<b>Percent</b>
<b>28 February 2017</b>				
Court Funds				
Office (CFO)	£90,016,210	1,618.32p	5,562,341	83.15%
Official Solicitor and Public Trustee (OSPT)	£3,755,705	1,618.32p	232,075	3.47%
Other	£14,484,487	1,618.32p	895,035	13.38%
<b>Total</b>	<b>£108,256,402</b>	<b>1,618.32p</b>	<b>6,689,451</b>	<b>100.00%</b>
<b>29 February 2016</b>				
Court Funds				
Office (CFO)	£81,003,429	1,281.23p	6,322,322	84.20%
Official Solicitor and Public Trustee (OSPT)	£3,729,607	1,281.23p	291,096	3.88%
Other	£11,468,320	1,281.23p	895,103	11.92%
<b>Total</b>	<b>£96,201,356</b>	<b>1,281.23p</b>	<b>7,508,521</b>	<b>100.00%</b>

## Distribution Tables for the year ended 28 February 2017

Group 1: units purchased prior to a distribution period.

Group 2: units purchased during a distribution period.

Equalisation is the average amount of revenue included in the purchase price of all Group 2 units and is refunded to the 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

Period 1 March 2016–31 August 2016

	Net Revenue	Equalisation	Distribution 12 October 2016	Distribution 12 October 2015
<b>Distribution Units</b>				
Group 1	18.8755	–	18.8755	17.4080
Group 2	5.3898	13.4857	18.8755	17.4080

### Final dividend distribution in pence per unit

Period 1 September 2016–28 February 2017

	Net Revenue	Equalisation	10 April 2017	Distribution 10 April 2016
<b>Distribution Units</b>				
Group 1	20.9109	–	20.9109	19.1051
Group 2	2.3134	18.5975	20.9109	19.1051

## Fund Information

### Comparative Tables

#### Distribution Units Change in Net Asset Value per Unit

<b>Accounting year ending</b>	<b>28 February 2017 (pence per unit)</b>	<b>29 February 2016 (pence per unit)</b>	<b>28 February 2015 (pence per unit)</b>
Opening net asset value per unit	1,281.23	1,400.84	1,297.18
Return before operating charges*	380.43	(79.74)	139.95
Operating charges (calculated on average price)	(3.55)	(3.36)	(3.18)
Return after operating charges*	376.88	(83.10)	136.77
Distributions on income units	(39.79)	(36.51)	(33.11)
Closing net asset value per unit	1,618.32	1,281.23	1,400.84
* after direct transaction costs of:	–	–	–
<b>Performance</b>			
Return after charges	29.42%	(5.93)%	10.54%
<b>Other Information</b>			
Closing net asset value (£)	108,256,402	96,201,356	116,678,813
Closing number of units	6,689,451	7,508,521	8,329,186
Operating charges	0.243%	0.250%	0.239%
Direct transaction costs	–	–	–
<b>Prices</b>			
Highest unit price	1,644.00p	1,469.00p	1,418.00p
Lowest unit price	1,289.00p	1,194.00p	1,243.00p

*Past performance is not a guide to future performance.*

*The price of units and any 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.*

**Total Expense Ratio**

28 February 2017	0.243 per cent
29 February 2016	0.250 per cent

The Total Expense Ratio is the ratio of the Fund's operating costs (excluding overdraft interest) and all costs suffered through holdings in underlying Collective Investment Schemes, to the average net assets of the Fund.

The Total Expense Ratio comprises the following:

<b>Expense type</b>	<b>Percentage of investment assets %</b>	<b>Fee £</b>	<b>Note</b>
Annual Management Charge	0.152	158,538	5
VAT on Annual Management Charge	0.030	31,708	5
Registration Fees	0.019	19,822	5
Safe Custody Fees	0.005	5,007	5
		<b><u>215,075</u></b>	
Transaction Charges	0.001	1,180	3
Costs incurred through underlying holdings (net of rebates)	<u>0.036</u>	<u>37,885</u>	
	<b><u>0.243</u></b>	<b><u>254,140</u></b>	

The Fund is invested in underlying Collective Investment Schemes (Legal & General Index Tracking Unit Trusts), which suffer additional charges to those described in the table above. However, since Annual Management and Registration Charges are already applied at fund level, as illustrated in the table above, rebates are received from the underlying holdings, to ensure that this Fund does not suffer excessive charges. The indirect costs suffered through investing in those Trusts amount to a charge of approximately 0.036% for the MoJ Equity Index Tracker Fund, as shown in the table above.

## Accounts Direction given by HM Treasury

### Funds in Court in England and Wales – Account of the transactions of the Accountant General under section 38 of the Administration of Justice Act 1982

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 Ministry of Justice 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 a Summary of Material Portfolio Changes;
  - ix a Distribution Table; and
  - x such notes as may be necessary to present a true and fair view.
  - xi Administration of Justice Act 1982:
- 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 Ministry of Justice 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 a 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 Ministry of Justice 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 9 months of the year end in respect of the accounts for the year ended on 28 February 2004 and thereafter within 3 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  
March 2007

## General Information

### Accounting/Distribution Dates

The accounting and distribution dates for the Ministry of Justice

Equity Index Tracker Fund in 2017 are:

<b>Accounting Dates</b>	<b>Distribution Dates</b>
28 February*	10 April
31 August	12 October

### Buying & Selling Units

#### Unit Prices

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

The Fund is valued daily at noon 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 charge

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

0.10% for the first £100 million

0.085% between £100 million and £150 million

0.07% £150 million and above

(Please see Significant Changes on page 88.)

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

Individual accounts are unaffected by the management charge deduction.

The actual Management Charge suffered during the year was 0.15% plus VAT.

### Buying and Selling Securities

The Investment Manager buys and sells units in the underlying unit trusts on behalf of the MoJ Equity Index Tracker Fund using forward prices at the date of investment. The prices of the underlying trusts are published on the internet at: [www.legalandgeneral.com/investments/fund-information/daily-fund-prices/fund-prices](http://www.legalandgeneral.com/investments/fund-information/daily-fund-prices/fund-prices) immediately after they become available.

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.

## Significant Changes

With effect from 18 February 2017, the annual management charge has been reduced as shown below:

### New AMC

0.10% for the first £100 million  
0.085% between £100 million and £150 million  
0.07% £150 million and above

### Old AMC

0.17% for the first £50 million  
0.14% between £50 million and £100 million  
0.13% between £100 million and £150 million  
0.12% between £150 million and £200 million  
0.11% £200 million and above

## Changes to underlying investment holdings

In prior years, the Ministry of Justice Equity Index Tracker Fund holdings in the underlying Legal & General Index Tracker Unit Trusts were in 'Retail' class units. During the current review year, these holdings were switched into 'Institutional' class units. Institutional class units carry a lower Fund Management Charge, which means returns from them are greater than for Retail class units. The MoJ Equity Index Tracker Fund receives rebates from Legal & General equating to a portion of the underlying Fund Management Fees, so by investing into a class with lower charges, means that the levels of rebates have been reduced. The decrease in the rebates received is offset by the increased returns from the underlying Funds, and these effects can be seen within Note 4 of the accounts, on page 75. This change was initiated as holding Institutional class units is more tax beneficial to the MoJ Equity Index Tracker Fund, which can be seen by the reduction in the Corporation Tax charge in Note 6 of the accounts, on page 76. This is because revenue derived from rebates from the Investment Manager is classified as taxable revenue, whereas the increased returns within the 'Franked dividend distributions' line in note 4 is classified as non-taxable revenue. The result in the current year is that the MoJ Equity Index Tracker Fund has no Corporation Tax liability.

## Authorised Fund Manager

Legal & General (Unit Trust Managers) Limited  
Registered in England and Wales No. 01009418  
Registered office:  
One Coleman Street,  
London EC2R 5AA  
Telephone: 0370 050 3350  
Authorised and regulated by the Financial Conduct Authority

## Directors of the Manager

R. M. Bartley  
A. J. C. Craven  
S. Hynes (appointed 29 June 2016)  
H. Solomon  
S. D. Thomas  
L. W. Toms (appointed 17 May 2016)  
A. R. Toutounchi\* (appointed 10 May 2016)  
M. J. Zinkula

\*Non-executive Director

**Secretary**

J. McCarthy

**Overall Governance**

Ministry of Justice

**Auditor**

Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

**Fund Investors**

Office of the Accountant General  
Zone 3A  
102 Petty France  
London SW1H 9AJ  
Telephone: 0845 223 8500

Official Solicitor and Public Trustee  
Victory House  
30 - 34 Kingsway  
London WC2B 6EX  
Telephone: 0203 681 2759

Office of the Public Guardian  
102 Petty France  
London SW1H 9AJ  
Telephone: 0203 334 6598

**Prepared and Issued by:**

Legal & General (Unit Trust Managers) Limited  
One Coleman Street  
London EC2R 5AA  
Authorised and regulated by the Financial Conduct Authority

For further information about the National Audit Office please contact:

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

DG Ref: 11514

ISBN 978-1-910305-75-1



9 781910 305751