

JUDICATURE (NORTHERN IRELAND) ACT 1978

Funds in Court in Northern Ireland

Statement of Accounts 2014-2015

Accounts of Funds in Court of the Court of Judicature of Northern Ireland and of the county courts in Northern Ireland in respect of the year ended 31 March 2015 together with the Certificate and Report of the Comptroller and Auditor General thereon.

*Laid before the Northern Ireland Assembly
under section 78(3) of the Judicature (Northern Ireland) Act 1978,
as amended by Schedule 18 Paragraph 22 of the Northern Ireland Act 1998
(Devolution of Policing and Justice Functions) Order 2010
by the Department of Justice on behalf of the Comptroller and Auditor General*

on

22 January 2016

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Annual Report

Introduction

The Accountant General of the Court of Judicature of Northern Ireland is required to keep proper accounts in respect of funds held in court, in accordance with section 78(1) of the Judicature (Northern Ireland) Act 1978 (“the 1978 Act”). Where reference is made to the 1978 Act in this document, it should be interpreted to mean the 1978 Act, as amended by Schedule 18 (22) of the Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010.

This Statement of Accounts has been prepared in accordance with the direction given by the Department of Finance and Personnel (DFP) in pursuance of section 78(2) of the 1978 Act.

The Court Funds Office

The Court Funds Office (CFO) conducts the business of the Accountant General and has been delegated the administrative responsibilities for funds in court. CFO is an office of the court, but administratively it operates as a discrete business unit within the Northern Ireland Courts and Tribunals Service (NICTS), an agency of the Department of Justice (DOJ). It manages the funds held in court on behalf of clients, including:

- those who are deemed by the court to be incapable of managing their own affairs due to mental incapacity, or those who are wards of court. These cases relate predominately to the Court of Judicature.
- minors for whose benefit funds are lodged into court, usually as a result of a compensation award. These funds are held in court until the client claims their fund after they reach 18 years old, unless a court order instructs otherwise. These cases will arise both in the Court of Judicature and county courts.
- suitors involved in legal action where money is paid into CFO. These are cases in the Court of Judicature or the county courts. Monies are lodged into court in satisfaction or against costs as a token of intention to proceed with civil litigation. CFO will hold such monies until authorised to release them.

In addition, CFO holds funds for the Chancery Division of the Court of Judicature which acts as a receiver of last resort for the assets of individuals, partnerships or companies. CFO also holds all monetary bails received in the Court of Judicature and the county courts. Bails are retained by CFO until the court directs them to be remitted once the case has been dealt with.

CFO operates under the Court Funds Rules (Northern Ireland) 1979 (“the Rules”). Following the devolution of justice, the rules are made by the DOJ with the concurrence of DFP, in exercise of the powers conferred by section 82(1) of the 1978 Act.

Bank accounts

The Accountant General is required by section 79(1) of the 1978 Act to maintain a bank account for the receipt and payment of Court of Judicature and county court monies. Accounts for this purpose are held with Danske Bank, enabling the Accountant General to meet the immediate cash requirements of CFO clients.

Monies in excess of the amount required to satisfy current demands are transferred to the Commissioners for the Reduction of National Debt (CRND) for investment. Funds are then drawn down from CRND, through the NICTS Investment Account, when additional money is required for investment transactions or to meet payments out of court.

Up to 4 November 2013, banking services were provided to CFO by Bank of Ireland. One bank account is still retained with Bank of Ireland to facilitate receipt of funds by direct credit, where the payer has not yet processed the change of account.

Funds held with the Commissioners for the Reduction of National Debt

In accordance with the Rules, the Accountant General operates two interest bearing accounts, namely a deposit account and a short term investment account. The funds in these accounts are held by CRND, whose main function is the investment and management of major government funds.

The rates of interest paid to clients with funds in these accounts are prescribed in the Rules and for the year ended 31 March 2015 the rates were as follows:

- Deposit account 0.3%
- Short term investment account 0.5%

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

The deposits with CRND are operated in accordance with the Administration of Justice Act 1982 (“the 1982 Act”). Where reference is made to the 1982 Act in this document, it should be interpreted to mean the 1982 Act, as amended by Schedule 18 (22) of the Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010.

Income generated by the deposits with CRND is used to pay the interest on the above accounts and, where sufficient funds have been generated, to contribute to the costs of administering the funds in court. Any residual surplus in a financial year, after the deduction of the above, is due to the Northern Ireland Consolidated Fund in accordance with section 39(2) of the 1982 Act. Section 39(3) of the 1982 Act provides for any deficiency in a financial year to be made good from the Northern Ireland Consolidated Fund.

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

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

During 2014-15 the funds held with CRND were largely invested in overnight and short-term deposits with the Debt Management Account Deposit Facility, which is a government deposit facility. This facility enables the funds to earn a return closely related to the Bank of England base rate whilst protecting the capital and maintaining liquidity.

The funds held with CRND form the NICTS Investment Account. CRND prepare accounts under a separate direction issued by DFP. These accounts are audited separately and, since the devolution of justice powers, laid in the Northern Ireland Assembly.

Investment of funds held in court

Funds in court are held as both cash and securities. The securities held include the deposit holdings with CRND with additional holdings in government stocks and other securities. All funds held in court are vested in the name of the Accountant General and invested in accordance with orders of the court in securities designated within statutory rules.

Audit of accounts

Section 78(2) of the 1978 Act requires the Accountant General to send the statement of accounts to the Comptroller and Auditor General for Northern Ireland.

Under section 78(3) of the 1978 Act, the Comptroller and Auditor General for Northern Ireland is required to examine, certify and report on the statement of accounts and lay copies of them before the Northern Ireland Assembly.

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

The audit of the financial statements for 2014-15 resulted in a notional audit fee of £12,000 (2013-14: £12,000). This charge is included within non-staff programme costs within the accounts of NICTS. The Comptroller and Auditor General for Northern Ireland did not provide any non-audit services during the year.

Results for the year

The results for the year are detailed on page 25 and show a deficit for the year of £56,000 (2013-14 deficit of £88,000).

As the Bank of England base rate has remained at 0.5%, the fund has continued to report a deficit in 2014-15. As with 2013-14, the fund did not generate sufficient income to enable any of the running costs of CFO to be drawn down from the fund. The deficit has been offset against accumulated reserves brought forward.

DFP have agreed that a deficit caused after the deduction of interest payable to CFO clients and CRND management charges can be recovered from the Northern Ireland Consolidated Fund. In 2014-15, the amount recoverable totalled £50,000 (2013-14: £105,000) and this has been added to the reserves.

The accumulated reserves carried forward as at 31 March 2015 totalled £56,000. Under section 39(2) of the 1982 Act, all of the accumulated reserves are ultimately payable to the Northern Ireland Consolidated Fund.

Number of cases

The number of minor and patient cases with funds in court decreased from 13,141 at 31 March 2014 to 13,023 at 31 March 2015. During the year, a total of 1,895 minor and patient cases were paid out in full with funds being received for 1,777 new cases.

CFO operational performance

A number of performance targets relating to CFO were published in the NICTS Business Plan for 2014-15. The targets (and the performance achieved) are as follows:

Task	Measure of Performance	Target	Achieved
Receipts	Receipts will be credited to client accounts within two working days of the receipt of the relevant documentation	98.0%	99.0%
Payments	Payments will be made within 10 working days of the receipt of the relevant documentation	98.0%	99.7%
Sale of investments	Sales will be executed within three working days of the receipt of the relevant court authority	98.0%	98.2%
Sale of investments	Sales proceeds will be credited to the client's account within two working days of the receipt of the bank statement	98.0%	100.0%
Purchase of investments	Purchases will be executed within three working days of the receipt of the relevant court authority (or sufficient funds becoming available, if later)	98.0%	98.2%
Customer Services	Letters of confirmation that funds have been received by CFO will be issued within 5 working days of the receipt of funds (or notification of the appointment of a controller, if later)	98.0%	98.1%
Accounts	Draft accounts to be issued to Comptroller and Auditor General for Northern Ireland in line with statutory deadline	By 30/11/14	Issued 25/06/14

Performance of client portfolio

Client income for the year, including interest allocated to their accounts, totalled £5.5m, equivalent to 1.8% of client holdings at year end (2013-14: £4.3m or 1.4%). Income has remained low this year, primarily due to the low returns available on government gilts and cash deposits held with CRND.

Total client holdings increased from £300.8m to £310.0m during the year. Accounting for net payments to clients of £4.2m and net transfers of investments to clients of £4.3m, this represents an increase in value of £17.7m (5.9% of client holdings at the start of the year). The gain in valuation of securities held on behalf of clients was £12.1m (2013-14: loss of £1.7m).

Table 1 shows the market value of cash and securities held on behalf of clients as at 31 March 2015 and 31 March 2014.

Table 1	Patients		Minors		Other funds	
	(£000's)		(£000's)		(£000's)	
	31/3/15	31/3/14	31/3/15	31/3/14	31/3/15	31/3/14
Cash Account Balances	41,602	51,063	67,349	68,448	13,567	12,296
Debt Securities	37,350	39,418	18,201	22,386	18	13
Investment Securities	103,747	84,281	27,695	22,473	-	-
Total	182,699	174,762	113,245	113,307	13,585	12,309

Given the protective role of CFO, and subsequent low risk approach to investment, it has been the policy of CFO to invest the majority of funds lodged into court in debt securities (government gilts), as long as this is appropriate. However, the returns on government gilts during the year remained exceptionally low, meaning that for many cases the best option was for the fund to be held as cash, earning interest of 0.5%.

A review of all gilt holdings was conducted towards the end of the year. In many cases, the return on short dated gilts held had fallen below 0.5% if held to redemption. Therefore an exercise was carried out to liquidate these holdings and reinvest the proceeds in the cash deposit account to earn 0.5%. As a result of this review, nearly £6m worth of gilt holdings were sold in March 2015. During the year, total gilt holdings decreased from £61.8m to £55.6m.

Due to the poor return on government gilts, the investment managers have considered other low risk alternative investments as a way to enhance the returns on funds held without significantly increasing risk. Where considered appropriate, the investment managers have recommended investment in exchange traded funds (ETFs) which hold a variety of investment grade corporate bonds.

Client holdings in investment securities increased from £106.8m to £131.4m. Approximately £13.6m of this increase can be attributed to new investments being made (net of sales and transfers out), with the balance resulting from gains in valuations. The total of £131.4m includes £21.7m worth of the ETFs with corporate bond holdings, purchased as a low risk alternative to government gilts.

Table 2 details the investment activity during the year for minors and patients.

Table 2	Patients		Minors		Total
	Debt Securities	Investment Securities	Debt Securities	Investment Securities	
	(£000's)	(£000's)	(£000's)	(£000's)	
Opening value 1/4/14	39,418	84,281	22,386	22,473	168,558
Purchases	9,954	25,195	3,476	7,875	46,500
Sales	(11,634)	(13,203)	(7,295)	(3,802)	(35,934)
Net transfers in/(out)**	(1,583)	(2,249)	(190)	(234)	(4,256)
Internal transfers***	528	839	(528)	(839)	-
Gain/(Loss) in value	667	8,884	352	2,222	12,125
Closing value 31/3/15	37,350	103,747	18,201	27,695	186,993
% gain/(loss) in value*	1.8%	9.9%	1.8%	9.3%	7.1%

*The percentage gain in value has been calculated using the average value of holdings at the start and end of the year.

**Net transfers in/(out) represents the value of investments that have been transferred into or out of court.

***Internal transfers occur from minor accounts to patient accounts in cases where a minor becomes a patient once they turn 18.

For comparison purposes, Table 3 provides a summary of capital returns for certain types of investments for the year, measured by market indices.

Table 3		Index at 31/3/2014	Index at 31/3/2015	Movement in index	% movement in index
Investment securities	FTSE All share	3,555.59	3,663.58	107.99	3.0%
	FTSE 100	6,598.40	6,773.00	174.60	2.6%
	FTSE All World	240.65	279.69	39.04	16.2%
	FTSE All World (Ex UK)	242.75	284.91	42.16	17.4%
Debt securities	FTSE Fixed rate gilts up to 5 years	99.88	99.60	-0.28	-0.3%
	FTSE Fixed rate gilts 5-15 years	176.70	189.69	12.99	7.4%
	FTSE Index-linked gilts up to 5 years	320.49	312.70	-7.79	-2.4%
	FTSE Index-linked gilts 5-15 years	413.93	439.29	25.36	6.1%

The indices show that investment securities generally provided positive returns for the year. The overall performance of UK securities (measured by the FTSE All Share and FTSE 100 indices) was significantly lower than that of international securities (measured by the FTSE All World indices). The investment securities held by CFO have provided returns in excess of 9%, which is significantly above the returns recorded by the UK indices. This reflects the diversification of investments into international holdings.

Gilt indices have recorded mixed returns for the year, with longer term gilts recording positive returns. CFO gilt holdings recorded an increase in value of just under 2% for the year. This reflects that the majority of CFO gilt holdings are now towards the shorter term, redeeming in either 2018 or 2020.

In prior years, the minors' and patients' gilt holdings recorded differing returns, reflecting that minors' holdings are generally shorter term in nature. However, as the majority of gilt holdings have now been disposed of, there is less of a difference in the nature of the gilts held by each category of client, resulting in similar levels of return being recorded.

Our contracted investment managers, Davy Private Clients, have commented in respect of the investment performance within the Investment Manager's Report on page 9. They have also provided a factsheet in respect of each of their target portfolios, which can be found in Appendix A.

Deduction of stockbroker management fees

In April 2010, legal advice was received which suggested that there was doubt as to whether it was permissible to deduct stockbroker management charges in the absence of express legislative authority. As a result of this advice, the practice of deducting the management fees ceased until the position could be confirmed. In the interests of legal clarity, a clause was included in the Justice Act (Northern Ireland) 2011 which provided the Accountant General with the necessary authority to deduct stockbroker management charges from 5 July 2011 onward. The charging of management fees re-commenced from that date.

To ascertain whether the Accountant General had the authority prior to 5 July 2011 to deduct stockbroker management fees from CFO clients, an application was made to the High Court for a declaration on the power to deduct such fees. A provisional judgment was delivered on 19 April 2012, followed by a revised judgment on 1 August 2012. The judgment indicated that, prior to 5 July 2011, CFO had the power to deduct stockbroker management fees from clients' funds in certain circumstances, if specifically provided for by an order of the court. However, the judgment also determined that transaction fees charged prior to 2007 may have been deducted unlawfully, unless provided for by an order of the court. On consideration of the implications of the judgment, the Accountant General decided to appeal the decision. The Court of Appeal issued its verdict on 30 September 2013 and ruled that the existing legislation prior to 2007 did allow for transaction fees to be deducted and that management fees could be deducted if provided for by an order of the court.

To ascertain which management fees had been deducted lawfully, it was necessary to carry out a review of old court orders. This review commenced in November 2013, once the deadline for any further appeal expired, but could not be completed until legal advice was received to clarify certain aspects of the judgment. The legal advice was received in September 2014 and the review of orders was completed in December 2014.

Where it was determined that fees had been deducted unlawfully, funds were credited to the relevant CFO client accounts in March 2015 by way of reimbursement for the fees deducted. Interest was applied to the fees reimbursed at the prevailing CFO rate.

Individual Savings Accounts

In August 2010, CFO received definitive legal advice which indicated that it is not permissible under the current legislative framework for any investments to be held in nominee accounts.

As a result of this advice, a programme of work was undertaken to remove the nominee holdings from court. During the year to 31 March 2015, the final two ISAs held on behalf of CFO clients were closed.

Accountant General

On 15 September 2014, Ronnie Armour replaced Jacqui Durkin as Accountant General of the Court of Judicature of Northern Ireland.

Modernisation of CFO

Legislative reform

It is recognised that to make further progress in the modernisation of court funds, changes to primary legislation will be required. A number of practical improvements have been identified as priorities for legislative reform. CFO is discussing this with the Access to Justice Directorate in DOJ who are responsible for taking forward any legislative changes.

Court Funds Office IT system

The Court Funds Office is currently operating a bespoke software package that has not been significantly updated for some time. A feasibility report was commissioned from the agency's IT support provider to identify options available for the upgrade or replacement of the current business operations system. The report recommended that a new IT system be implemented.

An internal audit of CFO reported in December 2012 and a follow up report was issued in June 2014. In each report, overall assurance was limited due to risks surrounding the IT system. CFO Management are taking steps to address these risks. The DFP Business Consultancy Service was engaged to assist CFO in producing a business specification document, detailing the required processes for a new IT system. This was used to inform an outline business case and the procurement process. The outline business case for the replacement of the current IT system, procuring a commercial off the shelf package via an existing procurement framework, was approved by DOJ in February 2015.

A supplier for the new system was procured through the government's Digital Marketplace and appointed in May 2015. It is expected that the new system will be fully implemented by the end of March 2016.

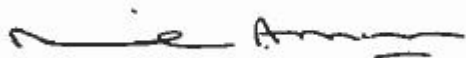
Recovery of CFO running costs

The current mechanism to fund CFO running costs is not sustainable in the current economic climate with interest rates at a historical low. As a result, the running costs of CFO are currently being met by NICTS.

NICTS issued a public consultation document in June 2015 to obtain views on the introduction of alternative charging mechanisms. The consultation period closed in September 2015 and NICTS is due to publish the response to the consultation by December 2015.

NIAO Value for Money Report

NIAO published a value for money report entitled "Managing and Protecting Funds Held in Court" in July 2014. The full report can be found on the NIAO website. Subsequently the NI Executive's Public Accounts Committee (PAC) invited the Department to appear before them to discuss this report. The PAC report was published in April 2015 and can be found on the NI Assembly website. The Memorandum of Reply, which includes CFO responses to the PAC report, is available on the DFP website.



R. ARMOUR
*Accountant General of the
Court of Judicature of Northern Ireland*

10 December 2015

[The following report has been provided by Davy Private Clients, who are contracted to provide investment portfolio management services to CFO]

Investment Manager's Report

This report comprises three sections:

1. Review of the investment markets in the period to 31 March 2015
2. Outlook for the year ahead
3. Planned portfolio actions for the coming year

Review of investment markets

The 12 months to 31 March 2015 highlighted the importance of holding a diversified portfolio of investments. During the year, government bonds experienced a strong run of performance on the back of further monetary stimulus and muted inflation. These events sent historically low interest rates even lower. As interest rates and bond prices move inversely, this in turn pushed bond prices higher. Government bonds are now at highs that have not been reached in living memory and therefore the Davy Investment Committee remains cautious when making investments in this asset class.

Equity market returns, which often form the bulk of total returns, were variable being highly dependent upon the geographical area to which the portfolio has exposure. UK equity returns were relatively low in the context of global equity markets. Davy's investment strategists believe that there were two main factors for this. First, the UK equity market's relatively high exposure to companies that derive their income from commodities such as oil; as the oil price fell these companies experienced a significant decline in share price in the period. Secondly, the strength of the US economy and the US dollar against Sterling led to meaningful rises in US equities which were further improved when converted to Sterling.

Of note were the very strong returns generated by UK commercial property and infrastructure. Both delivered double digit returns in the period as greater economic stability coupled with lower interest rates improved both the outlook and fundamentals of these asset classes.

Outlook for the year ahead

We are cautious on both government and corporate bonds given the historically low interest rates that are currently being experienced. Many commentators are suggesting that the prices of these asset classes are becoming overvalued and their rationale for this assertion is, in the Davy Investment Committee's view, justified. As economic conditions improve, inflation and interest rates will begin to move upwards, while the speed of this rise will ultimately determine how much bonds may fall by. Davy is therefore increasingly cautious when making investments on behalf of clients in government and corporate bonds.

Global equity market returns have been strong in the last three years, certainly exceeding our expectations to 31 March 2015. Equity valuations are, in our opinion, in line or slightly exceeding their long-term average valuations. Should equities continue to rise, it is likely that Davy will react by reducing clients' exposure to this asset class across portfolios. To justify the current valuations, companies need to deliver improving profits and there has been some evidence of this so far in 2015. The Davy Investment Committee remains cautious on equities and do not expect similar returns in 2015 to those that were experienced in 2014.

Planned portfolio actions

Every client portfolio is individually managed towards the Davy Investment Team's 'best ideas', some of which are detailed above, for different levels of targeted return and risk. Whilst primarily focussed on investment management, Davy is also mindful of the tax implications that our investment decisions may have on clients. However, tax is not and should not be an overriding factor in our decision to buy or sell investments. With this in mind, and coupled with the strong returns generated in the period, clients should be aware that if and when we sell investments capital gains tax may become payable. At Davy Private Clients, we want to ensure that all clients benefit from our 'best ideas' and one of our key objectives is to progressively move clients' investments towards these ideas through annual portfolio rebalancings (for more information on these portfolios please see appendix A). This also helps ensure that the portfolios adopted best match the individual client's requirements.

**Davy Private Clients
December 2015**

Statement of the Accountant General's Responsibilities

Under section 78(1)(b) of the Judicature (Northern Ireland) Act 1978 as amended by Schedule 18 (22) of the Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010 the Accountant General is required to prepare a statement of accounts for each financial year in a form directed by DFP. The accounts are prepared on an accruals basis and must properly present the income and expenditure for the financial year and the balances held at the year end.

The Accountant General has been appointed as Accounting Officer for the account. The relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the funds and the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by DFP and published in Managing Public Money Northern Ireland.

Governance Statement

Scope of responsibility

As Accountant General of the Court of Judicature in Northern Ireland, I have responsibility, as a statutory officer, for funds in court. I have delegated the administrative responsibilities for funds in court to CFO. CFO is a discrete business unit within NICTS, which itself is an executive agency of DOJ, and is managed within the control framework of NICTS.

As an agency of DOJ, NICTS operates under a framework document that has been agreed by DOJ and the Department of Finance and Personnel (DFP). The agency framework document sets out the arrangements for the effective governance, financing and operation of NICTS.

As Chief Executive of NICTS, I am responsible for the day-to-day operation and administration of the organisation and leadership of its staff. Managerial responsibility for CFO rests with the NICTS Head of Finance and Estates.

Purpose of the governance framework

The governance framework is the system which ensures the effectiveness of the direction and control of NICTS. As Accounting Officer, I have established a governance framework and management structure to support me in the management of the key risks for NICTS, including CFO. The framework is not designed to eliminate all risk but to manage risk to a reasonable level. The framework is based on an ongoing process which is designed to identify and prioritise the risks to the achievement of policies, aims and objectives; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage them efficiently, effectively and economically.

Governance framework and management structure

The key management structures which support the delivery of effective corporate governance in NICTS and CFO are detailed below:

NICTS Agency Board

The Agency Board (the Board) provides a vital role in shaping and directing the organisation to ensure it is equipped to deliver high quality and cost effective services to court and tribunal users. The Board is responsible for business and corporate planning and reporting and the oversight of the functions of NICTS including finance, planning, performance, and policy initiatives. The Board operates within the parameters of the framework document and the agreed terms of reference. The framework document is published on the NICTS website.

The Board met on six occasions during 2014-15. At the beginning of each Board meeting members are asked by me as the Chair to declare any conflicts or potential conflicts of interest. To allow members to prepare and consider any potential conflicts of interest they are provided with an agenda and all papers to be discussed five working days before the meeting. During 2014-15 no potential conflicts of interest were identified in relation to CFO.

NICTS Finance Committee

The Finance Committee (the Committee) is a sub-committee of the Agency Board and assists the Board with financial oversight and budgetary control. The terms of reference for the Committee are included in the framework document.

The role of Finance Director in NICTS is performed by the Head of Finance and Estates who advises the Committee on any material issues concerning financial oversight and budgetary control, including CFO. Management information on funds in court is presented to the Committee each quarter. The Committee met on four occasions during 2014-15 and after each meeting, the Head of Finance and Estates provides a highlight report to the Board covering the main issues discussed by the Committee.

NICTS Audit and Risk Committee

The Audit and Risk Committee is a sub-committee of the Agency Board and provides the Board and myself, as Accounting Officer, with independent assurance over the adequacy and effectiveness of the established internal control and risk management systems within NICTS, including CFO. This committee monitors the effective implementation of all agreed audit recommendations; examines the effectiveness of the overall risk management process; and receives assurance from the NICTS Risk Co-ordinator.

The Audit and Risk Committee operates in accordance with the Audit Committee Handbook which was updated on 29 May 2013. The terms of reference for the Audit and Risk Committee are included in the framework document.

The Audit and Risk Committee met on six occasions during 2014-15. After each meeting, the Chair of the committee presents a report to the Agency Board covering the main issues discussed by the committee. Matters considered include:

- Changes to the Corporate Risk Register;
- NIAO Reports to Those Charged with Governance (RTTCWG);
- Internal Audit reports;
- Internal Audit work programme;
- Head of Internal Audit's Annual Assurance Statement;
- Relevant Public Accounts Committee (PAC) Reports;
- Annual Reports and Accounts; and
- Financial Governance updates.

Court Funds Judicial Liaison Group

The Court Funds Judicial Liaison Group (the Group) provides a forum for the judiciary to express their views in relation to CFO operations. The Group is provided with an up-to-date overview of investments and a six-monthly review of investment performance. A representative of the contracted investment manager presents the six-monthly investment performance report and is in attendance at all meetings to respond to any queries from the Group in respect of the investment performance or any related issues.

Meetings are usually held once per legal term. The Group met on three occasions during 2014-15. Matters discussed include:

- Investment performance;
- Alternative funding mechanisms for CFO; and
- The NIAO Value for Money report and recommendations.

Strategic Planning Group

The Strategic Planning Group (SPG) is the decision making group for the senior executive team within NICTS. SPG takes a strategic look at the work of NICTS and considers resources, budget, business performance and operational issues including CFO. SPG meets approximately fortnightly.

CFO Management Team

The CFO management team also contribute to the governance framework of CFO. The team consists of the CFO Business Manager, the Office Manager and managers of each team within CFO. The team meets regularly to review the performance of CFO and address any other business issues that arise. The team is also responsible for preparing the CFO risk register on a quarterly basis.

The CFO Business Manager meets with the Head of Finance and Estates on a monthly basis to discuss the performance of CFO and report on progress against the CFO Business Plan.

Full details of the membership and attendance of the Board, its sub-Committees and the Judicial Liaison Group are shown in Tables 4-7 on pages 20-22.

Risk management and internal control

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the policies, aims and objectives of NICTS, including CFO, while safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money Northern Ireland* (MPMNI).

Internal Control

The system of internal control is not designed to eliminate all risk of failure, but to manage risk to a reasonable level to achieve policies, aims and objectives. It can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control has been in place in NICTS for the year ended 31 March 2015 and up to the date of approval of the annual report and accounts, and accords with DFP guidance.

NICTS has in place a range of policies and processes to ensure that it is compliant with MPMNI, policies and guidance issued by DOJ and financial delegations granted by DOJ and DFP.

Risk Management

Risk management forms a central element of the governance framework. Risk management is championed by the Head of Business Support with the Agency Board owning the overall risk management framework.

A Risk Management Policy is in operation and risk co-ordinators are in place throughout NICTS. They are responsible for promoting, supporting and co-ordinating risk management in their business areas. Risk management responsibilities are included in job descriptions and there is support and provision of guidance on risk issues from the Business Support Team.

Formal branch and divisional risk management meetings take place quarterly and support the corporate risk management process and the CFO management team contributes fully to that process. Risks are primarily identified through risk identification workshops; they are assessed in terms of their probability of occurrence and impact on the achievement of objectives and then scored and reported on accordingly. Responsibility for the management of each risk is assigned to a risk owner and recorded on the risk register along with controls in place to mitigate the risk or action plans in place to enhance the level of control. The updated risk registers record any movement of risks in terms of impact and probability of occurrence from one period to another and this enables an appreciation of how the risk has changed over time.

Risk management is considered formally by senior management through quarterly reviews of the corporate risk register and corporate plan monitoring reports. Senior management review, recommend and pursue actions in place to manage the risks. The corporate risk appetite is set by the Agency Board and used as a starting point for setting levels of risk tolerance. Managers and Heads of Division escalate risks which have exceeded specific risk appetites to the next level of management.

NICTS operates a process to enable escalation of risks to the DOJ Corporate Risk Register if risks breach the organisation's tolerance level.

Information assurance

NICTS is committed to ensuring personal data is appropriately protected and managed in line with DOJ policies. NICTS is represented on a number of departmental groups including the Information Risk Owner Council, Accreditation Panel and Security Managers' Forum.

All data loss incidents are reported and managed in line with established departmental guidance. During 2014-15 there were no incidents within CFO that were required to be reported to the Information Commissioner's Office. The findings from all investigated information assurance incidents are reviewed to identify any lessons learnt and, where appropriate, existing processes amended.

Further guidance and training was provided to all staff during 2014-15. This included advice on the implementation of the new Government Classification Scheme and further mandatory on-line training covering general information assurance procedures. In addition, further training was provided for Information Asset Owners. The annual Information ICT disaster recovery test and independent ICT healthcheck were also completed as part of the planned 2014-15 work programme. A series of unannounced clear desk inspections were also completed across the NICTS estate.

NICTS continues to monitor and review the application of information assurance policies to ensure data is handled appropriately and that any associated risks are identified and managed.

Review of effectiveness of the governance framework

As Accounting Officer, I have responsibility for reviewing the effectiveness of the governance framework. The Board and I receive regular reports from the Audit and Risk Committee concerning internal control, risk and governance. At the end of the reporting period, Heads of Division reviewed the stewardship statements completed by Business Managers to create a series of divisional statements from which I have been able to take assurance in respect of the management of risk and the achievement of objectives. The CFO Business Manager prepares a stewardship statement for submission to the NICTS Head of Finance and Estates on a bi-annual basis.

Internal Audit operated, and continues to operate, to the Public Sector Internal Audit Standards. It submitted and will continue to submit regular reports, including an independent opinion by the Head of Internal Audit, on the adequacy and effectiveness of the NICTS system of risk management, control and governance.

My review of the effectiveness of the system of internal control is informed by the work of internal auditors and executive managers within NICTS who have responsibility for the development and maintenance of the internal control framework as well as comments made by the external auditors in their report to those charged with governance and other reports. The 2013-14 report on CFO from the external auditors did not make any recommendations.

The Head of Internal Audit has provided overall satisfactory assurance over the NICTS systems based on the work carried out during the year. However, in relation to CFO, internal audit reports for 2011-12 and 2013-14 provided limited assurance only. This level of assurance was directly related to risks surrounding the IT system. Satisfactory assurance was provided in relation to individual CFO transactions. The follow up audit in 2013-14 noted that 10 out of 13 recommendations from the previous report had been fully implemented. The report acknowledged the progress made in respect of the IT system, but the assurance level provided remained as limited due to the high risk that will continue to be associated with the IT system until it is replaced. An internal audit was carried out during 2014-15 reporting on the exercise to recover stockbroker management fees. The report provided substantial assurance in this area.

NICTS Agency Board Effectiveness

Agency Board members completed a self-assessment questionnaire in September 2014. I am content that the exercise indicated that effective corporate governance is operating at the top level with commitment from all board members. The key findings of this exercise are set out below.

- The majority of Board members agreed that the Board has a clear set of objectives, assesses its performance and has developed a strategy for the organisation;
- In terms of performance management, the Board members agreed that performance information is integrated with financial reporting and they receive regular reports from management highlighting any issues that might adversely affect key outcomes;
- There was strong agreement that NICTS has sound risk management processes and procedures in place to identify, review and update the Board on all risks that can be taken into account in the decision-making process;
- Board members expressed a need for improvements in relations with the sponsor department; and
- Scoring was extremely high across all contributors indicating that members have full confidence in the Audit and Risk Committee, Internal Audit and corporate reporting.

While the overall assurance provided is positive, the Board was asked to repeat the exercise in twelve months' time, September 2015, and agree to actively participate in discussions on Board strategy, objectives, performance and assessment on an annual basis and raise relevant issues throughout the year as well as at the annual appraisal point.

The periodic completion of independent board self-analysis is considered to be a useful way of enhancing effectiveness and demonstrates compliance with corporate governance best practice as recommended by MPMNI.

Information presented to the Board is fundamental for its assessment and understanding of the performance of NICTS. Board members are content that the information received is of a high standard and keeps them informed of any issues of which they need to be aware or take action on, helping them to effectively carry out their duties as a board.

Corporate Governance in Central Government Departments – Code of Good Practice

The Corporate Governance in Central Government Departments - Code of Good Practice (NI) 2013 was published by HM Treasury and applies to DOJ. NICTS has adopted key principles as best practice where appropriate. A review of the code has identified that NICTS is compliant with key principles which are considered applicable.

Significant internal control issues

The following issues have been identified as significant to CFO during 2014-15 as a result of the assurance activity. Each of the control issues has been subjected to rigorous review and plans are in place to address identified weaknesses.

CFO IT system

CFO is currently operating an outdated bespoke computer system. The system is essential for the continuity of critical CFO operations. Local contingency arrangements are in place to deal with a temporary failure in the system, to ensure that payments can continue to be made in the short-term. However, in the event of an irrecoverable failure in the system, CFO would be required to revert to manual systems, which would have a significant impact on the ability of the office to meet its business requirements.

CFO management is taking steps to address the risks surrounding the IT system. DFP Business Consultancy Service was engaged to provide a business specification document, detailing the required processes for a new IT system, which was used to inform an outline business case and the subsequent procurement process. The business case to replace the system was approved by DOJ in February 2015 and a supplier for the new system was procured through the government's Digital Marketplace in May 2015. It is planned that the system will be fully implemented by the end of March 2016.

Stockbroker fees

Legal opinion obtained suggested that CFO may have been acting "*ultra vires*" by deducting fees for professional stockbroker advice and management of investments directly from the funds held on behalf of vulnerable persons at the direction of the courts in Northern Ireland. The funds need to be professionally managed, but it may not have been permissible to deduct the fees in the absence of express legislative authority.

As a result of this advice, the practice of deducting the management fees ceased until the position could be clarified. The situation has now been regularised with the inclusion of a clause within the Justice Act (Northern Ireland) 2011. The clause was commenced on 5 July 2011, but as it is not retrospective, it only applies from this date.

To ascertain whether the Accountant General had the authority, prior to 5 July 2011, to deduct stockbroker management fees from CFO clients, an application to the High Court was made for a declaration on the correctness of past deductions. A provisional judgment was delivered in April 2012 with a revised judgment in August 2012. On consideration of the implications of the judgment, NICTS appealed the decision.

The Court of Appeal issued its verdict on 30 September 2013 and ruled that the existing legislation did allow for transaction fees to be deducted prior to 2007 and that management fees could be deducted from client funds if provided for by an order of the court.

To ascertain which management fees had been deducted lawfully, it was necessary to carry out a review of old court orders. This review commenced in November 2013, once the deadline for any further appeal expired, but could not be completed until legal advice was received to clarify certain aspects of the judgment. The legal advice was received in September 2014 and the review of orders was completed in December 2014.

Where it was determined that fees had been deducted unlawfully, funds were credited to the relevant CFO client accounts in March 2015 by way of reimbursement for the fees deducted. Interest was applied to the fees reimbursed at the prevailing CFO rate. The reimbursement of fees was paid by NICTS and totalled £53,102.

Stocks and Shares Individual Savings Accounts (ISA)

CFO legislation does not permit the investment of clients' funds in stocks and shares ISAs. As at 31 March 2012 a total of 92 ISAs were held on behalf of CFO clients, with a value of £8.0m. A programme of work was undertaken to remove all ISA holdings from court. Clients were given the option of transferring their ISA holdings out of court so that any tax benefits would not be lost, otherwise the ISA was closed and the underlying investments retained in court in the name of the Accountant General. There was a delay in closing a small number of ISAs which related to clients who were awaiting award of probate, or transfer to another jurisdiction. During 2014-15, the final two ISAs held on behalf of clients were closed.

Audit recommendations

There is currently only one priority one Internal Audit recommendation that has not yet been fully implemented. This recommendation is in respect of the limited assurance reported from the 2012-13 Internal Audit review of CFO. All outstanding recommendations are monitored by the Audit and Risk Committee every six months and Internal Audit is satisfied that appropriate action is being taken on this outstanding priority one recommendation.

A value for money audit was carried out in CFO by NIAO, commencing in 2012-13. The report entitled 'Managing and Protecting Funds Held in Court' was published on 1 July 2014 and concluded that "current arrangements and existing legislation for managing and protecting funds in court do not ensure value for money or proper accountability for clients' funds."

The recommendations in the report focus on areas of governance for which improvements may be made. These include the level of independent scrutiny, the need to modernise the underpinning legislation, the extent of performance monitoring and transparency in dealing with clients.

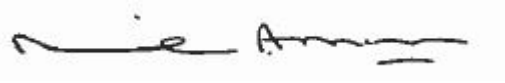
The Public Accounts Committee (PAC) considered the NIAO report at a hearing in February 2015. The PAC report was published on 13 May 2015 and contains six recommendations. The recommendations relate to the improvement of governance structures and the progress of business modernisation. The Memorandum of Reply was presented to the Assembly on 9 July 2015.

My management team is taking action to implement as many of those recommendations as are affordable and possible within legislative and other constraints. Many of the recommendations will be addressed by the new IT system that we are currently implementing and for which more detail is provided in the previous section of this statement. In addition, a second independent member has been appointed to the Judicial Liaison Group and we have consulted on the introduction of a proposed fee structure for CFO to recover the administration costs from clients, with a view to introducing fees during 2016-17. We are also considering a longer term plan to address some of the legislative limitations, with initial discussions having taken place with members of the judiciary.

Accounting officer statement on assurance

NICTS has established a robust assurance framework that includes primary assurance, through line management structures, on the achievement of objectives. This primary assurance is supplemented by secondary assurances provided through oversight of management activity and by an independent internal audit team operating to Public Sector Internal Audit Standards. They deliver an agreed prioritised programme of systems based audits covering all NICTS systems, including CFO, over time.

The Head of Internal Audit provides me with an Annual Report and his professional opinion on the level of assurance that he can provide based on the work done. For the 2014-15 year he has provided overall satisfactory assurance on the NICTS systems. However, a previous report on the CFO systems offered only limited assurance due to the risks surrounding the CFO IT system. CFO management is taking steps to address these risks as detailed above.



R.ARMOUR

Accountant General of the Court of Judicature of Northern Ireland

10 December 2015

Table 4 – Membership and attendance at Agency Board for 2014-2015

Member's Name and Position	Date of Meeting					
	Jun 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015	Mar 2015
Mr R Armour CEO and Chairperson	-	✓	✓	✓	✓	✓
Mrs J Durkin CEO and Chairperson*	✓	-	-	-	-	-
Mr P Luney Head of Court Operations Division	✓	✓	✓	✓	✓	✓
Miss M Morrison Acting Head of Tribunal and Enforcement Division (from 2 December 2013**)	✓	✓	✓	✓	✓	✓
Ms S Hetherington Head of Finance and Estates Division	✓	✓	✓	✓	✓	✓
Mr PJ Fitzpatrick Non-Executive Director	✓	✓	✓	✓	✓	✓
Mr C McKenna Non-Executive Director	✓	✓	✓	✓	✓	✓
Mr D A Lavery DOJ Representative	✓	✓	✓	✓	✓	✓
Judge McFarland Recorder of Belfast Judicial Representative	✓	✓	✓	x	✓	x
Mrs F Bagnall Presiding District Judge Judicial Representative	✓	x	✓	✓	✓	x
The Honourable Mr Justice Deeny Judicial Representative	✓	x	✓	✓	✓	✓
Mr C MacLynn President of the Appeals Tribunal Judicial Representative***	x	✓	-	-	-	-
Mr John Duffy President of the Appeals Tribunal Judicial Representative	-	-	-	-	-	✓

*Mrs J Durkin left NICTS on 14 September 2014 to take up a post in the Department of Education (DOE). Mr R Armour took over as Chief Executive on 15 September 2014.

**Miss M Morrison is covering this post. Mrs M Kilpatrick left NICTS on secondment to the Office of the First and Deputy First Minister (OFMDFM) effective from 14 October 2013.

***Mr C MacLynn President of the Appeals Tribunal Judicial Representative retired in October 2014 and was replaced by Mr John Duffy who was appointed to the Board on 16 February 2015.

Table 5 – Membership and attendance at Finance Committee for 2014-2015

Member's Name and Position	Date of Meeting			
	Jun 2014	Sep 2014	Dec 2014	Mar 2015
Mr R Armour CEO and Chairperson	-	✓	✓	✓
Mrs J Durkin CEO and Chairperson*	✓	-	-	-
Mr P Luney Head of Court Operations Division	✓	✓	✓	✓
Miss M Morrison Acting Head of Tribunal and Enforcement Division (from 2 December 2013**)	✓	✓	✓	✓
Ms S Hetherington Head of Finance and Estates Division	✓	✓	✓	✓
Mr C McKenna Non-Executive Director	✓	✓	✓	✓
The Honourable Mr Justice Deeny Judicial Representative	✓	✓	x	✓

*Mrs J Durkin left NICTS on 14 September 2014 to take up a post in DOE. Mr R Armour took over as Chief Executive on 15 September 2014.

**Miss M Morrison is covering this post. Mrs M Kilpatrick left NICTS on secondment to OFMDFM effective from 14 October 2013.

Table 6 – Membership and attendance of the NICTS Audit and Risk Committee for 2014-2015

Member's Name and Position	Date of Meeting					
	May 2014	Jun 2014 (Audit only)	Oct 2014	Dec 2014	Jan 2015 (Audit only)	March 2015
Mr PJ Fitzpatrick Chairman	✓	✓	✓	✓	✓	✓
Mr Justice Burgess Judicial Representative	✓	✓	✓	✓	✓	✓
Mr G Wilkinson Non-Executive Member	✓	✓	✓	x	✓	✓

Table 7 – Membership and attendance at Judicial Liaison Group for 2014-2015

Member's Name and Position	Date of meeting		
	May 2014	Oct 2014	Jan 2015
The Honourable Mr Justice Gillen Senior Queen's Bench Judge and Co-Chairperson*	✓	-	-
The Honourable Mr Justice Weatherup Senior Queen's Bench Judge and Co-Chairperson	-	✓	✓
Mr R Armour Accountant General and Co-Chairperson	-	✓	✓
Mrs J Durkin Accountant General and Co-Chairperson**	✓	-	-
Master McCorry Queen's Bench Master	x	✓	x
Master Wells Master Office of Care and Protection	✓	x	✓
Judge Devlin County Court Judge	x	✓	x
Ms B Donnelly Official Solicitor	x	x	✓
Ms S Hetherington Head of Finance and Estates Division	✓	✓	✓
Mr R Ronaldson Deputy Accountant General	✓	✓	✓
Mr N Bloomer Office of Care and Protection	✓	✓	✓
Mr C McKenna NICTS Non-Executive Director and independent member	x	✓	✓

*The Honourable Mr Justice Gillen was appointed to the Court of Appeal on 5 September 2014. The Honourable Mr Justice Weatherup replaced him as Co-Chairperson of the Group.

**Mrs J Durkin left NICTS on 14 September 2014 to take up a post in the Department of Education (DOE). Mr R Armour took over as Accountant General on 15 September 2014.

Funds in Court in Northern Ireland 2014-15

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

I certify that I have audited the financial statements of the Funds in Court in Northern Ireland for the year ended 31 March 2015 under the Judicature (Northern Ireland) Act 1978 as amended by the Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010. These comprise the Income Statement, the Statement of Financial Position, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accountant General and auditor

As explained more fully in the Statement of 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 Judicature (Northern Ireland) Act 1978 as amended by the Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Funds in Court in Northern Ireland 2014-15 and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Funds in Court in Northern Ireland; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report and Investment 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 the Assembly 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 the Assembly 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 Funds in Court in Northern Ireland's affairs as at 31 March 2015 and of its deficit and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Judicature (Northern Ireland) Act 1978 and Department of Finance and Personnel directions issued thereunder.

Opinion on other matters

In my opinion the information given in the Annual Report and Investment 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
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with Department of Finance and Personnel's guidance.

Report

I have no observations to make on these financial statements.



Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

16 December 2015

Income Statement for the year ended 31 March 2015

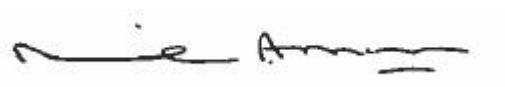
	Note	Year Ended 31 March 2015 £000	2014 £000
Income			
Interest Income	3	1,619	1,739
Interest Expense	4	(594)	(684)
Net Interest Income		1,025	1,055
Dividend Income		3,860	2,520
Gains/(Losses) Arising from Securities	5	12,133	(1,674)
Transfer to Client Holdings		(17,014)	(1,918)
Net Income/(Deficit)		4	(17)
Expenses			
Administrative Expenses - CFO		-	-
Management Charges from CRND		(60)	(71)
Total Expenses		(60)	(71)
Deficit transferred from Reserves		(56)	(88)

The notes on pages 28 to 35 form part of these accounts

Statement of Financial Position as at 31 March 2015

	Note	31 March	
		2015 £000	2014 £000
Assets			
Cash and Cash Equivalents	6	989	873
Loans and Advances	7	121,667	131,060
Debt Securities	8	55,569	61,817
Investment Securities	9	131,442	106,754
Other Assets	10	582	610
Total Assets		310,249	301,114
Liabilities			
Clients Cash Account Balances	11	122,518	131,807
Clients Holdings in Securities	12	187,496	169,023
Other Liabilities : Payables	13	235	284
Total Liabilities		310,249	301,114

The notes on pages 28 to 35 form part of these accounts



R. ARMOUR
*Accountant General of the Court
of Judicature of Northern Ireland*

10 December 2015

Statement of Cash Flows for the year ended 31 March 2015

	Note	Year Ended 31 March	
		2015 £000	2014 £000
Cash Flows from Operating Activities			
Net Loans and Advances made		9,393	(44,963)
Cost of Purchases of Securities	15	(46,500)	(84,475)
Proceeds from Sales of Securities	15	35,937	117,535
Interest Received		1,627	1,843
Receipt from the Consolidated Fund		105	45
Dividends Received		3,825	2,504
Expenses		(60)	(71)
Net Cash Inflow/(Outflow) from Operating Activities		4,327	(7,582)
Cash Flows from Client Cash Accounts			
Lodgements from Clients	15	52,647	64,327
Payments to Clients	15	(56,858)	(56,635)
Net Cash (Outflow)/Inflow from Client Cash Accounts		(4,211)	7,692
Net Increase in Cash and Cash Equivalents		116	110
Cash and cash equivalents at 1 April		873	763
Cash and cash equivalents at 31 March		989	873

The notes on pages 28 to 35 form part of these accounts

Notes to the Financial Statements

1. Statement of Accounting Policies

These accounts have been prepared in accordance with a direction made by DFP under section 78 of the Judicature (Northern Ireland) Act 1978 as amended by Schedule 18 (22) of the Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified by the revaluation of certain financial assets and liabilities, and in accordance with applicable International Financial Reporting Standards (IFRS), to the extent that such requirements are relevant to the activities of the CFO.

Certain new standards, interpretations and amendments to existing standards have been published requiring adoption for periods beginning on or after 1 April 2015, but which have not been adopted early for the purposes of these accounts. It is not anticipated that the adoption of these standards will have a material impact on these accounts in the period of initial application.

1.2 Recognition of Income

Income is recognised in the accounts on the following bases:

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

1.3 Valuation of Securities

All securities are designated as financial assets held at fair value through profit and loss, and are shown in the statement of financial position at the market end-of-day mid-prices, which are provided to CFO directly by the stock exchange. If the investments were to be sold, they would only realise the bid price, which is lower than the mid-price. The difference between the mid-prices and bid prices is not material as the investments held are easily traded and is significantly less than 0.5% of value. The valuation method reflects the nature of the client holdings, which can be ordered to be repaid at any time and it would therefore be inappropriate to designate investment holdings as “Held to Maturity”.

1.4 Administrative Expenses

CFO administrative expenses are accounted for in the NICTS Agency Accounts. The element of these costs that are recovered by the NICTS, and the charges levied by CRND are included in the Income Statement. Details of CFO running costs can be found on the NICTS website.

1.5 Foreign Currency Transactions

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

Foreign exchange gains and losses resulting from re-valuations are taken to the Income Statement, but as the risk is borne by the clients a balancing transaction is reflected to adjust client holdings in the functional currency. In 2014-15, the level of foreign currency transactions was negligible.

2. Financial Risk Management

Financial risks include credit risk, liquidity risk and market risks (interest rate and currency). The CFO does not assume any financial risks in relation to its principal activity of holding funds in court, as the funds comprise solely of third party assets. The financial risks of investing in securities are borne by the clients.

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

3. Interest Income

	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Cash and Cash Equivalents	-	-
Loans and Advances	598	667
Debt Securities	1,021	1,072
Total Interest Receivable	1,619	1,739
Less: Surplus payable to Northern Ireland Consolidated Fund	-	-
Total Interest Income	1,619	1,739

Debt Securities income comprises coupon interest in relation to gilt holdings held by CFO on behalf of clients. During 2014-15 and 2013-14 there were no other gilt holdings held by CFO.

4. Interest Due to Clients' Accounts

	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Court Funds – Deposit Account	36	35
Court Funds – Investment Account	558	649
Total Interest Payable	594	684

5. Gains / (Losses) on Securities

	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Gains/(Losses) on Client Security Holdings	12,133	(1,674)
Total Gains/(Losses) on Securities	12,133	(1,674)

6. Cash and Cash Equivalents

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

	31 March 2015 £000	31 March 2014 £000
Sterling bank accounts	989	842
Accumulated Cash held in Share ISAs	-	31
Cash and Cash Equivalent Holdings	989	873

7. Loans and Advances

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

	31 March 2015 £000	31 March 2014 £000
Call Notice Deposits	121,666	131,059
Ways and Means Account	1	1
Loans and Advances Holdings	121,667	131,060

8. Debt Securities

Debt Securities comprise UK Government Gilts held on behalf of clients. As at 31 March 2014, a small proportion of these were held within ISAs. All ISA holdings were removed from court by 31 March 2015.

	31 March 2015		31 March 2014	
	Nominal £000	Market Value £000	Nominal £000	Market Value £000
Holdings held on behalf of clients	31,944	55,569	34,164	61,817
Total Debt Security Holdings	31,944	55,569	34,164	61,817
Maturity Analysis				
Maturing in less than 1 year	22	22	219	223
Maturing in more than 1 year but less than 5 years	23,004	23,348	22,068	21,769
Maturing in more than 5 years	8,918	32,199	11,877	39,825
Total Debt Security Holdings	31,944	55,569	34,164	61,817

9. Investment Securities

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

- holdings of Unit Trusts;
- holdings of stocks, shares and loan notes (some of which were held within ISAs as at 31 March 2014); and
- holdings of National Savings Certificates and Bonds.

	31 March 2015		31 March 2014	
	Holding 000's	Market Value £000	Holding 000's	Market Value £000
Unit Trust Holdings	1	13	4	42
Stocks, Shares and Loan Notes	25,747	131,278	24,025	106,527
National Savings and Other Holdings	105	151	135	185
Total Investment Securities	25,853	131,442	24,164	106,754

10. Other Assets

Receivables

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

	31 March 2015 £000	31 March 2014 £000
Due from Consolidated Fund	50	105
Total Receivables	50	105

Accrued Income

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

	31 March 2015 £000	31 March 2014 £000
Holdings with CRND		
Accrued Interest on Deposits	47	53
Total CRND Accrued Interest	47	53
Client Holdings		
Accrued Coupon Interest on Gilts	362	364
Dividends Due	123	88
Total Client Accrued Income	485	452
Total Accrued Income	532	505
Total Other Assets	582	610

11. Clients' Cash Account Balances

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

	31 March 2015 £000	31 March 2014 £000
Court Funds placed on Deposit Account	12,712	11,472
Court Funds placed on Investment Account	108,068	118,717
Unclaimed balances (see note 19)	749	745
Other monies	989	873
Total Cash Balances	122,518	131,807

Other monies include monies paid into court in satisfaction of a judgment, which are only transferred to the Deposit Account if not claimed within 21 days (Court of Judicature) or 28 days (county courts). As at 31 March 2014, other monies also included cash held in ISAs on behalf of clients. All ISA holdings had been removed from court by 31 March 2015.

12. Client Holdings in Securities

	31 March 2015 £000	31 March 2014 £000
Debt Securities (see note 8)	55,569	61,817
Investment Securities (see note 9)	131,442	106,754
Accrued Income (see note 10)	485	452
Total Client Holdings in Securities	187,496	169,023

13. Other Liabilities : Payables

	31 March 2015 £000	31 March 2014 £000
Accumulated Reserves (see note 14)	56	62
Interest Accrued on Clients' Accounts	179	222
CFO Administrative Expenses	-	-
Total Other Liabilities : Payables	235	284

14. Accumulated Reserves

	31 March 2015 £000	31 March 2014 £000
Opening balance	62	45
(Deficit) / Surplus for the year	(56)	(88)
Surplus payable to Northern Ireland Consolidated Fund (note 3)	-	-
Receipt due from Consolidated Fund (note 10)	50	105
Closing balance	56	62

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

15. Clients' Receipts and Payments During Year

	Year ended 31 March 2015			Year ended 31 March 2014		
	Court of Judicature £000	County Courts £000	Total £000	Court of Judicature £000	County Courts £000	Total £000
Opening Balance	97,040	34,767	131,807	63,043	23,724	86,767
Receipts from clients	40,685	11,962	52,647	52,919	11,408	64,327
Sales of securities	33,568	2,369	35,937	104,981	12,554	117,535
Dividends and interest received	4,756	92	4,848	3,530	167	3,697
Total Receipts	79,009	14,423	93,432	161,430	24,129	185,559
Payments to clients	(44,324)	(12,534)	(56,858)	(44,906)	(11,729)	(56,635)
Cost of securities	(46,162)	(338)	(46,500)	(83,330)	(1,145)	(84,475)
Total Payments	(90,486)	(12,872)	(103,358)	(128,236)	(12,874)	(141,110)
Interest credited to client accounts	467	170	637	465	126	591
Transfers between Court of Judicature and county courts	(2)	2	-	338	(338)	-
Closing Balance	86,028	36,490	122,518	97,040	34,767	131,807

16. Movement in clients' securities

	Court of Judicature £000	County Court £000	Total £000
Opening Balance	164,124	4,899	169,023
Purchase of securities	46,162	338	46,500
Sale of securities	(33,568)	(2,369)	(35,937)
Net transfers in/(out)	(4,009)	(247)	(4,256)
Movement in market value	12,037	96	12,133
Movement in accrued income	37	(4)	33
Closing balance	184,783	2,713	187,496

17. Financial instruments

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

18. Contingent liabilities

As at 31 March 2014, a contingent liability existed in relation to stockbroker management fees which had been deducted from CFO clients without the necessary authority. It was accepted that any reimbursement of stockbroker fees would be the responsibility of NICTS and DOJ and not be made from the funds held in court as these are made up solely of third party monies. Therefore, a provision of £330,000 was included in the 2013-14 NICTS accounts.

To ascertain which management fees had been deducted lawfully, it was necessary to carry out a review of old court orders. This review commenced in November 2013, but could not be completed until legal advice was received to clarify a number of issues. The legal advice was received in September 2014 and the review of orders was completed in December 2014.

Where it was determined that fees had been deducted without the necessary authority, funds were credited to the relevant CFO client accounts in March 2015 by way of reimbursement for the fees deducted. Interest was applied to the fees reimbursed at the prevailing CFO rate. The reimbursement of fees was paid by NICTS and totalled £53,102. No further amounts are considered to be due.

In addition, management fees for the period 6 January 2010 to 5 July 2011, totalling £734,391 were paid by NICTS. Legal advice received in September 2014 indicated that these fees may be recovered from the clients and former clients of the CFO, provided that an order of the court had previously authorised the fees to be deducted from client funds. A programme of work was undertaken to recover these fees on behalf of NICTS, where it is considered appropriate to do so. In November 2014, a total of £645,387 was recovered by NICTS from CFO clients. No further action is being taken in respect of the remaining balance.

19. Unclaimed balances

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

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

- 1) those cases for which the details are known, but the beneficiary of the funds in court has not been able to be traced -

	31 March 2015			31 March 2014		
	Court of Judicature £	County Courts £	Total £	Court of Judicature £	County Courts £	Total £
Monies on deposit	305,141	67,027	372,168	304,954	67,027	371,981
Government Stocks	-	-	-	154	-	154

- 2) those cases for which the details are unknown –

	31 March 2015			31 March 2014		
	Court of Judicature £	County Courts £	Total £	Court of Judicature £	County Courts £	Total £
Monies on deposit	75,080	4,836	79,916	75,080	4,836	79,916
Equities	11,933	-	11,933	10,001	—	10,001

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

	31 March 2015			31 March 2014		
	Court of Judicature £	County Courts £	Total £	Court of Judicature £	County Courts £	Total £
Monies on deposit	224,431	72,408	296,839	221,436	71,692	293,128

Total unclaimed funds at the year end are:

- Monies on deposit of £748,923
- Equities valued at £11,933

The NICTS publishes details of unclaimed balances held by CFO on their website.

20. Events after reporting period

There were no material events after the reporting period.

The Accountant General authorised these financial statements for issue on 16 December 2015.

Appendix A

Portfolio factsheets

Preservation Portfolio

Portfolio Factsheet to 31 March 2015



Objective

The objective of the Preservation investment strategy is to protect the value of capital and aims to achieve a long term return in line with inflation by investing predominantly in a portfolio of defensive/low risk investments.

Commentary

The portfolio performed strongly in the year to 31 March 2015 returning 6.7% in the period. This was at the high end of our expectations and was a result of a strong run in government bonds. We would expect this outperformance to unwind over the next three years which would lead to anticipated longer term returns being more in line with our expectations.

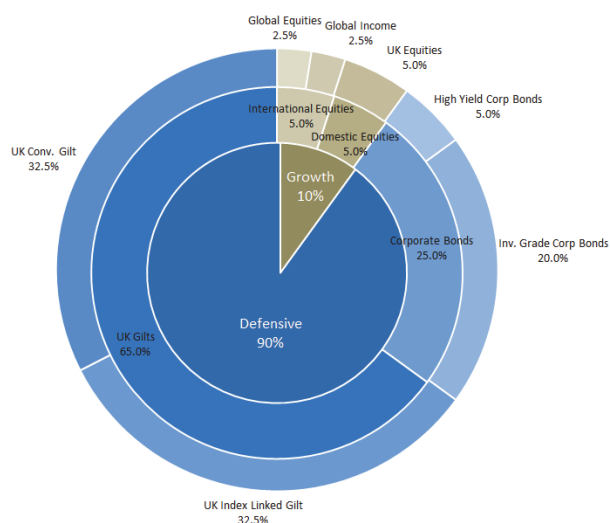
In terms of outlook, we expect interest rates and inflation to rise over the medium term which is the key reason that the holdings within this portfolio are 'short duration'. Ideally, we expect government bond investments held in this portfolio to mature and be reinvested into the rising interest rate cycle.

We would caution investors that returns are likely to be more muted over the next three to five years.

Asset Allocation

Typically this portfolio would invest wholly in government bonds and investment grade and high yield corporate bonds.

Given the low interest rate environment we tactically added a 10% weighting to higher risk investments for this portfolio to enhance the return (and risk) profile which has worked in the portfolios favour in the period.

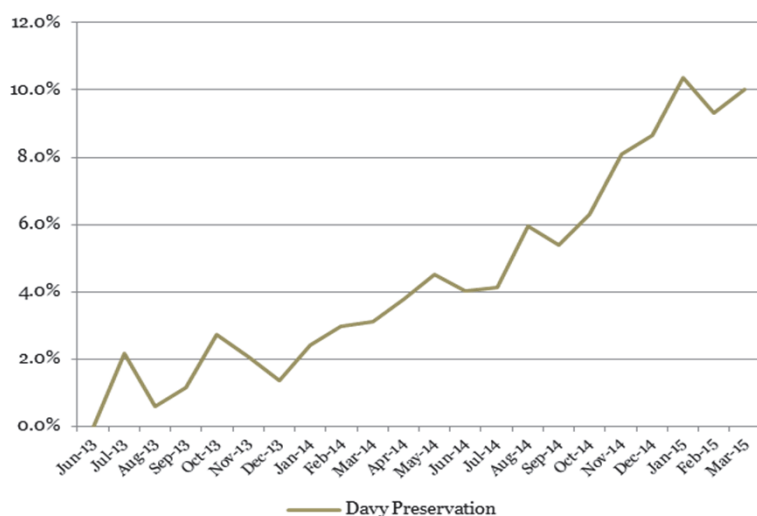


Performance ^{†*} to 31/03/2015	6 Months	1 Year	Since Inception (since 01/07/2013)
Davy Preservation	4.44%	6.70%	10.01%
ARC PCI Index	n/a**	n/a**	n/a**
WMA (APCIMS) Index	n/a**	n/a**	n/a**

[†] Source: Davy and FE Analytics * gross of fees

** n/a as there is no applicable independent benchmark for this portfolio/risk mandate

Historic Performance



Past Performance is not a reliable guide to future performance. The value of investment may go down as well as up.

Current Portfolio Holdings

	Weighting %
Equities	10.0%
iShares FTSE 100 ETF	-
Edinburgh Investment Trust	2.5%
City of London Investment Trust	2.5%
iShares MSCI World Core ETF	2.5%
iShares S&P 500 ETF	-
STOXX Global Select Dividend ETF	2.5%
Bonds	90.0%
iShares iBoxx Corporate Bond	20.0%
City Merchants High Yield Investment Trust	5.0%
UK Treasury 1.25% 2018 Gilt	32.5%
UK Treasury 2.50% 2020 Gilt	32.5%
Alternatives	0.0%
Ruffer Total Return Investment Trust	-
iShares UK Property ETF	-
HICL Infrastructure Fund	-
Total	100.0%

J&E Davy, trading as Davy, is regulated by the Central Bank of Ireland. Davy is a member of the Irish Stock Exchange, the London Stock Exchange and Euronext. In the UK, Davy is authorised by the Central Bank of Ireland and authorised and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our authorisation and regulation by the Financial Conduct Authority are available from us on request.

Cautious Growth

Portfolio Factsheet to 31 March 2015



Objective

The objective of the Cautious Growth investment strategy is to achieve a long term average return that potentially exceeds inflation. This is targeted by investing mainly in a portfolio of defensive/low risk investments that target returns in line with inflation, complemented with higher risk investments that target returns in excess of inflation.

Commentary

The portfolio performed strongly in the year to 31 March 2015 returning 10.6% in this period. This was at the high end of our expectations and was a result of a strong run in most asset classes.

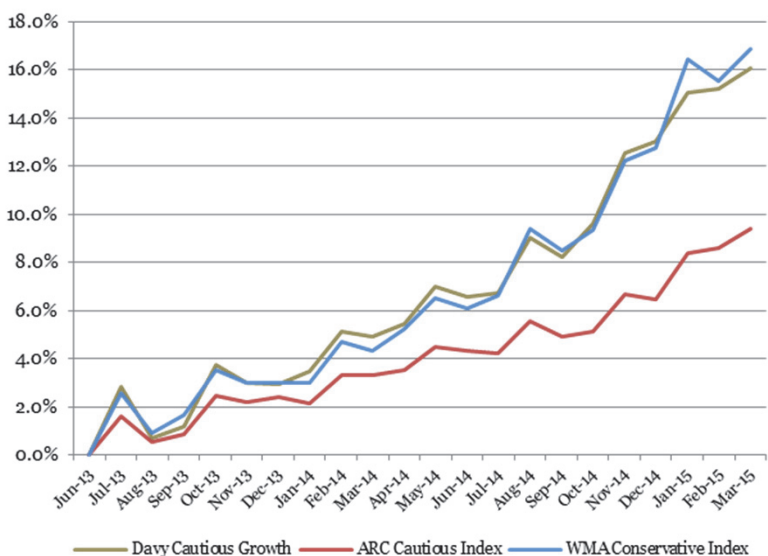
In terms of outlook, we expect interest rates and inflation to rise over the medium term which is the key reason that the defensive holdings within this portfolio are 'short duration'. Ideally, we expect government bond investments held in this portfolio to mature and be reinvested into the rising interest rate cycle.

We would caution investors that returns are likely to be lower over the next three years.

Performance ^{†*} to 31/03/2015	6 Months	1 Year	Since Inception (since 01/07/2013)
Davy Cautious Growth	7.29%	10.60%	16.06%
ARC Cautious PCI Index	4.24%	5.89%	9.39%
WMA (APCIMS) Conservative	7.72%	11.69%	16.87%

[†] Source: Davy and FE Analytics * gross of fees

Historic Performance vs Benchmarks

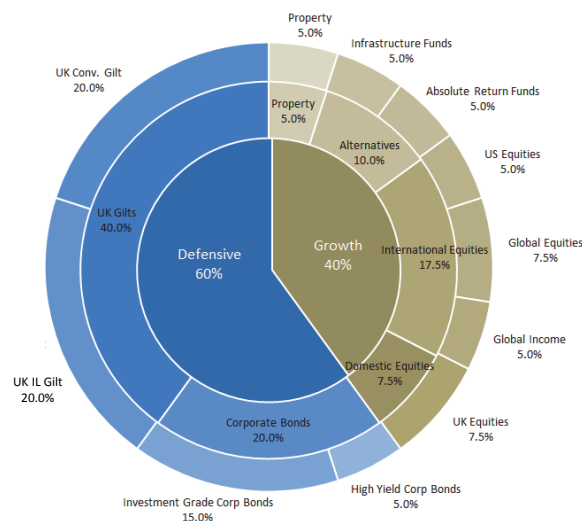


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Asset Allocation

The long term strategic asset allocation for this portfolio is typically 65% in defensive investments and 35% in higher risk or growth investments. We tactically had an overweight position of 5% in higher risk investments as we deemed that they looked better value on a risk/reward basis.

Investments in property, infrastructure and international equity delivered particularly strong returns in the period.



Current Portfolio Holdings

	Weighting %
Equities	25.0%
iShares FTSE 100 ETF	4.0%
Edinburgh Investment Trust	3.5%
City of London Investment Trust	-
iShares MSCI World Core ETF	7.5%
iShares S&P 500 ETF	5.0%
STOXX Global Select Dividend ETF	5.0%
Bonds	60.0%
iShares iBoxx Corporate Bond	15.0%
City Merchants High Yield Investment Trust	5.0%
UK Treasury 1.25% 2018 Gilt	20.0%
UK Treasury 2.50% 2020 Gilt	20.0%
Alternatives	15.0%
Ruffer Total Return Investment Trust	5.0%
iShares UK Property ETF	5.0%
HICL Infrastructure Fund	5.0%
Total	100.0%

J&E Davy, trading as Davy, is regulated by the Central Bank of Ireland. Davy is a member of the Irish Stock Exchange, the London Stock Exchange and Euronext. In the UK, Davy is authorised by the Central Bank of Ireland and authorised and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our authorisation and regulation by the Financial Conduct Authority are available from us on request.

Balanced Growth

Portfolio Factsheet to 31 March 2015



Objective

The objective of the Balanced Growth investment strategy is to achieve a long term average return sufficiently in excess of inflation to potentially provide an income and maintain capital in real terms. To achieve this, the portfolio is mainly invested in higher risk or growth investments but is complemented by a significant allocation to lower risk or defensive investments.

Commentary

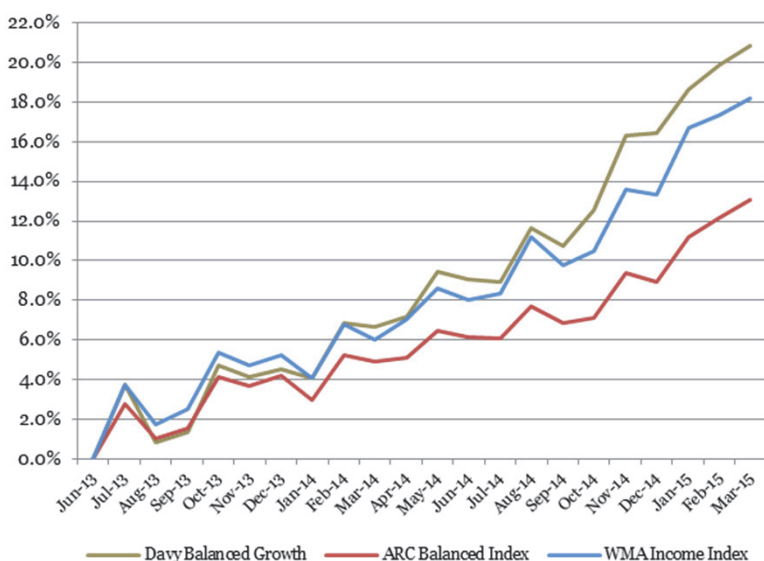
The portfolio performed strongly in the year to 31 March 2015 returning 13.3% in the period. This was at the high end of our expectations and was a result of a strong run in most asset classes.

The majority of this portfolio is invested in higher risk or growth investments. We expect returns from the growth investments to slow on the back of the very strong run they have experienced. Coupled with the low interest rates on the defensive investments we do not expect the same high returns experienced in this period to be repeated in the foreseeable future.

Performance ^{†*} to 31/03/2015	6 Months	1 Year	Since Inception (since 01/07/2013)
Davy Balanced Growth	9.14%	13.31%	20.83%
ARC Balanced PCI Index	5.85%	7.78%	13.09%
WMA (APCIMS) Income Index	7.66%	10.97%	18.18%

[†] Source: Davy and FE Analytics * gross of fees

Historic Performance vs Benchmarks

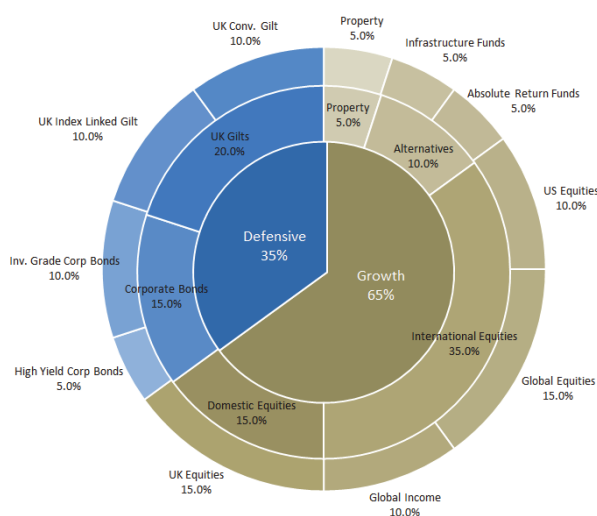


Past Performance is not a reliable guide to future performance. The value of your investment may go down as well as up.

Asset Allocation

The long term strategic asset allocation for this portfolio is typically 45% in defensive investments and 55% in higher risk or growth investments. We tactically had an overweight position of 10% in higher risk investments as we deemed that they looked better value on a risk/reward basis.

Investments in property, infrastructure and international equity delivered particularly strong returns in the period.



Current Portfolio Holdings

	Weighting %
Equities	50.0%
iShares FTSE 100 ETF	5.0%
Edinburgh Investment Trust	5.0%
City of London Investment Trust	5.0%
iShares MSCI World Core ETF	15.0%
iShares S&P 500 ETF	10.0%
STOXX Global Select Dividend ETF	10.0%
Bonds	35.0%
iShares iBoxx Corporate Bond	10.0%
City Merchants High Yield Investment Trust	5.0%
UK Treasury 1.25% 2018 Gilt	10.0%
UK Treasury 2.50% 2020 Gilt	10.0%
Alternatives	15.0%
Ruffer Total Return Investment Trust	5.0%
iShares UK Property ETF	5.0%
HICL Infrastructure Fund	5.0%
Total	100.0%

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