

JUDICATURE (NORTHERN IRELAND) ACT 1978

Funds in Court in Northern Ireland

Statement of Accounts 2013-2014

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 2014 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

10th December 2014

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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”). 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, as amended by Schedule 18 (22) of the Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010.

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 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:

- suitors involved in legal action where money is paid into CFO. These are cases in the Court of Judicature or the county courts. Monies are lodged into court in satisfaction or against costs as a token of intention to proceed with civil litigation. CFO will hold such monies until authorised to release them on completion of the case.
- persons under disability (i.e. those who are deemed incapable of managing their own affairs due to mental illness), or wards of court. These cases relate predominately to the Court of Judicature.
- minors for whose benefit funds are paid into court. These funds are held in court until the client attains majority on their 18th birthday, unless a court order instructs otherwise. These cases will arise both in the Court of Judicature and county courts.
- 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, which enables 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. A number of accounts are 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. A programme of work is underway to identify the source of those payments to enable the accounts with Bank of Ireland to be closed.

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. This is in accordance with the Administration of Justice Act 1982, as amended by Schedule 18 (22) of the Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010 (the 1982 Act).

The rates of interest paid on these accounts are prescribed in the Rules and for the year ended 31 March 2014 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.

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 2013-14 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 as amended by Schedule 18 (22) of the Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010 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 as amended by Schedule 18 (22) of the Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010 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 2013-14 resulted in a notional audit fee of £12,000 (2012-13: £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 20 and show a deficit for the year of £88,000 (2012-13 deficit of £46,000).

As the Bank of England base rate has remained at 0.5%, the fund has continued to report a deficit in 2013-14. As with 2012-13, 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 2013-14, the amount recoverable totalled £105,000 (2012-13 £45,000) and this has been added to the reserves.

The accumulated reserves carried forward as at 31 March 2014 totalled £62,000. Under section 39(2) of the 1982 Act, all of the accumulated reserves are ultimately payable to the Northern Ireland Consolidated Fund.

CFO operational performance

During the year, CFO held funds on behalf of approximately 15,000 individuals. The number of minor and patient cases with funds in court decreased from 13,272 at 31 March 2013 to 13,141 at 31 March 2014. During the year, a total of 1,958 minor and patient cases were paid out in full with funds being received for 1,827 new cases.

A number of performance targets relating to CFO were published in the NICTS Business Plan for 2013-14. 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%	99.3%
Payments	Payments will be made within 10 working days of the receipt of the relevant documentation	98.0%	99.9%
Sale of investments	Sales will be executed within three working days of the receipt of the relevant court authority	98.0%	99.2%
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%	99.7%
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%	98.7%
Accounts	Draft accounts to be issued to Comptroller and Auditor General for Northern Ireland in line with statutory deadline	By 30/11/13	Issued 24/06/13

Performance of client portfolio

Client income for the year, including interest allocated to their accounts, totalled £4.3m, equivalent to 1.4% of client holdings at year end (2012-13: £5.1m or 1.7%). 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 £293.2m to £300.8m during the year. Accounting for net receipts from clients of £7.7m and net transfers of investments to clients of £2.5m, this represents an increase in value of £2.4m (0.8% of client holdings at the start of the year). The loss in valuation of securities held on behalf of clients was £1.7m (2012-13: gain of £12.7m).

The table below shows the market value of cash and securities held on behalf of clients as at 31 March 2014 and 31 March 2013.

	Patients		Minors		Other funds	
	(£000's)		(£000's)		(£000's)	
	31/03/14	31/03/13	31/03/14	31/03/13	31/03/14	31/03/13
Cash Account Balances	51,063	31,166	68,505	43,959	12,239	11,642
Debt Securities	39,418	81,424	22,385	56,958	13	14
Investment Securities	84,281	50,483	22,473	16,972	-	-
Total	174,762	163,073	113,364	117,889	12,309	11,656

It is 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 at the start 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%. Also, capital profits were taken by selling some longer dated gilts, due to their inflated price at the time. As a result of this review, over £58m worth of gilt holdings were sold in May and June 2013. During the year, total gilt holdings decreased from £138.4m to £61.8m.

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 £67.5m to £106.8m. Approximately £34.5m 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. A large amount of investment securities were purchased during the year as part of a re-structuring programme for large value cases. The total of £106.8m includes £19.0m worth of the ETFs with corporate bond holdings, purchased as a low risk alternative to government gilts.

The table below details the investment activity during the year for minors and patients.

	Patients		Minors		Total (£000's)
	Debt Securities (£000's)	Investment Securities (£000's)	Debt Securities (£000's)	Investment Securities (£000's)	
Opening value 1/4/13	81,424	50,483	56,958	16,972	205,837
Purchases	23,971	41,636	9,294	9,574	84,475
Sales	(63,115)	(12,754)	(39,749)	(1,917)	(117,535)
Net transfers in/(out)**	1,023	1,905	(2,271)	(3,203)	(2,546)
Gain/(Loss) in value of investments	(3,885)	3,011	(1,846)	1,047	(1,673)
Closing value 31/03/14	39,418	84,281	22,386	22,473	168,558
% gain/(loss) in value*	(6.2%)	4.6%	(4.5%)	5.5%	(0.9%)

*The percentage gain in value has been calculated, based on 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. It also includes the value of transfers from minor accounts to patient accounts.

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

		Index at 31/03/2013	Index at 31/03/2014	Movement in index	% movement in index
Investment securities	FTSE All share	3,380.64	3,555.59	174.95	5.2%
	FTSE 100	6,411.74	6,598.40	186.66	2.9%
Debt securities	FTSE Fixed rate gilts up to 5 years	103.97	99.88	-4.09	-3.9%
	FTSE Fixed rate gilts 5-15 years	190.01	176.70	-13.31	-7.0%
	FTSE Index-linked gilts up to 5 years	331.75	320.49	-11.26	-3.4%
	FTSE Index-linked gilts 5-15 years	450.46	413.93	-36.53	-8.1%

Investment securities, as measured by the FTSE 100 and FTSE All Share Index, provided positive returns for the year, ranging from 2.9% to 5.2%. The investment securities held by CFO have provided returns for the year around the upper end of this range.

Gilt indices have recorded negative returns for the year, with longer term gilts recording more significant falls in value. CFO gilt holdings also recorded a fall in value for the year, which was within the range of the decrease in the indices. However, as noted above, a significant proportion of the longer term gilts held by CFO were disposed of in May and June 2013 to crystallise capital gains that had been generated. Thus, the CFO clients' exposure to the fall in value of the gilt market was significantly reduced.

Minors' gilt holdings have performed better than those held on behalf of patients due to the shorter term nature of their investment. However, as the majority of the shorter term gilt holdings were disposed of early in the year, the reduction in value for minor cases was higher than the reduction in the value of the indices for gilts up to five years.

Our contracted investment managers, Davy Private Clients, have commented in respect of the client portfolio performance as follows:

“At Davy Private Clients, our investment managers construct multi-asset portfolios for our CFO portfolio clients using a mix of assets, such as equities, bonds, commodities and property. These portfolios are carefully designed to ensure the right balance of investments are used for an individual’s risk and return objectives, and are actively managed to ensure clients’ investments grows in a controlled manner over the longer term.”

The financial crisis that has been raging in one form or another for six years now finally looks to be loosening its grip. Financial markets have certainly responded positively to the improving picture. 2013 proved to be another very strong year for equity markets. In contrast, however, as we start the journey towards more normal monetary conditions over the coming years, we think that nominal assets, such as bonds, will continue to remain under pressure. Indeed it is evident by the benchmarks provided above that UK government gilts came under significant pressure in 2013 and we have, where practicable reduced CFO clients exposure to this asset class.

As the cycle evolves, we will continue to tilt our portfolios toward the areas where we see the greatest opportunities, and importantly away from those areas where we see the greatest risks. However, we do not expect a repeat of the very strong equity returns last year, and expect a more normal environment to unfold in 2014, where returns are now driven more by corporate earnings growth. To reduce CFO clients' dependence on UK equities to generate returns, we have taken a constructive approach on other asset classes such as global equities, property, infrastructure, absolute return funds and high yield bonds, providing a higher degree of diversification.

Of course, as events in recent years remind us, forecasting economic and financial market trends can prove to be a humbling endeavour, and after a particularly strong year, the lessons of the financial crisis should not be forgotten. Economic and financial market history is littered with episodes of human folly and irrational behaviour, and it is often when things look brightest that the biggest mistakes can happen. This is why we continue to believe investors should ensure they have a sound financial plan, and construct their portfolios around the simple yet powerful concepts of diversification and longer term investment”

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, so work is now underway to complete the review.

Where fees have been deducted unlawfully, consideration will be given to reimbursing those CFO clients from whom the fees have been deducted. If reimbursement of stockbroker fees is required, it will be the responsibility of NICTS and DOJ and will not be made from the third party monies that make up the funds held in court.

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. At that time, the Accountant General held Individual Savings Accounts (ISAs) on behalf of more than 100 CFO clients. This enabled those clients to take advantage of the tax benefits provided by this type of investment. However, it is necessary for such investments to be held in a nominee account on behalf of the individual.

As a result of this advice, a programme of work was undertaken to remove the nominee holdings from court. However, as at 31 March 2014, ISAs were still held on behalf of two clients, with a total valuation of £0.2m (31 March 2013: three clients, totalling £0.2m). The remaining ISAs are held on behalf of deceased patients and are awaiting the administration of the estate to be completed.

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. The Access to Justice Directorate in DOJ has been made aware of the need for reform as they 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. A strategic outline case for the replacement of the current IT system was approved in December 2012. The DFP Business Consultancy Service has been engaged to help CFO provide a business specification document, detailing the required processes for a new IT system. This will be used to inform an outline business case and the procurement process.

Banking services

In November 2013, CFO joined the Northern Ireland Civil Service banking framework and as a result, banking services are now provided by Danske Bank. This has allowed CFO to make increased use of online banking facilities and has increased the contingency options if payment processes were to fail.

NIAO Value for Money Report

During the year the NIAO undertook fieldwork towards a value for money report entitled “Managing and Protecting Funds Held in Court”. This was subsequently published in July 2014 and the full report can be found on the NIAO website.



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

7 October 2014

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 the Court Funds Office (CFO). CFO is a discrete business unit within the Northern Ireland Courts and Tribunals Service (NICTS), which itself is an executive agency (the Agency) of the Northern Ireland Department of Justice (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's 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 operations 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 significant aspects of the NICTS and CFO management structures are detailed below:

NICTS Agency Board

The Agency's 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 agreed terms of reference. Both these documents are published on the NICTS website.

NICTS Finance Committee

The Finance 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 Finance Committee are included in the framework document.

The NICTS Head of Finance and Estates reports any significant issues concerning CFO to the Finance Committee. Management information on funds in court is presented to the Committee each quarter. After each meeting of the Finance Committee, 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 “Good Practice Principles Guidance for Audit Committees” issued by HM Treasury in March 2007 (revised guidance has been issued and will come into effect on 1 April 2014). The terms of reference for the Audit and Risk Committee are included in the framework document.

After each meeting, the Chairperson of the Audit and Risk Committee presents a report to the Agency Board covering the main issues discussed by that Committee.

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 membership of the Group during 2013-14 was as follows:

Mr Justice Gillen (co-chair – Senior Queen’s Bench Judge)
Jacqui Durkin (co-chair – Accountant General)
Judge Devlin (County Court Judge)
Master McCorry (Queen’s Bench Master)
Master Wells (Master Office of Care and Protection)
Brenda Donnelly (Official Solicitor)
Sharon Hetherington (NICTS Head of Finance and Estates)
Richard Ronaldson (Deputy Accountant General)
Nigel Bloomer (Office of Care and Protection)
Colm McKenna (Independent member – NICTS non-executive director)
Audrey Fowler (Secretary)

Meetings are usually held once per legal term. The Group met on three occasions during 2013-14. The meetings took place on:

- 10 June 2013
- 15 October 2013
- 24 February 2014

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 stockbroker 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.

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.

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 2014 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, with policies and guidance issued by DOJ, and with 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. Risks are primarily identified through risk identification workshops and are assessed in terms of their probability of occurrence and impact on the achievement of objectives and 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 with an ongoing programme of work to ensure it fulfils its obligations. NICTS complies with the DOJ Information Assurance policy and has established information assurance arrangements.

During the year a number of areas of work were taken forward with a particular emphasis on increasing staff awareness in the area of information assurance. These included mandatory on-line training for all staff on general information assurance procedures and the new government security classifications. Additional guidance on ICT operating procedures was also provided to staff and Information Asset Owners were given specific training on their role and responsibilities.

All data loss incidents are reported in line with the established reporting procedures. In 2013-14 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 assess if there are any lessons that should be learnt and/or policies and procedures that should be revised.

NICTS continue to monitor and review its approach to information risk management.

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 the internal auditors and the executive managers within the 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 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, an internal audit report for 2011-12 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. A follow up audit was completed for 2013-14 and 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.

The 2012-13 report from the external auditors included one recommendation at priority 3 (an issue of a minor nature which represents best practice). This related to a small unadjusted error being carried forward and has now been resolved.

A value for money audit was carried out in CFO by NIAO, commencing in 2012-13. The report 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.

My management team is considering the recommendations included in the report and will agree an action plan with DOJ to implement as many of those recommendations as are affordable and possible within legislative and other constraints. Many of these recommendations will be addressed by the new IT system that we are currently seeking to procure and for which more detail is provided in the next section of this statement. We will also consider an action plan for the longer term to address some of the legislative limitations.

NICTS Agency Board Effectiveness

Agency Board members completed a self-assessment questionnaire in June 2013. The exercise suggested that effective corporate governance is operating at the top level with strong commitment from all board members.

A reassessment of the Board was initiated in April 2014. 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.

Significant internal control issues

The following issues have been identified as significant to CFO during 2013-14 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. A Strategic Outline Business Case to replace the system was approved by DOJ in December 2012. DFP Business Consultancy Services has been engaged to provide a business specification document, detailing the required processes for a new IT system, which will be used to inform an outline business case and the procurement process. It is expected that the implementation of a new system could take 12-18 months once approval is received and funding is made available.

Stockbroker fees

Legal opinion obtained suggested that the 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 on 19 April 2012 with a revised judgment being issued on 1 August 2012. The judgment indicated that, prior to 5 July 2011, CFO may have had the power to deduct stockbroker management fees from clients’ funds in certain circumstances, if 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, CFO management 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, so work is now underway to complete the review.

Where fees have been deducted unlawfully, consideration will be given to reimbursing those CFO clients from whom the fees have been deducted. 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.

The total of management fees deducted up to 2009-10, when the practice ceased, was approximately £2.87million. A provision of £3.77million was initially included in the NICTS accounts, which included an estimate for interest that has accrued since the deductions were made. The initial review of orders ascertained that the majority of fees have been deducted lawfully. As a result, the provision in the NICTS accounts was reduced to £330,000 as at 31 March 2014. The final liability will not be known until the review of orders is completed, but it is currently estimated that it will be less than £100,000.

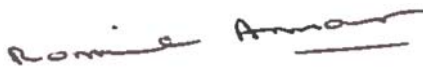
Stocks and Shares Individual Savings Accounts (ISA)

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 investments retained in court in the name of the Accountant General. As at 31 March 2014, ISAs were held on behalf of two clients, with a total valuation of £0.2m. Both of the ISAs are held on behalf of deceased patients and we are awaiting the administration of the estate to be completed.

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 2013-14 year he has provided overall satisfactory assurance on the NICTS systems. However, the most recent report on the CFO systems, covering the 2013-14 period, 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

7 October 2014

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 2014 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 examine, 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 Funds in Court in Northern Ireland's circumstances 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 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 2014 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 for the financial year for which the financial statements are prepared is consistent with the financial statements.

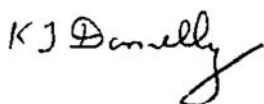
Matters on which I report by exception

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.



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

4 December 2014

Income Statement for the year ended 31 March 2014

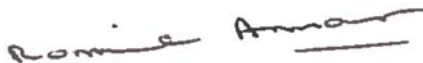
	Notes	Year Ended 31 March	
		2014 £000	2013 £000
		<u> </u>	<u> </u>
Income			
Interest Income	3	1,739	3,324
Interest Expense	4	(684)	(413)
Net Interest Income		1,055	2,911
Dividend Income		2,520	1,828
(Losses)/Gains Arising from Securities	5	(1,674)	12,711
Transfer to Client Holdings		(1,918)	(17,424)
Net (Deficit)/Income		(17)	26
Expenses			
Administrative Expenses - CFO		-	-
Management Charges from CRND		(71)	(72)
Total Expenses		(71)	(72)
Deficit transferred from Reserves		(88)	(46)

The notes on pages 23 to 30 form part of these accounts

Statement of Financial Position as at 31 March 2014

	Notes	31 March	
		2014 £000	2013 £000
Assets			
Cash and Cash Equivalents	6	873	762
Loans and Advances	7	131,060	86,097
Debt Securities	8	61,817	138,396
Investment Securities	9	106,754	67,455
Other Assets	10	610	638
Total Assets		301,114	293,348
Liabilities			
Clients Cash Account Balances	11	131,807	86,767
Clients Holdings in Securities	12	169,023	206,408
Other Liabilities : Payables	13	284	173
Total Liabilities		301,114	293,348

The notes on pages 23 to 30 form part of these accounts



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

7 October 2014

Statement of Cash Flows for the year ended 31 March 2014

	Notes	Year Ended 31 March 2014 £000	2013 £000
Cash Flows from Operating Activities			
Net Loans and Advances made		(44,963)	(839)
Cost of Purchases of Securities	15	(84,475)	(56,864)
Proceeds from Sales of Securities	15	117,535	54,666
Interest Received		1,843	3,347
Interest Paid to Consolidated Fund		-	-
Receipt of Surplus from the Consolidated Fund		45	-
Dividends Received		2,504	2,439
Expenses		(71)	(233)
Net Cash (Outflow)/Inflow from Operating Activities		(7,582)	2,516
Cash Flows from Client Cash Accounts			
Lodgements from Clients	15	64,327	46,483
Payments to Clients	15	(56,635)	(50,094)
Net Cash Inflow/(Outflow) from Client Cash Accounts		7,692	(3,611)
Net Increase/(Decrease) in cash and cash equivalents		110	(1,095)
Cash and cash equivalents at 1 April		762	1,857
Cash and cash equivalents at 31 March		872	762

The notes on pages 23 to 30 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 2014, 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. This reflects the nature of the client holdings, which can be ordered to be repaid at any time and it would therefore be inappropriate to designate investment holdings as "Held to Maturity".

1.4 Administrative Expenses

CFO administrative expenses are accounted for in the NICTS Agency Accounts. The element of these costs that are recovered by the NICTS, and the Management Fees levied by CRND are included in the Income Statement.

1.5 Foreign Currency Transactions

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

Foreign exchange gains and losses resulting from re-valuations are taken to Income Statement, but as the risk is borne by the clients a balancing transaction is reflected to adjust client holdings in the functional currency. In 2013-14, 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 2014 £000	Year ended 31 March 2013 £000
Cash and Cash Equivalents	-	1
Loans and Advances	667	439
Debt Securities	1,072	2,884
Total Interest Receivable	1,739	3,324
Less: Surplus payable to Northern Ireland Consolidated Fund	-	-
Total Interest Income	1,739	3,324

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

4. Interest Due to Clients' Accounts

	Year ended 31 March 2014 £000	Year ended 31 March 2013 £000
Court Funds – Deposit Account	35	35
Court Funds – Investment Account	649	378
Total Interest Payable	684	413

5. Gains / Losses on Securities

	Year ended 31 March 2014 £000	Year ended 31 March 2013 £000
Profit / (Loss) realised on disposals	-	-
Valuation Movement on Securities	-	-
Gains on CRND Debt Securities	-	-
(Losses)/Gains on Client Security Holdings	(1,674)	12,711
Total (Losses)/Gains on Securities	(1,674)	12,711

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 2014 £000	31 March 2013 £000
Sterling bank accounts	842	750
Accumulated Cash held in Share ISAs	31	12
Cash and Cash Equivalent Holdings	873	762

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 2014 £000	31 March 2013 £000
Call Notice Deposits	131,059	86,096
Ways and Means Account	1	1
Loans and Advances Holdings	131,060	86,097

8. Debt Securities

Debt Securities comprise UK Government Gilts managed on behalf of the CFO by the Commissioners for the Reduction of National Debt. In addition there are UK Government Gilts held on behalf of clients, a small proportion of which are held within ISAs.

	31 March 2014		31 March 2013	
	Nominal £000	Market Value £000	Nominal £000	Market Value £000
Holdings with CRND	-	-	-	-
Holdings held on behalf of clients	34,164	61,817	96,641	138,396
Total Debt Security Holdings	34,164	61,817	96,641	138,396
Maturity Analysis				
Maturing in less than 1 year	219	223	10,780	12,186
Maturing in more than 1 year but less than 5 years	22,068	21,769	53,467	56,642
Maturing in more than 5 years	11,877	39,825	32,394	69,568
Total Debt Security Holdings	34,164	61,817	96,641	138,396

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 are held within ISAs; and
- holdings of National Savings Certificates and Bonds.

	31 March 2014		31 March 2013	
	Holding 000's	Market Value £000	Holding 000's	Market Value £000
Unit Trust Holdings	4	42	4	38
Stocks, Shares and Loan Notes	24,025	106,527	16,215	67,236
National Savings and Other Holdings	135	185	130	181
Total Investment Securities	24,164	106,754	16,349	67,455

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 2014 £000	31 March 2013 £000
Due from Consolidated Fund	105	45
Total Receivables	105	45

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 2014 £000	31 March 2013 £000
Holdings with CRND		
Accrued Interest on Deposits	53	36
Total CRND Accrued Interest	53	36
Client Holdings		
Accrued Coupon Interest on Gilts	364	485
Dividends Due	88	72
Total Client Accrued Income	452	557
Total Accrued Income	505	593
Total Other Assets	610	638

11. Clients' Cash Account Balances

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

	31 March 2014 £000	31 March 2013 £000
Court Funds placed on Deposit Account	11,472	10,996
Court Funds placed on Investment Account	118,717	74,268
Unclaimed balances (see note 19)	745	741
Other monies	873	762
Total Cash Balances	131,807	86,767

Other monies include cash held in ISAs on behalf of clients and monies paid into court in satisfaction of a judgment, which are only transferred to the Deposit Account if not claimed within 21 days.

12. Client Holdings in Securities

	31 March 2014 £000	31 March 2013 £000
Debt Securities (see note 8)	61,817	138,396
Investment Securities (see note 9)	106,754	67,455
Accrued Income (see note 10)	452	557
Total Client Holdings in Securities	169,023	206,408

13. Other Liabilities : Payables

	31 March 2014 £000	31 March 2013 £000
Accumulated Reserves (see note 14)	62	45
Interest Accrued on Clients' Accounts	222	128
CFO Administrative Expenses	-	-
Total Other Liabilities : Payables	284	173

14. Accumulated Reserves

	31 March 2014 £000	31 March 2013 £000
Opening balance	45	46
(Deficit) / Surplus for the year	(88)	(46)
Surplus payable to Northern Ireland Consolidated Fund (note 3)	-	-
Receipt due from Consolidated Fund (note 10)	105	45
Closing balance	62	45

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 2014			Year ended 31 March 2013		
	Court of Judicature £000	County Courts £000	Total £000	Court of Judicature £000	County Courts £000	Total £000
Opening Balance	63,043	23,724	86,767	62,041	24,768	86,809
Receipts from clients	52,919	11,408	64,327	37,187	9,296	46,483
Sales of securities	104,981	12,554	117,535	52,414	2,252	54,666
Dividends and interest received	3,530	167	3,697	4,973	374	5,347
Total Receipts	161,430	24,129	185,559	94,574	11,922	106,496
Payments to clients	(44,906)	(11,729)	(56,635)	(38,672)	(11,422)	(50,094)
Cost of securities	(83,330)	(1,145)	(84,475)	(55,205)	(1,659)	(56,864)
Total Payments	(128,236)	(12,874)	(141,110)	(93,877)	(13,081)	(106,958)
Interest credited to client accounts	465	126	591	298	122	420
Transfers between Court of Judicature and county courts	338	(338)	-	7	(7)	-
Closing Balance	97,040	34,767	131,807	63,043	23,724	86,767

16. Movement in clients' securities

	Court of Judicature £000	County Court £000	Total £000
Opening Balance	189,653	16,755	206,408
Purchase of securities	83,330	1,145	84,475
Sale of securities	(104,981)	(12,554)	(117,535)
Net transfers in/(out)	(2,420)	(127)	(2,547)
Movement in market value	(1,372)	(302)	(1,674)
Movement in accrued income	(86)	(18)	(104)
Closing balance	164,124	4,899	169,023

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

There was some doubt over the powers of the Accountant General to deduct stockbroker management fees directly from CFO clients in the absence of express legislative authority. A court case to test these powers was heard in the High Court in March 2012. The findings of the court are detailed in the Annual Report. On consideration of the implications of the judgment, CFO management appealed the decision. The Court of Appeal issued its verdict on 30 September 2013 and ruled 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, so work is now underway to complete the review.

Where fees have been deducted unlawfully, consideration will be given to reimbursing those CFO clients from whom the fees have been deducted. 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.

The total of management fees deducted up to 2009-10, when the practice ceased, was approximately £2.87million. A provision of £3.77million was initially included in the accounts of the NICTS, which included an estimate for interest that has accrued since the deductions were made. The initial review of orders ascertained that the majority of fees have been deducted lawfully. As a result, the provision in the NICTS accounts was reduced to £330,000 as at 31 March 2014. The final liability will not be known until the review of orders is completed, but it is currently estimated that it will be less than £100,000.

Management fees for the period 6 January 2010 to 5 July 2011, totalling £734,000 were paid by NICTS. Legal advice received in September 2014 has 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 will now commence to recover these fees on behalf of NICTS, where it is considered appropriate to do so.

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 2014			31 March 2013		
	Court of Judicature £	County Courts £	Total £	Court of Judicature £	County Courts £	Total £
Monies on deposit	304,954	67,027	371,981	304,954	67,027	371,981
Government Stocks	154	-	154	167	-	167

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

	31 March 2014			31 March 2013		
	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	10,001	-	10,001	8,513	—	8,513

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 2014			31 March 2013		
	Court of Judicature £	County Courts £	Total £	Court of Judicature £	County Courts £	Total £
Monies on deposit	221,436	71,692	293,128	218,463	70,980	289,443

Total unclaimed funds at the year end are:

- Monies on deposit of £745,025
- Equities valued at £10,001
- Government stocks valued at £154

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

20. Events after reporting period

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

There were no other material events after the reporting period.

The Accountant General authorised these financial statements for issue on 4 December 2014.



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