



**Official Solicitor to the Supreme Court and Public Trustee  
Stewardship Accounts**

For the period 1 April 2007 to 31 March 2008

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# Summary Information

## Legal Persons

Official Solicitor to the Supreme Court (OS)

Public Trustee (PT)

## The Management Board of the Official Solicitor and the Public Trustee

Alastair Pitblado

Official Solicitor

Nick Crew

Public Trustee and Director of Operations from 8 September 2007

May Maughan

Deputy Official Solicitor

Julie Owen from 1 January 2008

Operational Manager Trust and Estates

Yvonne Neary, Acting from 12 November 2007 to 12 May 2008

Beverley Taylor

Senior Lawyer

Terry Hunter, Ministry of Justice resigned April 2008

Non-Executive

### Leavers

David Thompson (7 September 2007)

Public Trustee and Director of Operations until 7 September 2007.

Mrs Chris Walker until 31 December 2007

Head of Trusts and Estates

David Charles until 24 December 2007

Head of Human Resources, Office Services and Litigation Manager

## Bank

Bank of Scotland  
eCommerce  
3rd Floor  
Citymark  
150 Fountainbridge  
Edinburgh  
EH3 9PE

## Auditors

The Comptroller and Auditor General  
National Audit Office (NAO)  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

## Office Address

81 Chancery Lane  
London  
WC2A 1DD

# Official Solicitor's and Public Trustee's Foreword

## Statutory Background

### The Official Solicitor to the Supreme Court

The Official Solicitor is appointed under Section 90 of the Supreme Court Act 1981. He has powers and duties conferred by statute, rules of court, direction of the Lord Chancellor, common law, or in accordance with established practice.

### The Public Trustee

The office of the Public Trustee is appointed under the Public Trustee Act 1906. He has powers and duties conferred by statute, rules of court, direction of the Lord Chancellor, common law, or in accordance with established practice.

Neither the Official Solicitor to the Supreme Court nor the Public Trustee is regulated by the Solicitors' Accounts Rules or other relevant legislation / regulation, for example the Financial Services and Markets Act, 2000.

## Background Information

### The Official Solicitor to the Supreme Court

The Official Solicitor's work includes acting as litigation friend (or in family proceedings, "guardian ad litem" or next friend) and sometimes solicitor of last resort, acting as trustee, judicial trustee, guardian to a child's estate, financial deputy, executor of wills and administrator of estates - all of last resort, and reviewing all cases in which someone is imprisoned for contempt of court. Additionally he has administrative responsibility for the Lord Chancellor's International Child Abduction and Contact Unit and for the Reciprocal Enforcement of Maintenance Orders Section, and he is responsible for the management of the Child Trust Funds of children in England and Wales for whom there is no one (or no-one appropriate) with parental responsibility. These accounts relate to his roles as trustee, judicial trustee, guardian to a child's estate, financial deputy, executor of wills, litigation friend and administrator of estates.

### The Public Trustee

The need for the provision of a public body, which could be considered by testators as a safe appointment as executor in a will or codicil, or as trustee of a trust, has over time been eroded by the availability of alternative suitably qualified professional help in the private sector. In consequence, the Public Trustee has tended to become a trustee of last resort, thus providing a similar and overlapping service to that which had at the same time been developing within the office of the Official Solicitor, although the work taken on by the latter has tended to involve estates and trusts that are the subject of contention, and often requiring the Official Solicitor to be a party to court proceedings. The Public Trustee has traditionally acted as trustee of last resort particularly when the interests of vulnerable persons may be prejudiced.

## Operating and Financial Year Review

During the year 2007-2008 we have continued to build on the development of our processes around our Trust Accounting and Banking System (TABS) to support the production of our Stewardship Accounts. We have applied knowledge and experience gained during the preparation of the 2006-2007 accounts to this set of accounts. The TABS system is over 20 years old, designed to enable information to be produced at a single fund, rather than a global level, however, having now produced our first set of accounts we continue to develop systems to ensure the correct adjustments can be made to the accounts. We have undertaken the following processes to ensure the financial viability of our accounts.

- The ongoing transfer of information from TABS to a CSV (Comma Separated Value) download capable of interrogation, manipulation and interpretation .
- Continuously re-assess the information from the accounts to identify problems and their solutions.
- Provide clients with annual accounts for each fund (to ensure that base information is accurate).
- Implementation of new processes around the production of annual accounts for all cases.
- Continuously investigate erroneous entries on TABS.
- Regular reconciliation of the Master case list to TABS accounts to ensure case numbers and account numbers are visible and cases within different stages of the Projects can be identified and reported.
- Continued actions to ensure assets are posted to the correct category within TABS system.
- Introduction of a monitoring system of items retained in the suspense accounts with a pro-active strategy to clear items within reasonable timescales.
- Continuing monitoring and collection of fees.
- Proactively ensure any arrears of fees are chased on a regular basis.
- Carry out reconciliation processes and continuing monitoring to collect, wherever possible, costs on Official Solicitor cases, to ensure beneficiaries are not penalised for the lack of information for costing purposes.
- Reconcile asset groups:
  - a) Continued and identified action on a number of property issues (including mortgages, rents, chief rents).
  - b) Maintenance of our property information database and reconciliations within data held on the TABS system.
  - c) Securities de-materialisation completed of all possible securities to assist in ongoing management and initiated a reconciliation of CREST holdings to TABS. CREST is a settlement system for UK and international shares, UK government bonds and other corporate securities.
  - d) Cash (held at banks, building societies etc).

- e) Jewellery and other chattels (held in office and at bank).
- Restricted access to TABS system, implementing a Daily Activity Report with performance monitored on a weekly basis.
- Continuous retraining and management of TABS staff, creating exception reporting for out of target/incorrect items
- Continued use of real time Internet banking, for all payments where possible.
- Continue to maintain up to date properties database for which OSPT is responsible.
- Identify and train a dedicated reconciliation manager and a qualified stewardship accounts manager to take responsibility for ongoing propriety of accounts.
- Continued training and development of staff's knowledge in the use and operation of the TABS system.
- Improved processes for the authorisation and monitoring of the repayment and overdraft facilities.

The results of this work provide assurance that the methods for collecting information, translating it effectively and for reconciling to actual asset groups are robust and continue to operate successfully.

We continuously review risk and our compliance controls as part of our business strategy. The process has been managed by a dedicated resource to the 31<sup>st</sup> March 2008. We are currently in the process of redefining our compliance and risk analysis role, local managers continue to report monthly on the effectiveness and application of controls. Regular meetings are held to measure the effectiveness and the need to evolve controls according to business requirements.

Finally, the Risk Register has been reviewed to focus on the many risks to the business and this register is discussed and updated as necessary at monthly Management Board meetings. The accounts have been prepared in accordance with directions given by the DCA (now MoJ) including such information that may be necessary to present a true and fair view.

#### Auditors

The Auditors remuneration for the Audit of the financial statements of the OSPT for 07/08 was £67,000 (£45,000 for 06/07). This notional cost has been charged directly to the MoJ Resource Account; the Auditors remuneration for non audit work during the year was nil. (nil for 06/07).

## Strategy and Outlook

Since 2001 the Public Trustee and the Official Solicitor have only accepted new cases on a strict last resort criteria, being those where no other suitable, able and willing person is available to act. During the period 2007/08, 30 cases were accepted on behalf of the Official Solicitor and 3 cases on behalf of the Public Trustee. This was an increase on the previous year. The majority of the cases accepted by the Official Solicitor were as a consequence of awards made by the Criminal Injuries Compensation Board. At the 31<sup>st</sup> March 2008 the OSPT was responsible for administering 727 cases.

In May 2006 the Lord Chancellor approved proposals for the Official Solicitor and Public Trustee to retire from the bulk of their existing caseload of trusts and estates work over the following two years. This followed a recommendation in April 2004 in an NAO review of the Public Trustee's stewardship of client funds that he should establish a pro-active strategy for divesting himself of trusts and estates work, particularly in terms of becoming a trustee of last resort and outsourcing his investment activities. The same policy was deemed appropriate for the Official Solicitor.

From 1<sup>st</sup> April 2007 to 31<sup>st</sup> March 2008 we continued to divest ourselves of cases where we were able to retire and transfer cases to Capita Trust Company and continued to take a proactive approach in distributing and closing cases deemed not to meet the last resort criteria. By the 31<sup>st</sup> March 2008 we had retired 414 cases in favour of Capita Trust Company and the closure, distribution or retirement in favour of other trustees in a further 348 cases. We will continue through 2008 to 2009 to close/distribute or retire cases, which do not meet our last resort criteria. Significant work has been taken to identify those cases, which can truly be classed as last resort, which has proved to be significantly higher than first predicted. In January 2008 the new Trust and Deputy Services Team was put in place and we continued to adopt new working processes and practices. The higher than anticipated case numbers following the departure of staff in March 2008 and the continuation of the work around the various projects and the desire to achieve the financial visibility required within the Stewardship Account has placed significant operational, resourcing and budget stresses on the business. However, we are currently working on the recommendations made in the 2006-2007 Audit Completion Memorandum, including the recruitment of a Compliance and Risk Manager and setting up new processes to support others. We also continue to try and adopt the recommendations made in the Internal Audit Report drafted following their visit in December 2007.

With effect from 1 April 2007 the Office of the Official Solicitor and Public Trustee, on the one hand, and the Court Funds Office, on the other merged some of their corporate functions. At this time, Court Funds moved from Her Majesty's Courts Service and both offices formed the Office of Court Funds, Official Solicitor and Public Trustee (OCFOSPT). This will not affect the separate operation of the respective businesses of the relevant statutory office holders, including the Accountant General.

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

Alastair Pitblado  
Official Solicitor to the Supreme Court

Date 23 March 2009

Nick Crew  
Public Trustee

Date 23 March 2009

## **Statement of Accounting Officers responsibilities**

The Public Trustee and the Official Solicitor, as Accounting Officers, are each responsible for the stewardship of third party monies administered on their behalves by the offices of the Official Solicitor and Public Trustee. They are required to ensure that proper financial procedures are followed and that the accounting records are maintained in a form suited to the requirements of management and to facilitate the preparation of annual stewardship accounts. They must also ensure that third party monies are properly safeguarded and well managed. These accounts do not cover the Official Solicitor's operations other than those referred to above under the cross-heading 'Background Information'. These accounts are additional to the individual trust accounts, which the Official Solicitor and the Public Trustee must prepare.

The Official Solicitor and the Public Trustee are required to prepare annual stewardship accounts in accordance with the accounts direction issued by the Department for Constitutional Affairs (now Ministry of Justice) as detailed on page 19 under Generally Accepted Accounting Practice.

The Public Trustee and the Official Solicitor jointly appointed the Comptroller and Auditor General, in his capacity as head of the NAO, to perform an audit of the stewardship accounts.

# Statement on Internal Control

## Scope of Responsibility

As Accounting Officers in respect of third party funds, we have responsibility for maintaining a sound system of internal control that supports the achievement of OSPT's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which we are personally responsible, in accordance with the responsibilities assigned to us in Managing Public Money.

## Internal Control Framework

The OSPT is outside the regulated sector and therefore has historically not implemented best practice standards. Prior to 1 April 2005 there were limited internal controls in place at the OSPT, the main ones being the review of annual accounts produced for individual cases.

The National Audit Office (NAO) undertook a review in April 2004. The main recommendation of that review was that:

*“The OSPT should review its relationship with the DCA [Department of Constitutional Affairs] and consider agreeing a formal Memorandum of Understanding. This should set out roles and responsibilities and include a requirement for the Official Solicitor and Public Trustee to prepare stewardship accounts for all client funds, including a full statement on internal control.”*

Following this recommendation from the NAO, an Investment and Banking team of external contractors were brought in to work alongside OSPT staff to create the internal control and accounting infrastructure required to deliver stewardship accounts. This programme identified a series of urgent operational issues, in a number of areas, which were cleared using best practice standards. The solutions imposed included extensive substantive testing of historic data, typically against external regulated databases and records. Internally a new internal controls infrastructure has been introduced, coupled with the recruitment and training of additional resources, including a qualified accountant as Stewardship Accounts Manager. A process is now in place to continue the development, including the establishment of a risk management infrastructure. Throughout this process, the programme has focused on applying best practice standards while protecting the interests of beneficiaries. This has been achieved without incurring significant cash losses.

## The Purpose of the System of Internal Control

The OSPT system of internal control is designed to manage to a reasonable level, rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of OSPT policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in OSPT for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## Capacity to Handle Risk

The risk management process requires the OSPT to maintain a risk register, which is a complete record of the risks the OSPT faces and management's response to these risks, including the adequacy of the controls in place to manage risks and any actions planned to strengthen these controls. The more significant of these risks can be reported upwards and incorporated into the Risk Registers of the MoJ

The OSPT and the MOJ Corporate Governance team have developed a schedule of key risks and operational controls. This new control framework has been embedded in the risk management processes implemented at the OSPT during the financial year ending 31 March 2008.

## The Risk and Control Framework

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

- OSPT Management Board Risk Register, supported by project risk registers (in particular the en bloc group of projects);
- Monthly Management Advisory Board meetings to discuss exception planning and risks to the business, supported by 2 weekly project board meetings, feeding into the OSPT Risk Register;
- Adherence to the MoJ risk strategy;
- Regular substantive tests and reconciliation of third party assets against external registers and custodians;
- A register of Key Risks and Operational controls that is reflected as a responsibility for all team section managers; and
- Seminars on Corporate Governance and risk management.

The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures including segregation of duties and a system of delegation and accountability. We have recognised following the restructuring of the Trusts and Deputy Services Team and loss of staff at the end of March 2008 that we are committed to an ongoing assessment of and improved risk analysis of controls and compliance requirements around the stewardship accounts

processes. We have added additional resources to the team to facilitate the recruitment of a full time Compliance Manager for 2008-2009. Work is ongoing to embed a risk management concept throughout the organisation, for instance, by adopting the templates and strategies promoted by the MoJ Programme and Project Office. We continue to produce our operational Risk Register at the monthly Management Advisory Board and discuss the work required to mitigate against each of the risks.

During 2007 -2008 we continued to improve the system of internal controls assisted by the recommendations made by the NAO and those of Internal Audit Division. We continue to address these recommendations in 2008/09..

## **Review of Effectiveness**

As Accounting Officers in respect of third party funds, we have responsibility for reviewing the effectiveness of the system of internal control. Our 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 department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. We have been advised on the implications of the result of our review of the effectiveness of the system of internal control by the Management Board and the MoJ Audit Committee; a plan to address weaknesses and ensure continuous improvement of the system is in place.

Our review of the effectiveness of the internal control system is informed by the following:

### Client Asset/Liability Management:

- The maintenance of a property register and legal review of the content;
- Investment management reviews of performance against MoJ targets recommended by the Strategic Investments Board, together with overall operational control frameworks around dealings in securities;
- Dematerialisation of securities and the reconciliation of all securities on a twice yearly basis against external registers, custodians and fund manager records;
- Rationalisation of cash into a single bank and the migration away from the Bank of England to achieve improved returns for beneficiaries while improving internal control infrastructures through the enterprise wide deployment of secure internet banking facilities, thereby improving real time control;
- Twice yearly reconciliation and verification of other third party assets e.g. chattels, debtors etc; and
- Verification of all liabilities including the systematic elimination of overdrafts and the on-going prevention of overdrafts.

### General Controls:

- Overall legal review of trust and estate cases;
- Annual account reviews for each trust/fund or estates case;
- Introduction of more rigorous data input/output validation to ensure quality control at input stage thus reducing the scope for errors;
- Automation of key accounting and administration processes;
- The introduction of daily, weekly and monthly exception reporting via an intranet in the control unit, securities, cashiers, accounts and case management areas to ensure that any deviations from planned activity are addressed promptly and;
- Improvement of internal communications and communication with all stakeholders.

### Management Controls:

- The Management Board's ongoing review of the OSPT's process for formally identifying, evaluating and managing the significant risks to the achievement of its objectives;
- Regular reports by line managers on the adequacy and effectiveness of the internal management control system in the main operational areas;
- Individual accountability written into Personal Development Plans of business section managers to reflect the need for specific compliance functions to be carried out weekly and certificated monthly;
- The existence of an appropriate control environment, such as clearly defined management responsibilities and evidence of reaction to control failures such as action plans to address Internal Assurance recommendations and the Corporate Governance health checks;
- The establishment of a compliance function whose role is to help embed risk management across OSPT operations as well as review adherence to the key risks and operational controls that was identified jointly by Corporate Governance branch and OSPT;

The MoJ has an Internal Assurance Division, which operates to the standards defined in Government Internal Audit Standards and provides an internal audit service to the OSPT. The work of Internal Audit is informed by an analysis of the risks to which the

Office is exposed and annual internal audit plans are based on this analysis. The MoJ Audit Committee and OSPT Management Board endorsed the analysis of risk and the internal audit plans for the year ending 31 March 2008.

## Conclusion

The OSPT has made significant improvements since the NAO review in 2004. The challenges faced in the first full set of auditable accounts for the period 2006-2007 provided an opportunity to continually redefine requirements alongside the recommendation made by NAO in the Audit Completion Memorandum and upon which we continue to act and develop.

The help provided by external consultants in setting up the Access Database and at the start of the year providing assistance to reconciliations has been significant and improvements made could not have been achieved without the injection of both skills and financial commitment. The resourcing and timing of the ongoing projects to close and retire in favour of Capita Trust Company and the strategy of divesting ourselves of staff as part of that process continue to cause significant challenges in the prioritisation of work. In dealing with these challenges the financial risk has not been understated in the decision making process. We now apply best standard practices to our administrative investment banking and accounting infrastructure. We recognise that we have some way to go to fully embed the improved controls within the Office and will continue this process throughout 2008-2009.

## Accounting Officers

Alastair Pitblado  
Official Solicitor to the Supreme Court

Nick Crew  
Public Trustee

Date 23 March 2009

Date 23 March 2009

# **Independent Auditor's Report to the Offices of the Official Solicitor and Public Trustee**

I have audited the stewardship accounts for third party monies held by the offices of the Official Solicitor and Public Trustee for the year ended 31 March 2008. These comprise the Balance Sheet, the Capital Account, the Income Account, the Portfolio and Investment Income Statement and the related notes. These stewardship accounts have been prepared under the accounting policies set out within them.

## **Respective responsibilities of the Accounting Officers and the auditor**

The Public Trustee and Officer Solicitor as Accounting Officers are responsible for preparing stewardship accounts for all third party assets held by the offices of the Official Solicitor and Public Trustee in accordance with the accounts direction issued by the Department for Constitutional Affairs. These responsibilities are set out in the Statement of Accounting Officers responsibilities. My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the stewardship accounts have been properly prepared in accordance with the accounts direction issued by the Department for Constitutional Affairs (now Ministry of Justice). I report to you whether, in my opinion the information which comprises the Foreword is consistent with the financial statements. I also report whether, in all material respects, the financial transactions conform to the authorities, which govern them.

In addition, I report to you if the offices of the Official Solicitor and Public Trustee have not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by the Department for Constitutional Affairs (now Ministry of Justice) in the accounts direction is not disclosed.

I review whether the Statement on Internal Control reflects the offices of the Official Solicitor and Public Trustee's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether the joint Accounting Officer's statement covers all risks and controls, or form an opinion on the effectiveness of the offices of the Official Solicitor and Public Trustee's corporate governance procedures and their risk and control procedures.

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

## **Basis of audit opinions**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the stewardship accounts. It also includes an assessment of the significant estimates and judgments made by the Accounting Officers in the preparation of the stewardship accounts, and whether the accounting policies are most appropriate to the stewardship of third party assets within the offices of the Official Solicitor and Public Trustee, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the stewardship accounts are free from material misstatement, whether caused by fraud or error, and that in all material respects the stewardship accounts conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the stewardship accounts.

## **Opinions**

In my opinion:

- the stewardship accounts give a true and fair view, in accordance with the accounts direction issued by the Department for Constitutional Affairs (now MoJ), of the financial position of third party assets as at 31 March 2008 and of the movement in net assets and the net income for the year ended 31 March 2008;
- the financial statements have been properly prepared in accordance with the accounts direction issued by the Department for Constitutional Affairs; and
- the information included in the Foreword is consistent with the financial statements.

## **Opinion on Regularity**

In my opinion, in all material respects, the financial transactions recorded in the stewardship accounts conform to the authorities, which govern them.

*T J Burr  
Comptroller and Auditor General  
National Audit Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS*

*25 March 2009*

## Balance Sheet As at 31 March 2008

	Notes	2007/08	2006/07
		£'000	£'000
<b>Assets:</b>			
Property	3	19,036	29,125
Securities		54,247	158,331
Chattels		72	66
Debtors	4	1,034	2,062
Cash and Bank balances	5	32,698	46,131
		<u>107,087</u>	<u>235,715</u>
<b>Liabilities:</b>			
Creditors	6	(2,299)	(2,924)
Net Assets		<u>104,788</u>	<u>232,791</u>
Representing			
Capital Account		71,185	115,378
Accumulation Account		2,934	12,283
Revaluation Reserves	7	30,669	105,130
		<u>104,788</u>	<u>232,791</u>

The notes on pages 15 to 18 form part of these accounts.

### Accounting Officers

Alastair Pitblado  
Official Solicitor to the Supreme Court

Nick Crew  
Public Trustee

Date 23 March 2009

Date 23 March 2009

## Capital Account for the year ended 31 March 2008

	Notes	2007/08	2006/07
		<u>£'000</u>	<u>£'000</u>
Balance at 1 April		115,378	132,510
Add:			
Surplus on disposals		6,680	14,038
Capital introduced from new clients		14,856	4,115
		<u>136,914</u>	<u>150,663</u>
Less:			
Taxation payable		(811)	(331)
Legal charges		(118)	(267)
OSPT bills and fees		(3,035)	(4,104)
Distributions		(61,152)	(29,945)
Other expenditure		(613)	(638)
		<u>71,185</u>	<u>115,378</u>
<b>Balance at 31 March taken to Balance Sheet</b>		<u>71,185</u>	<u>115,378</u>

The notes on pages 15 to 18 form part of these accounts.

## Income Account for the year ended 31 March 2008

	Notes	2007/08	2006/07
		<u>£'000</u>	<u>£'000</u>
<b>Income</b>			
Rental income		298	727
Investment income		2,498	3,275
Interest income		1,976	2,019
Other income		1,612	1,289
		<u>6,384</u>	<u>7,310</u>
<b>Expenses:</b>			
Taxation		(293)	(267)
Investment management charges		(74)	(187)
Legal charges		(2)	(62)
OSPT bills and fees		(626)	(764)
Distributions		(14,738)	(10,097)
		<u>(15,733)</u>	<u>(11,377)</u>
Balance Transferred to Accumulation Account		<u>(9,349)</u>	<u>(4,067)</u>
<b>Accumulation Account</b>			
Balance at 1 April		12,283	16,350
Less deficit for the year		(9,349)	(4,067)
<b>Balance at 31 March taken to Balance Sheet</b>		<u>2,934</u>	<u>12,283</u>

The notes on pages 15 to 18 form part of these accounts.

## Portfolio and Investment Income Statement

	<b>Book Value At 31-3-08 £'000</b>	<b>Profit (Loss) Y.E 31-3-08 £'000</b>	<b>Net Income Y.E 31-3-08 £'000</b>	<b>Market Value At 31-3-08 £'000</b>	<b>Market Value At 31-3-07 £'000</b>
<b>UK</b>					
Fixed Interest	3,191	229	303	3,662	12,827
Listed Equities	14,414	3,896	1,669	31,942	106,351
Common Investment Schemes	12,013	458	374	14,392	27,959
Unlisted Equities	0	(3)	0	0	381
<b>Non-UK</b>					
Listed Equities	930	584	140	3,066	10,250
Unlisted Equities	651	316	11	1,072	450
<b>Other</b>	113	0	2	113	113
<b>Total Securities</b>	<b>31,312</b>	<b>5,480</b>	<b>2,499</b>	<b>54,247</b>	<b>158,331</b>

The notes on pages 15 to 18 form part of these accounts.

# Notes to the Financial Statements

## 1. Accounting Policies

### Basis of Accounting

The accounts are prepared under the historical cost convention, modified by revaluation of property to fair value and securities to market value at the balance sheet date. The historic cost of securities held is disclosed in the Portfolio and Investment Income Statement at page 14.

The Accounts are prepared as at 31 March 2008.

### Property

Freehold and leasehold properties are shown at fair value. This is based on property valuations carried out by the Valuation Agency and Chartered Surveyors at 31 March 2006, 31 March 2007 and 31 March 2008. The surplus/(deficit) on revaluation is taken to a reserve to the extent that the gains have been recorded previously and disclosed separately on the balance sheet. The OSPT aims to revalue all properties every 5 years on a rolling basis so that 20% of properties are re-valued each year. Controls are in place to ensure that all properties are adequately insured.

### Securities

Investments in securities are carried out on an arms-length basis following the best execution principles. Securities are stated in the accounts at the market value on the balance sheet date. The cost or probate value of client assets at the balance sheet date are shown on page 14. The surplus/(deficit) on revaluation is taken to a reserve to the extent that the gains have been recorded previously and disclosed separately on the balance sheet.

### Basis of Valuation: Other Assets – Chattels

Client assets are shown at original cost or probate value. In our judgement these assets will not be marketed in the near future, therefore market value will not be appropriate.

### Foreign Currencies

All transactions in foreign currencies are converted into sterling at the rates of exchange ruling at the transaction date. Foreign currency assets and liabilities at the end of the accounting period are translated at the exchange rate at close of business on the balance sheet date.

### Recognition of Income

Dividends or interest from investments in securities that are not mandated directly to beneficiaries are credited to the income accounts when received.

Interest received from bank deposits is credited to the income accounts when received.

### Expenses

Expenses in the form of fees due to the Public Trustee are administered in accordance with the Public Trustee (Fees) Order 1999 (with subsequent Amendment Orders). Any other expenses incurred with regard to maintenance of Trust or Estates assets are charged against Capital or Income on a per-case basis in accordance with the terms of the individual Trust.

Expenses in the form of bills due to the Official Solicitor are administered in accordance with the present Estate Fees Collection Policy. Any other expenses incurred with regard to maintenance of Estate assets are charged against Capital or Income on a per-case basis in accordance with the terms of the individual Estate.

### Taxation policy

Provision is made for Income Tax, Capital Gains Tax, Rate Applicable to Trusts, Inheritance Tax, Accrued Income Scheme and Schedule A Tax at the current rates. Responsibility falls on the Trustee to complete Self-Assessment Tax returns and pay taxation on all cases except “Bare” Trusts whereupon the responsibility lies with the beneficiary.

## 2. Segmentation Analysis

The major categories of net assets at the Balance Sheet date are as follows:

	<b>Estates</b>	<b>Trusts</b>	<b>Litigation</b>	<b>Pensions</b>	<b>Total at 31 March 2008</b>	<b>Total at 31 March 2007</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Assets:</b>						
Property	9,859	9,177	-	-	19,036	29,125
Securities	12,118	42,129	0	-	54,247	158,331
Chattels	3	51	18	-	72	66
Debtors	550	484	-	-	1,034	2,062
Cash and Bank Balances	14,578	17,275	824	21	32,698	46,131
<b>Liabilities:</b>						
Creditors	(241)	(1,998)	(60)	-	(2,299)	(2,924)
	<u>36,867</u>	<u>67,118</u>	<u>782</u>	<u>21</u>	<u>104,788</u>	<u>232,791</u>

### 3. Property

	<b>2007/08</b>	<b>2006/07</b>
	<b>£'000</b>	<b>£'000</b>
Freehold Property	17,421	27,136
Leasehold Property	1,615	1,989
	<u>19,036</u>	<u>29,125</u>

At 31 March 2008 the OSPT managed 131 (252 in 06/07) properties on behalf of client trusts.

### 4. Debtors

	<b>2007/08</b>	<b>2006/07</b>
	<b>£'000</b>	<b>£'000</b>
Loans receivable and accrued income	632	762
Accounts held by Brokers	118	977
Cash held by Agents	284	323
	<u>1,034</u>	<u>2,062</u>

### 5. Cash and Bank balances

	<b>2007/08</b>	<b>2006/07</b>
	<b>£'000</b>	<b>£'000</b>
Cash at Bank	27,754	39,777
Cash on long term deposit at other institutions	4,944	6,354
	<u>32,698</u>	<u>46,131</u>

## 6. Creditors

	2007/08	2006/07
	£'000	£'000
Bills payable to the OS	127	281
Fees payable to the PT	1,580	902
Other creditors	592	1,741
	<u>2,299</u>	<u>2,924</u>

## 7. Revaluation Reserves

	2007/08	2006/07
	£'000	£'000
Securities balance at 31 March 2008	22,934	86,169
Properties balance at 31 March 2008	7,735	18,961
	<u>30,669</u>	<u>105,130</u>

## 8. Contingent liabilities

There were no contingent liabilities at the balance sheet date.

## 9. Post Balance Sheet Events

Since the 31<sup>st</sup> March 2008, there has been a significant fall in the market value of properties and investments which will be evident in the 2008/09 accounts. As at end of February 2009, property values have fallen on average by 17.7% and the FSTE 100 had fallen by 36.47%. We continue to monitor these areas.

In accordance with the requirements of FRS 21- *Events After Balance Sheet Date*- post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date the accounts are signed by the Official Solicitor and Public Trustee on 23rd March 2009.

## 10. Related party transactions

The MoJ is a related party as defined by Financial Reporting Standard (FRS8). Fees paid to the MoJ during the year ended 31 March 2008 amounted to £3.3m and amounts outstanding for fees from trust and estates cases at the 31 March 2008 were £1.1m. The MoJ also provides discretionary loans to trusts and estates clients where a case needs cash but has illiquid assets. The total amount outstanding for loans to trust and estates cases from the MoJ at the 31 March 2008 was £12k.

Other than the related party transactions disclosed above, none of the senior management staff or any other related party has undertaken any material transactions with the client assets during the period.

## 11. Financial Instruments

It is the policy of the MoJ to amalgamate all client investments, where possible, into unitised securities. The preferred unitised security is the Equity Index Tracker Fund within the Common Investment Fund of the MoJ. The Equity Index Tracker Fund comprises a mixture of UK and foreign index tracking funds managed by Legal and General (Unit Trust Managers) Limited. However, Capital Gains Tax and client requirements in individual cases may prevent unitisation so the policy has to be implemented on a case-by-case basis.

### Market price risk

Market price risk is the risk that the value of the securities will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises mainly from uncertainty about future prices of financial instruments held by trusts/estates clients of the OSPT. The investment portfolio is exposed to market price fluctuations, which are monitored by internal Investment Managers in pursuance of the investment objective for each individual trust and in relation to the Equity Index Tracker Fund in accordance with the guidelines set by the MoJ Strategic Investment Board.

### **Foreign currency risk**

Trusts and Estates clients of the OSPT are rarely exposed to foreign currencies. The OSPT does not hold any foreign currency cash. Securities denominated in foreign currencies are held in their base currencies.

### **Interest rate risk**

Interest rate risk is the risk that the value of client monies will not attract returns, which approximate best market rates. The OSPT has negotiated competitive rates with its Bank and manages liquidity to optimise return.

### **Liquidity risk**

Each Trust and Estates case is closely monitored to ensure there is asset and liability matching and overdrafts are prevented. Where cases are unable to pay future creditors, measures are taken to achieve a distribution of the case in consultation with stakeholders or the MoJ will provide interim Vote Loans in circumstances where these are fully recoverable.

### **Credit risk**

Certain transactions in securities that the OSPT enters into expose it to the risk that the counter party will not deliver the investment for a purchase, or cash for a sale after the OSPT has fulfilled its responsibilities. The OSPT only buys and sells investments through MoJ Approved Panel Brokers and Fund Managers. In addition, limits are set to the exposure to any individual broker that may exist at any time and changes in brokers' financial ratings are reviewed. The credit rating of the OSPT's Bank is also reviewed and reported to the Management Board regularly.

## DCA Accounts Direction on Stewardship Accounts of Third Party Monies

The DCA gives the following Accounts Direction:

1. The Official Solicitor and the Public Trustee as Accounting Officers for stewardship of third party monies within the offices of the Official Solicitor and the Public Trustee shall prepare stewardship accounts for all third party assets for the financial year ended 31 March 2006 and subsequent financial years.
2. The accounts shall give a true and fair view of:
  - I. The financial position of the third party assets at the period end as stated on the balance sheet;
  - II. The movement in net assets (the capital account) for the year; and
  - III. The net income during the period as stated on the income account;In accordance with generally accepted accounting practice and other guidance, which the DCA and Treasury may issue from time to time.
3. The accounts shall be prepared in accordance with a format and content to be agreed between the Accounting Officers and the Comptroller and Auditor General, with the consent of the DCA, and shall include:
  - I. A Foreword;
  - II. A statement on the external audit arrangements including commentary on the roles of the Comptroller and Auditor General and the Accounting Officers;
  - III. A Statement on Internal Control;
  - IV. A Balance Sheet;
  - V. A Capital Account;
  - VI. An Income Account;
  - VII. A Portfolio and Investment Income Statement; and
  - VIII. Such notes as may be necessary to present a true and fair view.
4. The Foreword shall include among other items:
  - IX. A statement that the accounts have been prepared in accordance with directions given by the DCA including such information that may be necessary to present a true and fair view;
  - X. Relevant information in respect of the statutory background of the OSPT;
5. The Notes shall include, among other items:
  - XI. The accounting policies;
  - XII. An analysis of material items within the Accounts;
  - XIII. Any contingent liabilities;
  - XIV. Post balance sheet events;
  - XV. Related party transactions.
6. The Accounting Officers will support the stewardship accounts with a Representation Letter, containing material matters that need to be confirmed to the Comptroller and Auditor General.
7. The Accounting Officers will employ best endeavours to complete the stewardship accounts within 9 months of the year-end for the period ended 31 March 2006 and 6 months for all subsequent years. This timetable will include sufficient time for the Comptroller & Auditor General to complete the audit.
8. The Accounting Officers will publish the stewardship accounts on the website of the Official Solicitor and will submit them to the DCA.

Signed:

Barbara Moorhouse  
DCA Director General, Finance and Commercial

Date: 7 November 2006