



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

For the period 1 April 2006 to 31 March 2007

## Contents

Summary Information .....	3
Official Solicitor's and Public Trustee's Foreword .....	4
Statement on Internal Control .....	7
Independent Auditor's Report to the Offices of the Official Solicitor and Public Trustee.....	10
Balance Sheet .....	11
Capital Account for the year ended 31 March 2007.....	12
Income Account for the year ended 31 March 2007.....	13
Portfolio and Investment Income Statement.....	14
Notes to the Financial Statements .....	15
DCA Accounts Direction on Stewardship Accounts of Third Party Monies.....	19

## 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 from 13 November 2006
Nick Crew	Director of Operations from 31 October 2005 to 12 June 2006. Re-appointed Director of Operations and Public Trustee from 8 September 2007
May Maughan (from 1 June 2006)	Acting Deputy Official Solicitor (from 30 March 2006 to 31 May 2006 there was no Deputy Official Solicitor appointed)
Mrs Chris Walker	Head of Trusts and Estates
Julie Owen	Operational Manager Trust and Estates
David Charles	Head of Human Resources, Office Services and Litigation Manager
Beverley Taylor	Senior Lawyer
Terry Hunter	Non-Executive

### Leavers

Laurence Oates (12 November 2006)	Official Solicitor from 1 August 1999 to 12 November 2006 and Public Trustee from 1 April 2001 to 31 July 2006
David Thompson (7 September 2007)	Director of Operations from 13 June 2006 and Public Trustee from 1 August 2006 to 7 September 2007.

### Banks

Bank of England (account closed 5 July 2006)  
Threadneedle Street  
London EC2R 8AH

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 was created under the Public Trustee Act 1906, and the appointment to this office has always been statutory. 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 state has always recognised the need for representation of an incapacitated person when a benevolent relative or friend cannot be found to act on his behalf. This function was undertaken on behalf of the Crown as "parens patriae" in various ways. The Official Solicitor's work is now largely acting as litigation friend (or in family proceedings, "guardian ad litem" or next friend) of last resort, though additional roles include 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 (REMO) 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.

### 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 2006/07, staff at OSPT, working with external consultants, have developed systems, processes and procedures that would enable a stewardship account to be drawn from the information on the financial accounting system (TABS). TABS is a system 20 years old, designed to enable information to be produced at a single fund, rather than a global level, and under-utilised by staff. In order to draw meaningful information from TABS, the following work has been continued and undertaken following many of the processes commenced in 2005/06.

- The ongoing transfer of information from TABS (Trust accounting and Banking System) 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)
- Examination of processes around the production of annual accounts for all cases and implement better processes around the active accounts
- Regular and reported reconciliation of all asset groups
- Continuously investigate erroneous entries on TABS
- Regular reconciliation of the Master case list to TABS accounts to ensure case numbers and accounts number are visible and cases within different stages of the Projects can be identified and reported
- Continued actions to ensure assets are posted to 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) Created a Property information Database and carried out 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.
- Successful transfer and reconciliation of all receivership cash and assets from the Public Guardianship Office.
- 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 is managed by an independent and dedicated resource, reporting 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.

## 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 2006/07, 21 cases were accepted on behalf of the Official Solicitor and 2 cases on behalf of the Public Trustee. The OSPT currently is responsible for administering 1,107 cases mainly taken on before the last resort criteria was applied.

In May 2006 the Lord Chancellor approved proposals for the Official Solicitor and Public Trustee (OSPT) 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.

The OSPT conducted, during 2006/7, a competitive tender exercise to identify a suitable, willing alternative trustee. Following the receipt of bids, a due diligence exercise was conducted during November 2006, resulting in the nomination of Capita Trust Company as preferred bidder. Between January and March 2007, Capita and OSPT worked together to build a project plan for the transfer of suitable cases, which was formally captured in a "contract" signed by all parties on 12 March 2007. In addition to the transfer of suitable cases, OSPT is also taking steps to close all cases where that is appropriate, reducing the caseload to only "last resort" cases, being those where no other suitable, able and willing person is available to act. The transfer of the majority of suitable cases to Capita was completed by the end of December 2007. A further and final batch subsequently emerged and was transferred during February and March 2008. The project to close and distribute cases will continue. 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 addition, new working process and practices are being implemented by the reduced staff complement to carry out the last resort work. 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. This has meant that the business has not fully been able to yet carry out some of the recommendations made within the Internal Audit Report drafted following their visit in December 2007.

With effect from 1 April 2007 the offices of the Official Solicitor, Public Trustee and Court Funds 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

Nick Crew  
Public Trustee

Date

Date

## **Statement on the external audit arrangements and the respective roles of the Accounting Officers and the Comptroller and Auditor General**

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.

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 of accounts. The responsibilities of the Comptroller and Auditor General are:

- To audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland);
- To report to the DCA (now MoJ) his 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 DCA;
- To report whether, in all material respects, the financial transactions conform to the authorities which govern them;
- To report to the DCA (now MoJ) if the offices of the Official Solicitor and of the Public Trustee have not kept proper accounting records, if he has not received all the information and explanations he requires for his audit, or if information specified by the DCA (now MoJ) is not disclosed;
- To review whether the Statement on Internal Control reflects the offices of the Official Solicitor and Public Trustee's governance and internal control arrangements, and report if it does not. He is not required to consider whether the joint Accounting Officers' statement covers all risks and controls, or to form an opinion on the effectiveness of the offices of the Official Solicitor and Public Trustee's corporate governance procedures and its risk and control procedures;
- To read the other information contained in the Foreword and consider whether it is consistent with the audited stewardship accounts and to consider the implications for his certificate if he becomes aware of any apparent misstatements or material inconsistencies with the stewardship accounts. His responsibilities do not extend to any other information; and
- To give an audit opinion based on an audit conducted in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

# Statement on Internal Control

## Scope of Responsibility

As Accounting Officers, we have responsibility for maintaining a sound system of internal controls 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 Account 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 departmental 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 2007 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 DCA (now 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 2007.

## 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 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 DCA (now 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. A dedicated

compliance manager has also been employed to ensure controls are carried out and reviewed regularly in line with changes and new procedures.

Work is ongoing to embed a risk management concept throughout the organisation, for instance, by adopting the templates and strategies promoted by the DCA (now MoJ) Programme and Project Office. During 2006/07 OSPT implemented the recommendations of Internal Audit Division by undertaking a root and branch review of risk, both top down and bottom up, developing an operational risk register for review at monthly management board meetings. Throughout 2007/08 risk management will be embedded further into the organisation with the creation of clearer policy guidance for staff at all levels.

## **Internal Controls**

The NAO carried out a review of accounting procedures at the OSPT in April 2004 and a follow up review in July 2004. The initial review identified weaknesses in suspense accounts, reconciliation and overdrawn accounts. The review in July found that there had been significant improvements in controls. The introduction of a dedicated Compliance team and process has continued to ensure risks are identified and controls put in place to minimise those risks.

During April 2007 NAO undertook a further review of the stewardship Accounts for 2005/06 in order to assess the OSPT's ability to construct robust accounts as a prelude to the first live audit of the 2006/07 Accounts. A number of key areas have been identified for consideration. These recommendations will be considered in light of continuing projects to reduce our caseload.

## **Review of Effectiveness**

As Accounting Officers, 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 board, the Audit Committee and 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 DCA (now 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 semi-annual 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;
- Semi-annual 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;
- 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 DCA (now 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 DCA (now MoJ) Audit Committee and OSPT Management Board endorsed the analysis of risk and the internal audit plans for the year ending 31 March 2007.

## Conclusion

The OSPT has made significant improvements since the NAO review in 2004. The help provided by external consultants 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 ongoing projects to close and retire in favour of Capita Trust Company have caused significant issues around the priority of achieving certain areas of work. In dealing with these issues the financial risk has not been understated in the decision making about our priorities. We do 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.

### Accounting Officers

Alastair Pitblado  
Official Solicitor to the Supreme Court Service

Nick Crew  
Public Trustee

Date

Date

# 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 2007. 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 joint 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 Foreword.

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. 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 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 its 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 of 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, of the financial position of third party assets as at 31 March 2007 and of the movement in net assets and the net income for the year ended 31 March 2007; and
- the financial statements have been properly prepared in accordance with the accounts direction issued by the Department for Constitutional Affairs.

## 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  
31 July 2008*

## Balance Sheet As at 31 March 2007

	Notes	2006/07	2005/06
		£'000	£'000
<b>Assets:</b>			
Property	3	29,125	32,376
Securities		158,331	177,312
Chattels		66	65
Debtors	4	2,062	4,141
Cash and Bank balances	5	46,131	45,975
		<u>235,715</u>	<u>259,869</u>
<b>Liabilities:</b>			
Creditors	6	(2,924)	(1,250)
Net Assets		<u>232,791</u>	<u>258,619</u>
Representing			
Capital Account		115,378	132,510
Accumulation Account		12,283	16,350
Revaluation Reserves	7	105,130	109,759
		<u>232,791</u>	<u>258,619</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

Date

## Capital Account for the year ended 31 March 2007

	Notes	2006/07	2005/06
		<u>£'000</u>	<u>£'000</u>
Balance at 1 April		132,510	180,357
Add:			
Surplus on disposals		14,038	25,475
Capital introduced from new clients		4,115	9,798
		<u>150,663</u>	<u>215,630</u>
Less:			
Taxation payable		(331)	(947)
Legal charges		(267)	(141)
OSPT bills and fees		(4,104)	(4,102)
Distributions		(29,945)	(32,114)
Other capital expenditure		(638)	(45,816)
		<u>115,378</u>	<u>132,510</u>
<b>Balance at 31 March taken to Balance Sheet</b>		<u>115,378</u>	<u>132,510</u>

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

## Income Account for the year ended 31 March 2007

	Notes	2006/07	2005/06
		£'000	£'000
<b>Income</b>			
Rental income		727	866
Investment income		3,275	3,801
Interest income		2,019	1,957
Other income		1,289	5,582
		7,310	12,206
<b>Expenses:</b>			
Taxation		(267)	(442)
Investment management charges		(187)	(210)
Legal charges		(62)	(61)
OSPT bills and fees		(764)	(979)
Distributions		(10,097)	(13,451)
		(11,377)	(15,143)
Balance Transferred to Accumulation Account		(4,067)	(2,937)
<b>Accumulation Account</b>			
Balance at 1 April		16,350	19,287
Less deficit for the year		(4,067)	(2,937)
		12,283	16,350

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

## Portfolio and Investment Income Statement

	<b>Book Value At 31-3-07 £'000</b>	<b>Profit (Loss) Y.E 31-3-07 £'000</b>	<b>Net Income Y.E 31-3-07 £'000</b>	<b>Market Value At 31-3-07 £'000</b>	<b>Market Value At 31-3-06 £'000</b>
<b>UK</b>					
Fixed Interest	12,322	(13)	482	12,827	12,701
Listed Equities	37,268	10,603	2,184	106,351	120,158
Common Investment Schemes	18,745	1,185	366	27,959	28,934
Unlisted Equities	112	64	4	381	272
<b>Non-UK</b>					
Listed Equities	3,224	1,901	193	10,250	14,501
Unlisted Equities	378	7	46	450	679
<b>Other</b>	113	9	0	113	67
<b>Total Securities</b>	<b>72,162</b>	<b>13,756</b>	<b>3,275</b>	<b>158,331</b>	<b>177,312</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 2007.

### 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 and 31 March 2007. The surplus/(deficit) on revaluation is taken to a reserve 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 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.

### Treatment of stock dividends

Stock dividends are taken to capital and disclosed as realised (losses)/gains on investments during the period.

### 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.

## Comparable Data

The comparable data for the Income Account and Capital Account for the prior year have been audited. This is the first year that the stewardship accounts will be published.

## 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 2007</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Assets:</b>					
Property	7,936	21,189	-	-	29,125
Securities	15,955	130,910	-	11,466	158,331
Chattels	22	44	-	-	66
Debtors	290	1,725	-	47	2,062
Cash and Bank Balances	15,992	25,269	922	3,948	46,131
<b>Liabilities:</b>					
Creditors	(968)	(1,928)	(2)	(26)	(2,924)
	<u>39,227</u>	<u>177,209</u>	<u>920</u>	<u>15,435</u>	<u>232,791</u>

## 3. Property

	<b>2006/07</b>	<b>2005/06</b>
	<b>£'000</b>	<b>£'000</b>
Freehold Property	<u>27,136</u>	<u>30,995</u>
Leasehold Property	<u>1,989</u>	<u>1,381</u>
	<u>29,125</u>	<u>32,376</u>

At the Balance Sheet date the OSPT managed 252 properties on behalf of client trusts.

## 4. Debtors

	<b>2006/07</b>	<b>2005/06</b>
	<b>£'000</b>	<b>£'000</b>
Loans receivable and accrued income	<u>762</u>	<u>1,150</u>
Accounts held by Brokers	<u>977</u>	<u>2,638</u>
Cash held by Agents	<u>323</u>	<u>353</u>
	<u>2,062</u>	<u>4,141</u>

## 5. Cash and Bank balances

	2006/07	2005/06
	<u>£'000</u>	<u>£'000</u>
Cash at Bank	39,777	40,204
Cash on long term deposit at other institutions	6,354	5,771
	<u>46,131</u>	<u>45,975</u>

## 6. Creditors

	2006/07	2005/06
	<u>£'000</u>	<u>£'000</u>
Bills payable to the OS	281	264
Fees payable to the PT	902	567
Other creditors	1,741	419
	<u>2,924</u>	<u>1,250</u>

## 7. Revaluation Reserves

	2006/07	2005/06
	<u>£'000</u>	<u>£'000</u>
Securities balance at 31 March 2007	86,169	97,033
Properties balance at 31 March 2007	18,961	12,726
	<u>105,130</u>	<u>109,759</u>

## 8. Contingent liabilities

There were no contingent liabilities at the balance sheet date.

## 9. Post Balance Sheet Events

As set out at the outset of these accounts, there has been a considerable change in circumstances since 1 April 2007. Following a competitive tender process, OSPT is now managing a group of projects to:

- Transfer to a private sector provider (Capita Trust Company) those cases suitable for transfer (414 cases transferred at 18 February 2008 current National Asset Value of £76million).
- Close, distribute or prematurely retire as trustee those cases where closure should have been effected some time ago, where a request for premature distribution or retirement has been made and is appropriate, distribute following an event that brings the trust to an end, or otherwise deal with assets that will enable the case to be finally closed
- Create a reduced team of staff, develop and implement structures, policies, procedures and practices to effectively manage a residual caseload of “last resort” cases, where the Public Trustee or Official Solicitor is required to act as trustee or administrator or Deputy in the case of Receiverships (approximately 300 people)
- Carry out HR strategy to reduce the staff within OSPT commensurate with the reduction in caseload
- Identify and realise the benefits of the en bloc group of projects.

Additionally, with effect from 1 April 2007, some corporate functions of the Court Funds Office and the OSPT were merged. The offices are known as the Offices of Court Funds, Official Solicitor and Public Trustee (OCFOSPT). With effect from 9

May 2007 the Department for Constitutional Affairs gained additional responsibilities and became the Ministry of Justice (MoJ). OCFOSPT is an associated office of the MoJ.

Since April 2007 work has continued on a programme of valuations of en bloc properties in order to establish a current market value of each property, identify any material issues (such as subsidence) and reinforce insurance valuations. This work was clearly required as a priority to ensure that when the cases were passed to Capita Trust Company there was clear financial visibility. It is intended that, following the completion of the en bloc group of projects, further work will take place on carrying out the same valuations on the last Resort caseload and thereafter all remaining properties will be re-valued once every 5 years.

In accordance with the requirements of FRS 21, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate of the Comptroller and Auditor General.

## **10. Related party transactions**

The DCA (now MoJ) is a related party as defined by Financial Reporting Standard (FRS8). Fees paid to the DCA during the year ended 31 March 2007 amounted to £4.8m and amounts outstanding for fees from trust and estates cases at the 31 March 2007 were £1.18m. The DCA 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 DCA at the 31 March 2007 was £13.7k.

Other than the related party transactions disclosed above, none of the key 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 DCA (now 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 DCA. 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 DCA (now 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 DCA (now 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 DCA (now 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