



COURTS SERVICE  
*An tSeirbhís Chúirteanna*

**REPORT AND FINANCIAL STATEMENTS OF THE OFFICE OF THE ACCOUNTANT  
OF THE COURTS OF JUSTICE 2004-2005**





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## GENERAL INFORMATION

<b>REGISTERED OFFICE</b>	Office of the Accountant of the Courts of Justice Phoenix House 15 – 24 Phoenix Street North Smithfield Dublin 7.
<b>INVESTMENT MANAGER</b>	Bank of Ireland Asset Management 40 Mespil Road Dublin 4.  State Street Global Advisors 21 St. James Square London SW1Y 4SS United Kingdom.
<b>CUSTODIAN AND ADMINISTRATOR</b>	JP Morgan Admin Services (Ireland) Ltd JP Morgan House IFSC Dublin 1.
<b>INVESTMENT ADVISOR</b>	Mercer Investment Consulting Charlotte House Charlemont Street Dublin 2.
<b>LEGAL ADVISORS</b>	McCann Fitzgerald Solicitors 2 Harbourmaster Place International Financial Services Centre Dublin 1.
<b>AUDITORS</b>	Deloitte & Touche Chartered Accountants Deloitte & Touche House Earlsfort Terrace Dublin 2.



## BACKGROUND INFORMATION

### THE COURTS AND COURT FUNDS

The Courts have a custodial role in relation to funds that are lodged in court pursuant to Court Orders or in compliance with legislative requirements. The main primary and subordinate legislation governing the receipt, management and investment of court-controlled funds is as follows:

- ▷ Court Officers Act 1926
- ▷ The Trustee (Authorised Investments) Act 1958 and the Trustee (Authorised Investments) Orders made thereunder
- ▷ The Rules of the Superior Courts
- ▷ The Rules of the Circuit Court
- ▷ The Rules of the District Court

The categories of funds held by the Courts include, principally:

- (a) Wards of Court; the funds of persons taken into wardship are lodged in Court
- (b) Minors; financial awards made by the Courts to persons under 18 will have their award lodged in Court until they reach the age of majority. Where a long-term care regime is considered necessary, a minor may be made a Ward of Court
- (c) Lodgements by Parties to Court Proceedings; a party to civil court proceedings may lodge money in court with a view to satisfying the claim of another party to the proceedings.

Other funds held by the Court include:

- ▷ Funds lodged by Trade Unions, Insurance Companies and Auctioneers
- ▷ Trustee matters (proceeds of trusts directed by the Court to be lodged in court)
- ▷ Unclaimed dividends in Company liquidations
- ▷ Proceeds of compulsory land purchases where the beneficiary is unknown
- ▷ Lodgements under the Land Clauses Act 1845



## **BACKGROUND INFORMATION**

### **THE ACCOUNTANT OF THE COURTS OF JUSTICE**

The Accountant's Office and the position of the Accountant of the Courts of Justice were established, shortly after the foundation of the State, under the Court Officers Act 1926. The Act stipulates that the Accountant shall perform such functions as shall be conferred on or assigned by statute or rule of court and in particular shall perform and fulfill in relation to the High Court, the Supreme Court and the Chief Justice all such duties and functions as were formerly performed and fulfilled by the Accountant General of the Supreme Court of Judicature in Ireland in relation to that Court and in relation to the Lord Chancellor of Ireland. Currently the Accountant has responsibility for the management and investment of funds amounting to €860 million.

The funds managed by the Accountant are funds that are held under the control of the Courts and are managed in a fiduciary capacity on behalf of beneficiaries, who include various categories of litigant, persons who are Wards of Court and Minors who have been awarded damages by the Courts. Funds under the control of the Courts are required by law to be invested in accordance with the Trustee (Authorised Investments) Act 1958 and the orders made thereunder.



## FOREWORD BY THE CHAIRMAN OF THE INVESTMENT COMMITTEE

I am pleased to report another successful year of operations by the Office of the Accountant of the Courts of Justice in respect of the year ended 30th September 2005.

As you will see from the report and financial statements for the year under review, significant progress has been made in implementing the recommendations of the external independent investment advisors, which were approved by the Board of the Courts Service in 2003. Most of the High Court funds have now been transferred into the new investment strategies, with only a small amount of funds in relation to Wards of Court cases remaining to be invested. Total investments managed by the Accountants Office amounted to €848.6m at the end of the year, an increase of €98.7m on the previous year. Of this increase €73.4m was attributable to investment performance.

Investment performance across all four strategies was strong ranging from 4.6% for Cash Plus Fund to 20.75 % for the Growth Fund. Much of this strong performance was attributable to good equity and bond returns.

The new structures and systems put in place over two years ago continue to bear fruit and it is reassuring for me as President of the High Court and Chairman of the Investment Committee that virtually all of the recommendations for modernising the management of court funds have been implemented. As I write this foreword excellent progress is being made in transferring Minor's funds held by the Circuit and District Courts to the Accountants Office. It is expected that this work will be completed by the end of the next financial period in September 2006.

As President of the High Court I have direct judicial responsibility for persons who are Wards of Court. Some 70% of the funds managed by the Accountants Office relate to persons who are Wards of Court. I am pleased that the new management and investment arrangements for court funds delivers added value to the beneficiaries of these funds.

The Investment Committee met four times during the period under review and in conjunction with our investment and other advisors, monitor investment performance and general compliance with best practice. The Committee will continue to seek opportunities for adding value and ensuring that the investment approach is at all times discharged in the best interests of beneficiaries.

I would like to acknowledge the excellent contribution of staff in the Accountants Office throughout the year.

**Joseph Finnegan**  
*President of the High Court*

Chairman of the Investment Committee



## INVESTMENT COMMITTEE

The Investment Committee comprises members of the judiciary, court officers with investment decision making responsibilities, the Director of Finance and an independent expert. The Committee is chaired by the President of the High Court. Its role is advisory and its main function is to devise investment policy for Court funds and to oversee the implementation of the recommendations in the Mercer report and to ensure compliance with best practice in the management of court funds.

The Committee meets on a quarterly basis and its membership is as follows:

### NAME AND BASIS FOR MEMBERSHIP



The Honourable Mr Justice  
**Joseph Finnegan**

*President of High Court or a  
Judge  
of the High Court Nominated  
by the President*



Her Honour Judge  
**Katherine Delahunty**

*President of Circuit Court or a  
Judge  
of the Circuit Court Nominated  
by the President*



Judge  
**David Anderson**

*President of District Court or a  
Judge of the District Court  
Nominated  
by the President*



**Mr Sean Quigley**

*The Accountant of the Courts of  
Justice /  
The Director of Finance  
of the Courts Service*



**Mr Noel D. Doherty**

*The Registrar, Office of Wards  
of Court*



**Mr John Mahon**

*The Senior Assistant Registrar,  
Office of Wards of Court*



**Mr Fintan Murphy**

*A County Registrar nominated  
by the Chief Executive Officer in  
consultation with the President  
of the Circuit Court*



**Mr John Molloy**

*A Chief Clerk from the District  
Court nominated by the Chief  
Executive Officer in consultation  
with the  
President of the District Court*



**Mr Jim Farrell**

*Independent External Expert,  
formerly of the National Treasury  
Management Agency*



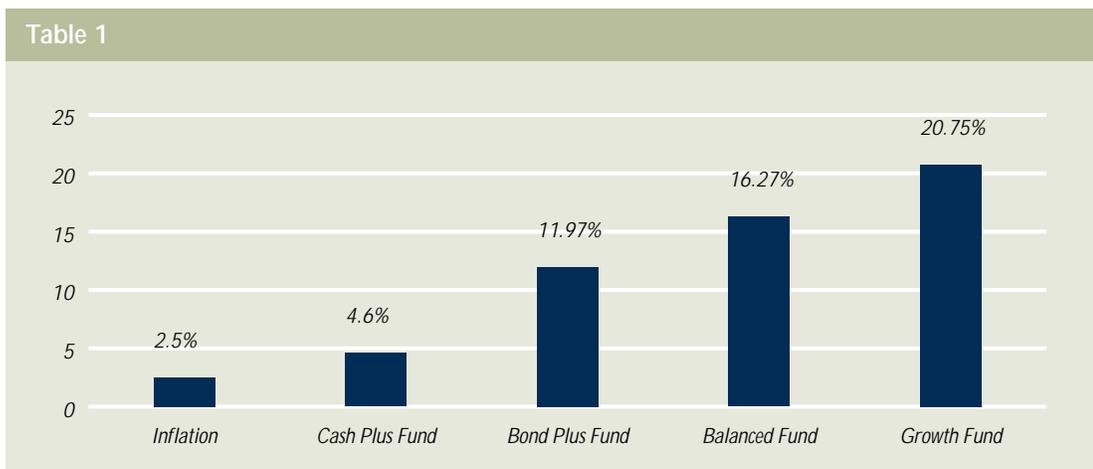
**Mr Paddy O'Neill**

*Secretary*



## REPORT OF THE ACCOUNTANT OF THE COURTS OF JUSTICE

The year under review has seen the completion of the transfer of virtually all High Court funds that are suitable for investment into the new investment strategies. Total funds managed by the Accountants Office increased to €848.6m at the end of September 2005, up €98.7m on the previous year. Reflecting very good investment performance during the year, €73.4m of this increase was attributable to investment performance. This represents an average performance across all four investment strategies of 13.4%. Investment performance for each strategy is shown in Table 1 below.



### ASSET ALLOCATION

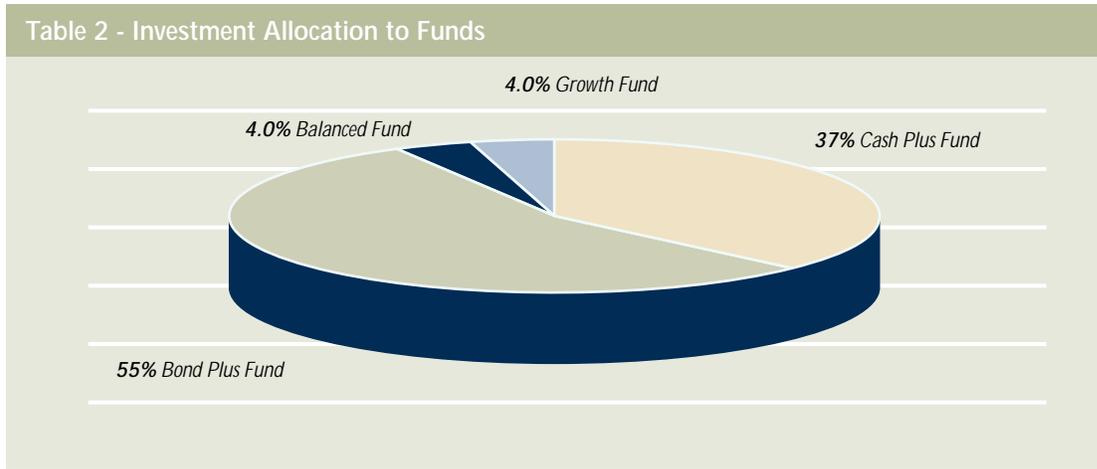
The investment decision takes account of each beneficiaries particular circumstances, and are allocated to one of the investment strategies on the basis of a number of criteria, including;

- ▷ the age of the beneficiary
- ▷ life expectancy
- ▷ the sum to be invested
- ▷ inflation, and
- ▷ the level of anticipated annual expenditure, where appropriate

The allocation decision making process is supported by an investment modeling tool. All cases are reviewed periodically, and if the beneficiary's circumstances change, the strategy may be varied accordingly. Based on the application of these criteria the following chart, Table 2, represents the allocation of funds to each strategy at the end of September 2005.



**REPORT OF THE ACCOUNTANT OF THE COURTS OF JUSTICE (CONTINUED)**



The composition of funds held by the Accountant at 30th September 2005 was:

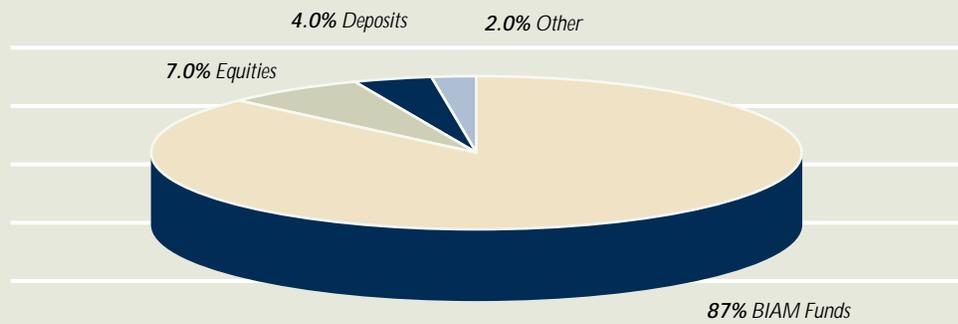
	€m
BIAM Funds (see Table 4 below)	743.3
Managed Funds	9.7
Equities	55.6
Government Bonds	2.1
Deposit Accounts	33.9
Other Investments	2.5
Insurance Policies	1.4
Portfolio of investments	848.6

This is represented graphically in Table 3



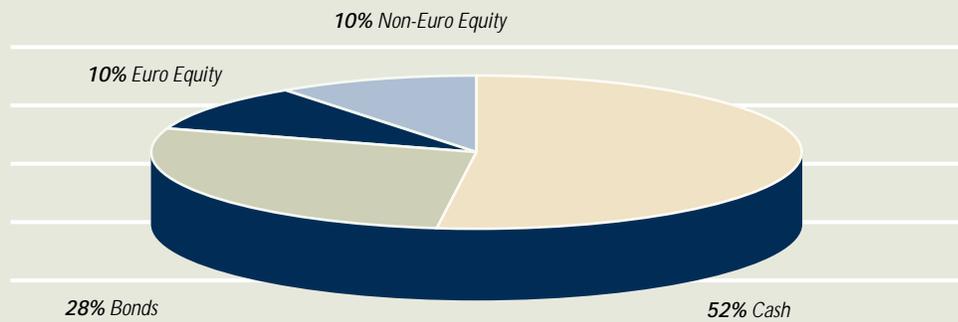
**REPORT OF THE ACCOUNTANT OF THE COURTS OF JUSTICE (CONTINUED)**

**TABLE 3 - Profile of Portfolio of Investments**



In relation to the BIAM Funds the underlying assets classes in which the funds are invested are represented in Table 4.

**Table 4 - Asset Class Allocation**





## REPORT OF THE ACCOUNTANT OF THE COURTS OF JUSTICE (CONTINUED)

### MANAGEMENT OF COURT FUNDS

Following a comprehensive review of the management of court funds new governance and management arrangements were put in place by the Board of the Courts Service. These are summarized below:

- ▶ **Investment Committee:** An Investment Committee was established in 2002 to oversee the implementation of the arrangements approved by the Board for the management and investment of court funds. The membership of the Committee comprises representatives of the judiciary, court officers with responsibility for court funds and an independent external representative. (see membership of the Committee on page 6). The Committee meets on a quarterly basis to monitor progress and to review reports from the Director of Finance, investment advisors and funds managers.
- ▶ **Investment Advisors:** The Courts Service has retained the service of external independent investment advisors to advice on a range of matters related to the management and investment of court funds.
- ▶ **Fund Managers:** Following a competitive tendering exercise, in compliance with EU procurement regulations, the Courts Service appointed Bank of Ireland Asset Management and State Street Global Advisors as joint fund managers.
- ▶ **External Audit:** Shortly after the establishment of the Courts Service in 1999, arrangements were put in place for the audit of funds managed by the Accountant. This is the fifth year that external audits have been carried out. Deloitte and Touche are the current auditors.
- ▶ **Internal Audit:** The management of court funds is also subject to audit by our Internal Audit Unit.
- ▶ **Risk Management:** As part of the risk management policy and framework implemented by the Courts Service the management of court funds is subject to regular monitoring and review to ensure that all major risks are adequately managed.
- ▶ **Central Funds Office:** Following changes to Circuit and District Court Rules during the year the Accountant now has the legal authority to manage and invest funds from both these jurisdictions, subject to the appropriate court order having been made. Legislative proposals have been submitted to the Department of Justice, Equality and Law Reform to establish a Central Funds Office that will among other things provide for the audit of these funds by the Comptroller and Auditor General.

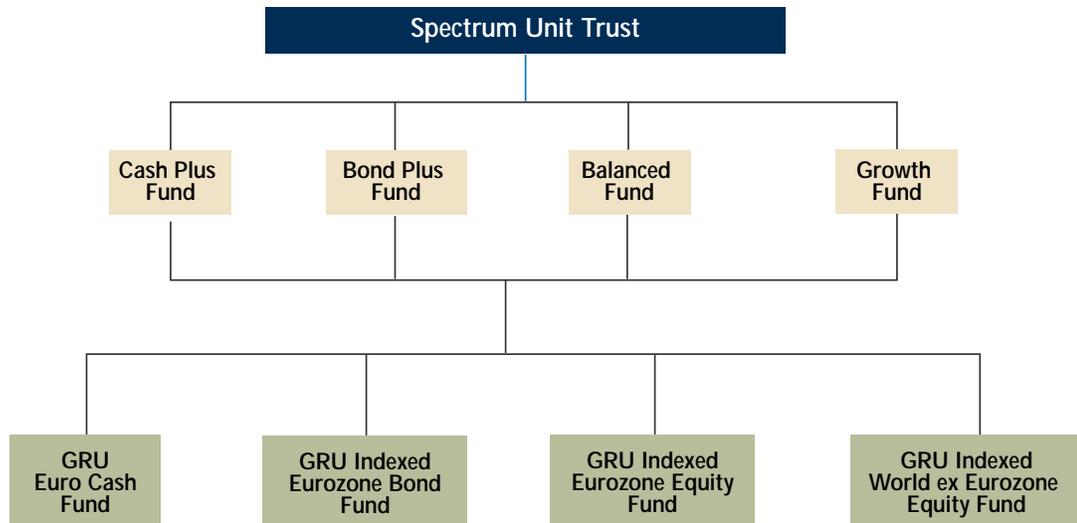


**REPORT OF THE ACCOUNTANT OF THE COURTS OF JUSTICE (CONTINUED)**

**INVESTMENT APPROACH:**

The investment strategy adopted by the Courts Service involves the management of bonds and equities on a passive basis, with cash being managed on an active basis. Bank of Ireland Asset Management (BIAM) and State Street Global Advisors (SSgA) are joint fund managers.

BIAM in response to the investment requirements for court funds and with the approval of the Irish Financial Services Regulatory Authority established the following investment structure:

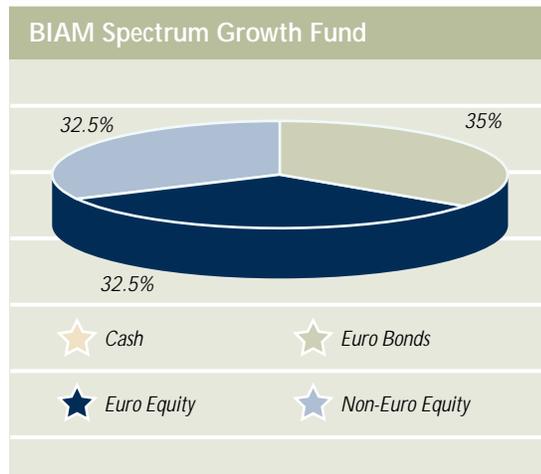
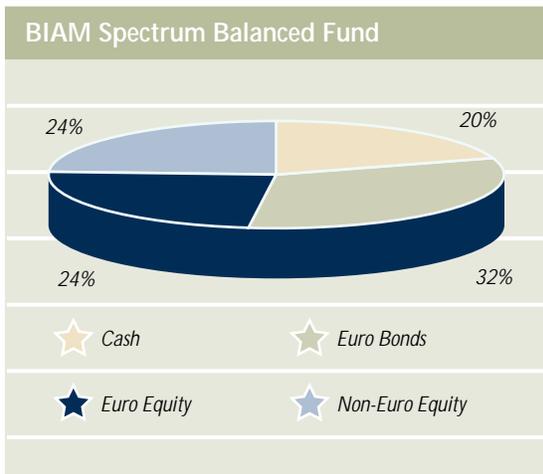
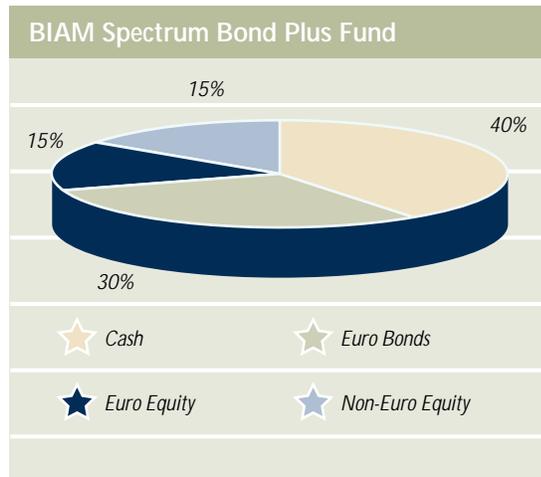
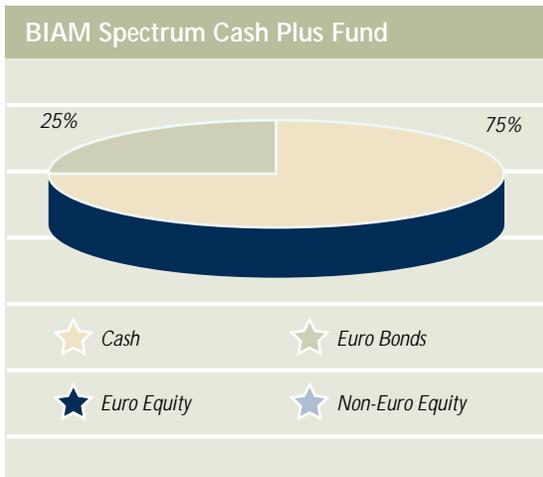


In the structure above, the beneficiaries invest in the spectrum funds (highlighted in Cream). These funds subsequently invest in the underlying market specific funds (highlighted in Green) in the proportions outlined below.



REPORT OF THE ACCOUNTANT OF THE COURTS OF JUSTICE (CONTINUED)

ASSET DISTRIBUTION OF SPECTRUM FUNDS





## **REPORT OF THE ACCOUNTANT OF THE COURTS OF JUSTICE (CONTINUED)**

### **INVESTMENT STRATEGIES**

The following is a brief description of the investment objectives of each strategy.

#### **CASH PLUS FUND**

The Cash Plus Fund is a low risk strategy with an investment objective primarily to maintain capital value and also to generate capital appreciation while maintaining a high level of risk control.

#### **BOND PLUS FUND**

The investment objective of the Bond Plus Fund is primarily to maintain capital value and also to generate a moderate level of income for the beneficiary.

#### **BALANCED FUND**

The Balanced Fund is designed to achieve a combination of reasonable income and sound capital growth over the medium to long term. This fund has 48% equity content and returns may be subject to market variations and there is a risk that the value may fall, particularly over short-term periods.

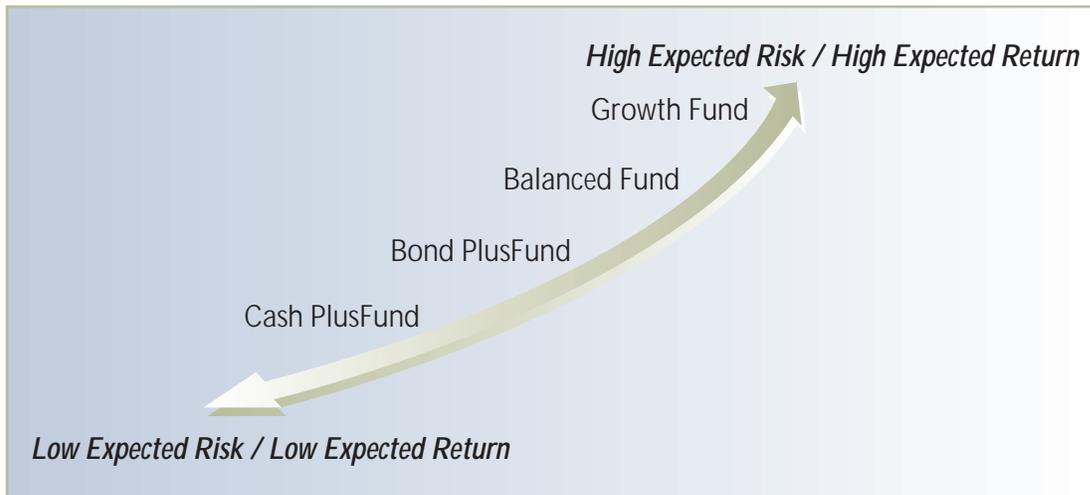
#### **GROWTH FUND**

The Growth Fund is primarily designed to generate capital appreciation while maintaining a high level of risk control. This fund has a 65% equity content and returns may be subject to market variations, particularly over short-term periods. Accordingly funds would only be invested in this fund where there is a reasonably long investment time horizon.



**REPORT OF THE ACCOUNTANT OF THE COURTS OF JUSTICE (CONTINUED)**

The following diagram illustrates how the four investment strategies differ according to risk and return:



Excellent progress has been made during the year in implementing the new investment arrangements approved by the Courts Service Board. The work of transferring all High Court funds is virtually complete. Work is underway to transfer Circuit and District Court Funds which should see most of these funds managed under the new arrangements by the end of the financial year, September 2006. Work is also underway for the Accountants Office to take on the provisions of accounting services to the General Solicitors Office. I also expect to see this substantially completed by September 2006. New ground was broken during the year when payments from the Accountants Office were issued electronically by way of electronic funds transfer.

I would like to thank the staff in the Accountants Office for the excellent work done during the year in delivering the implementation of a very significant range of changes that have made a major contribution to the improved management of court funds that is directly benefiting beneficiaries of court funds.

I would also like to acknowledge the support provided by other business units in the Courts Service and external service providers, that has enabled the Accountants Office achieve its objectives during the year.

**Sean Quigley**  
*Accountants of the Courts of Justice*

31st March 2006



## THE ROLE OF THE OFFICE OF WARDS OF COURT

A significant amount of funds managed by the Accountant relate to individuals who are wards of court and whose affairs are managed by the Office of the Wards of Court. The following is a brief overview of the work of the Office.

There are many people who, due to illness or accident, lose the ability to make decisions for themselves; there are many others who are born with an intellectual disability and are never able to look after their own affairs. The Wards of Court system allows for substitute decision making so that the Court may make decisions necessary for the protection of both the person and the property of those who do not have full mental capacity. The principle underlying the Wardship jurisdiction is that the Court acts in the same way as a prudent parent would act regarding the welfare of a child.

The Wardship jurisdiction, although provided for by legislation and rules of court, is not limited by statute and is a jurisdiction exercised by the Court subject only to the provisions of the Constitution. Therefore, the Court has extremely wide powers and duties in relation to persons under disability. The jurisdiction is vested in the President of the High Court and, accordingly, he has the responsibility for the management of affairs of Wards of Court. The day to day management is delegated by him to the Registrar and staff of the Wards of Court Office. A Committee, usually a member of the Ward's family, is appointed by the Court and is asked to make recommendations in relation to matters such as the Ward's welfare, property and future residence.

Wardship usually arises in cases where a person with an intellectual disability has property that needs to be applied for his or her maintenance and benefit. For example, a house may have to be sold or funds may have to be withdrawn from a bank account to pay for nursing home care. Following a sale or closure of bank accounts, funds belonging to Wards are lodged in Court and held under the control of the Accountant of the Courts of Justice. The Accountant is responsible for providing accounting and investment services on behalf of Wards of Court. The Registrar determines the appropriate investment strategy for each case. The decision on the appropriate strategy is chosen by the Registrar having regard to the assets of the Ward and his or her ongoing financial needs. The funds are invested so that, where possible, they will provide for those needs for the remainder of the Ward's lifetime.

Minors, persons under eighteen years of age, are sometimes taken into Wardship. This may happen where a minor is entitled to a substantial amount of money arising from a Court award or from an inheritance. Again, the funds are invested at the direction of the Registrar in one of the four strategies. Regular payments are made to the parents or guardians of the minor. Upon reaching eighteen unless there is medical evidence to show mental incapacity, the minor is entitled to have the balance of the funds paid out.



## INVESTMENT MANAGER'S REPORT

### PERFORMANCE OF GRU FUNDS (YEAR ENDED 30 SEPTEMBER 2005)

	BIAM GRU Euro Cash Fund	BIAM GRU Eurozone Bond Fund	BIAM GRU Eurozone Equity Fund	BIAM GRU World Ex Eurozone Equity Fund
Portfolio Return	2.24%	12.54%	29.93%	21.53%
Benchmark Return	2.24%	12.44%	30.07%	21.49%
Difference	0.00%	0.10%	-0.14%	0.04%

### PERFORMANCE OF SPECTRUM FUNDS (YEAR ENDED 30 SEPTEMBER 2005)

	BIAM Cash Plus Fund	BIAM Bond Plus Fund	BIAM Balanced Fund	BIAM Growth Fund
Portfolio Return	4.75%	12.11%	16.55%	21.05%
Benchmark Return	4.74%	12.08%	16.55%	21.02%
Difference	0.02%	0.06%	-0.04%	-0.02%

### DISTRIBUTION OF SPECTRUM FUNDS AT 30 SEPTEMBER 2005

	BIAM GRU Euro Cash Fund	BIAM GRU Eurozone Bond Fund	BIAM GRU Eurozone Equity Fund	BIAM GRU World Ex Eurozone Equity Fund
<b>Spectrum Fund</b>				
BIAM Cash Plus Fund	75.0%	25.0%	0.0%	0.0%
BIAM Bond Plus Fund	39.9%	29.9%	15.1%	15.1%
BIAM Balanced Fund	19.9%	31.9%	24.1%	24.1%
BIAM Growth Fund	0.0%	34.8%	32.6%	32.6%

**Notes:** The performance of the Spectrum Funds is gross of management fee.

The FTSE benchmarks for the BIAM GRU Indexed Eurozone Equity Fund and the BIAM GRU Indexed World Ex Eurozone Fund have been adjusted by BIAM for irrecoverable dividend withholding tax.

Source: Datastream.

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## INVESTMENT MANAGER'S REPORT (CONTINUED)

### BIAM GRU EURO CASH FUND

Over the course of the twelve months under review, short-term market interest rates within the Eurozone kept within a relatively narrow band as the sluggishness of economic growth in the region kept the likelihood of European Central Bank Intervention to a minimum. The ECB kept its official interest rate at 2% throughout the year, meaning there has been no change since June 2003. Market rates did drop during June following the decision of the Swedish Central Bank to cut interest rates by half a percentage point, amid speculation that the ECB might reduce rates to stimulate growth. By the end of the review period, rates had retraced that decline as the ECB stressed that inflation was a threat although markets don't envisage higher interest rates before 2006.

### BIAM GRU EUROZONE BOND FUND

Bond markets generated healthy returns for the twelve months under review, although momentum diminished in the final months of the period amid continued global economic growth and increasing concerns about inflation. In recent months, there was a notable divergence in global bond yields, with the U.S. bond market seeing a significant increase in yields, driven by increasing interest rates and ongoing concerns about inflationary pressures. This was not reflected in Eurozone markets to the same extent, as the region is seen to be lagging behind the rest of the world in the global economic growth stakes and is not expected to see any short term interest rate increases until 2006. The political situation in Germany exacerbated already difficult circumstances when there was no clear winner in the September general election.

The trends in some of the forward looking indicators for the Eurozone have improved modestly over the past few months (e.g. consumer sentiment and Purchasing Managers Index – a measure of business sentiment), but prospects are not viewed as positive enough to warrant any dramatic moves on short-term rates by the ECB. The current impasse in the German political outlook is also serving to constrain expectations of dramatic change in monetary policy for the region. At the same time, the strength in the U.S. dollar this year is leading to some relief for hard pressed exporters in the Eurozone and will, if sustained, lead to a reassessment of the outlook for monetary policy.

The Merrill Lynch over 5 Yr. EMU Direct Government Bond Index generated a return of 12.44% for the twelve months under review.

### BIAM GRU WORLD EX EUROZONE EQUITY

Over the past year, global equity markets have generated considerable positive returns, driven by a robust economic backdrop and strong corporate earnings growth momentum. In recent months, markets have overcome terrorist bombings in London and hurricanes in the Gulf of Mexico. With oil prices rising significantly over the twelve months and flirting with \$70 per barrel in the immediate aftermath of those hurricanes, it was not particularly surprising that energy-related sectors were to the fore in terms of performance. Consumer staples and media stocks occupied the lower tier of performance. However, the broad thrust of markets was positive, with corporate earnings generally ahead of expectations amid continued economic wellbeing.



## INVESTMENT MANAGER'S REPORT (CONTINUED)

That economic robustness has been most evident in the United States and China, where demand for raw materials has been greatest, pushing commodity prices higher and boosting profits of mining and other resource companies. By comparison the Eurozone economy failed to gain traction for a large portion of the year and the pace of growth in the larger members of the community slowed. In Italy, the economy slipped into recession in the first quarter of 2005, while the German experience saw unemployment levels peak at a level unseen since the 1940s.

Despite this formidable backdrop, European corporate earnings have been strong, underpinned by robust global demand. This, and an increase in merger and acquisition activity, contributed to European equity outperformance against the US stock market. Towards the end of the review period, business confidence levels picked up amid signs that the second half of 2005 will be better, from an economic growth perspective. The long-awaited revaluation of the Chinese renminbi added an extra spur to growth prospects by easing pressure on companies that compete with Chinese exports or export to China directly.

The FTSE World Developed Ex Eurobloc Index posted an adjusted return of 21.49% for the period under review<sup>1</sup>.

## BIAM GRU EUROZONE EQUITY FUND

Despite a difficult economic backdrop, European corporate earnings have been strong, underpinned by robust global demand. This, and an increase in merger and acquisition activity, contributed to European equity outperformance versus the US stock market. Towards the end of the review period, business confidence levels picked up amid signs that the second half of 2005 will be better, from an economic growth perspective.

The strength of many European stocks markets over the past year confounded some expectations given the overall sluggishness of leading economies in the region. The rebound in the US dollar's fortunes in 2005 was a factor, as this eased competitive pressure on Europe's exporters. Evidence that the second half of 2005 will prove better on the economic front also underpinned the advance, easing concerns about the near-relentless increase in oil prices. Corporate earnings growth over the course of the review period was stronger than expected, supported by prudent cost management. Companies also increasingly sought out acquisitions and there were a number of large deals announced in the past year. These ranged across banking, telecom and pharmaceutical industries. Mirroring the global pattern, the pace of earnings growth has shown signs of moderation, although remaining strong in many instances. The German DAX Index recorded a return of 27.6% as financial services, natural resources and construction sectors outperformed, offsetting weakness among technology and food & beverage stocks. The situation was similar in France, where industrial, utility and resources stocks performed well in contributing to a 25.8% gain for the CAC-40 Index. The FTSE Eurobloc Index registered an adjusted return of 30.07% for the twelve months under review.

**Bank of Ireland Asset Management Limited**  
**October 2005**



## STATEMENT OF RESPONSIBILITIES

### STATEMENT OF ACCOUNTANT'S RESPONSIBILITIES

The Office of the Accountant of the Courts of Justice and the position of Accountant were established under Sections 15 and 16 respectively of the Court Officers Act 1926. The Accountant is required by Order 77, Rule 83 of the Superior Court Rules to prepare an account on or before the 31st March showing the total amount of funds paid or transferred into and out of Court in the year ended on the 30th September in the preceding year. The account must also show the balance of funds in Court at the commencement and close of the year. Copies of the accounts are required to be forwarded to the Minister for Justice, Equality and Law Reform and the Minister for Finance. The basis of preparation and the accounting policies are set out on page 25.

### STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

The Accountant acknowledges his responsibility for ensuring that an effective system of internal financial control is maintained in relation to the operation of the Accountants Office.

The system can only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorized and properly recorded and that material errors or irregularities are either prevented or detected in a timely manner.

#### *Key Control Procedures*

I confirm that a control environment containing the following elements is in place:

- ▷ formal procedures have been established for reporting significant control failures and ensuring appropriate corrective action
- ▷ there are clearly defined roles and responsibilities
- ▷ There are procedures for reporting significant control failures to the Investment Committee, Finance Committee and the Audit Committee and ensuring that corrective action is taken

Under the governance arrangements established by the Courts Service Board there is an internal audit function which operates in accordance within an approved charter. One of the key functions of the internal audit unit is to report on the adequacy and effectiveness of the system of internal controls operated by the Accountant's Office.

On behalf of the Accountant of the Courts of Justice:

THE ACCOUNTANT

31st March 2006



## **INDEPENDENT AUDITORS' REPORT THE OFFICE OF THE ACCOUNTANT OF THE COURTS OF JUSTICE**

We have audited the financial statements of The Office of the Accountant of the Courts of Justice for the year ended 30 September 2005 which comprise the Statement of Assets and Liabilities, the Statement of Operations and Statement of Changes in Net Assets and the related notes 1 to 13. These financial statements have been prepared under the accounting policies set out therein.

Our audit work has been undertaken so that we might state to the Accountant those matters we are required to state to him in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Accountant for our audit work, for this report, or for the opinions we have formed.

### **RESPECTIVE RESPONSIBILITIES OF THE ACCOUNTANT AND AUDITORS**

The Accountant is responsible for preparing the Annual Report including, as set out in Statement of Accountants' Responsibilities, the preparation of the financial statements in accordance with the Rules of Superior Courts, Order 77, Rule 83. Our responsibilities, as independent auditors, are established in Ireland by auditing standards as promulgated by the Auditing Practices Board in Ireland and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Rules of Superior Courts, Order 77, Rule 83.

We read the other information contained in the Annual Report for the above year as described in the contents section and considered whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to other information.

### **BASIS OF AUDIT OPINION**

We conducted our audit in accordance with the auditing standards issued by the Auditing Practices Board and generally accepted in Ireland. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accountant in the preparation of the financial statements and of whether the accounting policies are appropriate to The Office of the Accountant of the Courts of Justice's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.



**INDEPENDENT AUDITORS' REPORT THE OFFICE OF THE ACCOUNTANT OF THE COURTS OF  
JUSTICE**

**OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Office of the Accountant of the Courts of Justice as at 30 September 2005 and of its result for the year then ended and have been properly prepared in accordance with the Rules of Superior Courts, Order 77, Rule 83.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the entity. The statement of assets and liabilities and statement of operations are in agreement with the books of account.

Chartered Accountants and Registered Auditors

Dublin

31 March 2006



## STATEMENT OF ASSETS AND LIABILITIES

AT 30 SEPTEMBER 2005

	Notes	2005 €	2004 €
<b>INVESTMENT ASSETS</b>			
Investments	4	848,611,782	749,852,358
<b>CURRENT ASSETS</b>			
Debtors	5	8,420,118	5,907,298
Bank		2,999,344	-
<b>TOTAL ASSETS</b>		<b>860,031,244</b>	<b>755,759,656</b>
<b>CURRENT LIABILITIES</b>			
Creditors	6	685,202	40,086
Bank overdraft	6	-	427,065
<b>TOTAL LIABILITIES</b>		<b>685,202</b>	<b>467,151</b>
<b>NET CURRENT ASSETS</b>		<b>7,734,916</b>	<b>5,440,147</b>
<b>TOTAL NET ASSETS</b>		<b>859,346,042</b>	<b>755,292,505</b>
<b>Represented by:</b>			
Funds held for beneficiaries at year end	7	859,346,042	755,292,505

The financial statements were approved by the Accountant on the 31st March 2006.

  
Accountant

*See accompanying notes to financial statements*



## STATEMENT OF OPERATIONS

FOR THE YEAR ENDED 30 SEPTEMBER 2005

	Notes	2005 €	2004 €
<b>NET REALISED AND UNREALISED GAINS</b>			
Net realised gains on investments disposed of during the year	9	6,881,713	2,742,953
Net unrealised gains on investments		64,098,559	18,243,496
Gains realised on transfer out during the year		4,869	55,179
<hr/>			
<b>NET REALISED AND UNREALISED GAINS</b>			
Investment income	10	70,985,141	21,041,628
		5,999,379	10,095,729
		76,984,520	31,137,357
<hr/>			
Expenses	11	(3,557,793)	(3,122,705)
<hr/>			
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>		73,426,727	28,014,652
<hr/>			

The financial statements were approved by the Accountant on the 31st March 2006.

  
Accountant

*See accompanying notes to financial statements*



## STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 30 SEPTEMBER 2005

	2005 €	2004 €
<b>INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>		
Net investment gain	2,441,586	6,973,024
Net realised gain on investments	6,881,713	2,742,953
Net unrealised gain on investments	64,098,559	18,243,496
Gains realised on transfers from funds	4,869	55,179
<b>NET INCREASE IN NET ASSETS FROM OPERATIONS</b>	<b>73,426,727</b>	<b>28,014,652</b>
<b>CAPITAL TRANSACTIONS</b>		
Receipts	150,018,824	154,620,677
Disbursements	(119,392,014)	(137,235,102)
<b>INCREASE IN NET ASSETS FROM CAPITAL TRANSACTIONS</b>	<b>30,626,810</b>	<b>17,385,575</b>
Increase in net assets	104,053,537	45,400,227
Net assets at beginning of year	755,292,505	709,892,278
<b>NET ASSETS AT END OF YEAR</b>	<b>859,346,042</b>	<b>755,292,505</b>

*See accompanying notes to financial statements on page 25.*



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2005

### 1. GENERAL – LEGAL STATUS

The Court Funds are managed in a fiduciary capacity on behalf of beneficiaries by the Accountant of the Courts of Justice. The main primary and subordinate legislation governing the receipt, management and investment of Court controlled funds is as follows:

- ▷ Court Officers Act 1926
- ▷ The Trustee (Authorised Investments) Act, 1958 and the Trustee (Authorised Investments) Orders made thereunder.
- ▷ The Rules of the Superior Courts.

### 2. ACCOUNTING POLICIES

#### (a) Basis of preparation

These financial statements have been prepared in accordance with accounting standards generally accepted in Ireland.

#### (b) Valuation of Investments

Listed investments and investments in unitised funds are valued at their bid price where they are quoted on a recognised stock exchange. Insurance policies are valued at their surrender value as confirmed independently by the insurance companies. Other investments are valued at their deposit value including interest accrued at year-end.

#### (c) Income

Interest and dividend income is recorded on an accruals basis.

#### (d) Realised gains and losses

Investment transactions are recorded on a trade date basis. Realised gains or losses on sales of traded securities are calculated on a first in, first out basis. Realised gains or losses on sales of investments in unitised funds are calculated on an average basis. Realised and unrealised gains or losses on investments are recorded in the statement of operations.

#### (e) Expenses

Expenses are accounted for on an accruals basis. Expenses are charged to the statement of operations, except for expenses incurred on the acquisition of an investment, which are included in the cost of such investment.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2005 (CONTINUED)**

**3. FEES AND EXPENSES**

**3.1 Court Fees:**

The legal responsibility discharged by the courts, which requires that funds and other assets held in trust on behalf of and for the benefit of beneficiaries are managed appropriately, is an onerous one. To ensure that the Courts Service discharges its responsibility in supporting the courts and the judiciary in respect of these funds it is necessary to have in place appropriate resources and systems to manage these funds. This includes the deployment of modern information technology systems and practices together with the engagement of external resources, for example in the form of investment advisors, auditors and fund managers. As a contribution towards the costs of these operations court fees and other charges are applied. These charges are contained in the Supreme and High Court Fees Orders, which are approved by the Minister for Justice, Equality and Law Reform and the Minister for Finance. Fees amounting to €1.505m have been charged in relation to the funds managed by the Accountants Office during the year ended 30th September 2005. In addition to these fees, €0.526m in respect of court percentages were charged on funds held on behalf of the Office of Wards of Court. Of this latter amount €0.450m was arrears collected in respect of previous years. The actual total fees and charges, excluding arrears for previous years, applied in respect of the financial year ended 30th September 2005 was €1.581m (0.186% of total funds held at 30/9/2005).

**3.2 Investment Management Fees:**

A scale of investment management fees was agreed with Bank of Ireland Asset Management and State Street Global Advisors and incorporated in the Investment Management Agreement.

The average investment management fee on the court funds in 2005 was as follows:

Cash Plus:	0.15% Net Asset Value calculated weekly
Bond Plus:	0.13% Net Asset Value calculated weekly
Balanced:	0.24% Net Asset Value calculated weekly
Growth:	0.25% Net Asset Value calculated weekly.

**3.3 Administration and Custodian Fees:**

These are transaction fees charged by the Administrator and Custodian.

The administration and custodian fee on each of the funds in 2005 was as follows:

Cash Plus:	0.03% Anti-Dilution Levy calculated weekly
Bond Plus:	0.11% Anti-Dilution Levy calculated weekly
Balanced:	0.15% Anti-Dilution Levy calculated weekly
Growth:	0.20% Anti-Dilution Levy calculated weekly.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2005 (CONTINUED)**

**4. INVESTMENTS**

	2005 €	2004 €
BIAM Unitised funds	743,328,548	453,872,557
Managed funds	9,731,368	48,598,327
Equities	55,634,367	50,182,245
Government bonds	2,091,481	1,863,770
Deposit accounts	33,937,351	191,735,938
Other investments	2,495,301	2,288,705
Insurance policies	1,393,366	1,310,816
<b>Portfolio of Investments</b>	<b>848,611,782</b>	<b>749,852,358</b>

**5. DEBTORS**

	2005 €	2004 €
Court amounts awarded not yet received	8,420,118	5,907,298

**6. CURRENT LIABILITIES**

	2005 €	2004 €
Creditors control	175,934	-
Exit tax payable	509,268	40,086
Bank overdraft	-	427,065
	<b>685,202</b>	<b>467,151</b>



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2005 (CONTINUED)**

**7. FUNDS HELD FOR BENEFICIARIES**

	2005 €	2004 €
Amounts held for wards of court	611,394,779	508,329,936
Amounts held for minors	150,055,540	149,672,829
Amounts held for pending further order cases	30,521,813	28,073,158
Amounts held for charitable bequests	30,761,114	25,389,530
Amounts held for lodgements with defence	18,983,775	19,636,097
Other	17,629,021	24,190,955
	859,346,042	755,292,505

**8. INVESTMENT RISKS**

**Investment Risks**

The investments managed by the Accountant's Office are managed by appointed professional managers adopting agreed investment strategies. Risk is inherent in any investment strategy, and the principal risks relevant to these strategies are as follows;

**Market Price Risk**

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss which might be suffered through holding market positions in the face of price movements. The investments held are subject to normal market fluctuations and the risks inherent in investment in international securities markets. The investment managers consider the asset allocation of the funds in order to minimise the risk associated with particular countries or industry sectors whilst continuing to follow the investment objectives.

**Credit Risk**

Foreign exchange, futures, other transactions and investment instruments involve counterparty credit risk which potentially expose the funds to losses to the extent that counterparties are unable or unwilling to fulfill their contractual obligations. Available contractual remedies could be inadequate to the extent that the collateral or other assets available are insufficient to satisfy the obligations of the counterparty.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2005 (CONTINUED)**

**Foreign Currency Risk**

A proportion of the funds are invested in financial assets denominated in currencies other than the Euro (refer note 4). Adverse movements in currency exchange rates can result in a decrease in return and a loss of capital.

**9. NET REALISED GAIN ON INVESTMENTS DISPOSED OF DURING THE YEAR**

	2005 €	2004 €
Realised gain on investments disposed of during the year	7,827,556	2,821,002
Less:		
Exit Tax	(919,192)	(78,049)
Capital Gains Tax	(20,554)	-
Capital Acquisition Tax	(6,097)	-
Net realised gain on investments disposed of during the year	6,881,713	2,742,953

The Finance Act 2003 authorises the Courts Service to deduct at source and account for Exit Tax arising from the disposal of units in the spectrum funds. The tax is calculated at the standard rate plus 3% and is payable to the Revenue Commissioners.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2005 (CONTINUED)**

**10. INVESTMENT INCOME**

	2005 €	2004 €
Deposit interest	1,683,188	4,533,395
Dividends	1,594,370	1,881,006
Shares in lieu of dividends	82,609	483,766
Interest on other investments	2,605,367	3,180,993
Other	33,845	16,569
	5,999,379	10,095,729

Investment income is shown net of withholding tax.

**11. EXPENSES**

	2005 €	2004 €
Court fees (Note 3.1)	2,031,571	2,027,251
Investment management fee (Note 3.2)	883,102	421,593
Administration and custodian fees (Note 3.3)	233,772	312,915
Miscellaneous managed funds fees (i)	379,751	305,797
Brokers' fees	28,789	54,611
Bank charges	808	538
	3,557,793	3,122,705

(i) These fees include transaction charges, audit fees, safekeeping fees, other professional fees, trustee fees and bank interest.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2005 (CONTINUED)**

**12. OTHER INCOME**

Other income is represented by inter alia, annuity income, sold right options and interest on late lodgements.

**13. POST BALANCE SHEET EVENTS**

There were no material post balance sheet events, which would require revision of the figures in the financial statements.





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