

Accountant in Bankruptcy

Report on the 2005-06 Audit

November 2006

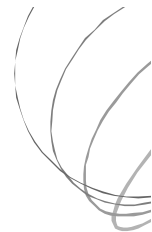


Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds



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Executive Summary

Introduction

In 2005-06 we audited the financial statements of the Accountant in Bankruptcy (AiB) which included looking at aspects of performance management and governance. This report sets out our key findings. At the planning stage we identified three audit risks which informed our audit procedures. From our audit and review work we can conclude that these risks are being satisfactorily managed by AiB.

Financial Statements

We have given an unqualified opinion on the financial statements of AiB for 2005-06.

Governance

The AiB corporate governance and control arrangements operated satisfactorily in the period under review as reflected in the Statement on Internal Control. We have also found the work of the internal audit service to be satisfactory and continue to place formal reliance on its work.

Performance Management

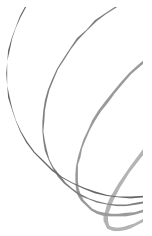
The Management Board monitor the achievement of their business objectives via periodic reports. We note that AiB's annual report records a satisfactory outcome on 7 of its 10 key performance measures.

During 2005-06 we completed a baseline analysis of the AiB management arrangements for achieving Best Value. We noted that the Agency had made progress on a number of key developments and concluded that overall the systems for monitoring achievement of Best Value were under development.

AiB participated in a review by Audit Scotland of the Scottish Executive's relocation policy. The results of the review were published on 21 September 2006. The findings and recommendations arising focussed on the Scottish Executive and their arrangements, but the report recorded the anticipated cost savings per job arising from the relocation.

I would like to record my thanks to management and staff for their co-operation and assistance.

Murdoch McCamley,
28 November 2006



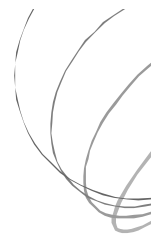
Introduction

Scope of the Audit

1. This report summarises the findings from our 2005-06 audit of the AiB. The planned audit approach was discussed with the Audit Committee on 20 April 2006 and issued in late April 2006. The Audit Plan described the work we planned to carry out on financial statements, governance and performance. Subsequent to agreement of the plan, and as discussed at the Committee meeting of 20 April 2006, we have carried out a baseline review of AiB arrangements for Best Value.
2. This report to management sets out our findings from our audit work. Any weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily all the weaknesses which may exist. It is the responsibility of management to determine the extent of the internal control system appropriate to AiB. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
3. The contents of this report have been agreed with relevant officers to confirm factual accuracy.
4. This is the final year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the AiB during the course of our appointment. This report will be submitted to the Auditor General for Scotland and will be published on our website at www.audit-scotland.gov.uk.

Outcome on Risks Identified in the Audit Plan

5. A key feature of our audit approach is the need to form a comprehensive understanding of the client's business in order to appreciate the risks arising from that business and affecting the achievement of its objectives. This was documented as part of the planning process and, for completeness, the outcome against planned activity is summarised at Appendix A. Some of the risks and outcomes are considered further in the body of this report. Overall we can conclude from the results of our work on these risks that they are being satisfactorily managed by the AiB. The main risks identified related to relocation and the replacement of the insolvency case management system (IRIS).



Financial Statements

Our Responsibilities

6. We audit the financial statements and give an opinion on whether:

- the financial statements give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, on the state of affairs of the Accountant in Bankruptcy as at 31 March 2006 and of its the net resource outturn, resources applied to aims, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Financial Reporting Manual (FRoM) and directions made thereunder by the Scottish Ministers; and
- in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

7. We also review the Statement on Internal Control by:

- considering compliance with Scottish Executive guidance;
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are inconsistent with the information emerging from our normal audit work.

Overall Conclusion

8. We have given an unqualified opinion on the financial statements of the AiB for 2005-06. We are able to conclude that the financial statements of the AiB give a true and fair view of the financial position for the period from 1 April 2005 to 31 March 2006 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.
9. Although much of the audit work on the draft accounts was completed in accordance with the planned timetable, the new disclosure requirements for annual report and account documents caused delays to the completion of the accounts preparation and audit process. As a result the formal signing and



certification did not take place until early November, whereas previously this was completed in mid-September.

Financial Performance

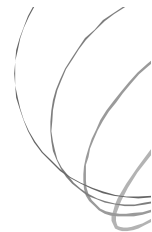
10. The AiB Operating Cost Statement for the year records a total cost for the financial year of £10.1 million (2004-05: £8.5 million). The main element of the increase is other operating costs, which are £1.2 million higher at £7 million. Staff costs have increased by £0.7 million to £3.1 million. Operating income was £3.7 million (2004-05: £4.2 million). The resulting net outturn was £6.4 million (2004-05: £4.4 million).
11. The total outturn (resource and capital) was £11.2 million gross expenditure, less receipts of £3.7 million, being £7.5 million net expenditure against a published net resource budget of £8.1 million.

Statement on Internal Control

12. A Statement on Internal Control was considered by the Audit Committee on 25 October 2006 as part of their consideration of the financial statements. This set out the arrangements operated for risk identification and review, management of identified risks and assurance of effectiveness. The Statement notes the move to Kilwinning and other developments during the year. It also records that the Agency fell slightly short on 3 (out of 10) of its performance targets.
13. We are satisfied that the Statement complies with Scottish Executive guidance, the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate and the contents of the Statement are not inconsistent with the information emerging from our normal audit work.

ISA 260: Communication of Audit Matters to Those Charged with Governance

14. My responsibilities in relation to the communication of audit matters to those charged with governance are covered in International Standard on Auditing 260 and outcomes against the requirements of the Standard were reported in a letter to the Accountable Officer, which was presented to the Audit Committee on 25 October 2006. In this context, our audit has not identified any unadjusted errors that we need to bring to your attention. Relevant significant judgements and issues arising are recorded below.



Significant Judgements

15. The ISA 260 letter confirmed that our audit had not identified any material weaknesses in accounting and internal control arrangements; that the Statement on Internal Control appropriately reflects circumstances; that detailed comments on less significant items had been brought to attention by internal audit.

Issue arising

16. We planned to audit the financial outcomes and other aspects of relocation as part of the 2005-06 audit. During the 2005-06 financial year, Ministers formally approved the AiB's move to a new office in Kilwinning. The costs of the fitting-out of this office, together with the costs of the temporary offices in Edinburgh and Irvine, were audited as part of the final audit process. The Statement of Internal Control records how the risks relating to relocation have been addressed.



Governance

Introduction

17. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of an organisation. This section sets out the main findings arising from our review of AiB corporate governance as it relates to:
- systems of internal control; and
 - review of internal audit.

Overall Governance Arrangements

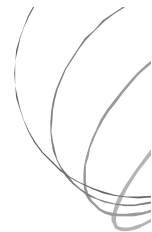
18. During our audit we updated and confirmed our understanding of the governance systems operating at AiB. Our understanding of arrangements was based on our reviews of systems and controls in previous years, the findings of internal audit and our current year work, including elements of our baseline review of Best Value arrangements, which is reported in the section of this report covering Performance. In general, we are content that the governance arrangements are soundly based.

Systems of Internal Control

19. In our audit plan we indicated that we intended to undertake a high level overview of developments on AiB IT systems. In particular we noted that the project to replace the AiB's insolvency case management system (Insolvency Recording and Information System, or IRIS) was deferred to the current year. We met with AiB staff, reviewed papers and discussed progress on the replacement of the IRIS computer system in the year. The review provided assurance that developments are progressing satisfactorily and that management have monitored the project closely and IRIS2 (now BRITT) is progressing satisfactorily in line with the revised arrangements.

Review of Internal Audit

20. AiB recognises that internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. To maximise the reliance that external audit can place on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.



21. Internal audit is provided by the Scottish Executive's Audit and Accountancy Services. Colleagues within Audit Scotland reviewed the Executive's overall internal audit arrangements and we reviewed files and reports relating to AiB. As a result of these reviews we are pleased to confirm that we are placing reliance on the work of internal audit over the period, as was anticipated in our audit plans. We also confirm that the results of audits are accurately reported to the Audit Committee in the summary reports submitted to the Committee.

22. The outcome of the following audits were presented to the Audit Committee meetings up to the meeting on 25 October 2006:
 - Corporate governance
 - Key financial controls
 - Information and Communication Technology (ICT).

23. Internal audit provided the Chief Executive with **substantial assurance** on the adequacy and effectiveness of the system of governance within AiB. However, for controls in relation to the arrangements for procurement, management of assets and income receipts, internal audit provided **limited assurance**. The AiB has accepted the recommendations made by internal audit and actions are in hand or planned.



Performance Management

Introduction

24. This section covers our assessment of the way in which AiB secures value for money in the use of its resources. We have reviewed AiB achievement of business objectives and examined the AiB's arrangements for Best Value.

Achievement of business objectives

25. The Management Board monitor the achievement of their business objectives via periodic reports. The Agency's annual report records a satisfactory outcome on 7 of its 10 key performance measures and provides qualitative comment on progress made during the year.

Best Value

26. There is a statutory duty of Best Value for local authorities but not in the wider public sector in Scotland (the Scottish Executive and its Executive Agencies, Executive NDPBs, and the NHS). Instead, the Scottish Executive issued high level guidance in May 2003, followed by more detailed draft secondary guidance in August 2003. This duty can be described as:
- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost);
 - to have regard to economy, efficiency and effectiveness, and the equal opportunity requirements; and
 - to contribute to the achievement of sustainable development.
27. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, Ministers do wish to encourage and embed the principles of Best Value across the wider public sector and revised guidance was issued in May 2006.
28. For 2005-06 Audit Scotland reviewed the arrangements in place to demonstrate Best Value across a sample of Central Government organisations, to identify how well-advanced they were and any areas of good practice that could be disseminated. As part of this review we completed a diagnostic questionnaire to establish baseline information on the management arrangements in place within AiB. The analysis was split into 10 sections. The introductory section covered the overall arrangements in place. This was followed by individual sections on each of the nine characteristics that are considered to underpin the achievement of best value. These are:

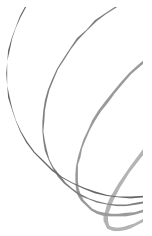


- Commitment and Leadership
- Sound Governance at a Strategic and Operational Level
- Accountability
- Sound Management of Resources and Contractual Relationships
- Responsiveness and Consultation
- Use of Review and Options Appraisal
- A Contribution to Sustainable Development
- Equal Opportunities Arrangements
- Joint Working.

29. In this context our Best Value review recorded that the AiB corporate and business plans outline its Vision, Mission and Actions, together with a range of specific commitments which demonstrate improved performance. We noted that at the time of our review AiB had not carried out a Best Value self assessment, but had incorporated many of the characteristics of Best Value in its approach. The Corporate Plan for 2005-08 (draft at time of the review) and the Business Plan for 2006-07 (draft at time of the review) outline the developments that are on- going or planned to support continuous improvement.

30. We noted that the Agency had made progress on a number of key developments including:

- Implementing the Executive's relocation policy by moving from Edinburgh to Kilwinning. This involved the recruitment of new staff, who had to be trained in the AiB methodology and processes; and use of temporary office accommodation. This was achieved while maintaining published standards of service. From a BV point of view the selection of site and its operational requirements was extensively evaluated in order to obtain efficient use of available resources
- identifying savings that can be made as part of the Efficient Government Initiative
- introducing a new complaints procedure, with reports issuing quarterly to the Agency's Fraser Figure, the Head of Civil and International Group at the Scottish Executive Justice Department
- developing a staff learning & development strategy
- implementing a quality control framework
- completing a procurement exercise for legal services in conjunction with the Scottish Executive's Legal and Parliamentary Services, Solicitors Division

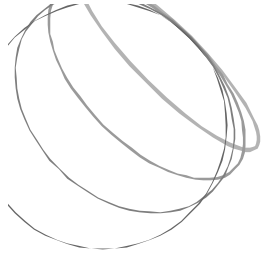


- implementing the Debt Arrangement Scheme, which provides for the payment of debts through a new statutory scheme, including developing an on line public register
- developing a new IT Case Management System to replace its old system and to accommodate forthcoming Bankruptcy Reform.

31. Overall we concluded that the systems and arrangements for monitoring the achievement of Best Value were under development. We noted a simple but effective measure in relation to sustainable development: AiB have removed individual's waste bins from beside their desks and replaced them with a number of "recycling centres" within the office where there are recycling bins for paper, plastic, cans and other waste material. We have suggested this should be featured as a good practice example in the position statement that is being produced by Audit Scotland, which will reflect the findings across the sample of public sector organisations examined. We will keep AIB informed of developments.

Relocation

32. AiB participated in a review by Audit Scotland of the Scottish Executive's relocation policy. The results of the review were published on 21 September 2006. The findings and recommendations arising focussed on the Scottish Executive and their arrangements, but the report commented on various aspects of the Agency's relocation, including recording the anticipated cost savings per job arising from the relocation.



Appendix A: Outcome on Risks Identified in Audit Plan

Risk per audit plan	Planned audit action	Outcome
<p>Relocation</p> <p>The split of staff and functions between two locations could cause problems. For example, the project may require unplanned funding, or there may be staffing difficulties such as the loss of experienced staff. This could have an impact on AiB's abilities to meet its objectives and targets.</p>	<p>The financial outcomes of this issue will be audited as part of the AiB agency account.</p>	<p>We discussed the progress made on this issue throughout the year.</p> <p>The costs associated with the AiB's move into its new premises in February 2006 and the vacation of the Irvine premises have been audited as part of the final audit process.</p>
<p>Replacement of the IRIS computer system</p> <p>The project was deferred and recently been reactivated.</p>	<p>We have previously reported on the AiB's Management of Change of which this project was a part; as this is still a live issue, we will follow-up this in 2005/06.</p>	<p>We met with AiB staff, reviewed papers and discussed progress on the replacement of the IRIS computer system in the year. The review provided assurance that developments are progressing satisfactorily and that management have monitored the project closely and IRIS2 (now BRITT) is progressing satisfactorily in line with the revised arrangements.</p>
<p>Relocation and the Statement of Internal Control</p> <p>As with last year, the Statement of Internal Control may need to include a reference to the relocation of the agency.</p>	<p>Review the position in light of supporting evidence and other relevant documentation</p>	<p>The Statement of Internal Control records how the risks relating to relocation have been addressed.</p>

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