

Accountant in Bankruptcy

Report on the 2006/07 Audit

 AUDIT SCOTLAND

November 2007





Contents

Executive Summary	2	Governance	9
Introduction	3	Looking Forward	11
Financial Statements	4	Appendix A: Action Plan	12
Performance	8		



Executive Summary

Introduction

In 2006/07 we audited the financial statements of Accountant in Bankruptcy and we looked at aspects of performance management and governance. This report sets out our key findings.

Financial Position

We have given an unqualified opinion on the financial statements of Accountant in Bankruptcy for 2006/07.

Accountant in Bankruptcy had operating costs for the year of £6.871 million in 2006/07 (2005/06: £6.406 million). The operating costs for 2006/07 were set against revenue funding of £6.9 million (2005/06: £7.578 million), contributing to an increase on the general fund of £0.3 million. Accountant in Bankruptcy's net asset position in 2006/07 increased to £0.16 million (2005/06 net liability £0.14 million); this increase is primarily attributable to an increase in intangible fixed assets and a decrease in year end liabilities.

Accountant in Bankruptcy's higher operating costs for 2006/07 arose primarily as a result of increased sequestration activity and higher staff costs. These increases have been partially offset by an increase in operating income generated by the Agency.

Performance

Accountant in Bankruptcy has prepared a Business Strategy for the period 2006-2011 which details the programme of change required by the Agency to respond to a number of significant challenges. The Strategy is subject to regular review and monitoring at Board level.

Governance

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for Accountant in Bankruptcy operated satisfactorily during the year, with areas of weakness being addressed by the Agency, as reflected in the Statement on Internal Control.

Looking forward

In the 2007/08 financial year, we will continue to monitor progress against Accountant in Bankruptcy's Business Strategy. We also intend to review the progress Accountant in Bankruptcy has made in strengthening Best Value arrangements since our baseline review of this area in 2005/06.

Audit Scotland
November 2007



Introduction

1. This report summarises the findings from our 2006/07 audit of Accountant in Bankruptcy. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 24th April 2007. This plan described the work we planned to carry out on financial statements, performance and governance.
2. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. This is the first 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 Accountant in Bankruptcy during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.



Financial Statements

4. In this section we summarise key outcomes from our audit of Accountant in Bankruptcy's financial statements for 2006/07, and comment on the key financial management and accounting issues faced.

Our Responsibilities

5. We audit the financial statements and give an opinion on whether:
 - they give a true and fair view of the financial position of Accountant in Bankruptcy and its expenditure and income for the period in question;
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
 - the regularity of the expenditure and receipts.
6. We also review the statement on internal control by:
 - considering the adequacy of the process put in place by the chief executive as accountable officer to obtain assurances on systems of internal control; and
 - assessing whether disclosures in the statement are consistent with our knowledge of Accountant in Bankruptcy.

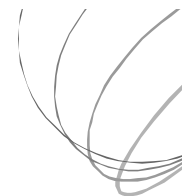
Overall Conclusion

7. We have given an unqualified opinion on the financial statements of Accountant in Bankruptcy for 2006/07.

Financial Position

2006/07 outturn

8. Accountant in Bankruptcy had operating costs for the year of £6.871 million in 2006/07 (2005/06: £6.406 million). The operating costs for 2006/07 were set against revenue funding of £6.9 million (2005/06: £7.578 million), contributing to an increase on the general fund of £0.3 million. Accountant in Bankruptcy's net asset position in 2006/07 increased to £0.16 million (2005/06 net liability £0.14 million). This increase is primarily attributable to an increase in intangible fixed assets and a decrease in year end creditors.



9. Accountant in Bankruptcy has reported higher operating costs in 2006/07 than in 2005/06. This is primarily as a result of increased sequestration activity and higher staff costs. These increases have been partially offset by an increase in operating income generated by the Agency.

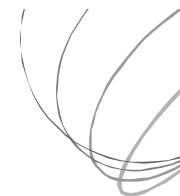
2007/08 budget

10. Accountant in Bankruptcy has been allocated funding of £6.9 million for running costs in 2007/08 (2006/07: £6.9 million), no further allocations have been granted for capital expenditure (2006/07: £0.5 million).
11. Accountant in Bankruptcy's Business Strategy document for 2006-11 has five key themes:
 - Developing Policy;
 - Managing the Business;
 - Modernising Services;
 - Supporting the Business; and
 - Investing for the Future.
12. Accountant in Bankruptcy will face significant challenges for 2007/08 in delivering the Business Strategy whilst handling a growing caseload within revenue resources that remain unchanged from the previous financial year. We will continue to monitor Accountant in Bankruptcy's progress against its Business Strategy in the coming year.

Issues Arising from the Audit

13. We reported the following issues to the Audit Committee on 9th October 2007:
14. **Delays in Financial Statements Pack Receipt** – The core financial statements and notes were presented after the agreed date of 17 July 2007, with numerous amended versions subsequently being received to rectify missing information in the set of core financial statements and notes. The textual element of the financial statements pack, comprising the director's report, management commentary and statement on internal control were not received until 4 September 2007. Overall, the working papers presented in support of the core financial statements and notes were lacking in quality, with instances of working papers being missing or substantially incomplete.
15. The late delivery of a full and complete financial statements pack significantly affected the timely delivery of the financial statements audit process in 2007. We are working with the Agency to agree a plan for the timely delivery of the 2007/08 financial statements.

Action Point 1



16. **Misclassification of Expenditure** – We identified a number of instances of misclassification of expenditure during our audit. In particular, £27,033 subsistence and motor mileage costs were classed as other expenditure instead of travel and subsistence and £94,444 agency costs were classed as other expenditure instead of wages and salaries. These misclassifications were corrected during the audit process.

Action Point 2

17. **Bank Reconciliations** – Our review identified that a number of bank account reconciliations had not been performed during the year. Reconciliations were prepared on our request during the financial statements audit. The Agency has agreed that in future, reconciliations will be completed on a timely basis.

Action Point 3

18. **Debtor Control** – A number of issues were identified within Debtor Control during the course of the audit. In particular, the Agency failed to run the supporting schedules required for the final accounts audit from the debtors ledger at 31 March 2007. Whilst we were able to obtain the necessary assurances from alternative sources, this led to delays in the completion of audit work in this area. In addition, no review had been performed of debtor balances at the year end to identify which may not be recoverable.

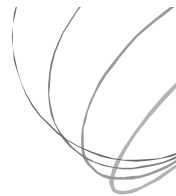
Action Point 4

19. **Losses on Disposal of Fixed Assets** – A £1,000 loss on disposal of assets was incorrectly disclosed within depreciation in the accounts presented for audit. The Financial Reporting Manual (FRM) requires that losses on disposal be disclosed separately in the Operating Cost Statement. The loss was also omitted from the statement of recognised gains and losses. We agreed that this was not material and would not result in an audit adjustment.

Action Point 5

20. **Fixed Asset Classification** – Our review identified that assets under construction were incorrectly classified as IT equipment in the financial statements presented for audit. A disclosure note was inserted to draw attention to the amount of IT equipment classified as assets under construction. From 2007/08 assets under construction will be properly classified as a discreet category of assets.

Action Point 6

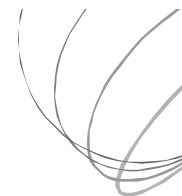


Statement on Internal Control

21. The Statement on Internal Control provided by Accountant in Bankruptcy's Accountable Officer reflected the main findings from both external and internal audit work. One key disclosure reflected that improvements were required over control in the purchase ordering system.

Regularity Assertion

22. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts was incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to her view on adherence to enactments and guidance. No significant issues were identified for disclosure.

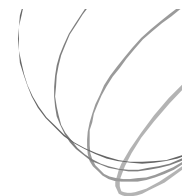


Performance

23. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.
24. Accountable officers also have a duty to ensure the resources of their organisation are used economically, efficiently and effectively.

Performance

25. Accountant in Bankruptcy recently moved operations to Kilwinning in Ayrshire from its former base in Edinburgh. This move led to the loss of many key staff which, coupled with a trend of increasing and unplanned demand for services, presents the Agency with a number of significant challenges in terms of capacity and resources. In particular, the Agency Framework Contract, by which cases are contracted out to external insolvency practitioners, is due for renewal. This is to be renegotiated, taking into account the changes introduced through the Bankruptcy Reform legislation and compliance with European procurement rules.
26. Accountant in Bankruptcy has prepared a Business Strategy for the period 2006-2011 which details the programme of change required by the Agency to respond to these challenges. Accountant in Bankruptcy has focused this Business Strategy on five key themes:
 - Developing Policy
 - Managing the Business
 - Modernising Services
 - Supporting the Business, and
 - Investing for the Future.
27. The Business Strategy and the associated themes appear robust and there is clear ownership of the strategy by senior management. Ongoing review and monitoring of progress against the strategy is taking place. This is an area we will continue to monitor in 2007/08.



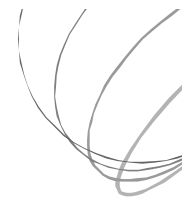
Governance

Overview of arrangements

27. This section sets out our main findings arising from our review of Accountant in Bankruptcy's governance arrangements. This year we reviewed:
- key systems of internal control; and
 - the internal audit function.
28. We also discharged our responsibilities as they relate to the prevention and detection of fraud and irregularity; standards of conduct; and the organisation's financial position (see paragraphs 8 & 9). Our overall conclusion is that governance arrangements within Accountant in Bankruptcy are generally sound and have operated throughout 2006/07. However, some specific weaknesses in control were identified relating to the purchase ordering system and timescales for action in response to the identified risk exposure have been agreed with management.

Systems of internal control

29. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2006/07, Accountant in Bankruptcy's internal auditors were able to provide, substantial assurance in relation to risk and governance systems in place. The Agency's internal auditors have not identified any weaknesses from their audit work during the year that they consider should be included in the Statement on Internal Control.
30. As part of our audit we reviewed the high level controls in a number of Accountant in Bankruptcy's systems that impact on the financial statements. Our overall conclusion was that key system controls were generally operating satisfactorily. However we found that the system of internal control for purchase ordering was weak and could only provide us with limited assurance on the transactions included within the financial statements. Accordingly, we increased the volume of substantive testing required to provide assurance on the financial statements.



Internal audit

31. The Agency's internal audit function is provided by the Scottish Government Finance Directorate. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2006/07 audit we assessed whether we could place reliance on Accountant in Bankruptcy's internal audit function. Our review concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and we were therefore able to place reliance on those areas set out in our Audit Plan. .



Looking Forward

32. Accountant in Bankruptcy faces a number of challenges in 2007/08, which include:

- **Implementing the Business Strategy** – Accountant in Bankruptcy has developed a Business Strategy to ensure that core statutory functions can continue to be delivered within an environment of rising case numbers and fixed resources. The continued delivery of statutory services within this environment will be challenging and we will continue to monitor the Agency's progress in this area in 2007/08.
- **Best Value** – As part of the 2007/08 audit we will be reviewing the progress that Accountant in Bankruptcy has made in strengthening their arrangements for securing Best Value since our baseline review work in 2005/06. Over the next year we will also be developing and refining our approach to the audit of public bodies' arrangements to secure economy, efficiency and effectiveness in the use of resources, as this is one of our key objectives as auditors, set out within the new Code of Audit Practice approved by the Auditor General. This will inform our ongoing work to develop an approach to the audit of Best Value across the Scottish public sector. We intend to consult with both clients and stakeholders at key stages of these initiatives.
- **International Financial Reporting Standards** – The introduction of IFRS's from 2008/09 is likely to significantly change some accounting policies. Accountant in Bankruptcy will need to review their accounting policies at an early stage to ensure that appropriate disclosures are made in the financial statements and that restatement of comparative figures is completed early in 2008.

Appendix A: Action Plan

Key Issues and Planned Management Action

Action Point	Issue Identified	Planned Action	Responsible Officer	Target Date
1	The late delivery of a full and complete financial statements pack significantly affected the timely delivery of the financial statements audit process in 2006/07.	This arose due to the installation of new systems shortly after the year end. A new cycle of planning is being put in place and AiB will ensure that the financial statements are complete and will comply with a timetable agreed with AS.	Mary Johnston	Per timetable agreed 15/1/08
2	A number of instances of misclassification of expenditure in the financial statements were identified in 2006/07.	The misclassification was rectified and the following processes are being put in place to prevent this happening: review of classification of YTD transactions in 2007/08; check of mapping between IT systems; checking completeness of transactions between IT systems.	Mary Johnston	28/02/08
3	A number of bank account reconciliations had not been performed during 2006/07.	Cycle of running reconciliations are currently in place and being carried out are part of the month close down process.	Mary Johnston	Completed
4	The Agency failed to run the supporting schedules required for the audit from the debtors ledger at 31 March 2007. In addition, no review had been performed of debtor balances at the year end to identify which may not be recoverable.	The system being used at 31/03/07 was incapable of producing retrospective aged debtor listings and this has been replaced with SAGE, which can carry out this function. An exercise is to be carried out on the aged debtor listing to Nov 2007 and all debts still outstanding from 31/03/07 will be passed for decision on write off. A review of debtors will be part of the month close down process.	Mary Johnston	Completed 31/12/07

Action Point	Issue Identified	Planned Action	Responsible Officer	Target Date
5	A loss on the disposal of fixed assets was incorrectly accounted for in 2006/07.	An exercise will be carried out to clean up the Britannia system, remove the assets disposed of that are fully written off and carry out 100% fixed asset check. From the December 2007 management accounts fixed asset reconciliation will become part of the month close down process.	Mary Johnston	28/02/08
6	Assets Under Construction were incorrectly classified in the 2006/07 financial statements.	This was an error and in future AUC will be correctly classified as a discrete category of assets. There will be a monthly review of the asset reconciliation by the Finance Manager and this will become part of the month close down process.	Mary Johnston	31/01/08