

# Accountant in Bankruptcy

**Report on the 2009/10 Audit to Accountant in Bankruptcy  
and the Auditor General for Scotland**

**October 2010**



 **AUDIT SCOTLAND**



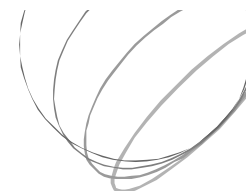
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# Contents

Key messages	1	Governance and Accountability	11
Introduction	3	Performance	15
Financial Statements	5	Looking Forward	19
Use of Resources	7		



# Key messages

In 2009/10 we looked at the key strategic and financial risks being faced by the Accountant in Bankruptcy (AiB). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

## **Financial statements**

We have given an unqualified opinion on the financial statements of AiB for 2009/10. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

## **Financial position and use of resources**

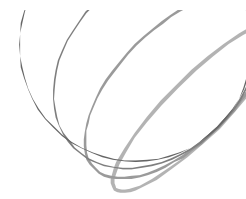
Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes

During 2009/10, AiB managed its resources to deliver its functions within the approved budget bill funding of £5.7 million. The resources used during the year were net revenue costs of £4.296 million and capital costs of £0.236 million. The Scottish Government's Efficiency Outturn Report for 2009/10 records that the Agency achieved efficiency savings of £1.412 million from contracted out insolvency services for the first year of the contract against a target of £1.35 million.

## **Governance and accountability**

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 AiB operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.



## **Performance**

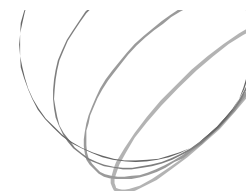
AiB has continued to work towards the long term strategy for the Agency which is outlined in the 2006-11 Business Strategy. In accordance with their 2009/10 Business Plan, the Agency has developed a new set of eight Key Performance Indicators to track progress towards achievement of the five themes within the Business Strategy.

## **Looking forward**

The final part of our report notes some key risk areas and issues for AiB going forward. We highlighted the uncertainty of future Government funding settlements and the need to achieve efficiency savings within the 2010/11 Business Plan. AiB also faces significant challenges in developing its business strategy over the coming years and in moving towards full cost recovery.

The assistance and co-operation given to us by AiB members and staff during our audit is gratefully acknowledged.

**Audit Scotland**  
**October 2010**

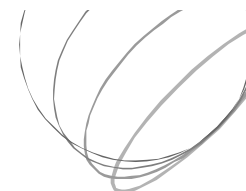


# Introduction

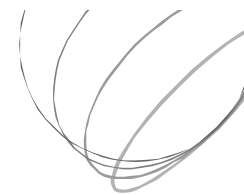
1. This report summarises the findings from our 2009/10 audit of AiB. The scope of the audit was set out in our Audit Plan in accordance with the Code of Audit Practice, which was presented to the Audit Committee on 11 February 2010. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued several reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response.
3. Best value duties apply across the public sector and are a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the completion of its bank of best value Toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

**Exhibit 1: Framework for a best value audit of a public body**





4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on securing continuous improvement in performance, with due regard to the balance between cost and quality.
5. Throughout this report we comment on aspects of AiB's arrangements in this area. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not yet have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.
6. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of AiB, we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
7. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by the management of AiB during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



# Financial Statements

8. In this section we summarise key outcomes from our audit of AiB financial statements for 2009/10 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

## Our responsibilities

9. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of AiB and its expenditure and income for the period in question
  - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
  - the consistency of the information which comprises Our Role and Purpose, Our Vision, Aim and Values, Our Stakeholders, Management Commentary, Summary of AiB Performance, Statistical Information and Directors' Report, within the financial statements
  - the regularity of the expenditure and receipts.
10. 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
  - assessing whether disclosures in the statement are consistent with our knowledge of AiB.

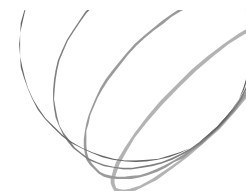
## Overall conclusion

11. We have given an unqualified opinion on the financial statements of AiB for 2009/10.
12. As agreed the unaudited accounts were provided to us on 14 June 2010, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee as timetabled.

## Issues arising from the audit

13. As required by auditing standards we reported to the audit committee on 13 July 2010 the main issues arising from our audit of the financial statements. In our view, there were no issues which we required to bring to your attention regarding the appropriateness of accounting policies or accounting





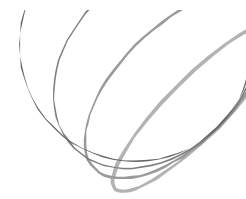
estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.

## Regularity

14. 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 were 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.

## International financial reporting standards (IFRS)

15. UK Government departments and other public sector bodies prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10. The transition arrangements to IFRS required bodies to prepare IFRS shadow accounts for 2008/09, including revised opening balances as at 1 April 2008.
16. During 2009/10 we were required to review the shadow accounts and report on them to AiB by 28 February 2010. The purpose of this exercise was to consider whether the shadow accounts had been properly prepared and report any matters that might prevent them forming a reliable basis for the first set of IFRS based accounts in 2009/10.
17. The shadow accounts and supporting documentation for the 2008/09 financial year were submitted by AiB for audit for review by the deadline date of 30 November 2009.
18. In our view the figures in the shadow accounts were appropriate for use as comparative amounts for the 2009/10 IFRS based accounts.



# Use of Resources

19. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of AiB's:
- financial position
  - management and use of ICT

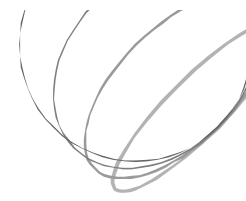
## Financial Position

### Outturn 2009/10

20. AiB has reported an excess of expenditure over income of £4.296 million in 2009/10. Funding from service users in 2009/10 represented some 69% of income with additional direct funding from the Scottish Government making up the remaining 31%.
21. During the year, AiB managed its resources to deliver its functions within the approved budget bill funding of £5.7 million for 2009-10. The resources used during the year were net revenue costs of £4.296 million and capital costs of £0.236 million.
22. AiB's Statement of Financial Position at 31 March 2010 shows net assets of £0.945 million (2008/09 restated net assets of £1.456 million). The movement is largely due to a reduction in Non Current Assets and Trade Receivables at the year end.

### Scotland's public finances

23. The Auditor General's report on *Scotland's public finances, published in November 2009*, contained an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. The key messages from this report were:

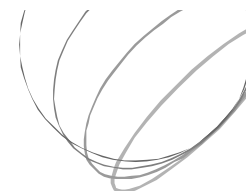


**Extract from Auditor General's report *Scotland's public finances***

*The public sector is coming under the greatest financial pressure since devolution.*

- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.
- *The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.*
- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.
- *In the current economic climate difficult decisions will have to be made about priority spending programmes.*
- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.

24. AiB has set an overall expenditure budget of £13.502 million for 2010/11, to be funded by income from fees and recoveries of £9.791 million and funding to be drawn down from the Scottish Government of £3.711 million. The 2010/11 overall expenditure budget represents a 5.6% reduction from 2009/10. This reduction is partly attributable to the new contract arrangements for Insolvency Practitioners in which six companies now provide contracted-out insolvency services for AiB. The Agency has reported efficiency savings of £1.412 million from the first year of the contract and has a target of delivering cash releasing efficiencies of £1.350 million for 2010/11.
25. The 2010/11 operational expenditure budget includes £1.0 million for the Change Management Branch within AiB to fund projects to improve economy, efficiency and effectiveness within the Agency. The Non Cash Expenditure budget has also increased for 2010-11 to allow for the



accelerated depreciation of the current Case Management System (MIDAS) which the Agency has identified is nearing the end of its useful economic life.

26. The Agency aims to move towards full cost recovery and has introduced a financial model that allows for the modelling of different fee structures and scenarios, allowing full appraisal of the implications of moving towards full cost recovery and significantly decreasing the amount of funding from the Scottish Government in the longer term. This objective is embedded within the Agency's 2010/11 Business Plan and it is estimated that work will be ongoing in this area during 2010/11 and for a further three years. We intend to keep this topic under review and will continue to monitor the business modelling process and management of the associated risks.

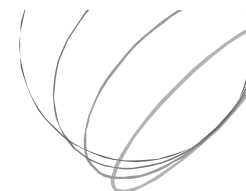
## **Financial sustainability and the 2010/11 budget**

27. Scottish Ministers have agreed a resource budget for AiB of £6.957 million for 2010/11. However, as outlined at para 24 above, AiB has set an overall budget which includes reduced funding from the Scottish Government of £3.771 million. This resource budget has been allocated with £3.671 million for operating expenditure and £0.04 million capital expenditure.
28. All operating units within the Agency have individually constructed budgets with monthly monitoring and reporting on variance. A monthly report submitted to the Board provides key financial information on assets/liabilities, payment performance and efficiency generation. AiB is currently projecting an underspend in 2010/11, however they are aware that due to the fiscal constraints being faced by the Scottish Government, any changes to the vote allocation in year could present the risk of a budget deficit given that they would become wholly reliant on demand led income.
29. We will continue to monitor the financial position of AiB and the actions taken to manage any financial challenges that arise.

## **Management and use of ICT**

30. A computer services review was undertaken during 2006/7 and followed up during 2009/10. Our follow-up review identified that AiB has implemented actions to address many of the risks that were reported in the initial review. Our review also identified that the Agency plan to implement the following remaining planned actions:

***Designated security officer and a formally agreed local information security policy:*** Information management good practice is currently being implemented throughout AiB and a Senior Information Responsible Officer and Information Asset Owners have been identified. In 2010/11 AiB is planning to develop a comprehensive information risk register.



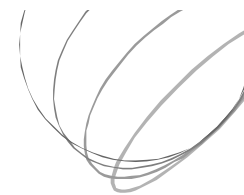
**Accuracy, completeness and security of business information:** AiB Board have agreed to run the Your Business at Risk survey following SG participation during 2010. We are advised that this will be progressed during 2010/11.

**Continuity and Contingency planning:** AiB now has drafted the following plans - business continuity plan; emergency response plan; business recovery team plan and loss of staff (swine flu) plan. These have been reviewed by the Board and final plans will be presented to the Board before the end of 2010/11.

## National Studies

### Future Studies

31. Audit Scotland has started fieldwork for the performance audit *Management of the Scottish Government's capital investment programme* which is due to be published in autumn 2010. Overall, the project aims to provide independent assurance about how well the Scottish Government is managing its capital investment programme and associated risks. It will also assess and report on the outlook for investment spending and what improvements have been made in major project management since our previous report *Review of major capital projects in Scotland* (June 2008).
32. *Improving energy efficiency: a follow-up report* will re-evaluate the performance of the public sector in improving its energy efficiency. It will assess progress made against the recommendations in the *Improving energy efficiency report 2008*. The follow up report will look at changes in public bodies' energy consumption and spending on energy since 2004/05. It will also look at how prepared participating public bodies are for the CRC Energy Efficiency Scheme. It is due to be published in December 2010.



# Governance and Accountability

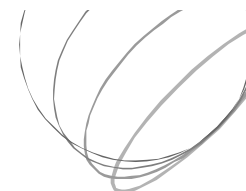
33. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of AiB's arrangements.
34. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

## Overview of arrangements

35. This year we reviewed:
  - systems of internal control
  - internal audit
  - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
36. Our overall conclusion is that arrangements within AiB are sound and have operated through 2009/10.

## Systems of internal control

37. 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 2009/10 the Internal Audit Division of the Scottish Government Finance and Central Services Division, the internal auditors, provided their opinion that based on the internal audit work undertaken during the year, they could provide substantial assurance in respect of AiB's risk management, control and governance arrangements. They also provided reasonable assurance on the arrangements for risk, control and governance over the Scottish Government's corporate systems. They were also able to take positive assurance from the findings of the annual review, undertaken by HM Treasury's Group Internal Audit, of the framework of controls in place over the payroll services provided by Logica to the SG and other government departments.
38. As part of our audit we reviewed the high level controls in a number of AiB's systems that impact on the financial statements. This audit work covered a number of areas including accounts payable,



accounts receivable and general ledger. Our overall conclusion was that key controls were operating effectively and that AiB has adequate systems of internal control in place.

## **Statement on Internal Control**

39. The Statement on Internal Control provided by the Agency Chief Executive as Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out AiB's approach to this.

## **Internal Audit**

40. 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 2009/10 audit we assessed whether we could place reliance on AiB's internal audit function. We concluded that the Internal Audit Division of the Scottish Government Finance and Central Services Division, operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in 2009/10, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.

## **Prevention and detection of fraud and irregularities**

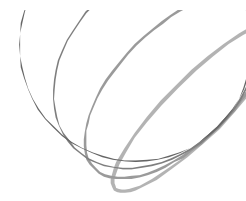
41. AiB has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members. Quarterly reports are provided to the Audit Committee and there were no reported frauds in AiB for 2009/10.

## **National Studies**

42. Audit Scotland published one national study relevant to AiB's use of resources, "Improving Public Sector Purchasing".

## **Improving Public Sector Purchasing**

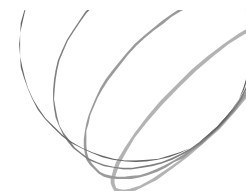
43. The overall aim of the study was to examine the progress of the Public Procurement Reform Programme (the Programme) in April 2006 in response to the McClelland report over the three- year period 2006/07 to 2008/09. The scope of the report concentrates on savings and the wider benefits secured as a result of the Programme. It identifies the risks to successfully achieving the Programme's aims and makes recommendations to manage these risks.
44. The McClelland report concluded that public sector structures, people and technology were not in place to deliver purchasing improvements and that urgent effort was needed. The Programme is



ambitious in scope, scale and complexity. It aims to introduce substantial changes in how the public sector in Scotland buys goods and services and requires all public bodies to work together to deliver results. To be successful, public bodies must have the people and skills to manage the necessary changes, to act and think in new ways, and at the same time introduce new systems and approaches.

45. The Programme has made significant progress putting in place the processes, guidance and structures needed to improve public sector purchasing. However, some parts of the Programme have been delivered later than planned and it is not clear that it has yet achieved the level of improvement and impact sought at the outset.
46. Overall, the wider impact of the Programme appears positive. It has helped purchasing on a number of levels – from promoting and developing purchasing skills and awareness to increasing the use of electronic purchasing. The Programme has improved cross-sector working.
47. There are wide variations across public bodies in the quality of purchasing data, practice and skill levels. Best Practice Indicators (BPIs) to help improve purchasing have been agreed but many public bodies are still in the process of completing and using them. The Scottish Government is working with the centres of expertise and public bodies to encourage further improvement in these areas.
48. To demonstrate Best Value when purchasing goods and services, the report made a number of recommendations aimed at the Scottish Government and all public bodies. The recommendations most relevant to AiB include the need to:
  - have high-quality purchasing strategies and plans in place, including a plan to meet future workforce needs
  - have up-to-date information on their purchasing activities, such as supplier details, volume of transactions, value and type of spend
  - ensure all purchasing practices, including control of spending, comply with good practice as set out in national and centres of expertise guidance
  - work with the Scottish Government and centres of expertise to identify and develop opportunities for collaboration and for improved purchasing practice
  - use BPIs to assess their performance and to continually improve how they buy goods and services
  - report savings and other benefits on a regular and consistent basis.
49. The first annual Procurement Capability Assessment was carried out across 50 Scottish Central Government organisations in December 2009 and January 2010. The results of AiB's assessment were presented to the July 2010 Board meeting and included:

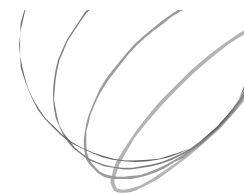




- AiB was assessed as conforming at Tier 2 to Public Procurement in Scotland criteria, with results just below sectoral average for Tier 1 (the top 10 organisations).
- AiB's performance compared favourably with around 20 other organisations who have a spend on goods and services of between £5m and £20 million.
- The areas for improvement included long term aims to embed procurement strategy and compliance within the organisation and to ensure AiB keeps sustainable development in view.

50. The next assessment will take place in October/ November 2010. In reviewing the results of the assessment, the Board agreed that while a strong procurement strategy can bring Best Value benefits, the negative financial and reputational implications of failing to follow procurement guidelines were also important. It was therefore agreed that a risk linked to legal challenges from breaches in procurement practice would be included in the Corporate Risk Register.

51. The Agency's 2010/11 Business Plan includes a commitment to build on the first Procurement Capability Assessment by reviewing internal processes and guidance for all staff involved in the purchasing of goods and services. This is an area that we intend to cover as part of our 2010/11 audit activity.

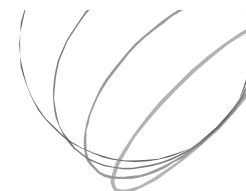


# Performance

52. 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. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
  - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
53. In this section we comment on:
- AiB's corporate plan
  - performance against targets
  - risk management arrangements
  - AiB's efficiency programme.

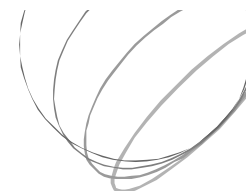
## Vision and strategic direction

54. AiB continue to work through their 5 year corporate plan's 5 main themes:
- Developing Policy – building the capability to develop policy relating to bankruptcy.
  - Modernising Services – delivering modern services that meet the needs of customers and stakeholders.
  - Supporting the Business – providing the foundations for an efficient and effective business.
  - Managing the Business – developing the capabilities required to manage the business effectively.
  - Investing for the Future – investing in AiB's people to build an organisation where the culture is one of empowerment, continuous improvement and learning and development.
55. Within each of the five themes AiB has defined objectives. Specific performance targets have also been developed to track progress towards achievement of the themes within the business strategy. We have provided more detailed commentary for the Agency's performance against their main targets in 2009/10 in the Performance Overview section of this report. We will continue to monitor delivery by the Agency of its business strategy during 2010/11.



## Performance overview

56. During 2009-10, AiB developed a new set of eight Key Performance Indicators (KPIs) to track progress towards achievement of the themes within the business strategy. The Business Management Team determined the measurability and collection process for each KPI in order to establish a baseline and set targets for the following years. This process can be summarised as:
- **KPI 1 Adjudicating and informing the outcome of debtor applications** - We are informed that accurate measurement processes have been put in place for 2010/11.
  - **KPI 2 To increase the percentage of cases where a dividend is paid out to creditors** - for 2009/10 13.2% of cases yielded a dividend.
  - **KPI 3 To promptly determine all accounts on receipt of all relevant information from trustees** - there is a statutory requirement for AiB to audit and determine accounts within 4 weeks, or 20 working days. A pilot measurement exercise gave an indicative baseline of 11.1 days.
  - **KPI 4 To adjudicate and inform the result of the Debt Arrangement Scheme (DAS) applications on receipt of all relevant information** - the extension to the public consultation process led to delays. We are informed that a baseline will be finalised when consultation has been concluded.
  - **KPI 5 To improve customer satisfaction and experience** - for 2 consecutive months in 2009 an independent survey provided feedback from customers on their experience of service delivery from AiB staff. The results demonstrated a satisfaction rating of 93%.
  - **KPI 6 To increase employee engagement within the Agency** - the Employee Engagement Survey for 2009 enabled AiB to benchmark all participating UK Departments and Agencies. AiB had an 87% response rate and scored an overall Employee Engagement Index of 68%.
  - **KPI 7 To reduce the unit cost of sequestration** - this indicator measures the unit cost of sequestration where The Accountant is trustee, excluding Low Income Low Asset cases. In 2009-10 the measured unit cost of sequestration was £1,688.
  - **KPI 8 To reduce the unit cost of Debt Arrangement Scheme** - this measures the unit cost of each Debt Arrangement Scheme (DAS). In 2009-10 the measured unit cost of the Debt Arrangement Scheme was £58.
57. Further work will therefore be required by the Agency in order to ensure that full performance reporting can be achieved for 2010/11 within the required timescale. We will continue to monitor the progress AiB is making in achieving their main targets.

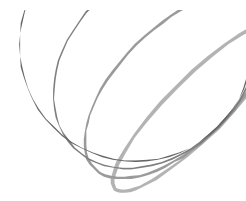


## Risk management

58. The Agency has put in place systems for the identification and management of risk with the adoption of branch and strategic risk registers and detailed operating procedures. The Strategic Risk Register is owned by the Board and Branch Risk Registers are owned by the Branch. Branch Heads are responsible for ensuring that Strategic Risks are reflected in their own register and that relevant risks are considered for inclusion in the Strategic Risk Register.
59. The risks are reviewed and agreed quarterly. The monitoring of risk management arrangements within the Agency is carried out by the Audit Committee and the Strategic Risk Register is discussed at each meeting.
60. The main risk areas within the Strategic Risk Register include:
  - Failure to have adequate and fully trained resources in the right place to allow the Agency to complete its objectives and deliver an effective service to the people of Scotland.
  - Failure of financial/budgetary monitoring systems lead to a serious and/or unanticipated budget deficit impacting on the Agency's ability to deliver operational objectives.
61. We will continue to monitor the actions taken by the Agency to manage these and other risks.

## Improving public sector efficiency

62. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provided a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report about the previous efficiency programme.
63. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. But there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult.
64. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
65. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It requires strong leadership and engagement from the very top of public bodies. Leaders and senior decision-makers within an organisation have a responsibility to check, challenge, monitor



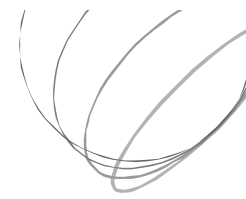
and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements (see below):

**Extract from Audit Scotland report *Improving public sector efficiency***

*In order to improve the delivery of efficiency savings public bodies should:*

- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured
- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer term strategy
- report efficiency savings consistently.

66. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.
67. AiB rejoined the SG Efficient Government Programme during 2009 with submission of an Efficiency Delivery Plan for 2009/10 and for 2010/11. The Scottish Government's Efficiency Outturn Report for 2009/10 records that the Agency achieved efficiency savings of £1.412 million from contracted out insolvency services for the first year of the contract against a target of £1.35 million. The Agency also has a target of delivering cash releasing efficiencies of £1.350 million in 2010/11 through the contracted out insolvency services.
68. Areas where additional efficiencies have been realised or are planned include mailroom process modernisation and better management of accommodation. We will continue to monitor progress against efficiency targets during 2010/11.



# Looking Forward

69. AiB faces a number of challenges in 2010/11, which include:

- **Efficiencies and future funding** - Scottish public bodies reported more efficiency savings than the Government's two per cent target in 2009/10, but there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult. To deal with reduced future funding and increase savings, fresh approaches to improving efficiency and productivity must be considered, taking a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working. The challenge for AiB is to maximise income, prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **Business strategy** – AiB has a vision to develop the organisation by streamlining business processes, adjusting the organisational structure and implementing modern, capable IS/ICT solutions to support the new processes. At a time of economic uncertainty and pressures on SG funding, the current fiscal outlook requires organisations (and stakeholders) to demand more outcomes from existing resources. Management capacity will be critical in ensuring that AiB is able to progress this programme of development whilst still being able to deliver existing services and programmes of work.
- **Best Value** - The concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. This has been matched by the Scottish Government's commitment to refreshing its Best Value Guidance for Public Bodies. AiB should continue to respond to this important initiative as it develops