

Accountant in Bankruptcy

Annual report on the 2012/13 audit



Prepared for the Accountant in Bankruptcy and the Auditor General for Scotland
September 2013

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 Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key Messages

2012/13

We have given an unqualified opinion that the 2012/13 financial statements of the Accountant in Bankruptcy (AiB or the Agency) give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

The Agency's total operating income for the year was £12.143m and the total expenditure was £12.797m resulting in a net expenditure figure of £0.654m which was £1.177 (64%) below the planned budgeted net expenditure of £1.831m.

The Agency's total net expenditure of £0.654m was also £1.383m (68%) below the Departmental Expenditure Limit (DEL) of £2.037m.

The overall underspend was attributable to a £0.675m underspend on operating costs, lower depreciation cost resulting in £0.156m of underspend in non-cash expenditure and due to operating income being £0.403m higher than budget.

The Scottish Government (SG) guidance on best value has not yet been formally implemented by the Agency. The review of the best value approach is currently ongoing and management are planning to adopt the new approach by March 2014.

Overall the system of internal control and arrangements for the prevention and detection of fraud were satisfactory during 2012/13.

Outlook

The Agency's income and expenditure on activities have been projected in its Corporate Plan for a three year period up to 2015/16. This is based on predicted levels of operating income and expenditure and with the assumption of declining resource funding requirement from the Scottish Government. The AiB's income and expenditure will require to be closely monitored to identify and address emerging budget pressures or projected overspends at an early stage.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of the Accountant in Bankruptcy (AiB or the Agency). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the Agency and no responsibility to any third party is accepted.
3. [Appendix A](#) is an action plan setting out the high level risks we have identified from the audit. Management have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that AiB understands its risks and has arrangements in place to manage these risks. The Accountable Officer, Board and the Audit Committee should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is also addressed to the Auditor General for Scotland and will be published on our website after consideration by the Audit Committee and after the accounts have been laid before Parliament.

Matters to be reported

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 20 February 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not carry out any additional work outwith our planned audit activity the fee remains unchanged.

Audit opinion & accounting issues

7. We have given an unqualified opinion that the financial statements of the Agency for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 25 July 2013.
8. We received the unaudited financial statements on 14 June 2013, in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team which enabled us to complete our on-site fieldwork by the planned target date.
9. The Agency is required to follow the Government Financial Reporting Manual (FReM) and we can confirm that the financial statements have been properly prepared in accordance with the FReM.

Significant findings

10. The most significant changes, required to the financial statements as a result of the audit process and under the accounting guidelines, were outlined in our International Standard on Auditing (ISA) 260 report, presented to the Audit Committee on 25 July 2013.
11. **Inter entity payables:** we identified that in 2012/13 a total of £6.1m payments were remitted by AiB to the Scottish Government Financial Reporting Unit (SG FRU) for payment processing and £1.6m of that total was posted by SG FRU to SG's entity account instead to AiB's entity account. After our investigation the trade payables balance decreased by £1.6m.
12. **Cash and cash equivalents:** The cash and cash equivalents balance in the statement of financial position was overstated by £0.843m in the unaudited accounts. This related to February's cash income received by AiB and remitted to SG in March 2013. We have been advised that this was due to the journal not being processed in time by SG FRU. As a result of our findings the cash and cash equivalents balance decreased by £0.843m.

Whole of Government Accounts

13. The Whole of government accounts (WGA) is the consolidated financial statements for all branches of government in the UK. The Scottish Government deadline for submission of the audited consolidation pack was 14 August 2013. We received the pack on 16 July 2013 and submitted the audited version to the Scottish Government ahead of the deadline. There were no significant issues to report.

Financial results

2012/13 Outturn

14. In 2012/13 Scottish Ministers allocated £2.037 DEL resources to the Agency and a further transfer of £0.277m through the autumn budget revision specifically for Money Advice Training, Resources, Information and Consultancy Service (MATRICS) and the National Debtline. MATRICS is administered jointly by Money Advice Scotland and Citizens Advice Scotland. The National Debtline offers free confidential and independent advice on how to deal with debt problems.
15. Of this budget allocation £0.654m was utilised to make up the difference between operating income of £12.143m and total expenditure of £12.797m. The actual net expenditure was £1.177 below the budgeted net expenditure of £1.831m. A comparison of the budgeted and actual income and expenditure is shown in Table 1.

Table 1: Budget and actual outturn comparison

	Initial Budget (£'000)	Final Budget (£'000)	Actual Outturn (£'000)	Variance (overspend)/underspend (£'000)
Resource - Operating cost	12,737	12,836	12,161	675
Non cash expenditure	515	515	359	156
Capital	220	220	277	(57)
Total Expenditure	13,472	13,571	12,797	774
Operating Income	(11,675)	(11,740)	(12,143)	403
Net Expenditure/SG funding required	1,798	1,831	654	1,177

Source: 2012-13 Accounts, Financial monitoring reports

16. The Agency's actual net expenditure of £0.654m for 2012/13 was £1.383 million below the DEL figure of £2.037m with the overall underspend attributable to:
- an underspend of £0.675m on operating cost mainly in respect of general administration and pay costs

- an underspend of £0.156m on expenditure on non-cash expenditure in relation to the remaining depreciation charge for the Midas (case management system) being spread over the extended period of this system's use and
 - operating income higher by 0.403m mainly due to higher than anticipated rate of recovery of AiB's fees from sequestration cases, statutory fees and trust deed supervision fees.
17. Compared to the previous year, 2012/13 total income increased by £2.868m (31%) from £9.275m to £12.143m. This reflected significant increases in income from almost all categories of fees received including a significant rise in income from the revised Debt Arrangement Scheme in 2012/13 (£0.243m in 2012/13 compared to £0.039m in 2011/12) due to a substantial rise in the number of people using this scheme. In addition to positive overall variance on fees a new category of consignment funds income of £0.980m also contributed to the increase in income. The consignment funds represent amounts that are over 7 years old and are retained by AiB under new funding arrangement with the Scottish Government.
18. Overall expenditure increased by £0.751m (6%) from £12.046m in 2011/12 to £12.797 in 2012/13, mainly reflecting significant increases in the direct sequestration cost, staff costs and legal fees. We were advised by management that the increase in legal fees is due to costs incurred on older cases which are more complex bankruptcies and therefore generating higher cost.
19. Management have advised us that the Agency has achieved its 3% efficiency target for 2012/13, based on the 2011/12 total Scottish Government funding baseline. This resulted in £0.120m in total financial savings.
20. In addition to the above target the Agency is aiming to achieve full financial self-sustainability in the long term and in 2012/13 95% of the expenditure was matched by the income generated from fees and other related receipts. The difference of £0.654m was covered by utilising the DEL allocation as explained in paragraph 15.

2012/13 financial position

21. The financial position of the Agency remains stable, with positive variances against DEL and total budget as noted above.
22. At 31 March 2013 the statement of financial position showed a decrease in total equity of £0.042m. This can be attributed to the increase in value of current asset of £0.406m, offset by a £0.437m increase in the value of current liabilities.

Financial planning

23. The Agency's income and expenditure have been projected in its Corporate Plan for a three year period up to 2015/16 based on predicted levels of operating income and expenditure and with the assumption of declining resource funding requirements from the Scottish Government budget allocation.

24. The arrangements for budget setting and monitoring in place at the Agency are sound. Management closely monitor income and expenditure against budget with financial monitoring reports being presented to the Board on a monthly basis and quarterly to the Audit Committee.
25. In March 2013 the Board approved a budget for 2013/14 of £13.959m million (£13.571m in 2012/13). The main areas where the budget has increased significantly are expenditure on pay costs (£0.161m), capital expenditure (£0.416m) and operational income (£0.455m).
26. The Agency's Revenue DEL for 2013/14 is £2.037m and management expect to utilise £1.765m of this amount. A comparison of the 2013/14 budget figures to the final 2012/13 budget and the actual 2012/13 outturn is presented in Table 2.

Table 2: 2013/14 budget comparison

	2012/13 Final budget (£'000)	2012/13 Actual Outturn (£'000)	2013/14 Approved budget (£'000)	2013/14 to 2012/13 Budget (£'000)	2013/14 budget to 2012/13 outturn (£'000)
Resource - Operating cost	12,836	12,161	12,847	11	686
Non cash expenditure	515	359	476	(39)	117
Capital	220	277	636	416	359
Total Expenditure	13,571	12,797	13,959	388	1,162
Operating Income	(11,740)	(12,143)	(12,195)	(455)	(52)
Net expenditure/SG funding required	1,831	654	1,764	(67)	1,110

27. The most recent financial monitoring report for 2013/14 highlighted that, as at 31 July 2013, the Agency is £0.572m (33%) under budget. This largely related to the external trustee fees income being £0.201m (23%) higher than budgeted for the year to date, insolvency practitioners fees expenditure being £0.123m (11%) less than budget and a positive variance of £0.183m (16%) on indirect overheads. However, some of these variances might be due to seasonal fluctuations and could change significantly by the financial year end.
28. The financial position going forward will become more challenging, with limited increases in funding combined with increasing cost pressures. Therefore income and expenditure will require to be closely monitored to address emerging budget pressures at an early stage.

Corporate governance and systems of internal control

Overall governance arrangements

29. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and we found that Agency has sound governance arrangements in place.

Accounting and internal control systems

30. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
31. As part of our 2012/13 audit, we carried out a review of the main financial systems, focusing on the key controls in place within each system along with arrangements for governance and accountability. Our review covered the financial ledger, cash and cash equivalents, trade payables, trade receivables and non-current assets. Whilst we reported that overall the systems of internal control are operating effectively, our testing identified a small number of control weaknesses. We reported these weaknesses in our Key Controls Report presented to the Audit Committee on 18 April 2013.
32. Internal audit is provided by the Scottish Government Internal Audit Service. We liaised with our Scottish Government external audit team who were able to provide assurances that the internal audit service operates in accordance with government internal audit standards. We were able to place reliance on internal audit's work in terms of our wider scope of public audit.

Prevention and detection of fraud and irregularity

33. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the overall arrangements for the prevention of fraud within the Agency are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

34. Audit Scotland coordinates a major counter-fraud exercise working together with a range of public bodies and external auditors. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started during 2012 but is not due to report until May 2014.
35. Although the Agency is not involved in NFI as an individual organisation, data held on Scottish Government financial systems is sampled as part of the NFI process. No AiB related frauds were identified through the last round of NFI.

Standards of conduct and arrangements for the prevention and detection of corruption

36. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Best value

Best value

37. Accountable officers are required to put in place appropriate arrangements to satisfy their duty of best value.
38. In 2011/12 we reported that the Agency had not formally considered guidance issued by the Scottish Government in March 2011. We were advised that the best value approach would be reviewed and the guidance incorporated into the new 2013-2016 corporate plan before 31 December 2012. However, ongoing workloads and staff changes have led to a delay in the finalisation of this review. The review is currently ongoing with plans to incorporate two to three indicators in the Agency's performance reporting and results are now planned to be presented to the Board during 2013/14.

Refer to Action Point 1

39. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. A summary of one recently published report we feel would be of interest and relevance to the Agency is provided below.

Developing financial reporting in Scotland (July 2013)

40. This report highlights why good financial reporting matters and it is also a contribution to preparations for new financial powers as the Scotland Act 2012 is implemented over the next three years. It says that while the audited accounts of public bodies across Scotland provide a sound base for financial reporting and scrutiny, there is currently no single complete picture of the devolved public sector's finances, and particularly its assets and liabilities.
41. The report concludes that reporting of Scottish finances will need to develop further in light of new powers. The Scottish Government will need to make sure its financial reporting is more comprehensive and transparent as it prepares for new tax and borrowing powers. Areas of particular consideration include:
- the long-term consequences of funding assets from borrowing or public private partnerships
 - how forecasts and other estimates are made
 - how potential liabilities are assessed and monitored
 - the clarification of complex accounting issues.

Arrangements to consider national performance reports

42. We have been advised that management consider relevant national reports published by Audit Scotland, however there is no systematic process in place to ensure that these reports are presented to the Board or Audit Committee. Management feel that the current system where relevant key issues from national reports are highlighted to the Board is appropriate.

Acknowledgements

43. We would like to express our thanks to the staff of Accountant in Bankruptcy for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix A: Action Plan

Issues and Planned Management Action

Action Point	Refer Para No	Issue Identified	Planned Management Action	Responsible Officer	Target Date
1	38	<p>Best Value</p> <p>Last year we reported that the Agency had not formally considered the guidance on Best Value in Public Services, issued by the Scottish Government in March 2011. We were advised that AiB's best value approach would be reviewed and the guidance incorporated into the new 2013-2016 corporate plan by 31 December 2012. However, at the time of writing a detailed self-assessment has not been performed and a formal policy on best value not developed.</p> <p>There is a risk that the Agency may not be able to demonstrate that its arrangements satisfy its duty of best value.</p>	<p>A number of planning meetings have been held between Finance and Governance to discuss best value. Progress has been slower than planned due to key posts being either vacant or filled by temporary staff during the first six months of the financial year.</p>	Finance Manager when appointed	March 2014