



Appendix C

Accountant in Bankruptcy

Annual report on the 2013/14 audit



Prepared for Accountant in Bankruptcy and the Auditor General for Scotland
6 August 2014

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.

Contents

Key messages	4
2013/14	4
Outlook.....	4
Introduction	5
Matters to be reported	6
Conduct and scope of the audit.....	6
Audit opinion & accounting issues	6
Significant findings	7
Consolidated accounts	7
Financial position	7
Corporate governance and systems of internal control.....	9
Best value	10
National performance reports	11
Appendix 1: Action plan	12

Key messages

2013/14

We have given an unqualified opinion that the 2013/14 financial statements of Accountant in Bankruptcy (AiB or the Agency) give a true and fair view of the state of the Agency's affairs and of its net expenditure for the year.

The Agency's total operating income for the year was £11.669m and total expenditure was £11.696m resulting in a net expenditure figure of £0.027m. This equates to 99.8% of expenditure being matched by income generated from fees charged for bankruptcy services and other related receipts. The net expenditure of £0.027m was funded from the Agency's Departmental Expenditure Limit (DEL) budget allocation.

The Agency has responded positively to Scottish Government guidance on best value and has made significant progress in implementing a self assessment programme. A formal best value policy was approved by the Board and the Agency aims to complete the self assessment programme by March 2015.

Outlook

The Agency's income and expenditure has been projected in its Corporate Plan for a three year period up to 2015/16 based on predicted levels of operating income and expenditure. The financial position going forward will become more challenging with increases in budgeted expenditure and increasing cost pressures. Therefore income and expenditure require to be closely monitored to address emerging budget pressures at an early stage.

The Agency is currently developing a new sequestration case management system. The new system will deliver the provisions of the Bankruptcy and Debt Advice (Scotland) Act 2014. Work to identify requirements commenced in 2013/14 and the new system is planned for launch in April 2015. Management are aware of the risks associated with the development of this system and the importance of the system fulfilling the requirements of the new bankruptcy legislation.

Introduction

1. This report is the summary of our findings arising from the 2013/14 audit of Accountant in Bankruptcy (AiB or the Agency). The purpose of the annual audit 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.
3. Appendix 1 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 the Agency 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. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
5. 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

6. 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 3 March 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
7. 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 2013/14 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

8. We have given an unqualified opinion that the financial statements of the Agency for 2013/14 give a true and fair view of the state of the Agency's affairs and of its net operating cost for the year. The audit opinion was formally issued and signed on 5 August 2014.
9. The Agency is required to follow the 2013/14 Government Financial Reporting Manual (the FReM) and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the Remuneration Report had been properly prepared and that information given in the Management Commentary was consistent with the financial statements.
10. The Governance Statement was also reviewed and we concluded that it complied with Scottish Government guidance.
11. The unaudited financial statements were received on 13 June 2014, in line with the agreed timetable. The working papers were of a very high standard and staff provided excellent support to the audit team which enabled us to complete our on-site fieldwork within the agreed target date.
12. The main changes to the financial statements during the audit are detailed below.
 - Adjustments were made to expenditure and trade payables to account for £0.007m of accrued expenditure which was identified.
 - Further income was identified which resulted in an adjustment of £0.007m being made to income and cash and cash equivalents.
 - Minor reclassification adjustments of £0.097m were made within direct sequestration expenses in note 3 of the financial statements.
 - Due to a late change in the Financial Reporting Manual (FReM), a separate Strategic and Directors' report was not included in the draft 2013/14 report and financial statements. This was discussed with management who agreed to amend the financial statements to meet reporting requirements.

Significant findings

13. In our view there are no issues that would be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing or transactions or the potential effect on the financial statements of any uncertainties.

Consolidated accounts

14. The Scottish Government is required to produce consolidated accounts reflecting the assets and liabilities of all entities within its consolidation accounting boundary. The deadline for submission of the Agency's consolidation pack was 14 July 2014. We submitted the audited version to the Scottish Government ahead of the deadline. There were no significant issues to report.

Financial position

15. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
16. We consider where audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - response to developments which may have an impact on the financial position
 - financial plans for future periods.
17. This section summaries the financial position and outlook for the Agency.

2013/14 Outturn

18. The Scottish Government provided the Agency with a budget for allocation for the year, which originates from the spending review settlement and is subsequently passed in the Scottish Parliament as part of the Budget (Scotland) Act, authorising the Scottish Government's spending plans for the year. During the year revisions are approved in the autumn and spring budget revisions. The Agency is expected to manage its budgets in accordance with the Scottish Public Finance Manual and ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.
19. In 2013/14 Scottish Ministers allocated £2.000m of Departmental Expenditure Limit (DEL) resources to the Agency. This was revised to £1.400m in the spring budget revision. Of this budget allocation, £0.027m was utilised to make up the small difference between total operating income of £11.669m and total expenditure of £11.696m.
20. The Agency has been working towards full cost recovery and achieved this in 2013/14 with a small net operating cost of £0.027m. This equates to 99.8% of expenditure being matched by

income generated from fees charged for bankruptcy services and other related receipts. 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)	Actual Outturn (£'000)	Variance Under / (Over) spend (£'000)
Resource - Operating cost	12,847	10,527	2,320
Non cash expenditure	476	445	31
Capital	636	724	(218)
Total Expenditure	13,959	11,696	2,263
Operating Income	(12,195)	(11,669)	(526)
Net Expenditure / (Net Income)	1,764	27	1,737

Source: 2013/14 Financial Statements, Financial Monitoring reports

21. At 31st March 2014, the statement of financial position shows a net asset position of £1.911m which is an increase of £0.754m from the prior year. This can be explained by an increase in the value of total assets in year of £0.637m and a decrease in total liabilities in year of £0.117m.
22. Overall the financial position of the Agency remains stable, with positive variances against DEL funding and total budget as noted above.
23. The Scottish Government required public bodies to achieve a 3% efficiency target in their running costs. Management advised us that the Agency exceed this target and achieved efficiency savings of £1.275m in 2013/14.

Financial planning

24. The arrangements for budget setting and monitoring in place at the Agency are sound. Management exercise close control over income and expenditure. Comprehensive financial monitoring reports are presented at board meetings on a monthly basis and quarterly to the Audit Committee.
25. 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.
26. In March 2014, the Board approved the budget for 2014/15. Budgeted expenditure was set at £14.873m (£13.959m in 2013/14). The capital expenditure budget for 2014/15 has increased significantly to £1.560m. This relates to the significant IT development planned for the year which includes development of a new sequestration case management system.

27. Budgeted income for 2014/15 is £12.073m and remains at a similar level as the prior year (£12,195m in 2013/14). Therefore the Agency expects to utilise the full amount of its £2.800m DEL allocation for 2014/15.
28. The financial position going forward will become more challenging with increases in budgeted expenditure and increasing cost pressures. Therefore income and expenditure require to be closely monitored to address emerging budget pressures at an early stage.

New sequestration case management system

29. Following a competitive tender exercise, Lockheed Martin was awarded the contract for the development of the Agency's new sequestration case management system. The new system will deliver the provisions of the Bankruptcy and Debt Advice (Scotland) Act 2014. The 2014/15 budget allocation includes a capital expenditure budget of £1.560m and resource budget of £0.700m which will meet the costs of developing the new system as well as enhancing the Agency's other IT systems. Work to identify requirements commenced in 2013/14 and the new system is planned for launch in April 2015. Management are aware of the risks associated with the development of this system and the importance of the system fulfilling the requirements of the new bankruptcy legislation. Ability to enact new bankruptcy legislation will also depend on timescales being met.

Action Point 1

Corporate governance and systems of internal control

Overall governance arrangements

30. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
31. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements. Overall we found that the Agency's corporate governance arrangements operated effectively during 2013/14 with appropriate committees overseeing key aspects of governance.

Accounting and internal control systems

32. 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.
33. As part of our 2013/14 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 general ledger, banking, trade payables, trade receivables and non current assets. Whilst we reported that the overall 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 which was presented to the Audit Committee on 9 May 2014. Management have advised us that all issues have been addressed and this will be followed up as part of our 2014/15 audit.

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

34. 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.

Prevention and detection of fraud and irregularity

35. In our 2013/14 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.

Best value

36. Accountable officers are required to put in place appropriate arrangements to satisfy their duty of best value.
37. In 2012/13 we reported that the Agency had not formally considered the best value guidance issued by the Scottish Government in March 2011. In January 2014 the Board approved a programme which set out a timetable for the completion of the self assessment exercises against the toolkits developed by Audit Scotland. A formal policy on best value was subsequently approved in April 2014. Currently the programme is progressing well and a number of self assessments have been completed. Management expect to complete the programme ahead of the March 2015 target date. The Agency has made significant progress in this area in 2013/14 and has shown a commitment to demonstrating that sound arrangements for best value are in place.

National performance reports

38. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Links to recently published reports that are relevant to the Audit Committee are provided below:

Scottish public sector workforce (November 2013)

http://www.audit-scotland.gov.uk/docs/central/2013/nr_131128_public_sector_workforce.pdf

39. The Agency has workforce projections in place to forecast required staffing levels until 2015/16.

Scotland's public finances - a follow up audit: Progress in meeting challenges (June 2014)

http://www.audit-scotland.gov.uk/docs/central/2014/nr_140605_public_finances.pdf

40. As mentioned in paragraph 24, the Agency has sound budget setting and monitoring arrangements in place.

Impact and follow up work - Managing ICT Contracts

41. Audit Scotland's Corporate Plan 2012-15 reinforces our commitment to monitoring the impact of our work. As part of this process, we are required to carry out targeted follow up work on a number of previously published performance audits.
42. The Agency is making a significant investment in a new sequestration case management system and other ICT related development projects. We are therefore required to carry out a targeted follow up on our Managing ICT Contracts report which was originally published in August 2012. We will report our findings to management later in the year.

Acknowledgements

43. We would like to express our thanks to the staff of the Agency 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 1: Action plan

Key risk areas and planned management action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	29	<p>New sequestration case management system</p> <p>Following a competitive tender exercise, Lockheed Martin was awarded the contract for the development of AiB's new sequestration case management system. The new system will deliver the provisions of the Bankruptcy and Debt Advice (Scotland) Act 2014. The 2014/15 budget allocation includes a capital expenditure budget of £1.560m and resource budget of £0.700m which will meet the costs of developing the new system as well as enhancing the Agency's other IT systems. The new system is planned for launch in April 2015. Management are aware of the risks associated with the development of this system and the importance of the system fulfilling the requirements of the new bankruptcy legislation. Ability to enact new bankruptcy legislation will also depend on timescales being met.</p>	<p>Development of the new case information system (now known as BASYS) will be delivered as part of a wider project which will ensure that the Agency fulfils all of the requirements falling out of the new legislation. The project is being delivered using Prince2 methodology and has been broken down into 5 main work packages covering all aspects of product delivery which together will ensure the project is completed successfully on time and on budget. In addition to the normal project governance documents, there will be an independent project assurance process implemented to ensure the conduct of the project is correct and conducive to success. This assurance will be provided by the Government Centre of Expertise.</p>	John Cook (Executive Director - Case Operations)	01/04/2015