



Accountant in Bankruptcy

Annual audit report 2014/15

August 2015

Prepared for AiB and the Auditor General for
Scotland

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This report has been prepared for the use of the Accountant in Bankruptcy and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the audit committee. The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

Key contacts

Asif A Haseeb, Engagement Lead

ahaseeb@audit-scotland.gov.uk

Gordon McAllister, Senior Auditor

gmcallister@audit-scotland.gov.uk

Andrew Kerr, Professional Trainee Auditor




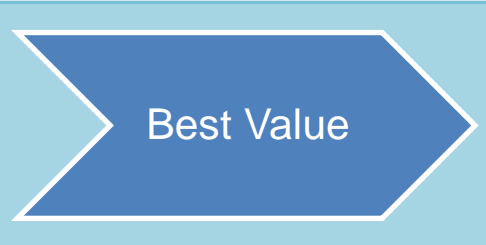
akerr@audit-scotland.gov.uk

Audit Scotland
4th floor (South Suite)
8 Nelson Mandela Place
Glasgow
G2 1BT

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

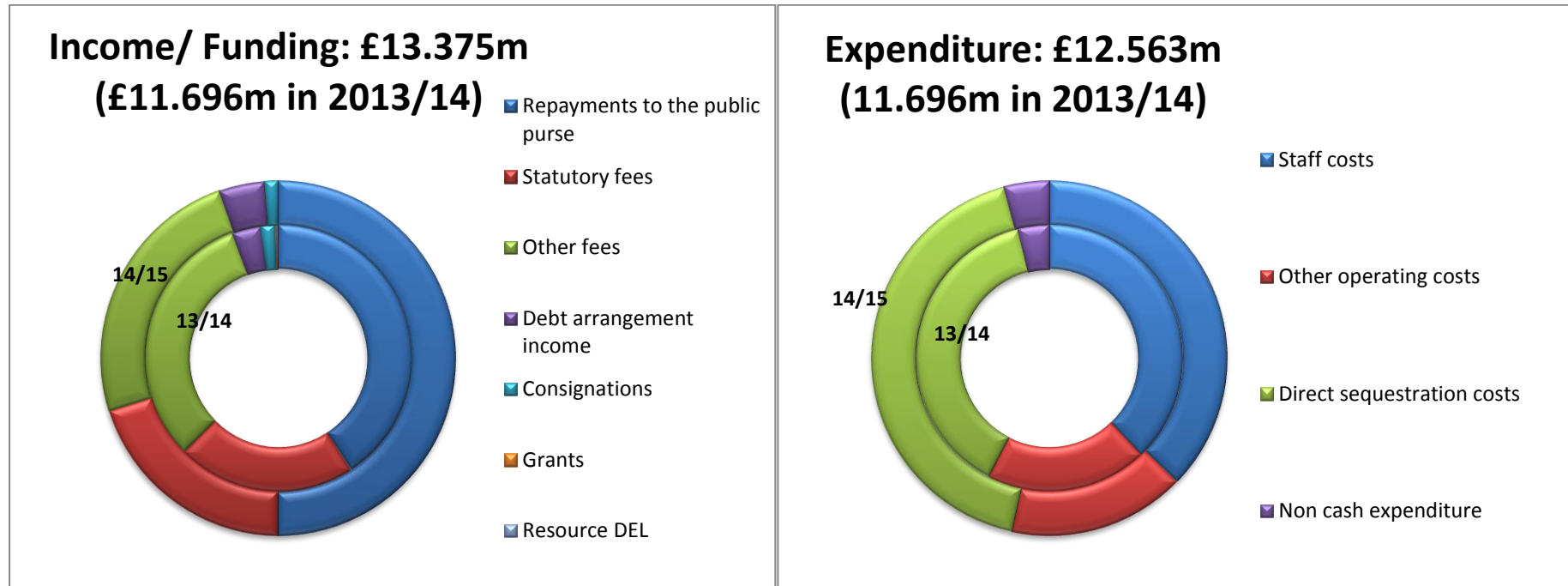
Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none"> • We have issued an unqualified independent auditor's report on the 2014/15 financial statements.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none"> • The Agency operated within its resource budgets for 2014/15 and reported an operating surplus of £0.812 million in 2014/15. • Net assets increased by £1.157 million which can be attributed to the purchase of intangible assets. • The financial position remains stable with an excess of total and current assets over liabilities. A balanced budget of income and expenditure is projected in 2015/16.
 <p>Governance and transparency</p>	<ul style="list-style-type: none"> • We found that the Agency had effective governance arrangements in place. • Overall, systems of internal control operated effectively during 2014/15.
 <p>Best Value</p>	<ul style="list-style-type: none"> • During 2014/15, management completed a series of best value self assessments using toolkits developed by Audit Scotland. We reviewed a sample of the completed toolkits and found that they had been completed to a good standard, showing the Agency's commitment to best value.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Accountant in Bankruptcy (AiB or the Agency).
2. The management of the AiB is responsible for:
 - preparing financial statements which give a true and fair view
 - ensuring the regularity of transactions, by putting in place systems of internal control
 - maintaining proper accounting records
 - preparing and publishing with their financial statements an annual governance statement and a remuneration report.
3. Our responsibility, as the external auditor of the Agency, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of 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; that have been prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at **appendices II and III**, and include recommendations for improvements where appropriate.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that AiB understands its risks and has arrangements in place to manage these risks. The audit committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

2014/15 financial statements



The financial statements show income of £13.375 million this year, £1.679 million (14%) greater than last year. This was mainly due to a £1.925 million (40%) increase in repayments to the public purse as a result of a higher than expected number of cases being discharged in the year. Expenditure increased by £0.867 million (7%) from the previous year. There were reductions of £0.271 million (12%) in operating costs whilst direct sequestration costs increased by £0.817 million (18%).

Audit of the 2014/15 financial statements

Audit opinions

Financial Statements

- The financial statements of the Agency for 2014/15 give a true and fair view of the state of the body's affairs and of its net income for the year.
- We confirm that the financial statements have been properly prepared in accordance with the 2014/15 FReM and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions.

Regularity

- In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
- The sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Other prescribed matters

- The remuneration report to be audited has been properly prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions.
- The information in the strategic report and directors' report is consistent with the financial statements.

Submission of financial statements for audit

9. The unaudited financial statements were received on 12 June 2015, in line with the agreed timetable.
10. The working papers were of a very high standard and staff provided good support to the audit team which enabled us to complete our on-site fieldwork within the agreed target date.

Overview of the scope of the audit of the financial statements

11. 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 2015.
12. 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 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to

secure appropriate levels of assurance.

14. **Appendix I** sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
15. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

16. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other qualitative reasons (for example an item contrary to law).
17. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
18. We summarised our approach to materiality in our Annual Audit Plan. Based on the financial statements, we revised our planning materiality for 2014/15 to £0.126 million (1% of actual

gross expenditure). Performance materiality of £0.094 million is determined to ensure that uncorrected and undetected audit differences do not exceed our planning materiality level. We report all misstatements greater than £1,000.

Evaluation of misstatements

19. One misstatement was identified during the audit which, as agreed, has not been adjusted in the financial statements. If adjusted this would increase net expenditure by £4,408 and decrease the net assets in the statement of financial position by the same amount. This related to expenditure which was incorrectly treated as a prepayment.
20. Capital payables and accruals were identified that had not been removed from the statement of cash flows. The effect of having removed these capital accruals was to reduce the net cash outflows from operating activities and investment activities by £0.170 million respectively. This has no impact on the statement of comprehensive net expenditure.
21. The FReM requires the Agency to disclose the balance of third party monies held in bank accounts. This is presented in Note 14 of the financial statements. The figures presented in the draft unaudited financial statements were incorrect. The original balance was £55.359 million and through our audit testing we identified the actual balance to be £55.938m. The increase was attributable to consignment income which had not been identified in the original note. These balances are not

recorded in the primary financial statements and therefore have no impact on them. Officers agreed to amend the note.

Significant findings from the audit

22. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures
 - Significant difficulties encountered during the audit
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
23. A number of presentational and disclosure issues were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements.

24. During the course of the audit we identified the following matter that we wish to draw your attention in accordance with ISA260.

Significant findings from the audit in accordance with ISA260

Third party assets (Other assets)

As part of our planning work, we were informed by officers that the prior year figures for the number of other third party assets were inaccurate. This related to assets which were not cash balances (residential property, life policies, motor vehicles, shares and other investments and miscellaneous). The method used to determine the total number of assets held was inaccurate as a number of assets had actually been disposed of. This was reviewed by officers who have been able to provide accurate reports detailing other assets for 2014/15. As a result of the prior year overstatement the figures for the total number of other assets held in 2013/14 have been restated. The net effect of this restatement is to reduce the total number of assets from 3994 to 3168. The Agency has included narrative in Note 14 to explain this restatement.

Future accounting and auditing developments

Revisions to the Financial Reporting Manual (FReM)

25. The financial statements are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:
- Adoption of IFRS13 Fair value measurement for the first time – this also includes IAS 16 and IAS 38 adaptations.
 - Adoption of IAS 36 Impairment of assets - to be applied

when IFRS 13 is introduced in the FReM

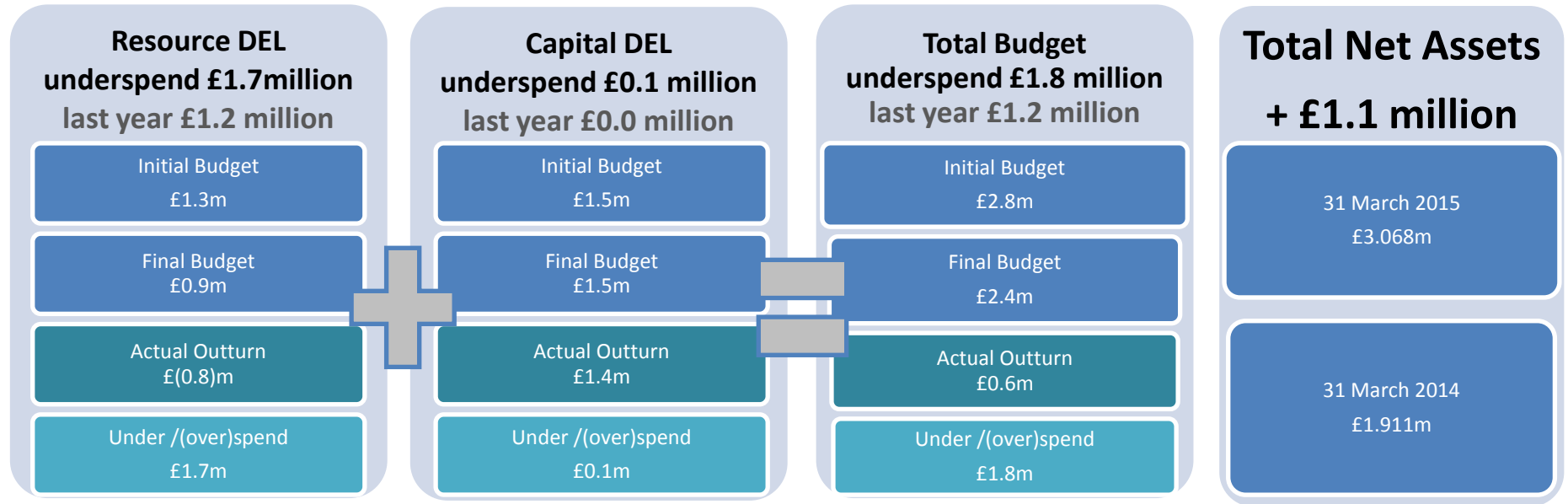
- Simplification and Streamlining Project – changes to the form and content of the annual report and accounts.

26. **International Financial Reporting Standards (IFRS) 13 Fair value measurement:** sets out the requirements for assets to be valued at fair value and is applied in full by the FReM only to assets that are not held for their service potential (i.e. investment properties and assets held for sale). It also applies to operational assets which are surplus to requirements where there are no restrictions on disposal which would prevent access to the market.

27. IFRS 13 does not apply to operational assets which are in use delivering front line services or back office functions, and surplus assets with restrictions on their disposal. These will be valued in accordance with the adaptations to IAS (*International Accounting Standard*) 16 *property, plant and equipment*.
28. **Restructuring of the annual report:** the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:
- a performance report which will give a fair, balanced and understandable analysis of performance and will include an overview section and a performance analysis section.
 - An accountability report incorporating the following three main sections:
 - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
 - remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
 - parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

Appendix IV – Action Plan No.1

Financial management and sustainability



29. The main financial objective for AiB is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers. The Agency operated within its overall resource budget for 2014/15 as detailed above.
30. AiB's expenditure is primarily funded through fee income received in relation to the administration of bankruptcies and income received from discharged cases (repayments to the

public purse) with the Scottish Government meeting any additional funding requirement. As shown under resource DEL in the table above, AiB generated a net operating surplus of £0.812 million 2014/15 (Net operating cost of £0.027 million in previous year). Income received (£13.375 million) exceeded expenditure (£12.553 million) leading to a £1.7 million underspend against the 2014/15 resource DEL budget.

2014/15 financial position

31. At 31 March 2015 AiB's statement of financial position shows an increase in total net assets of £1.157 million. This can be attributed to the Agency's in year investment in intangible assets. This included the development of a new case information system BASYS, at the cost of £0.8 million. This system was developed to support the provisions of the Bankruptcy and Debt Advice (Scotland) Act 2014. Further capital expenditure was incurred for the ongoing development of existing systems for the debt arrangement Scheme (DASH) and protected trust deeds (ASTRA).
32. The financial position of the Agency remains stable with the body operating within its available income and funding (on an accounting and resource basis) and an excess of total and current assets over liabilities.
33. The 2013/16 corporate plan includes the 2015/16 business plan and summarises the indicative budget for 2015/16. The 2015/16 SG budget allocation sets AiB's DEL resource budget at £1.3 million and the capital budget at £0.5 million. In March 2015 the Agency reported to the board in its draft 2015/16 budget that the overall resource funding required by the Agency is expected to be £1 million less than anticipated in the 2015/16 Scottish Government budget which was published in October 2014. This is due to stronger than expected income forecasts. The Agency identified that the unused resource budget will be required to be transferred to the capital budget

which requires £1.5 million in total for ICT project expenditure.

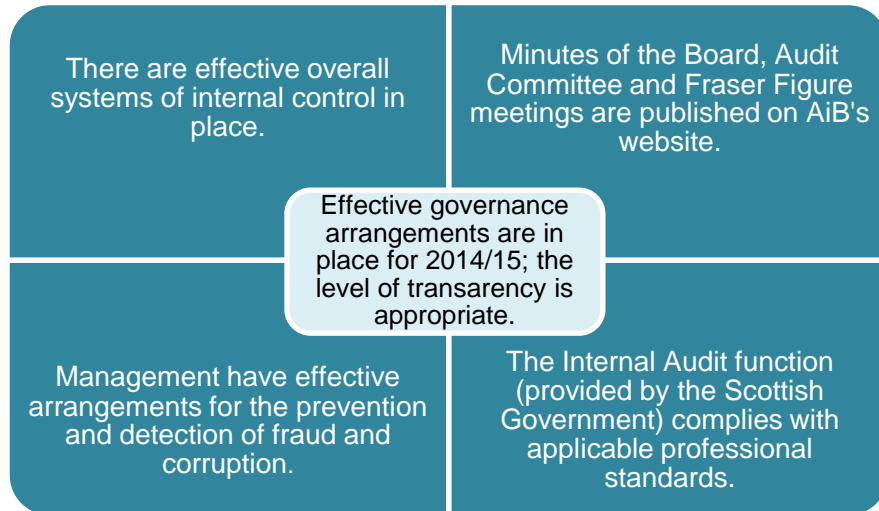
34. The increased capital expenditure is required for further development of the BASYS system and other ICT development work to the DASH and ASTRA systems.
35. We were informed by the Head of Finance that the Agency has communicated the expected need for the resource transfer to the Scottish Government. The most recent financial monitoring report covering the period to April 2015 details that the budgeted resource funding requirement for is £0.3 million whilst the capital funding requirement is £1.5 million.
36. The Agency will need to formally agree this transfer between resource and capital budget with Scottish Government through the Spring budget revision process.

Financial management

37. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - the Head of Finance has sufficient status to be able to deliver good financial management
 - standing financial instructions and standing orders are comprehensive, current and promoted within the body
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders

- monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
38. Based on our accumulated knowledge, our review of board papers and through our attendance at committees we conclude that AiB has strong financial management arrangements in place.

Governance and transparency



Corporate governance

39. The Accountable Officer (Chief Executive), supported by the advisory board, is responsible for establishing arrangements for ensuring the proper conduct of the affairs of AiB and for monitoring the adequacy of these arrangements.
40. Richard Dennis joined the Agency as Chief Executive and Accountant in Bankruptcy in April 2015.
41. The Chief Executive is accountable to Scottish Ministers. The

board's Non-Executives are appointed by the Chief Executive. Two Executive Directors sit on the board and support the Chief Executive.

42. The Chief Executive and board are further supported by the Audit Committee, which meets regularly throughout the year and whose role is to oversee and review the risk, control, governance and assurance processes that have been established.
43. The board met eight times during the year and the audit committee met quarterly.
44. The Policy and Cases Committee is a sub committee of the board and provides the Accountant in Bankruptcy with advice on challenging cases and policy issues. The committee met on a regular basis throughout the year to consider relevant matters.
45. Quarterly meetings are also held throughout the year with the Agency's Fraser Figure who is the Director of Economic Development at the Scottish Government. The role of the Fraser Figure is to facilitate and support the relationship between the Agency and the Scottish Government.
46. We concluded that the Agency has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Transparency

47. The Scottish Government's On Board guidance (<http://www.gov.scot/Publications/2015/04/9736/0>), for board members of public bodies was updated and reissued in April 2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:
- holding an annual open meeting
 - holding board meetings in public unless there is a good reason not to
 - publishing summary reports and/or minutes of meetings
 - inviting evidence from members of the public in relation to matters of public concern
 - consulting stakeholders and users on a wide range of issues
 - making corporate plans and the annual report widely available.
48. Audit Scotland also believes in transparency of financial reporting within the Annual Report and Accounts including:
- a clear reconciliation between expenditure and the outturn against Scottish Government resource budgets.
 - identification of, and explanation of, any significant movements in budget during the year.

49. Board meetings of the AiB are not held in public, nor are papers relating to these meetings publicly available – this is appropriate given the sensitive nature of issues discussed at these meetings.
50. The Agency makes available a range of information on their website. This includes governance and strategic information. Agenda papers and summarised minutes of the board, Audit Committee and Fraser Figure meetings are published on AiB's website.
51. It is important that the Agency demonstrates that it is complying with the SG's On Board guidance where applicable.

Internal control

52. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain sufficient audit evidence to support our opinion on the financial statements.
53. Overall, no material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the organisation's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

54. We reported our findings on AiB's systems of internal control to the Audit Committee on 6 May 2015.

Internal audit

55. Internal audit provides the audit committee and accountable officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
56. Internal audit at AiB is provided by the Scottish Government Internal Audit Service, the operation of which was assessed by our Scottish Government external audit team. This assessment concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
57. For 2014/15, we placed reliance on the work of internal audit in terms of our wider code responsibilities.

Arrangements for the prevention and detection of fraud

58. We assessed the arrangements for the prevention and detection of fraud during the planning phase of our audit. This

involved:

- reviewing the AiB fraud policy and response plan
- reviewing arrangements for the communication of potential fraudulent activity to the AiB board
- controls testing of the trade receivables system to provide assurance that the procedures for revenue recognition are operating effectively.

59. We conclude that there are effective arrangements for the prevention and detection of fraud.

National Fraud Initiative in Scotland

60. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
61. AiB are involved in the NFI via their use of Scottish Government systems. We have been informed by AiB management that they have not been notified of any matches relating to the Agency during 2014/15.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

62. The Agency has in place a range of activities designed to maintain standards of conduct. Given the nature of its business AiB require all senior management and board members to declare any conflicting interest in the register of interests. Employees are also asked on a monthly basis to declare any conflicts of interest on the E-HR system.
63. From our review of governance arrangements it was noted that the Agency's Framework Document has not been reviewed since it was put in place in February 2012. This is a key governance document and sets out the framework in which AiB operates. The document is required to be reviewed every three years. Management are aware of this and should ensure the document is reviewed and updated as necessary.

Appendix IV – Action Plan No.2

64. Based on our review of the evidence we concluded that there are appropriate arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

Best Value

65. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

Arrangements for securing Best Value

66. In 2014, the Agency completed a programme of best value self assessments using the Audit Scotland best value toolkits.
67. As part of our 2014/15 planned work, we carried out a high level review of two of these completed tool kits (financial management and governance and accountability).
68. Our review has concluded that the tool kits were completed to a good standard. The key questions were answered in detail and a wide range of information sources were considered. The results of the review were communicated with the management team and the board.

National performance audit reports

69. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest. These are outlined in **appendix III**.
70. The Agency has processes in place to ensure that all relevant national performance reports are considered by the Audit

Committee.

71. **Managing ICT contracts in central government: An update:** This report by Audit Scotland reviewed the progress that the Scottish Government and central government bodies have made against the recommendations in our previous report 'Managing ICT contracts'. ICT programmes in 12 central government bodies were selected for review to establish to what extent lessons have been learned since August 2012.
72. The report contains a number of case studies and noted that Scottish Government and central government bodies continue to encounter difficulties in managing information and communication technology programmes, although progress is being made to overcome these issues.
73. AiB made a significant investment in the development of a new case management system in 2014/15 and was selected as one of the 12 bodies which were reviewed.
74. As part of this review the local audit team carried out a targeted review of the case information system project and reported our findings in a management letter to the Audit Committee in November 2014. Our review found the project to be well managed.

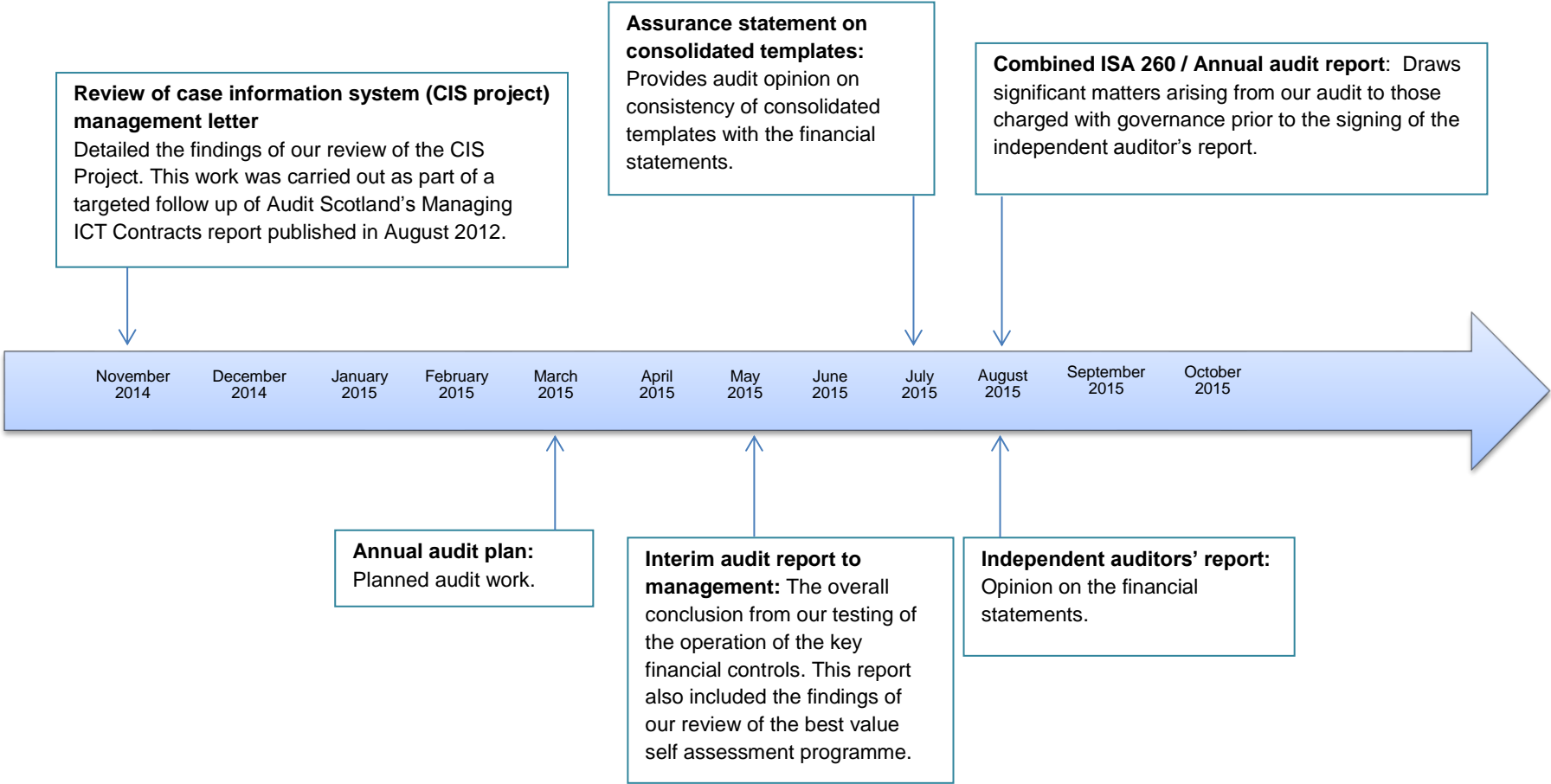
Appendix I – Significant audit risks

The table below sets out the financial statement audit risks identified as part of our 2014/15 planning and how we addressed each risk and our judgement in arriving at our opinion on the financial statements.

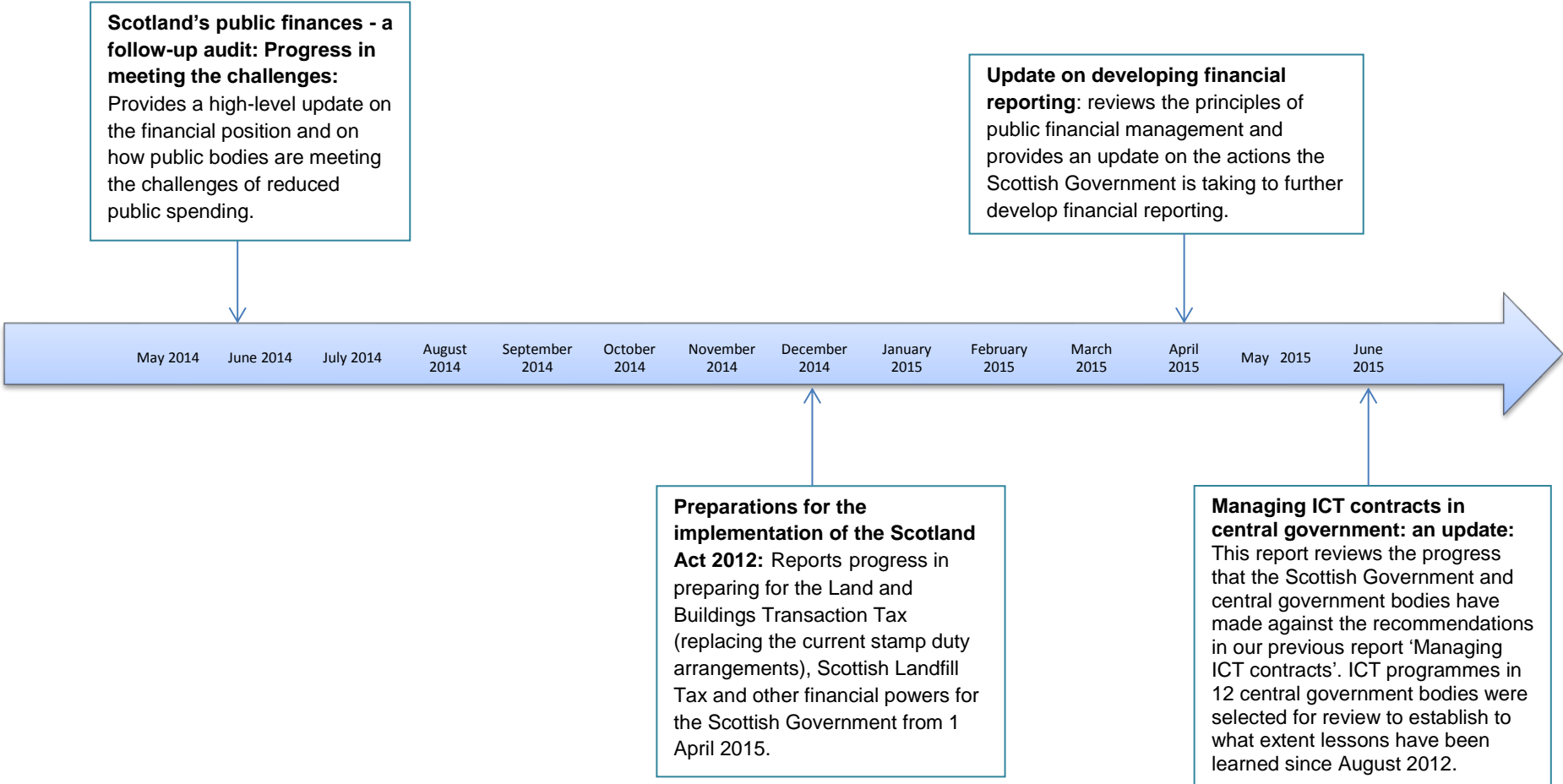
Audit risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Risk of management override of controls Management have the ability to override controls. There is an inherent risk that management manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates • Evaluation of significant transactions that are outside the normal course of business. 	<p>No issues have arisen as part of our audit work that would indicate management override of controls affecting the year end position.</p> <p>Satisfactory</p>
<p>Risks of material misstatement due to fraud in revenue recognition Fraud may occur in income recognition. Based on the material levels of income generated by the Agency there is a presumption that there are risks of fraud in revenue recognition.</p>	<ul style="list-style-type: none"> • Controls testing of the trade receivables system to provide assurance that the procedures for revenue recognition are operating effectively. 	<p>Our testing did not identify any material misstatement of income.</p> <p>Satisfactory</p>

Audit risk	Assurance procedure	Results and conclusions
<p>Third party assets</p> <p>Inaccuracies in third party assets disclosure.</p> <p>There is a risk that information included in the third party asset disclosure in the financial statements relating to assets such as properties, life policies, vehicles, shares and other investments may be inaccurate.</p>	<ul style="list-style-type: none"> • Controls testing of third party asset balances. 	<p>Controls testing of third party bank balance controls was satisfactory. Third party asset information was confirmed to supporting reports during our testing. Prior year figures were restated as a result.</p> <p>Refer to significant findings section on page 8</p>

Appendix II – Summary of local audit reports 2014/15



Appendix III – Summary of national reports 2014/15



Appendix IV – Action plan

No.	Para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1	28	<p>FReM Changes</p> <p>Issue: The 2015/16 FReM has been extensively re-written and includes significant changes to the form and content of the annual report and accounts.</p> <p>Risk: There is a risk that the 2015/16 financial statements will not reflect the revised FReM requirements.</p> <p>Recommendation: Management should review the revised requirements to identify the impact upon their 2015/16 financial statements.</p>	<p>The main changes brought in by the 2015/16 FReM updates have already been noted and will be further discussed by Management at the planning stages of the 2015/16 annual report and accounts.</p>	Rebecca Crook	February 2016
2	63	<p>Framework Document</p> <p>Issue: The Agency's Framework Document has not been reviewed since it was put in place in February 2012. The document is required to be reviewed every three years.</p> <p>Risk: There is a risk that information is out of date.</p> <p>Recommendation: Management are aware of this and should ensure the document is reviewed and updated as necessary.</p>	<p>The Framework Document was due for review immediately before the appointment of a new Chief Executive therefore the decision was taken to wait until he was in post before agreeing any updates. The document is currently under review.</p>	Lisa Shaw	October 2015