

Accountant in Bankruptcy

External Audit Annual Report to the
Accountable Officer and the Auditor General
for Scotland

2016/17 Financial Year

7 August 2017



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Summary of our audit plan:

Materiality has been updated based on draft financial statements to £127,000 (1% of gross 2016/17 expenditure). Our plan calculated materiality was £122,190 based on 2015/16 financial statements.

Performance materiality is £82,000 and we have reported to management everything identified over £1,270 (1% of materiality).

Significant audit risks were: management override of controls; risk of fraud in revenue recognition. Other audit risks were: completeness of operating expenditure and completeness of employee remuneration.

Our wider scope work focused on the future financial sustainability recognising the nature of AiB's activities and its future strategic direction.

We can confirm we are independent of Accountant in Bankruptcy (AiB) and our objectivity is not compromised in accordance with International standards on Auditing (UK & Ireland) and APB ethical standards for Auditors. As we know some of the functions of the Accountant in Bankruptcy (AiB) is to supervise the regulation of Sequestration, Protected Trust Deeds and the Debt Arrangement Scheme (statutory personal debt solutions). This includes supervising the performance of Trustees and Money Advisers in the exercise of their statutory duties on these types of cases. Grant Thornton UK LLP have both Trustees and Money Advisers. As such the AiB interact with and supervise some elements of the work done by these individuals and their teams in respect of statutory personal debt solutions. The Insolvency Team operates completely independent of the Audit Team. This matter was cleared with Audit Scotland on Grant Thornton's appointment as AiB's external auditor. No other direct non-audit services have been provided to AiB in 2016/17.

Key Messages

We intend to issue an unqualified opinion on:

- True and fair view of the financial statements
- Regularity
- Other prescribed matters.

This report is a summary of our findings from our external audit work for the financial year ended March 2017. Our work has been undertaken in accordance with International Standards on Auditing (UK & Ireland) and the Code of Audit Practice (2016).

Our report is addressed to the Accountable Officer (in their role as those charged with governance) and the Auditor General for Scotland. This report will be published on the Audit Scotland website at: www.audit-scotland.gov.uk

This report has been discussed and agreed with management, and presented to the Audit Committee on 2 August 2017 alongside the final audited annual report and accounts.

We would like to thank management and staff for their co-operation and assistance throughout our audit work.

For and on behalf of Grant Thornton UK LLP

7 August 2017.

Our work included:

- An audit of the 2016/17 Annual Report and Accounts
- A review of the Performance Report and Accountability Report, including the Governance Statement and Remuneration Report
- Completion of an European Union (EU) Funding data return recognising the Agency does not receive funding via EU grants
- Completion of the Role of Boards return, recognising the Agency has an Advisory Board arrangement
- Completion of the National Fraud Initiative (NFI) return and review of data matching progress, recognising the Agency does not directly participate in NFI
- Completion of the Scottish Government Consolidation Pack Return.



The Financial Statements Audit



Our audit plan was presented to the Audit Committee on 16 February 2017. We have not altered our planned audit approach as set out in the plan. However, we have updated our final materiality figures based on the draft 2016/17 accounts. Our planned materiality was £122,190 which we subsequently updated to £127,000 taking 1% of unaudited 2016/17 expenditure. Our audit is now complete and we are finalising our closure of the audit including submission of the consolidation schedules made up of the Financial Statements Generator (FSG) and Supporting Notes Workbook (SNW).

Our audit work commenced on-site on 12 June 2017 following a planning visit we completed in December 2016, and our interim visit in April 2017. We received the draft annual report and accounts within the agreed audit timetable. We received adequate working papers to support the accounts with the exception of expected key reconciliations on bank and income, and aged debt and creditor analysis documentation.

We will issue a true and fair audit opinion on the financial statements and an unqualified regulatory opinion.

Appendix 1 outlines one material change to the Cash flow Statement and Statement of Changes in Taxpayers' Equity in relation to the £1.6m consignment funds transaction which was incorrectly included in AiB's accounts as the actual cash flow was direct from the Third Party Assets bank account (funds held outside of AiB's accounts as outlined in memorandum note 14) to Scottish Government Treasury. Scottish Government had posted incorrect journals as the normal treatment for the surrender of consigned funds on closed cases over 7 years had not been followed, which should have been for the funds to flow through AiB's accounts first and then out to Scottish Government. The error has affected a number of related disclosure notes and these are listed in the disclosure changes section of Appendix 1. AiB need to revisit their arrangements with Scottish Government to ensure clear protocols are in place to mitigate the risk of such an error reoccurring.

Appendix 1 also shows there are no uncorrected adjustments affecting the primary statements. We have recommended a number of disclosure changes, which management have made to ensure compliance with the FReM and relevant accounting standards. These are outlined in Appendix 1. In line with triviality we have not found any other potential audit adjustments above £1,270, which we need to bring to your attention.

Internal Control Environment

During the year we have sought to understand AiB's overall control environment as relates to the Annual Report and Accounts.

Internal Control Environment (continued)

In particular we have:

- considered procedures and controls around related parties, journal entries and other key entity level controls;
- performed procedures around IT general controls including the interface of Scotland Executive Accounting System (SEAS) and SAGE; and
- performed walkthrough procedures on key controls around identified risk areas.

Under ISAs we are required to report to those charged with governance the main issues arising from our audit of the Annual Report and Accounts. This report discharges our obligations under the relevant ISAs.

We identified a key control deficiency in that no regular full standard bank reconciliations are undertaken. AiB makes use of several case management and financial reporting systems which ultimately feed into the accounts. For balances that are processed using several systems, reconciliations have not been performed between these systems. In particular, this has an impact on Trade and Other Receivables, Trade and Other Payables, and Revenue entries. In addition, AiB does not evidence authorisation of its manually generated journals.

We consider these control deficiencies to be material, and related recommendations have been raised in our Action Plan on page 17-18. **(Action 2, 3, 4,5)**

Internal Audit

As set out in our plan we have not placed formal reliance on the work of Internal Audit during 2016/17. We have reviewed the Internal Audit Plan, and the 2 internal reports issued with reasonable assurance as considered relevant to our external audit, which are:

- 'Fraud Prevention, Detection and Investigation'; and
- 'IT Project Management' reviews.

Internal Audit's Annual Assurance Report opinion for 2016/17, issued on 10 May 2017 gave substantial assurance for the above assignments.

The findings do not disagree with our knowledge and understanding of AiB as an organisation and its risk profile. No risks were identified by Internal Audit that caused us to re-consider or alter our audit plan.

The Internal Audit Annual Report confirms that the service is provided in accordance with UK Public Sector Internal Audit Standards, the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), and with the standards set out in the Scottish Public Finance Manual (SPFM).

Our identified audit risks

Audit plan identified risk and work completed	Our conclusion
<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is presumed risk that the risk of management over-ride of controls is present in all entities (fraud risk).</p> <p>Work undertaken:</p> <p>Completed a walkthrough of the controls and procedures in place around journal entries.</p> <p>Reviewed the key accounting estimates, judgements and decisions made by management; in particular, the provider fee accrual, depreciation, and bad debt provision.</p> <p>Tested journal entries with a focus on large and/or unusual values; posting sources; unexpected and unusual timing of journals, as identified using our IDEA data analysis software.</p> <p>Reviewed unusual and/or significant transactions.</p>	<p>Key accounting estimates and judgements: We did not identify any significant areas of bias in key judgements by management and judgements were consistent with prior years. For example, the method and valuation process and calculation of bad debt provisions. Also included within accruals is a holiday pay accrual of £146,000. We are satisfied on how management have calculated this accrual and traced this to underlying records.</p> <p>However, AiB did not have a separate revenue recognition policy within its accounting policies. Nor did it have a full disclosure on the critical judgement and estimates around the impact of variations to the average case length assumptions applied to its provider fee accrual. AiB has updated its accounting policies and critical judgements on these areas.</p> <p>Journals: We made inquires of those members of staff who can post and authorise journals related to inappropriate or unusual activity with no concerns noted. We confirmed completeness of journals, identifying 781 Scottish Government and local AiB generated journals during the year. We targeted large and/or unusual journals and noted no issues from our testing. We did note that AiB generated local journals do not have a clear audit trail in terms of evidence of authorisation. (Action 5)</p> <p>Through our substantive audit testing we did not identify any significant transactions out with the normal course of business for AiB.</p>
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 (UK&I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. Having considered the factors set out in ISA (UK&I) 240 and the nature of the revenue streams at AiB, we determined the risk arising from revenue recognition could not be rebutted.</p> <p>Work undertaken:</p> <p>We completed a walkthrough of the controls and procedures in place for each bankruptcy product.</p> <p>We tested a sample of transactions from BASYS and ASTRA, to ensure the completeness of revenue within the financial reporting system.</p> <p>We tested a sample of revenue from the financial reporting system.</p> <p>We have tested a sample of income invoices to check the correct cut-off has been applied.</p>	<p>We have been able to rebut the risk of fraud related to the income streams from the Scottish Government given the nature of the funding received. We agreed the amounts of the parliamentary funding and confirmed its receipt through SEAS.</p> <p>Through our substantive testing of other revenue streams, we are satisfied that revenue has been recognised correctly.</p> <p>However, we have not received a client-prepared full financial year reconciliation between the case management systems and the financial reporting systems in both SAGE and SEAS. Although, AiB has now been able to reconcile income of £3.1m on Protected Trust Deed income between ASTRA and SAGE and bankruptcy products income from BASYS to SAGE to within an immaterial difference £8,500, for the period April to June 2016 and November 2016 to March 2017. It has also provided alternative assurances to prove the completeness of its other material income streams for the full year. We acknowledge that, one of the key issues with these income reconciliations has been as a direct result of the migration from the MIDAS to BASYS system, during July and October 2016. It is critical AiB undertake regular reconciliations between BASYS and SAGE for ‘creditor petition and trustee audit and other statutory fees’, and between BASYS and SEAS for ‘repayment to the public purse’ related income, for assurance over completeness.</p> <p>Our testing also identified that the aged debtor listing produced by SAGE does not fully reconcile to the year-end balance produced by SEAS. Our testing has been selected from the SAGE age debt report and we have been able to check that trade receivables are genuine year-end recoverable amounts.</p> <p>We have carried out cut off testing on a sample of income invoices in March and April 2017 and can confirm they are in the correct accounting period.</p>

Audit plan identified risk and work completed	Our conclusion
<p>Completeness of employee remuneration</p> <p>Employee costs are a large source of expenditure. There is a large number of transactions processed throughout the year and the Accountant in Bankruptcy rely on numerous controls to ensure that employee costs are recorded correctly in the financial statements.</p> <p>Work undertaken:</p> <p>Completed a walkthrough of the controls and procedures in place around the relationship between the Scottish Government payroll and AiB and general payment and recording of payroll.</p> <p>Analytically reviewed payroll expenses in comparison to expectations.</p> <p>Substantively tested SEAS payroll as well as agency staff.</p> <p>Reviewed the relevant disclosures relating to staff costs within the remuneration report.</p> <p>Reviewed the control assurance report produced by Audit Scotland.</p>	<p>We are satisfied that the amounts recorded in SEAS for AiB staff payroll expenditure is appropriate and complete.</p> <p>The payroll information was substantively tested against employment contracts and payslips with no issues noted.</p> <p>The accrual for employee benefits is generated from annual leave not taken and flexible working time credits and it was substantively tested with no issues found in the calculation.</p> <p>We did not identify any issues with the relevant disclosures relating to staff costs within the remuneration report, other than those changes highlighted on page 8.</p>
<p>Completeness of operating expenditure</p> <p>Operating expenses are understated or not recorded in the right period. This risk also relates to Practice Note 10 (revised) in respect of public sector entities which outlines that auditors should also consider the risk that misstatement may occur by the manipulation of expenditure recognition (Fraud risk).</p> <p>Work undertaken:</p> <p>Completed a walkthrough of the controls and procedures in place around purchase ordering, procurement and general payment and recording of expenditure.</p> <p>Gained comfort around the regularity of expenditure and the application of public funds in accordance with the FReM and various legal acts as set out in AiB's direction from Ministers.</p> <p>We are still to complete some substantive testing. We also need to complete cut-off testing on pre-year end and post year end transactions to gain comfort around the completeness and accuracy of recognised expenditure.</p>	<p>We have now received the evidence for the 8 outstanding operating expenditure sampled items. From the substantive sample of 52 tested to date we can confirm the expenditure is complete in terms of not being understated and it all being recorded in the correct period.</p> <p>We are still to complete our testing around unrecorded liabilities and cut-off of expenditure.</p> <p>Our testing identified that there is no review of the provider accrual against actual expenditure. There is a risk that the provider accrual, and the assumptions used, do not reflect actual expenditure and this test will provide AiB with additional assurances on the accuracy of its estimated accrued expenditure and related income. (Action 3)</p>

The narrative elements of your annual report and accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Report and Accounts. We have considered the consistency of this narrative with our understanding of AiB and the financial information set out in the accounts and have set out our observations below.

Annual Report

- Overall the Annual Report was fair, balanced and understandable. Following our observations the Performance report section was updated to show a more illustrative summary of AiB's performance indicators by adding quantum for each key indicator.
- Other suggested changes to the Annual report lead to the inclusion of a complaints disclosure and a link to the register of interest.
- The report includes a financial analysis of AiB's in-year performance.
- In line with best practice performance reports it includes an upfront statement by the Accountable Officer.

Governance Statement

- All key required elements within the FReM are included within the Governance Statement, with one minor update to explicitly reference the Head of Internal Audit's Annual Assurance "substantial assurance" Report.
- Executive directors provide certificates of assurance to the Chief Executive/ Accountable Officer. This provides him with overall robust assurance to support the governance statement disclosures. This approach is in line with best practice and provides a clear paper trail behind the annual governance process.
- The risk and control framework is effectively summarised and covers the key risk areas. AiB has a robust risk register used to underpin its wider governance arrangements.

Remuneration report

- The remuneration report has been completed in line with guidelines and the FReM with the exception of making a clear reference to the elements subject to audit and the following matters:
 - Making it explicit that no exit packages or compensation schemes applied in 2016/17.
 - In accordance with the FReM, an additional disclosure was added to the Remuneration Report to include staff numbers and costs, distinguishing between staff who are permanently employed and other staff.
 - In accordance with the FReM, the staff composition analysis has been updated to disclose senior management separately from other employees.
- The 2015/16 comparatives for a senior member of staff were not disclosed in the first draft of the accounts. The comparative figures were added to the Table of Executive Benefits.
- We have also audited the financial information included in the remuneration report (marked up as audited information). We have no matters we wish to bring to your attention.



Judgements and estimates

We consider other aspects of your annual report and accounts, in particular key areas of judgement. We have summarised below our observations in these key areas:

Accounting Policies

- Accounting policies are in accordance with the Financial Reporting Manual (FRM) and we consider these to be appropriate to AiB and have been applied consistently in practice.
- The revenue recognition policy was omitted from the first draft of the accounts, and raised as a disclosure misstatement. See page 14 for details.

Accounting estimates and judgements

- We have identified and gained comfort over the following key estimates and judgements:
 - Plant, Property and Equipment (PPE) depreciation policies are in line with prior year and the FRM.
 - Intangible asset amortisation policies are in line with prior year and the FRM.
- Following audit recommendations, the critical judgement disclosure was updated to clearly outline the sensitivity of the assumptions to variations in the provider accrual. The disclosure note now includes an assessment of the impact of a 3 month variation on the case length assumption.

Going Concern

- AiB has an agreed budget for 2017/18 and continues to discuss future funding with the Scottish Government. Given the nature of the services delivered by AiB which are set out in various legislation we have no reason to doubt that AiB won't continue to operate beyond 12 months of the date of our opinion. AiB has a Corporate Plan to 2020 and has undertaken some medium term scenario planning.

Timing of transactions and period in which they are recorded (Cut off assertion)

- Through our substantive audit testing we did not identify any concerns over timing of transaction or the period in which they were recorded.

Impact on the financial statements of any uncertainties

- No uncertainties have been identified which have an impact on the final annual report and accounts.

Future financial sustainability and strategic direction



Future financial sustainability and medium to longer term financial forecasting

We acknowledge that AiB as an executive agency of the Scottish Government is on an annual budget cycle. However, we do see scope in AiB developing a medium term aspirational financial plan to align to its “2020 Business Strategy”. **(Action 6)**

This comprehensive “2020 Business Strategy” was launched in July 2017. It clearly sets out AiB objectives and key actions for 2017-2018 and provides a look ahead to its medium term priorities covering the period 2017 to 2020. It defines a structured programme of improvement and sets out the following strategic purpose areas to:

- Deliver core products
- Drive continuous improvement
- Build and maintain effective stakeholder relationships.

There are risks and opportunities in delivering this “2020 Business Strategy”, which could be better articulated within it. For example, there are opportunities for AiB to explore options for future ways to generate efficiencies, within the parameters of this and supporting strategies. We acknowledge that, AiB has a robust Corporate Risk Register in place, which is well managed but future strategic and business plans should include reference to the key risks and opportunities in delivering on its priorities. **(Action 7)**

The resourcing of this plan is supported by the “2017-18 Business Plan” but this is only up to March 2018. Total planned operating costs are £12.4m with revenue of £12.5m and capital operating costs of £1.3m. The budget allocation from Scottish Government for 2017-18 has been set at £500,000 resource and £700,000 capital. However, AiB requires significantly more capital budget in 2017-18 in order to deliver essential IT systems and systems development. In order to address this £600,000 of resource budget has been transferred to capital. This does place significant pressure on the revenue cost base of AiB, especially as the operating expenditure for 2016/17 was £12.6m.

As income realisation from bankruptcy generally runs four years in arrears it makes financial modelling difficult. AiB acknowledges that, as discharged case volumes begin to reduce in line with a historic reduction in awards, it is expected the income realised in the year will also reduce, resulting in a greater requirement for funding from the Scottish Government in the future.

We acknowledge that AiB did carry out some assumption scenario planning based on the 2015 spending review. However, it could benefit from a more current modelling of a number of financial scenarios up to March 2020. This could cover a range of different case load levels and to reflect on all of its current ambitious strategic priorities. **(Action 5)**

Throughout the year financial performance compared to budget is reported to AiB’s Executive Team, the Board and on a quarterly basis to the Audit Committee. These reports are detailed, and are clear on associated risks and consequences. Narrative is appropriately split out across central funding, revenue and capital expenditure.

Based on our knowledge, review of Board meeting papers and attendance at the Audit Committee we conclude that AiB has good financial management arrangements in place.

Strategic direction, capacity and capability

AiB has put in place a Workforce Planning Board and Group in response to previous external audit recommendations made by Audit Scotland. A workforce Planning Strategy and timeline is in place as well setting out 7 steps to ensuring successful implementation of workforce planning and how the Board and Group work together.

The Workforce Planning Group meets quarterly to consider workforce requirements and to manage the skills matrix and vacancy management. AiB has also made good progress in developing a skills register in assessing current and future workforce needs. AiB has a costed Workforce Plan in place for 2017/18. Wider plans and a more detailed framework for the longer-term is being developed alongside the corporate planning work to ensure that sufficient skills and capacity are in the organisation to deliver on its corporate priority areas. **(Action 8)**

The Finance function is overseen by an Acting Head of Finance, who is a member of the AiB’s Executive Team and Board. At the time of our audit the finance team did have a Finance manager vacancy which has just been filled with a temporary appointment from July to December 2017. AiB need to closely monitor this position to ensure the finance team has sufficient financial skills, capability and most importantly capacity to ensure an appropriate financial control environment operates. **(Action 8)**

Appendices

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Audit adjustments

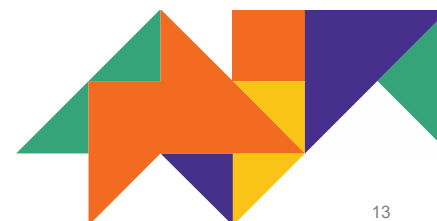
During the course of the audit one accounting treatment error relating to the consigned funds of £1.6m has been brought to our attention. Management has applied the correct accounting treatment for this one error and the accounts have been amended as outlined below:

Corrected misstatements

	Statement of Financial Position	Statement of Cash Flows	Statement of Changes in Taxpayers' Equity
	£000	£000	£000
Statement of Financial Position:			
Trade receivables	Was 2,629 Now 995		
General Fund	Was 6,160 Now 4,526		
Statement of Cash Flows:			
(Increase)/decrease in trade and other receivables		Was (1,202) Now 431	
From Scottish Consolidated Fund		Was 2,365 Now 732	
Statement of Changes in Taxpayers' Equity:			
Parliamentary Funding			Was 2,365 Now 732

Uncorrected misstatements

	£000	£000	£000
None	-		-



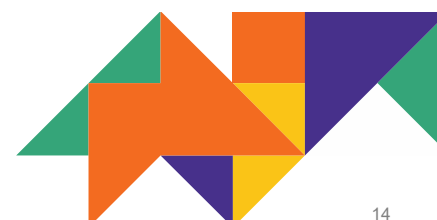
Audit adjustments

Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow audit committees to evaluate the impact of these matters on the financial statements. During the course of our audit, we identified a number of disclosure errors, which management have corrected with the more significant changes highlighted below.

Adjusted disclosure misstatements

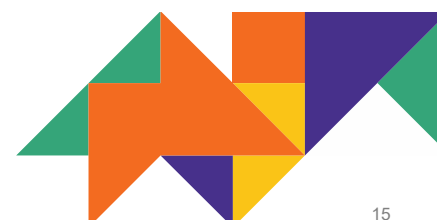
Adjustment Type	Value £000	Account balance	Impact on the financial statements
Disclosure	N/A	Accounting Policies	Inventory policy has been removed as not applicable to AiB.
Disclosure	N/A	Note 1.4 – Critical Judgments	The provider accrual estimates the costs of outsourcing An additional disclosure was added to Note 1.4 to demonstrate the impact of a 3 month variation on the case length key assumption used to estimate the provider fee accrual.
Disclosure	N/A	Note 1.6 – Revenue	The revenue recognition policy was omitted from the first draft of the annual report. A disclosure has been added as Note 1.6 which outlines the recognition of income across each of the main bankruptcy product areas.
Disclosure	N/A	Note 3 – Staff Costs	In accordance with the FReM, an additional disclosure note was added for staff costs, now included at Note 3. The Statements of Comprehensive Net Expenditure previously referenced to the remuneration report.
Disclosure	N/A	Note 6 – Intangible Assets	An additional disclosure to this note was recommended to distinguish between internally generated intangible assets from purchased intangible assets, as required by the FReM. Narrative has been added to confirm that all intangible assets are purchased.
Disclosure	N/A	Note 8 – Cash and Cash Equivalents	An additional disclosure was recommended to clarify that all bank account are held with commercial banks, as required by the FReM. Narrative has been updated to confirm that all bank accounts are held with commercial banks.



Audit adjustments




Adjusted disclosure misstatements (continued)

Adjustment Type	Value £000	Account balance	Impact on the financial statements
Disclosure	Was 2,088 Now 454	Note 7 – Receivables	Connected to the corrected misstatement on page 13.
	Was (1,202) Now 431	Note 10 – Movements in working capital other than cash	There was an administrative error during the year and incorrect journal entries were made. This error has resulted in incorrectly increasing the accrued income and parliamentary funding position by £1.6m.
	Was 453 Now 454	Note 11 – Financial Instruments	After further investigation and agreement with AiB and the Scottish Government, the journals have been reversed, affecting the Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayer's Equity, and the notes as outlined here.
Disclosure	Was (737) Now 71	Note 10 – Movements in working capital other than cash (15/16)	Note 14 - Third Party Assets is correct as the funds had actually been taken out and paid direct to SG treasury in January 2017.
	Was (297) Now (511)	Note 10 – Movements in working capital other than cash (15/16)	



Follow up on prior year recommendations

We have undertaken a follow up of outstanding recommendations from prior years raised by the previous external auditors, Audit Scotland. The results of our work are outlined below:

Prior year finding	Action in 2016/17	
<p>Submission of annual report</p> <p>Issue: The annual report submitted for audit was a working draft which contained various disclosure errors and with sections outstanding including key information in the Remuneration Report and Staff Report.</p> <p>Recommendation: Management should ensure that the annual report is quality checked before it is submitted for audit.</p>	<p>AiB has worked closely with External Audit throughout the drafting of the report and regularly shared working drafts to ensure the report meets requirements.</p> <p>As outlined in the remuneration section on page 8, good progress has been made but there is scope for further improvement in the future to ensure full compliance on the Remuneration Report.</p>	 Amber
<p>Asset Tagging</p> <p>Issue: During testing we identified that not all assets listed on the asset register have an asset tag number.</p> <p>Recommendation: Management should ensure that all assets listed in the asset register are tagged with a unique reference number.</p>	<p>A significant proportion of assets in the register are IT development and therefore there is no asset as such to tag.</p> <p>Where there are groups of physical assets (e.g. computers) these are entered on the register as one asset and we have agreed to refer to the IT asset register numbers for these.</p>	 Green
<p>Workforce Plan</p> <p>Issue: The Agency do not currently have an organisation-wide workforce plan.</p> <p>Recommendation: The Agency should develop a workforce plan that it proportionate to its size and nature.</p>	<p>A proposal outlining workforce planning was approved by the senior management team in February 2016, and the Term of Reference for the Workforce Planning Board and the Workforce Planning Group were approved in March 2016. Workforce planning has been performed in 2016/17 and more detail is included in the wider scope element of this report.</p>	 Green



Not implemented (red)



Partially implemented (amber)



Fully implemented (green)

Action Plan for 2016/17

During the course of our 2016/17 audit work we have identified the following actions for management:

	Area	Issue & Risk	Priority	Recommendation and management response
	Accounts			
1	Consigned funds	Scottish Government had posted incorrect journals as the normal treatment for the surrender of consigned funds on closed cases over 7 years had not been followed which should have been for the funds to flow through AiB's accounts first and then out to Scottish Government. The error has affected a number of related disclosure notes and these are listed on disclosure changes section of Appendix 1. AiB need to revisit their arrangements with Scottish Government to ensure clear protocols are in place to mitigate the risk of such an error reoccurring.	High	<p>Review and update transfer of consignment fund transactions and journal posting protocols between AiB and the Scottish Government Finance Team.</p> <p>Management response: AIB had followed advice from SG finance however a series of errors, including a mis-posting by treasury & banking resulted in these funds being incorrectly stated. It is accepted that the process for surrendering the consigned funds should be reviewed and this will be undertaken in conjunction with SG colleagues.</p> <p>Implementation Date September 2017</p> <p>Action owner Amanda Dowse</p>
2	Cash	Standard signed and approved bank reconciliations are not performed, to reconcile the balances on the general ledger to the cash balances held in the bank accounts.	High	<p>Perform monthly bank reconciliations between bank statements and SEAS that include clear evidence of prepared by checks and authorisation.</p> <p>Management response: We agree to implement an additional step to our monthly clear out processes to meet the requirements of a full bank reconciliation. Currently, balances in operational bank accounts are cleared out monthly to SG and these are checked and agreed by the finance officers. The debtor application account is cleared out monthly with the exception of funds yet to be identified. A list of these is maintained until these can be allocated against a case (and subsequently the balance is cleared out to SG) Any balance on the main account represents 3rd party funds that are required to be allocated to a case bank account.</p> <p>Implementation Date September 2017</p> <p>Action owner Amanda Dowse</p>

Action Plan for 2016/17

During the course of our 2016/17 audit work we have identified the following actions for management:

	Area	Issue & Risk	Priority	Recommendation and management response
	Accounts			
3	Trade and Other Payables	Our testing identified that there is no review of the provider accrual against actual expenditure. There is a risk that the provider accrual, and the assumptions used, do not reflect actual expenditure and this test will provide AiB with additional assurances on the accuracy of its estimated accrued expenditure and related income.	Medium	<p>Develop a method to compare the provider accrual to actual case expenditure.</p> <p>Management response: The provider accrual is based on actual volumes of cases updated every month as new cases are allocated. Assumptions are made on average length of case and when fees will be paid to the provider. It would be too cumbersome to follow every case to check actual fees paid against the accrual however a reasonable sized sample of cases will be reviewed during 2017/18 to check the accuracy of the calculation.</p> <p>Implementation Date 31 March 18</p> <p>Action owner Amanda Dowse</p>

Action Plan for 2016/17

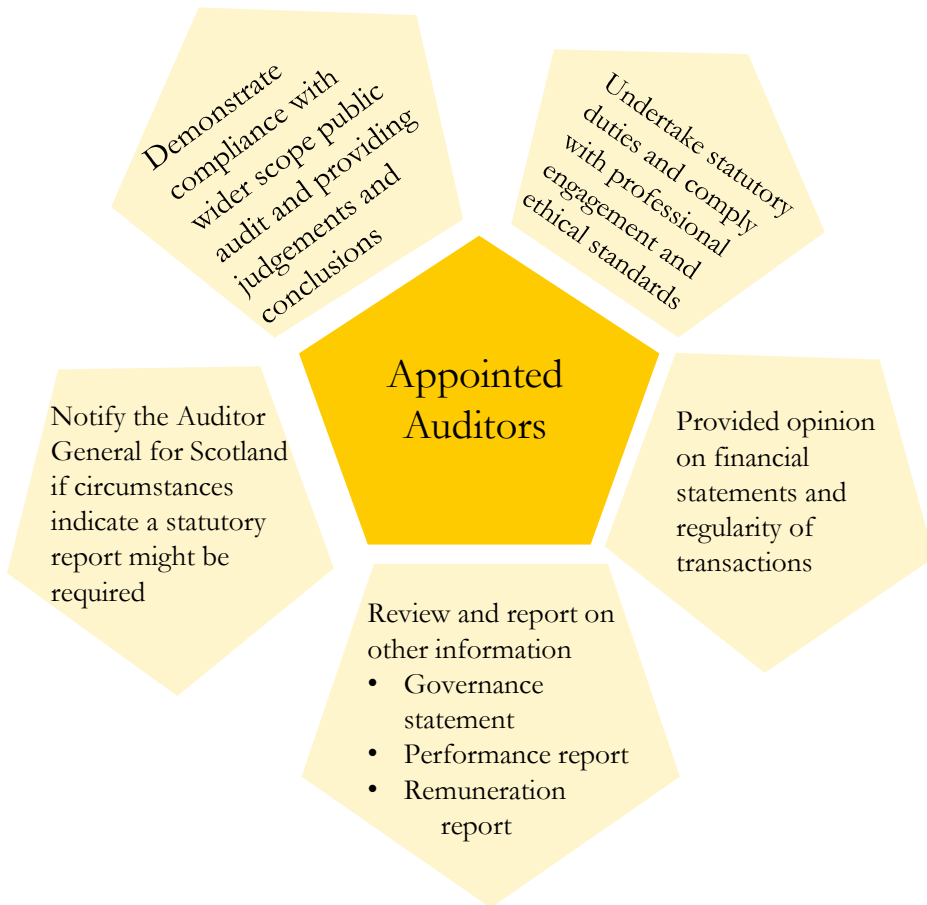
	Area	Issue & Risk	Priority	Recommendation
	Accounts			
4	Income reconciliations	<p>However, we have not received a client-prepared full financial year reconciliation between the case management systems and the financial reporting systems in both SAGE and SEAS. Although, AiB has now been able to reconcile income of £1.9m on Protected Trust Deed income between ASTRA and SAGE and bankruptcy products income from BASYS to SAGE to within £9,000, for the period November 2016 to March 2017. It has also provided alternative assurances to prove the completeness of its other material income streams for the full year. We acknowledge that, one of the key issues with these income reconciliations has been as a direct result of the migration from the MIDAS to BASYS system, during July and October 2016. It is critical AiB undertake regular reconciliations between BASYS and SAGE for 'creditor petition and trustee audit and other statutory fees', and between BASYS and SEAS for 'repayment to the public purse' related income, for assurance over completeness.</p>	High	<p>Undertake regular income reconciliations between BASYS and SAGE for 'creditor petition and trustee audit and other statutory fees', and between BASYS and SEAS for 'repayment to the public purse' related income.</p> <p>Management response: The reports required to undertake the BASYS to SAGE reconciliation have now been created to provide audit assurance of immaterial differences for 8 months of the 2016/17 financial year. We will undertake monthly reconciliations moving forward. For RPP funds at present any anomalies would be identified through the normal course of business, however from 2017/18 AiB agree to review the RPP transactions from Basys against the funds in the bank.</p> <p>Implementation Date September 2017 Action Owner Amanda Dowse</p>
	Trade and Other Receivables	<p>Our testing identified that the aged debtor listing produced by SAGE does not reconcile to the year-end balance produced by SEAS. Our testing has been selected from the SAGE age debt report to check trade receivables are genuine year-end recoverable amounts.</p>	Medium	<p>Perform a reconciliation between the SAGE and SEAS receivables balances and update SAGE on a timely basis for cash movements recorded in SEAS.</p> <p>Management response: The in-year movement of debtors has been reconciled however AiB accept that the Sage balance does not reconcile with SEAS and this will require to be reviewed during 2017/18. Monthly reconciliations will also be carried out between the two systems and signed off by the Finance Manager/Head of Finance.</p> <p>Implementation Date 31 March 2018 Action owner Amanda Dowse</p>
5	Journal Authorisations	<p>We confirmed completeness of journals, identifying 781 Scottish Government and local AiB generated journals during the year. We targeted large and/or unusual journals and noted no issues from our testing. We did note that AiB generated local journals do not have a clear audit trail in terms of evidence of authorisation.</p>	High	<p>Ensure all manual journals are clearly authorised.</p> <p>Management response: We accept this recommendation and will update our manual journal procedures to include authorisation.</p> <p>Implementation Date 30 September 2017 Action owner Amanda Dowse</p>

	Area	Issue & Risk	Priority	Recommendation
	Limited wider scope review			
6	Future financial sustainability and medium to longer term financial forecasting	<p>We acknowledge that AiB as an executive agency of the Scottish Government is on an annual budget cycle. However, we do see scope in AiB developing a medium term aspirational financial plan to align to its “2020 Business Strategy”</p> <p>We acknowledge that AiB did carry out some assumption scenario planning based on the 2015 spending review. However, it could benefit from a more current modelling of a number of financial scenarios up to March 2020. This could cover a range of different case load levels and to reflect on all of its current ambitious strategic priorities.</p>	High	<p>Develop a medium to long term financial plan, utilising scenario planning and forecasting to test delivery of its strategic objectives against a range of future case load and funding positions.</p> <p>Management response: The forthcoming spending round is expected in September and based on current advice this will be a 2 year budget and will therefore allow us to forecast beyond the current year. Our 17/18 business plan has an objective to develop a finance strategy and to review forecasting models.</p> <p>Implementation Date 31 March 2018</p> <p>Action owner Amanda Dowse</p>
7	Future financial sustainability and medium to longer term financial forecasting	<p>There are risks and opportunities in delivering the “2020 Business Strategy”, which could be better articulated within it. For example, there are opportunities for AiB to explore options for future ways to generate efficiencies, within the parameters of this and supporting strategies. We acknowledge that, AiB has a robust Corporate Risk Register in place, which is well managed but future strategic plans should include reference to the key risks and opportunities on delivering its priorities. AiB also incorporates the management of risks in its annual business plans.</p>	Low	<p>Incorporate detailed considerations of strategic risks and opportunities within future strategic planning documents.</p> <p>Management response: Our “2020 Business Strategy” is now supported by the 17/18 business plan and local branch plans. Our corporate risk register highlights the risks that will prevent us delivering against the strategy and the business plan and looks forward through each quarter to review actions and mitigations. We will factor explicit reference to risks and opportunities within future strategic planning documents.</p> <p>Implementation Date Ongoing</p> <p>Action owner Lisa Shaw</p>

	Area	Issue & Risk	Priority	Recommendation
	Limited wider scope review			
8	Strategic direction, capacity and capability	<p>AiB has also made good progress in developing its workforce planning arrangements in assessing its current and future workforce needs. AiB has a costed Workforce Plan in place for 2017/18. However, wider plans and a more detailed framework for the longer-term is being developed alongside the corporate planning work to ensure that sufficient skills and capacity are in the organisation to deliver on its corporate priority areas.</p> <p>AiB need to closely monitor the resourcing position within the finance team to ensure it has sufficient financial skills, capability and most importantly capacity to ensure an appropriate financial control environment operates.</p>	Medium	<p>Develop workforce planning to include an organisation-wide workforce plan covering medium to long term forecasts of staff numbers, costs and skills.</p> <p>Monitor the resourcing position within the finance team to ensure it has sufficient financial skills, capability and most importantly capacity to ensure an appropriate financial control environment operates.</p> <p>Management response: We will continue to actively monitor our workforce plans/requirements and match resources to priorities through all of our approved governance structures, namely, SMT, Board, Audit and Fraser Figure.</p> <p>Implementation Date Ongoing</p> <p>Action owner Lisa Shaw</p>

D Reminder of Responsibilities and audit fees

The Code of Audit Practice sets out responsibilities of the audited body (pages 10, 11 and 12) across: Corporate governance; financial statements and related reports; standards of conduct for prevention and detection of fraud and error; financial position; and value for money (as described in the Scottish Public Finance Manual). As appointed auditors our responsibilities are set out on page 13 of the Code and are summarised below.



An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with ISAs and the Code and may not be all that exist.

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control. We have requested a standard letter of representation from the AiB, with specific representations on accrual provider estimates, completeness of income and third party assets.

AiB has not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We have not been made aware of any incidents of fraud or corruption, from the AiB activity perspective, in the period and no other issues have been identified during the course of our audit procedures.

Audit Fees

	Planned fee £	Actual fee £
External Auditor Remuneration	32,240	32,240
Pooled Costs and contribution to Audit Scotland	9,850	9,850
Total	42,090	42,090

The audit fee is calculated in accordance with guidance issued by Audit Scotland. Your total fee for the 2016-17 external audit is £42,090, which is no change from what we reported in our Audit Plan back in February 2017. Note we have not carried out any other audit or non-audit related work for the AiB in 2016/17.





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This proposal is made by Grant Thornton UK LLP and is in all respects subject to the negotiation, agreement and signing of a specific contract/letter of engagement. The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP.

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