



Accountant in Bankruptcy (AiB)

External Audit Plan for the financial year ending 31 March 2019

Accountable officer and the Audit Committee 6 February 2019

Final Plan

Joanne Brown
Engagement Leader

John Boyd
External Audit Senior
Manager



Our audit at a glance



We fulfil our responsibilities per ISAs (UK) and the Audit Scotland Code of Audit Practice throughout our work.



Materiality is set at 1.6% of gross income based on 2017/18 audited information (£197,000). The materiality threshold is unchanged from the prior year (2017/18: 1.6%) reflecting our professional judgement.



Significant audit risks are: management override of controls; the risk of fraud in revenue as set out in International Auditing Standards (ISAs UK); and the risk of fraud in expenditure recognition as set out in Practice Note 10.

An audit
underpinned by
quality and adding
value to you



Performance materiality is set at 75% and trivial is 5% of materiality. This reflects our understanding of AiB in year 3 of our audit cycle.



Our audit is undertaken in accordance with the Code of Audit Practice. We do not consider a full wider scope audit scope appropriate for AiB recognising the nature of income and expenditure. However, we will consider AiB's financial sustainability and governance disclosures as reflected in the annual governance statement.

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Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016 ('the Code').

Our overall objective is a effective, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- ✓ professional scepticism
- ✓ a focus on audit risks and key areas of officer judgement
- ✓ Delivering a quality audit through our experienced public sector audit team, use of data analytics to focus our audit and understanding of the organisation
- ✓ clear and upfront communications, with regular communication during the year
- ✓ reporting with focused actions which will support you in improving your controls/operations

Audit timeline



Key audit deliverables

2018/19 Deliverables as set out in the Audit Scotland planning guidance (October 2018)

- Confirmation of agreed fee by end of February 2019
- Annual quality report to the Auditor General and Accounts Commission (January 2019)
- Current issues return for Central Government to Audit Scotland (21 January 2019 and 19 July 2019)
- Submission of fraud cases to Audit Scotland on a quarterly basis
- Submission of annual audit report and audited accounts (deadline 31 October 2019)

Planned Audit Scotland publications which may be relevant AiB

- Digital progress in central government and health (reporting early 2019/20)
- Modern Apprenticeships

External Audit deliverables for 2018/19 – Audit Committee

- External Audit Plan (this document).
- Annual Report to the Accountable Officer (August 2019).
- Audit opinion (August 2019).
- Management letter of representation (August 2019).

Materiality



We undertake your audit in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Financial Statements:

- give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance
- regularity of expenditure and income
- the wider information contained in the financial statements e.g. Performance Report, the Accountability report including the Corporate Governance Report and Governance Statement, and management commentary are consistent with the disclosures in the financial statements

Basis for materiality

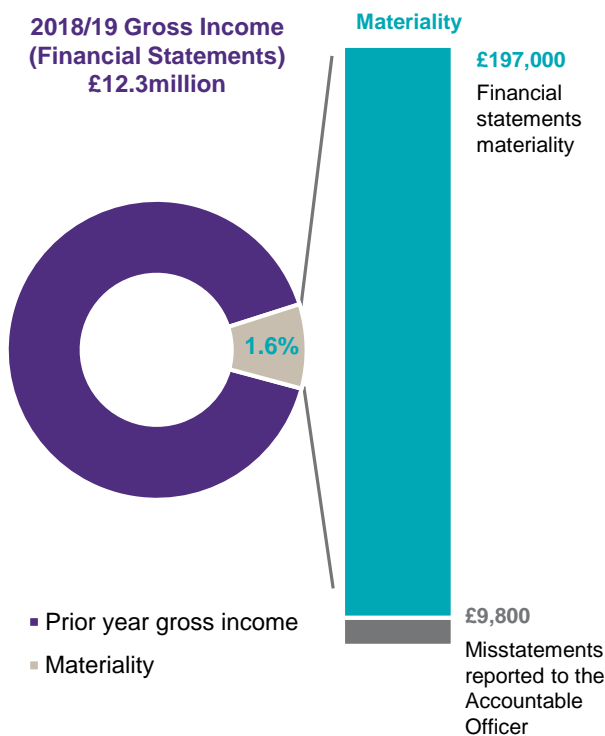
We calculated financial statement materiality based on AiB's 2017/18 gross income (£12.3m). We have determined materiality to be **£197,000**, which equates to approximately **1.6%** of your gross income in 2017/18. This is based on our judgement of our consideration of material to the user of the account based on understanding of AiB. We will update our materiality based on the draft 2018/19 financial statements. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Performance materiality

Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. Based on our audit experience in 2017/18, we have set performance materiality at 75% of total materiality and this remains unchanged from prior year (2017/18: 75%). Performance materiality determines those accounts which testing will be undertaken on and the level of sample testing performed where applicable.

Reporting to those charged with governance

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Accountable Officer and the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be **£9,800**.



A risk based audit methodology

This is our third year as the external auditors of AiB appointed under the Audit Scotland framework. In 2017/18 AiB generated approximately £12.3 million of income from fees and charges and received approximately £722,000 in funding allocations from the Scottish Government. AiB's 2020 Business Strategy, was developed in 2017 and outlines the organisations key strategic goals and how the delivery of these will be measured. Underpinning the strategy is the 2018/19 business plan which provides a high level overview of AiB's proposals for the year and the means by which it will deliver its core functions.

Income from bankruptcy is generally realised four years in arrears. AiB therefore must deliver services to meet current operational requirements whilst being cognisant of future income levels. Along with implementing technological solutions to enhance service delivery, management is consulting with key stakeholders on the funding of the organisation. Due to the nature of a number of the insolvency cases that AiB are involved with, it can often face challenges in recovering the full cost on individual insolvency cases.

Overview of our audit risks identified at planning and our proposed approach

	Risk of fraud in revenue	Risk of fraud in expenditure	Management override of controls
The Risk	<p>As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. The majority of AiB's income is generated from income from charging schemes or recoveries (not grant-in-aid related). The risk is prevalent primarily on transactions around the year end where there is a inherently higher risk of misstatement.</p>	<p>Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities, we recognise that there is a risk that expenditure could be materially misstated. The risk is prevalent primarily on transactions around the year end where there is a inherently higher risk of misstatement.</p>	<p>As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities</p>
Our planned response	<ul style="list-style-type: none"> • Walkthroughs of the controls and procedures around material income streams and validation of key controls where appropriate • Agree income in year to supporting receipts/invoices/cash • Performing cut-off procedures and substantive testing over pre year end transactions • A focus on recoverability of balances 	<ul style="list-style-type: none"> • Perform cut off at year end on post year end transactions and recording. • Analytical procedures over expenditure around the year end to gain assurance over completeness of expenditure • Testing for unrecorded liabilities • Walkthrough of the key expenditure controls in place. 	<ul style="list-style-type: none"> • A focus on understanding how/where management override of controls may occur • Review of the controls over journal entries • Understanding key areas of judgement within the Financial statements and the basis for these judgements and the application of accounting policies. In particular, income and expenditure accruals around provider fees. Including agreement to third party confirmation to support the provider accrual. • Reviewing unusual and/or significant transactions and testing of these to ensure complete and accurate

Going concern considerations

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements, alongside our assessment based on substantive testing and audit procedures.

Working with Internal Audit

We will aim to not duplicate the work of your internal auditors. We will consider the internal audit plan for 2018/19 and identify any particular areas relevant to our audit responsibilities and any area of risk which may impact on our planned testing approach. We will continue to consider internal audit work throughout the year and maintain an ongoing, open, dialogue with internal audit.

Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls. In particular considering the work of Audit Scotland in their role of Scottish Government external auditors.
- Perform walkthrough procedures on key controls around identified risk areas including payroll expenditure, other expenditure, journal entries and material areas of management estimate and judgement including those around the provider accrual.

Wider scope approach - Smaller Body arrangements

For smaller bodies the Audit Scotland Code of Practice permits auditors to not apply the full wider scope audit. In our judgement, taking into account the nature of AiB operating activity and income and expenditure streams, we feel it is appropriate to continue to treat you as a smaller body under the Code. However, in accordance with Audit Scotland planning guidance, we will update our understanding of your arrangements for ensuring financial sustainability as well as your governance arrangements in place to support disclosures contained within the annual governance statement included within your financial statements.

Audit Scotland Planning guidance – areas for auditor consideration

Audit Scotland Audit Planning guidance outlines certain areas for consideration. We will consider the following areas, where relevant to AiB, and comment in our annual report as appropriate.

- EU Withdrawal;
- Changing landscape for public financial management;
- Dependency on key suppliers; and
- Openness and transparency.

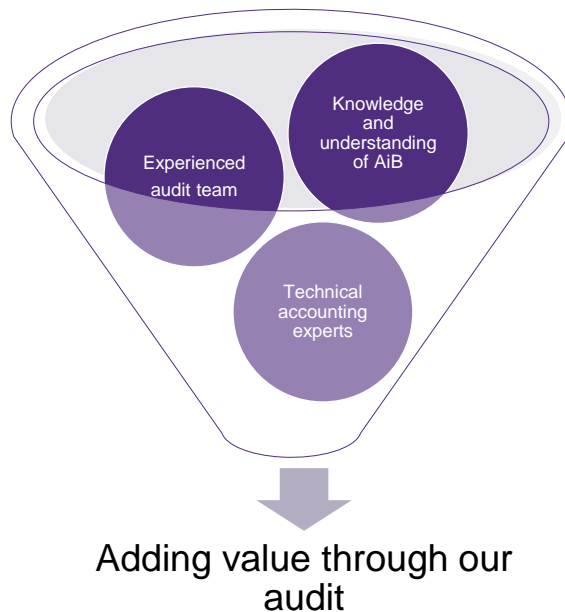
Adding value through our work

Adding value throughout our work

Our principle audit responsibility is to deliver a robust and effective audit of AiBs financial statements to enable us to provide an independent opinion on the financial statements.

To deliver this, we utilise a skilled and experienced audit team, with a good understanding of AiBs key activities and financial processes. Our audit methodology is ISA compliant and we have recently invested in new audit software to ensure more tailored, efficient and focused audit testing.

Beyond our core assurance, we aim to add value through our work. A discussion was held at the Audit Committee in November where we discussed what added value would mean to the Committee members including the Accountable Officer and the Head of Finance specifically to AiB. Captured below are the key points noted alongside how we propose to deliver against the added value objectives and the measurement.



Our commitment	Measures	Benefit to AiB
Our audit team for both interim and final visits has been identified to have knowledge and understanding of AiB's key activities, financial systems and processes, whilst strengthened from previous years to have a more experienced team onsite.	<ul style="list-style-type: none"> Efficient audit process meeting key deliverable dates Management feedback from audit process including improvement in satisfaction survey results. 	<ul style="list-style-type: none"> More efficient and effective audit process with less reliance on AiB Management support Greater focus on key risks and challenge, scrutiny and insight
We will share our knowledge and experience from involvement in a range of public and private sector clients. This will be through the form of formal reports, on site communication with management as well as through participation at the Audit Committee	<ul style="list-style-type: none"> Attendance and participation at Audit Committee (EL 2 out of 4 meeting / Senior Manager 4 out of 4 meetings) Shared insights through our annual external audit reports. 	<ul style="list-style-type: none"> Where applicable we will share knowledge and understanding of developments across the public sector and other organisations which we are involved with. Either Engagement Lead or Senior Manager attendance at Audit Committee
Early support for new or emerging technical accounting areas and sharing of applicable public sector publications through sharing relevant guidance, good practice and, if required and appropriate, early assurance work around application of the new standards / guidance.	<ul style="list-style-type: none"> Sharing of informative with Management in advance Early support and guidance around new or emerging technical issues. Resolution of technical matters before year-end audit commences 	<ul style="list-style-type: none"> Technical support and guidance to Management Reduce risk of potential 'surprises' during audit process as a result of unforeseen changes in accounting treatment
We will deliver a high quality, ISA compliant audit	<ul style="list-style-type: none"> Internal audit quality inspections Independent external inspection of audit files conducted by the Institute of Chartered Accountants in Scotland on behalf of Audit Scotland 	<ul style="list-style-type: none"> We will provide a high quality audit process ensuring that independent audit opinion is based on fully ISA compliant audit methodology.

Appendices

Key audit deliverables and our team

Fees and independence

Fraud arrangements

Respective responsibilities

Communication of audit matters with those charged with governance

Key audit deliverables and our team

Activity

2018

Key audit deliverables

October to December 2018

- Meeting with the finance team to reflect on 2017/18 lessons learned and start planning conversations for 2018/19
- Review of minutes and completion of our internal planning processes



Jan & Feb 2018
Planning and Interim Work

During January and February 2019

- Review of minutes
- Completion of risk assessment
- Review of internal audit

March 2019

- Interim visit for walkthroughs of processes/controls and substantive testing of selected account balances for the first 9 months of the financial year

2019



February 2019

- Presentation of our External Audit 2018/19 plan to the Accountable Officer and Audit Committee
- Audit Committee enquiry with regards to fraud and completion of fraud risk questionnaire
- Current issues return 1 (deadline 21 Jan 2019)

May 2019

- Update on any new technical matters/guidance
- Grant Thornton Transparency Report

Final accounts visit

June 2019

- Year end audit fieldwork commences
- Audit findings meeting with Senior Management



Completion/ reporting

August 2019

- Annual Report to the Accountable Officer and Audit Committee
- Sign financial statements opinion



July & August 2019

- Once signed submit the financial statements and our Annual Report to Audit Scotland
- Current issues return 2 (Deadline: 19 July 2019)

Debrief

September 2019

- Debrief and learning meeting



Our team

Joanne Brown Director T 0141 223 0848 E joanne.e.brown@uk.gt.com	John Boyd Senior Manager T 07880 456 126 E john.p.boyd@uk.gt.com
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In addition we will use our Accounting technical team as required

Fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	33,320
Pooled Costs	8,570
Contribution to Audit Scotland costs	1,940
Contribution to Performance Audit and Best Value	0
2018-19 Fee	43,830

Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 10% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. We cannot reduce the fee from the baseline set out by Audit Scotland. The above proposed fee, set at the base fee, has been agreed with management. The fee is based on the following assumptions:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and AiB activities will not change significantly from planned
- AiB will make available management and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final)
- Confirmations from applicable third parties to support year end provider accrual and corresponding debtor

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified. Through insolvency advice and support to clients, Grant Thornton may have professional interactions with AiB. However, we do not consider these to impact or impede our audit independence.

Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at AiB.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- Leading a discussion with those charged of governance (for AiB this is assumed to be the Audit Committee) on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at AiB we will report to the Auditor General as required by Audit Scotland.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is AiB responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with AiB to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Respective responsibilities

As set out in the Code of Audit Practice (pages 10 to 16) there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	AiB Accountable Officer Responsibilities
Corporate governance	<ul style="list-style-type: none"> Establishing arrangements for proper conduct of its affairs Legality of activities and transactions Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)
Financial statements	<ul style="list-style-type: none"> Preparing financial statements which give a true and fair view of their financial position Maintaining accounting records and working papers Putting in place systems of Internal Control Maintaining proper accounting records Preparing and publishing an annual governance statement, management commentary and remuneration report Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money
Financial position	<ul style="list-style-type: none"> Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value
Fraud and error	<ul style="list-style-type: none"> Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed

Our responsibilities



- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements and where appropriate regularity of transactions
- Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
- Notify the Auditor General when circumstances indicate a statutory report may be required
- Review the organisations financial sustainability arrangements and the governance statement (front end of the accounts)

How do we do this in practice



- Consideration of adequate disclosures in the Annual governance statement
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of AiB
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us 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.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Accountable Officer and the Audit Committee.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/Accountable Officer	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence. Grant Thornton provide insolvency services and therefore have interactions with AiB. The insolvency activity is independent of the audit engagement. We are satisfied that the insolvency activity does not represent a conflict of interest to our audit work nor does it impact on our audit independence.	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of AiB accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with the Accountable Officer, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while our Annual Report to the Accountable Officer will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to AiB Management, the Accountable Officer and the Audit Committee.



Grant Thornton

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