

Office of the Accountant in Bankruptcy

Financial year ended 31 March 2021

Prepared for the Accountable Officer and the Auditor General
for Scotland

Final External Audit Report



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect AiB or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key messages

This is our final report to the Accountable Officer and the Auditor General For Scotland and concludes our audit on the financial year ended 31 March 2021. We have issued an unmodified audit opinion on the annual report and accounts, including an unmodified opinion on regularity and the Remuneration Report. We thank management for all their assistance during the audit process.

03 Other audit matters

Our final report summarises a number of other audit matters, including:

- We have concluded that AiB meets the definition of a going concern, reflecting on the FRC's Practice Note 10 considerations.
- The accounts contain limited estimation and judgement. The main estimates relate to the provider accrual (and debtor); amortisation of intangible assets; and, accrued holiday pay. Our testing over these did not identify any indication of management bias or error.
- We set out our roles and responsibilities on fraud. During the course of our work we did not identify fraud and/or material error.

We identified three unadjusted misstatements to the draft accounts as well as a number of minor disclosure adjustments. These are detailed in [Appendix 1](#) and are not considered material to the accounts.

01 Materiality

We re-calculated our materiality based on the unaudited annual report and accounts. The benchmark of 2% of gross expenditure remained the same. This resulted in:

- Materiality of £147,000 and a performance materiality (75% of materiality) of £110,000
- All audit adjustments above £7,350 were reported to management and captured in this report.
- Lower materiality of banding on Staff Remuneration Report (being £1,000).

04 Wider Scope Audit

In accordance with the Audit Scotland Code of Audit Practice ("the Code") we determined that the Office of the Accountant in Bankruptcy ("AiB") meet the definition of a smaller body. This is based on AiB's income and expenditure transactions and balances held being relatively smaller than other public bodies and the financial statements are considered less complex.

In accordance with the Code we have concluded in this report on your governance statement and AiB's financial sustainability arrangements. During our audit we did not identify any further areas of wider scope risk.

02 Financial statement audit risk

At planning, in accordance with the ISAs (UK) and FRC's Practice Note 10, we identified the following significant financial statement audit risks:

- Management override of controls (ISA UK 240)
- Risk of fraud in expenditure (cut-off) (FRC PN10)
- Risk of fraud in revenue (cut-off) (ISA UK 240)

We have no matters to bring to your attention arising from our work over these significant audit risks.

05 Our Audit Fee

Our audit fee, set out in our audit plan, of £45,810 was our final audit fee. There were no non-audit services (fees) during the year and we did not need to vary our agreed fee.

Introduction

Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2021 at AiB. The scope of our audit was set out in our External Audit Plan communicated to the Audit Committee on the 3 February 2021 and finalised and submitted to AiB on the 31 March 2021.

The main elements of our audit work in 2020/21 have been:

- An audit of AiB's annual report and accounts for the financial year ended 31 March 2021; and
- Consideration financial sustainability and the Governance Statement disclosures, as required under the smaller body classification, within the Audit Scotland Code of Practice (2016).

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

This report is addressed to the Accountable Officer and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities

AiB is responsible for preparing an annual report and accounts which show a true and fair view and that are prepared in accordance with the accounts direction from Scottish Ministers. AiB is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit 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.

Adding value through our audit work

We aim to add value to AiB throughout our audit work. In delivering our audit we use a dedicated public sector audit team. This ensures our team have a comprehensive understanding of AiB and the wider public sector to focus on key areas of risk relevant to your financial statements. As a result of the social distancing and travel restrictions implemented in response to the Covid-19 pandemic our audit work was delivered remotely. We continue to share recommended practices with management, where relevant, and contribute to wider discussions at the Audit Committee during the year.

Audit of the annual report and accounts

Key messages and judgements

We have issued an **unmodified** audit opinion on the annual report and accounts.

There were no adjustments to the primary financial statements. There were three unadjusted differences to the financial statements in relation to a calculation error in the provider accrual, revaluation reserve releases and unrecorded expenditure (projected error). We raised a number of minor disclosure adjustments identified from our review of the annual report and accounts. We do not consider these to be material to the financial statements. Further details are provided in **Appendix 1**.

We would like to thank Management for all their assistance during the year in ensuring the delivery of the audit, to the timescales agreed at the start of the financial year.

Our audit opinion

For the financial year ended 31 March 2021 we have issued an **unmodified opinion** on the annual report and accounts. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The audit process

In accordance with our annual external audit plan, our audit work commenced in June 2021. We received the draft primary financial statements in line with our agreed timetable.

There were no audit adjustments to the draft primary financial statements. There was one unadjusted misstatements to the accounts in relation to the provider accrual. We also identified a number of disclosure adjustments in respect of the draft financial statements. A full listing of disclosure misstatements is detailed in **Appendix 1**. We do not consider these to be material to the financial statements.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Our audit approach was set out in our audit plan communicated to the Audit Committee on the 3 February 2021 and finalised and submitted 31 March 2021. We updated our audit materiality to reflect the 2020/21 draft financial statements. It is set at £147,000, representing 2% of gross expenditure. Performance materiality was set at £110,000, representing 75% of our calculated materiality. We report to management any difference identified over £7,350 (Being 5% of overall materiality).

We applied a lower materiality threshold for remuneration and pension disclosures within the Remuneration and Staff Report to ensure that remuneration has been disclosed within the appropriate bandings (being £1,000).

Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Management override of controls

As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override AiB's controls for specific transactions.

We consider those key judgements that are most susceptible to significant audit risk of management override are those over income and expenditure recognition. These are areas where management has the potential to influence the financial statement through estimate and judgement. This includes manual journals as well as critical judgements or estimates.

Commentary

- We considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.
- We reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2021 and retrospective review of those estimates as at 31 March 2020. This included amortisation of intangible assets, provider accrual (and debtor) and holiday pay accrual.
- Journals testing including:
 - Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
 - Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they are appropriate and suitably recorded in the financial ledger;
 - Target testing of transactions around the financial year end, reviewing large journals and those which appear unusual to understand the rationale for the transaction.

Conclusion

Through our audit procedures performed we found that there was no evidence of management override in our testing of transactions tested. We did not identify indication of fraud or inappropriate management bias in accounting estimates that could result in a material misstatement.

Risks identified in our Audit Plan

Risk of fraud in revenue recognition

ISA 240 requires us to consider the risk of fraud in Revenue. This is considered a presumed risk in all entities. AiB's most material revenue streams are through fees and charges as well as recoveries. Parliamentary funding is agreed to Scottish Funding is agreed to Scottish Government resource allocations confirmations and receipts and therefore considered less susceptible to material misstatement. Therefore our presumed risk therefore focuses on Operating Income, consisting of revenue from fees and charges and recoveries including repayments to the public purse.

We consider the risk to be prevalent around the year end where financial performance is monitored against Scottish Government resource limits and greater incentive for fraud. We therefore focus our audit work on transactions around the year end, where it may be advantageous for management to show an enhanced/different financial position in the context of reporting in-year to Scottish Government and the need to achieve the financial targets set. We explicitly consider the underlying assumptions and supporting documentation in relation to year end accrued income from providers.

Commentary

- We performed walkthroughs of the controls and procedures over other income, including processes and controls around provider income accrued.
- substantive testing over other income recognised in the final two months of the year where there is an inherently higher susceptibility of fraudulent recognition
- Sample testing of receivable balances held at 31 March 2021 through agreeing balances held to invoices and/or other supporting records.
- Reviewed Management's assessment of bad debts through ensuring consistent with underlying records and based on assessment of outstanding debt and forecast recovery including key assumptions supporting the provider accrued income.
- Performed income cut-off procedures and substantive testing over pre and post year end balances, over non GIA funding income streams.

Conclusion

Through our audit procedures performed we did not identify any exceptions in our year end cut-off testing of income. We did not identify any exceptions in the occurrence and accuracy of receivables balances at year end and are satisfied that income is free from material misstatement.

Through our substantive procedures and sample testing we did not identify any income which was not in accordance with the nature of the AiB (regularity testing).

Risks identified in our Audit Plan

Risk of fraud in expenditure recognition

As set out in Practice note 10 (revised) which applies to public sector entities we consider there to be an inherent risk of fraud in expenditure recognition. As payroll expenditure is well forecast and agreeable to underlying payroll systems, there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on material non-pay expenditure streams including administration costs. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of these expenditure streams and the completeness of expenditure.

Our testing includes a specific focus on year end cut-off arrangements, where it may be advantageous for management to show an enhanced/different financial position in the context of reporting in-year to Scottish Government and the need to achieve the financial targets set.

Commentary

- We performed walkthroughs of the controls and procedures over non-pay expenditure streams;
- Substantive testing of expenditure throughout the year to confirm its occurrence and accuracy of recording;
- Received independent confirmations of the status of ongoing insolvency cases managed by providers to support the amount payable to agents (commission and fees) as at 31 March 2021;
- Focused substantive testing of non-pay expenditure recognised post year end to identify if there is any potential understatement to address the risk of cut-off; and
- Review of accruals and payables, where material, around the year end to consider if there is any indication of understatement or overstatement of balances held through consideration of accounting estimates.


Conclusion

Through our audit procedures performed we did not identify any exceptions in our year end cut-off testing of expenditure. In testing the provider accrual at year end we identified an understatement of income (accruals) of £13,047 ([Appendix 1](#)). This was due to an error in the calculation applied rather than indication of management bias or wider error in the underlying accrual. We did not identify any further exceptions in the completeness and accuracy of accruals or payables balances at the year end.

Through our substantive procedures and sample testing we did not identify any expenditure which was not in accordance with the nature of the AiB (regularity testing).

Significant estimates and judgements

AiB's annual report and accounts are considered straightforward and non-complex. The accounts contain limited areas of estimation and judgement. One area of significant estimation is in relation to Provider accrual (accrued income). There were two further other material estimates in relation to the amortisation of intangible assets and holiday benefit accrual. This has been confirmed by Management and confirmed in our audit testing including review of disclosures.

judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provider accrual (accrued income)	<p>Third party insolvency agents administer bankruptcy cases on AiB's behalf. In preparing the financial statements, AiB determine the level of fees and commissions payable to the agents in respect of amounts due as at 31 March 2021. Similarly, AiB recognise an estimate of amounts that are due back to AiB in respect of these cases (repayable to the public purse).</p> <p>For the financial year 2020-21, a sum of £1.8 million has been accrued in relation to commissions and fees which are due but not yet paid out to insolvency agents. AiB write to the agents to ascertain the current position with regards cases being managed and the amounts payable at 31 March 2021. This is further substantiated through case information on the BASYS system over fees paid. AiB has recognised £0.8 million as an estimate of future recoveries due back from bankruptcy cases in respect of the above. This is based on historic recoveries on live cases using case information from the BASYS system.</p>	<p>As part of our annual audit process we wrote to third party agents for independent confirmation of the balances due as at 31 March. We also tested Management's processes for determining the amounts recoverable on these cases. In particular, we challenged Management to undertake a forward look assessment of ongoing cases to further substantiate the estimate made.</p> <p>While we are satisfied that there was no indication of Management bias in the estimates made and that the amounts recognised are materially correct, there is an opportunity for AiB to review the current processes to determine the provider accrual and estimated amounts recoverable. This should include greater evaluation of the progress with cases during the year, through engagement with third party agents and also building on AiB's knowledge and understanding of live cases. This should ensure Management have a greater expectation in advance of the year end over the provider expenditure position as well as enabling a more robust forward look to support amounts recoverable on cases supported through retrospective review of case files.</p>	

Action Plan - Recommendation 1

Other areas of estimation and judgement

judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Amortisation of intangible assets	Amortisation is calculated and charged on a straight line basis over the estimated useful life of the intangible asset. A monthly review of charges takes place as part of the Management's accounts process to ensure amortisation remains appropriate. The amortisation rate is based on expected useful economic lives of the assets which is based on its planned usage.	We have reviewed the amortisation policies applied by AiB and are satisfied that these are reasonable given the nature of assets held. We have performed analytical procedures to confirm that the charge in the year is in line with our audit expectation.	●
Holiday pay accrual	Estimate is calculated using hours/days per grade for both annual leave and flexi and the hourly/daily rate per grade. Information used to calculate the accrual is obtained from Human Resources and there is a comparison to prior periods to ensure appropriate.	We have reviewed the approach adopted by AiB in arriving at the holiday pay accrual. We are satisfied that there is limited estimation in the accrual provided and that the accrual is consistent with underlying HR records.	●

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Internal control environment

In accordance with ISA requirements we have developed an understanding of the control environment in place within AiB. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is fully substantive in nature. We did this through a walkthrough of key controls within AiB including payroll, expenditure and journals.

We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

Detecting Irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to AiB and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2020/21 HM Treasury Financial Reporting Manual (FRoM).
- We enquired of management and the Audit Committee, concerning AiB's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of management and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of AiB's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered AiB's financial performance for the year and potential management bias in determining accounting estimates. Our audit procedures involved are documented within our response to the significant risk of management override of controls on Page 6.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in expenditure recognition and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - AiB's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - AiB's control environment, including the policies and procedures implemented to ensure compliance with the requirements of the financial reporting framework.

Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or through due to their complexity or importance to the user of the accounts.

Issue	Commentary
Matters in relation to fraud and irregularity	It is AiB's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of AiB's accounting policies, accounting estimates and financial statement disclosures. Disclosures and accounting policies are in line with the FReM and we have no matters to report.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have 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.
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.

Issue	Commentary
Matters on which we report by exception	We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit; or, there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.
Governance statement	The governance statement is included within the Accountability Report. The report outlines the governance framework in place at AiB. The Report includes the Statement of the Accountable Officer's responsibilities and had been prepared in accordance with the FReM. In accordance with the Scottish Public Finance Manual (SPFM), the Accountable Officer has a specific responsibility to ensure that arrangements have been made to secure Best Value and this is confirmed in the narrative in the annual report and accounts. There was no matters arising from our review of the governance statement that we want to draw attention to.
Written representations	A letter of representation has been requested from the Accountable Officer, including specific representations, which is included in the Audit Committee papers. Specific representations have been requested from management in line with prior years and confirms as auditors all records have been made available to us.
Opinion on other aspects of the annual report and accounts	<p>We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been prepared properly in accordance with the requirements of the FReM, and the Accounts directions thereunder. We have audited the elements of the Remuneration Report and Staff Report, as required and are satisfied that these have been properly prepared in accordance with applicable legislation.</p> <p>The information given in the Performance Report is consistent with the financial statements and that report has been prepared in accordance with the FReM and directions made thereunder by the Scottish Ministers. The information given in the Governance Statement is consistent with the financial statements and that report has been prepared in accordance with the directions made thereunder by the Scottish Ministers.</p>

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by AiB meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered Management’s assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none">• a material uncertainty related to going concern has not been identified• management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Regularity	<p>The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000. In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.</p>

Wider scope audit – Smaller body

As set out in our Audit Plan, AiB meets the definition of a smaller body in accordance with the Audit Scotland Code of Practice (2016). Therefore, as auditors we are required to include in our annual report commentary on arrangements as they relate to financial sustainability and the Governance Statement. Our work on the governance statement, and conclusions are set out on page 13 of this report. Below we have captured our commentary and conclusions on financial sustainability and other matters of interest during the year.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
Financial Sustainability, (as applicable to a smaller body)	No significant risks identified within our audit planning.	<p>For 2020/21, AiB reported an underspend of £239,000 against its annual revenue budget of £1.2 million and an underspend of £104,000 against its capital budget of £1 million. The underspend was primarily driven by reduction in case management activity as a result of the Covid-19 pandemic. This led to a reduction in both operating expenditure and income including an underspend against budgeted operating expenditure of £2.7 million as a result of the reduction in bankruptcy cases awarded during the year. This was offset through a reduction in income which was £3 million below budget, including £1.6 million in under recovery in repayments to the public purse.</p> <p>The Business Strategy sets out the AiB's strategic purposes and a high level outlook on how these will be delivered. Underpinning the strategy is AiB Business Plan 2021/22. The Business Plan sets out AiB's Strategic Objectives for the year. These objectives are developed against the Scottish Government's National Performance Framework and National Outcomes and how these outcomes align to the AiB's strategic purpose.</p> <p>The Business Plan incorporates the annual financial plan. For 2021/22, AiB have projected expenditure of £9.866 million. This will predominantly be funded through operating income of £8.466 million as well as Scottish Government allocations of £1.4 million. In addition, AiB anticipate capital expenditure of £1.1 million, funded through Scottish Government Capital funding.</p>	<p>Through our audit procedures we have not identified any significant risks in relation to AiB's financial sustainability.</p> <p>AiB's operating expenditure is predominantly funded through operating income in the form of fees and charges and amounts recovered through insolvency cases. While AiB have an annual budget, Management should establish longer term financial plans to underpin AiB's overall Business Strategy (and supporting strategies).</p> <p><i>(See Follow up of 2019/20 Recommendations – Appendix 3)</i></p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
Governance arrangements (Audit Scotland planning guidance consideration)	No significant risks identified within our audit planning.	<p>Governance</p> <p>During 2020/21 AiB's governance arrangements continued to operate as intended, and as in the prior year. AiB responded to the Covid-19 pandemic through continuing with existing governance arrangements, working remotely through holding the Advisory Board and supporting Committees via video conferencing. During 2020/21 there was a degree of change of membership at the Board. Two Non-Executive Board members, including the Chair of the Audit Committee, left the organisation. AiB continued to look to strengthen governance arrangements with new appointments to the Advisory Board, including the appointment of a new Audit Committee Chair, and independent external committee member.</p> <p>The AiB Chief Executive is supported by the Senior Management Team (SMT) and is responsible for strategic decision making and operational delivery. The Advisory Board, consisting of two executives and five to six non-executive directors, provide an independent perspective and advice on issues of strategy, performance, resources and standards of conduct within AiB. The Advisory Board has two committees; the Audit Committee, providing the Chief Executive assurances over the functioning of AiB's internal governance and controls; and the Policy and Cases Committee which provides advice on challenging cases and policy issues.</p>	We did not identify any concerns around AiB's governance arrangements or disclosures within the draft Governance Statement.

Appendices

1. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by Management. There were no corrected misstatements to the primary financial statements. There was one uncorrected misstatement to the financial statements arising during our audit.

Impact of unadjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £' 000
Being recognition of commission element within provider accrual calculation (missed in error).	Dr operating expenditure 13	Cr Accruals 13
Being recognition of estimated release from revaluation reserve to general fund reflecting historical revaluation (estimated release)		Dr Revaluation Reserve 13 Cr General Fund 13
Being projected misstatement for unrecorded expenditure	Dr Operating expenditure 7	Cr Creditors 7
Overall impact	20	

Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted?
Staff costs note	Inclusion of staff costs note in the accounts to support primary financial statements	✓
Annual Report	In accordance with the FReM a number of presentational adjustments were required to the Annual Report including the Performance Report and Accountability Report. These were primarily presentational updates.	✓
Income accounting policies	There is an opportunity to enhance the current accounting policies and disclosures around AiBs income streams to reflect the requirements of IFRS 15: revenue from contracts with customers as well as any statutory requirements that prescribe the amounts recoverable by AiB.	Partly – Changes have been made to the draft accounts to reflect some of the requirements of IFRS 15. There are opportunities to further enhance the disclosure to cover all material revenue streams and basis of recognition. Audit are satisfied that this is not material to the financial statements.
Critical judgements	International Financial Reporting standards prescribe the required disclosures in relation to critical judgements. It also requires separate consideration of accounting estimates. In note 1.4, AiB have included critical judgements in relation to insolvency fee accrual / income and employee benefit accruals. There is an opportunity to enhance the disclosures in the accounts to provide greater understanding where judgement has been made. In addition, AiB should consider where there are significant estimates in the accounts, including those assumptions around insolvency income, and enhance disclosures to enable the reader to understand the level of estimation and sensitivity around these estimates. We would not consider employee benefit accruals as being a critical judgement.	Partly – The disclosure in the accounts has been updated to reflect sensitivity around key estimates. However further work will be progressed in future years around these disclosures. Audit are satisfied that this is not material to the financial statements.

Disclosure	Auditor recommendations	Adjusted?
Property, plant and equipment	Accounting policy over property, plant and equipment to be updated to reflect the indexation of leasehold improvements and plant and equipment in accordance with the FReM.	✓
Cash flow statement	Updated disclosures to show cash movements in relation to payments made to and funding received from the Scottish Government in year.	✓
Financial Instruments	Note 11 to the financial statements to be updated to reflect the required disclosures in relation to financial instruments held including financial liabilities and financial assets. AiB should also update disclosures to reflect the requirements of IFRS 7 around financial instruments disclosures.	No – Not considered material in the current financial year. Audit are satisfied that this is not material to the financial statements.
Remuneration report	2020/21 and 2019/20 total remuneration and pension benefits figure included for non-executives.	✓

There were minor presentational (rounding / formatting) changes recommended to Management. These are not considered material to the accounts.

2. Action plan and recommendations

We have set out below, based on our audit work undertaken in 2020/21, the one significant recommendation arising from our audit work.

Recommendation

1. Provider accrual (accrued income)

There is an opportunity for AiB to review the current processes in place in determining the provider accrual at the year end and estimate of amounts recoverable to the public purse. This should include greater evaluation of the progress with cases during the year, through engagement with third party agents, and also building on AiB's knowledge and understanding of live bankruptcy cases. This should ensure Management have a greater expectation in advance of the year end over the provider expenditure position as well as enabling a more robust forward look forward look to support amounts recoverable on cases. This should be supported through retrospective review of case files. This process could also enhance disclosures in the financial statements around key estimates, judgements and sensitivities around the estimates.

Agreed management response

Management recognise the challenges in estimating commissions payable to the Providers and estimating the amounts that will be recoverable. We will seek to review historical discharged cases and assess the progress of live cases during the course of the year. We will continue to engage with the current Providers earlier in the year to gain a better understanding of their caseloads and funds due to be paid or received in respect of these cases. This will assist with estimating the accrual figure in the accounts for the year ended 31 March 2022. We will also consider the provision of enhanced management information as a requirement in the next insolvency framework to assist when making judgements and estimating commissions and related recoveries.

Action owner: Head of Finance

Timescale for implementation: 31 March 2022

3. Follow up of 2019/20 recommendations

We set out below our follow up of our 2019/20 recommendations and these are reflected below for information.

Recognising the impact of Covid and publication of the future strategy

AiB have not yet published their future strategy and the previous business strategy in place concluded in the current year. While the 2020-21 business plan includes budget information for the coming year, there are no longer term financial plans in place. Furthermore, the budgeted figures do not reflect the potential impact of the Covid-19 pandemic, which is likely to impact AiB over the longer term. While Management continue to forecast insolvency trends and activity and keep these under review it is important that the impact of Covid is considered in medium and longer term financial and strategic plans as it may have a significant impact particularly in the case load volume once the economic impact is realised on individuals. We recommend that the financial information in the business plan and the new strategy is revised to reflect the impact of Covid-19.

Responsible office: The Head of Finance will be ultimately responsible for this action including the preparation of a revised medium term finance strategy. The Business Support Manager will be responsible for updating the business plan. These actions will be supported by information and advice from the senior management team and operational colleagues.

Initial management response: While recognising the challenges of longer term financial forecasting in these uncertain times, we are committed to reviewing, revising and monitoring our longer term financial plans and will update our medium term finance strategy and business plan to reflect the impact of Covid-19 as soon as we are able to. We are in regular discussion with SG about our funding needs, but SG have yet to set a budget for 2021-22 or subsequent years. As and when our budget allocations are confirmed formal planning documents will be refreshed.

Follow up: ONGOING

Management update: The Scottish Government has commissioned several forward budget exercises to work alongside the preparation of the Programme for Government. The agency's Accountable Officer is assisting the lead Director for the Finance and Economy portfolio with this piece of work and the agency's budget requirements will be fed into the process. The challenges remain around uncertainty of future case volumes and the impact of this on income and expenditure and we will seek to review our financial plans making best use of the resources and information available to us.

Action Owner: Head of Finance

Timescale for implementation: 31 March 2022.

4. Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	35,120
Pooled costs	9,150
Contribution to Audit Scotland costs	1,540
Contribution to Performance Audit and Best Value	Nil
2020/21 Fee	45,810

Fees for other services

Service	Fees £
We confirm that for 2020/21 we did not receive any fees for non-audit services	Nil

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 John Boyd, Audit Director, in the first instance (John.p.boyd@uk.gt.com) or Joanne Brown, Head of Public Sector Assurance Scotland 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.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020](#) (grantthornton.co.uk)

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 Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- Grant Thornton are private trustees in bankruptcy/PTD processes. AiB have a supervisory role over the performance of private trustees in exercising their duties in regards to these processes. We do not consider these arrangements to impact on our auditor independence
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- 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.

5. Communication of audit matters

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

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
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	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of AiB's 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		•



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