

Office of the Accountant in Bankruptcy (AiB)

Financial year ended 31 March 2022

Prepared for the Audit Committee, the Accountable Officer, and the Auditor General for Scotland

Final Report – November 2022



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 the Office of the Accountant in Bankruptcy 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 Office of the Accountant in Bankruptcy (“AiB”) Audit Committee, Board, and the Auditor General For Scotland and concludes our audit on the financial year ended 31 March 2022. 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 FRC Practice Note 10 considerations.
- 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 a number of disclosure adjustments. These are detailed in Appendix 1 and 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 revenue remained the same. This resulted in:

- Materiality of £185,000 and a performance materiality (75% of materiality) of £139,000.
- All audit adjustments above £9,250 were reported to management and captured in this report.
- Lower materiality of banding on Staff Remuneration Report (being £5,000)

04 Wider Scope Audit

In accordance with the Code we determined that Office of the Accountant in Bankruptcy (“AiB”) meet the definition of a smaller body. This is based on AiB’s 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 risks

In accordance with the ISAs (UK) and FRC Practice Note 10 we have identified the following significant financial statement audit risks:

- Management override of controls (ISA UK 240)
- Risk of fraud in expenditure (completeness around the year end) (FRC PN10)
- Risk of fraud in revenue (occurrence around the year end)(ISA 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 £47,750 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 2022 at AiB. The scope of our audit was set out in our External Audit Plan communicated to the Audit Committee in February 2022.

The main elements of our audit work in 2021/22 have been:

- An audit of AiB's annual report and accounts for the financial year ended 31 March 2022; and
- Consideration of AiB's financial sustainability and 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 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.

Engagement Leader

Due to the Audit Director joining Audit Scotland, responsibility for the engagement transferred from John Boyd (Audit Director) to Joanne Brown (Audit Partner) in late August 2022. To ensure continued audit quality, Joanne re-reviewed audit planning and audit testing. This resulted in additional work being undertaken, and a delay in the initial audit sign off, whilst the team ensured our audit quality standards were met, and documented sufficiently on the audit file.

Audit of the annual report and accounts

Key messages and judgements

There were no adjusted or unadjusted differences to the financial statements. We raised a number of disclosure adjustments identified from our review of the annual report and accounts. 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 2022 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; and,
- 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 2022. We received the draft primary financial statements in line with our agreed timetable. There were no adjusted or unadjusted differences to the primary financial statements. However, there were a number of disclosure adjustments in respect of the draft financial statements to ensure compliance with the FReM. A full listing of disclosure misstatements is detailed in [Appendix 1](#).

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 in February 2022. We updated our audit materiality to reflect the 2021/22 draft financial statements. It is set at £185,000, representing 2% of gross revenue. Performance materiality was set at £139,000, representing 75% of our calculated materiality. We report to management any difference identified over £9,250 (Being 5% of overall materiality).

We applied a lower materiality threshold for Directors Remuneration disclosures (salary) within the Remuneration and Staff Report to ensure that remuneration has been disclosed within the appropriate bandings (being £5,000).

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	Commentary
Management override of controls	<ul style="list-style-type: none">• 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. We note that there is limited areas of areas of significant estimation and judgement in the accounts or areas of significant estimation uncertainty. Through our review of holiday pay accrual, amortisation of intangible assets, and review of provider accrual and associated debtor, we did not identify any indication of management bias or error.
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.	<p>Journals testing including:</p> <ul style="list-style-type: none">• Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;• We reviewed the journals population to identify any large or unusual items that may be indicative of fraud or error. This includes consideration of journals during the year and journals to create the year end accounts;• Reviewed the journals population, identifying those where there may be increased risk of fraud, including any prepared by senior management, and selected these for target testing.• Ran journals routines to identify journals with increased risk profile for specific target testing.
Our work focuses on critical estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider cut-off (expenditure) and the use of manual journals during the year, and in creating the financial statements where controls may be overridden by management.	Conclusion <p>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 indications of fraud or inappropriate management bias in accounting estimates that could result in a material misstatement. AiB have limited accounting estimates and we are satisfied that there is no indication of inappropriate management bias in the estimates made.</p>

Risks identified in our Audit Plan

Risk of fraud in expenditure recognition (completeness)

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. Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). 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. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off ensuring 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. We consider the risk to be particularly prevalent around the year end and therefore 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 the need to achieve the financial targets set.

Commentary

- We performed walkthroughs of the controls and procedures over non-pay expenditure streams including programme expenditure, project expenditure and other operating costs;
- Focused sample 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. We did not identify any exceptions in the completeness and accuracy of accruals or payables balances at year end. Through our substantive procedures and sample testing we did not identify any expenditure which was not in accordance with applicable legislation and guidance (regularity testing).

Risks identified in our Audit Plan

Risk of fraud in revenue recognition (occurrence)

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.

Commentary

- We performed walkthroughs of the controls and procedures over material revenue streams including: repayments to the public purse; trust deed supervision and audit fees; Trustee audit and other supervision fees; trust deed registration and advertising fees; and, debt arrangement scheme;
- Focused sample testing of income recognised in the final two months of the year end to identify if there is any potential overstatement to address the risk of cut-off; and
- Substantive testing of debtor balances at the year end to gain assurance over completeness of balances due.

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 completeness and accuracy of receivables balances at year end.

Through our substantive procedures and sample testing we did not identify any revenue which was not in accordance with applicable legislation and guidance (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 2022. 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 2021-22, a sum of £1.4 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 2022. This is further substantiated through case information on the BASYS system over fees paid. AiB has recognised £1.2 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 AiBs 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 forward look to support amounts recoverable on cases supported through retrospective review of case files.</p>	<p>We consider Management's process to be appropriate and key assumptions are reasonable.</p>

Action Plan – Follow up 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.	We consider Management's process to be appropriate and key assumptions are reasonable.
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.	We consider Management's process to be appropriate and key assumptions are reasonable.

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.

The Scottish Government provide key finance systems and processes on behalf of AiB. This includes the financial ledger system, SEAS. The Scottish Government is undertaking a project to replace SEAS with a targeted implementation date of 2023. The transition to a new finance system could have a significant impact on SEAS financial processes, in particular arrangements for support systems. Management are working closely with the Scottish Government to understand the impact of the new system, and the arrangements in place to support the effective and smooth transaction of AiB from SEAS to the new system.

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 2021/22 HM Treasury Financial Reporting Manual (FReM).
- 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 significant 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	<p>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.</p> <p>No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.</p>
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.</p>

Issue	Commentary
Matters on which we report by exception	<p>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 there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.</p>
Governance statement	<p>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.</p>
Written representations	<p>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.</p>
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.</p> <p>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 11 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
Governance arrangements (Audit Scotland planning guidance consideration)	No significant risks identified within our audit planning.	<p>Governance</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> <p>During 2021/22 AiB’s governance arrangements continued to operate effectively. We found effective scrutiny and challenge and no significant concerns around governance arrangements.</p>	We are satisfied that AiB’s Governance Statement disclosures represents the governance arrangements in place during 2021/22.

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 data-bbox="618 309 1361 346">2021/22 Financial performance and sustainability</p> <p data-bbox="618 363 1590 826">For 2021/22, AiB reported comprehensive net income for the year of £736,000. This represented an underspend of approximately £1.9 million against its annual revenue budget of £1.2 million. In addition AiB reported an underspend of £0.4 million against its capital budget. The underspend was primarily driven by the continued 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 £0.4 million as a result of the reduction in bankruptcy cases awarded during the year. In addition, operating income was £0.9 million higher than budget as a result of closures and PTD fee income being higher than budget.</p> <p data-bbox="618 844 1590 1114">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 2022/23. 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 data-bbox="618 1131 1590 1359">The Business Plan incorporates the annual financial plan. For 2022/23, Management have projected expenditure of £9.96 million. This will predominantly funded through operating income of £8.6 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 data-bbox="1608 309 2121 651">During 2021/22 AiB did not fully utilise its budget allocation from Scottish Government. This was predominantly through underspends as a result of case volumes being significantly lower than estimated while cases themselves increasing higher than forecast income.</p> <p data-bbox="1608 675 2121 1174">While in recent years AiB have operated within the funding recourses provided by Scottish Government, Management recognise the need to ensure financial forecasts are complete and accurate to support effective decision making. A key aspect of this is in ensuring that regular information is obtained from third party providers to support forecast income and expenditure of cases being managed externally.</p>

Action plan follow up recommendation 1

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. We are pleased to report there were no adjusted or unadjusted misstatements to the primary financial statements.

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?
Accounting policies	Updates required to the accounting policies within the draft accounts to ensure consistent with the requirements of the FReM and the policies adopted by AiB.	✓
Significant estimates and judgements	IAS 1 requires two separate considerations to be reported. Key sources of judgement in preparing the accounts and areas of material estimation uncertainty. Where estimation uncertainty the disclosure under IAS 1 should include reference to the key assumptions (and sensitivities) that result in the estimation uncertainty. The draft financial statements contained areas of accounting policy rather than material estimation uncertainty or judgement.	✓

2. Follow up of 2020/21 recommendations

We set out below our follow up of our 2020/21 recommendations and these are reflected below for information.

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.

Responsible office: Head of Finance

Follow up: **ONGOING**

2021/22 Update: The new provider contract came into effect from 1 July 2022. While initial working arrangements are being established a key aspect of this will be in ensuring timely communication and reporting of case activity. This process has still to embed and Management are hopeful this will be implemented by March 2023.

2. Recognising the impact of Covid and publication of the future strategy (initially raised in 2019/20)

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 Officer: Head of Finance

Follow up: **CLOSED**

2021/22 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 (see Provider Accrual point 1 above).

3. Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	36,870
Pooled Costs	9,350
Contribution to Audit Scotland costs	1,530
Contribution to Performance Audit and Best Value	Nil
2021/22 Fee	47,750

Fees for other services

Service	Fees £
We confirm that for 2021/22 we did not receive any fees for non-audit services	Nil

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.
- 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.
- 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 can confirm no independence concerns have been identified.

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, 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 2021](#) (grantthornton.co.uk)

4. 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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