

# Accountant in Bankruptcy

Annual Audit Plan



 AUDIT SCOTLAND

Prepared for Accountant in Bankruptcy

August 2024

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# Introduction

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## Summary of planned audit work

1. Stephanie Harold has been appointed by the Auditor General for Scotland as external auditor of Accountant in Bankruptcy (AiB) for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of the five-year audit appointment.

2. This document summarises the work plan for the 2023/24 audit. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
- consideration of the appropriateness of the disclosures in the governance statement and the financial sustainability of AiB in line with the requirements for less complex audited bodies
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wider scope areas.

## Respective responsibilities of the auditor and AiB

The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and AiB key responsibilities are summarised below.

### Auditor responsibilities

3. The responsibilities of the appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

4. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at AiB. In doing this, we aim to support improvement and accountability.

### Accountable Officer's responsibilities

5. The Accountable Officer is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give

a true and fair view. They are also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

**6.** The Accountable Officer has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

### **Adding Value**

**7.** We aim to add value by: tailoring audit work to the circumstances of AiB and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Audit and Risk Committee; and by recommending and encouraging good practice. In so doing, we will help AiB promote improved standards of governance, better management and decision making, and more effective use of resources.

# Annual report and accounts

## Introduction

**8.** The annual report and accounts are an essential part of demonstrating AiB's stewardship of resources and its performance in the use of those resources.

**9.** We are required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

**10.** The audit team focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**11.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We plan our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2023/24 audit

We assess materiality at different levels. The materiality values for AiB are set out in [Exhibit 1](#).

## Exhibit 1

### 2023/24 Quantitative materiality levels for Accountant in Bankruptcy

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of AiB's operations. For the year ended 31 March 2024, we have set our materiality at 2 per cent of operating income based on the audited financial statements for 2022/23.	£172,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our	£130,000

professional judgement, we have assessed performance materiality at 75 per cent of planning materiality.

<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£10,000
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Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**12.** Our risk assessment draws on our cumulative knowledge of AiB, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

**13.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

**14.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

### Exhibit 2

#### 2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>Assess the design and implementation of controls over journal entry processing.</li> <li>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> </ul>

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
		<ul style="list-style-type: none"> <li>• Consider the need to test journal entries and other adjustments throughout the year.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> </ul>
<p><b>2. Presumed risk of fraud over income</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud over income, which is presumed to be a significant risk in any audit.</p> <p>A proportion of AiB's income is received from the Scottish Government. This income stream can be agreed to Scottish Government resource allocations, reducing the likelihood of this income stream being materially misstated.</p> <p>AiB receives a material amount of other operating income from sources other than the Scottish Government, including fees and charges. These are primarily flat-rate fees automatically charged/allocated as bankruptcy cases progress, reducing the likelihood of this income stream being materially misstated.</p>	<ul style="list-style-type: none"> <li>• CMS to Sage reconciliations including timing adjustments.</li> <li>• Sage to SEAS Reconciliations</li> <li>• CMS to Roybank Reconciliations.</li> <li>• For invoiced income the transaction is raised and processed on CMS and processed on Sage overnight – income recognised when invoice is raised.</li> <li>• Separation of duties for raising transaction/ approving transaction.</li> </ul>	<ul style="list-style-type: none"> <li>• Walkthrough of controls over material income streams.</li> <li>• Analytical procedures on income streams to identify unusual amounts or trends that may indicate unusual transactions for detailed investigation.</li> <li>• Agreeing year end position to income reconciliation.</li> <li>• Detailed testing of income transactions, focusing on the areas of greatest risk including pre and post year-end transactions to confirm they are accounted for in the correct financial year.</li> </ul>

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>The presumed risk focuses on Trustee Audit &amp; Other Statutory Fees which are invoiced.</p> <p>Our work will focus on income transactions on the year-end cut-off, to ensure the correct accounting treatment of transactions.</p>		
<p><b>3. Presumed risk of fraud over expenditure</b></p> <p>As set out in the Financial Reporting Council's Practice Note 10 (revised), there is also a presumed risk of fraud over expenditure recognition.</p> <p>Payroll expenditure makes up a large part of AiB's expenditure. As payroll expenditure remains relatively consistent and can be well forecasted, the risk of material misstatement is reduced. Similarly non-cash expenditure and direct accommodation costs can also be well forecasted, and the risk of material misstatement is reduced.</p> <p>Therefore, the presumed risk is on AiB's other significant expenditure streams. Our work will focus on year end cut-off, to ensure the correct accounting treatment of transactions</p>	<ul style="list-style-type: none"> <li>• CMS to Sage reconciliations including timing adjustments.</li> <li>• Sage to SEAS Reconciliations</li> <li>• Sage expenditure raised on CMS and processed overnight on Sage so little timing to consider.</li> <li>• Bulk invoices received monthly.</li> <li>• SEAS (DRC) invoices reviewed and accrued/pre-paid according to whether service/goods have been received/delivered.</li> <li>• Finance team and Management review of March/April/ May invoices and also receive file from SG to consider for accruals.</li> <li>• Separation of duties for raising transaction / approving transaction.</li> </ul>	<ul style="list-style-type: none"> <li>• Walkthrough of controls over material expenditure streams.</li> <li>• Analytical procedures on expenditure streams to identify unusual amounts or trends that may indicate unusual transactions for detailed investigation.</li> <li>• Agreeing year end position to expenditure reconciliation.</li> <li>• Detailed testing of expenditure transactions, focusing on the areas of greatest risk including pre and post year-end transactions to confirm they are accounted for in the correct financial year.</li> </ul>



## Regularity

**15.** Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

**16.** We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

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# Wider Scope and Best Value

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## Introduction

**17.** Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

**18.** In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the body. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the body demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

**19.** In line with the Code of Audit Practice, and following review of the supplementary guidance and AiB's most recent audited annual report and accounts, we have taken the less complex bodies approach to wider audit dimensions. This is due to the nature of AiB's business and the operating income and expenditure streams. This allows us to restrict our wider scope work to financial sustainability and the governance arrangements in place to support the disclosures in the Annual Governance Statement.

**20.** We have identified a risk in the wider scope areas set out in [Exhibit 3](#). This exhibit sets out the risk, management's sources of assurance for the risk, and the further audit procedures we plan to perform to gain assurances over the risk.

## Exhibit 3

### 2023/24 wider scope risk

Description of risk	Management's sources of assurance	Planned audit response
<p><b>1. Financial sustainability</b></p> <p>Whilst AiB has set balanced budgets for both 2023/24 and 2024/25, the medium term financial plan identifies increasing shortfalls in the following years budgets. AiB will require to identify savings to mitigate these shortfalls. Currently similar challenges are being seen across the public sector in Scotland.</p> <p>AiB faces inflationary and pay related pressures over the short to medium term. Staff costs are approaching 70% of expenditure.</p> <p>AiB is predominantly funded through fees set out in the Bankruptcy Fees (Scotland) Regulations 2018 as amended, with smaller amounts of revenue funding from the Scottish Government. Downward fluctuations in bankruptcy income would create additional pressures.</p> <p>Within this financial environment, AiB faces challenges going forward in maintaining the delivery of services in a financially sustainable way.</p>	<ul style="list-style-type: none"> <li>• Budget presented to Board in February</li> <li>• Monthly management accounts to budget holders</li> <li>• Monthly budget monitoring returns to Scottish Government</li> <li>• Monthly SMT dashboard including updated forecast position</li> <li>• Quarterly reports to Board and Audit Committee including forecast updates</li> <li>• Medium term financial plan – circulated draft to SMT and Non-Executive Board/Audit members in May 2024 and will be reviewed annually</li> <li>• Continue to seek best value through effective procurement and contract management processes and identifying opportunities for savings through robust spending decisions and analysis of expenditure and/or income sources</li> </ul>	<ul style="list-style-type: none"> <li>• Review of AiB's annual budget setting and monitoring arrangements.</li> <li>• Review of AiB's medium to longer term financial planning.</li> <li>• Ongoing review of AiB's financial position and delivery of savings.</li> </ul>

Source: Audit Scotland

## Duty of Best Value

**21. [Ministerial Guidance to Accountable Officers](#)** for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure

Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within AiB.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**22.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

**23.** We will provide:

- an Independent Auditor's Report to AiB, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts
- AiB and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

[Exhibit 4](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland.

**24.** We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

## Exhibit 4

### 2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2024 (to management) 20 August 2024 (Audit Committee)	Issued to management by 31 March 2024, and to members 20 August 2024.
Independent Auditor's Report	Late November 2024	Late November 2024
Annual Audit Report	Late November 2024	Late November 2024

Source: Audit Scotland

All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



## Timetable

To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

**25.** We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

## Exhibit 5

### Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	20 August 2024
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 September 2024
Latest date for final clearance meeting with the Head of Finance	15 November 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	Late November 2024
Agreement of audited and unsigned annual report and accounts	Late November 2024
Issue of Annual Audit Report to those charged with governance.	Late November 2024
Signed Independent Auditor's Report	Late November 2024

Source: Audit Scotland

## Notional audit fee

In determining the notional audit fee, we have taken account of the risk exposure of AiB and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The agreed notional audit fee for 2023/24 is £49,710 as set out in [Exhibit 6](#).

## Exhibit 6

### Notional audit fees (including VAT)

Fee component	Fees (£)
External Auditor Remuneration	51,000
Pooled costs	5,150
Sectoral Cap Adjustment	(6,440)
<b>Total 2023/24 fee</b>	<b>49,710</b>

Source: Audit Scotland

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**26.** In setting the fee for 2023/24, we have assumed that AiB has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**27.** It is the responsibility of AiB to establish adequate internal audit arrangements. AiB's internal audit work is done by the Directorate for Internal Audit and Assurance of the Scottish Government. We will review the internal audit plan and the results of internal audit's work.

**28.** While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

## Independence and objectivity

**29.** I am independent of AiB in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

**30.** Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**31.** The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of AiB.

## Audit Quality

**32.** Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

**33.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.



- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

**34.** To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

**35.** Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

**36.** Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

# Accountant in Bankruptcy

## Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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