



# Accountant in Bankruptcy

2015/16 Annual audit  
report

August 2016

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively ([www.audit-scotland.gov.uk/about/](http://www.audit-scotland.gov.uk/about/)).

Asif A Haseeb, Engagement Lead, Audit Scotland is the appointed external auditor of Accountant in Bankruptcy for the period 2011/12 to 2015/16.

This report has been prepared for the use of Accountant in Bankruptcy and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in it may be used by the Auditor General in support of her wider responsibilities, including reporting to the Scottish Parliament.

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# Key messages

## Audit of financial statements

- Unqualified independent auditor's report on the 2015/16 financial statements.
- Minor presentational and disclosure adjustments required to the financial statements presented for audit.
- Delays receiving information for the Performance Report and the Accountability Report resulted in additional work for the audit team.

## Financial management & sustainability

- The Agency operated within its resource budget for 2015/16 and reported an operating surplus of £0.5 million.
- Financial management is strong and soundly based.

## Governance & transparency

- The Agency has sound governance arrangements in place with Board and Audit Committee meeting minutes published online.
- Systems of internal control operated effectively during 2015/16.
- An effective internal audit function and robust anti-fraud arrangements are in place.

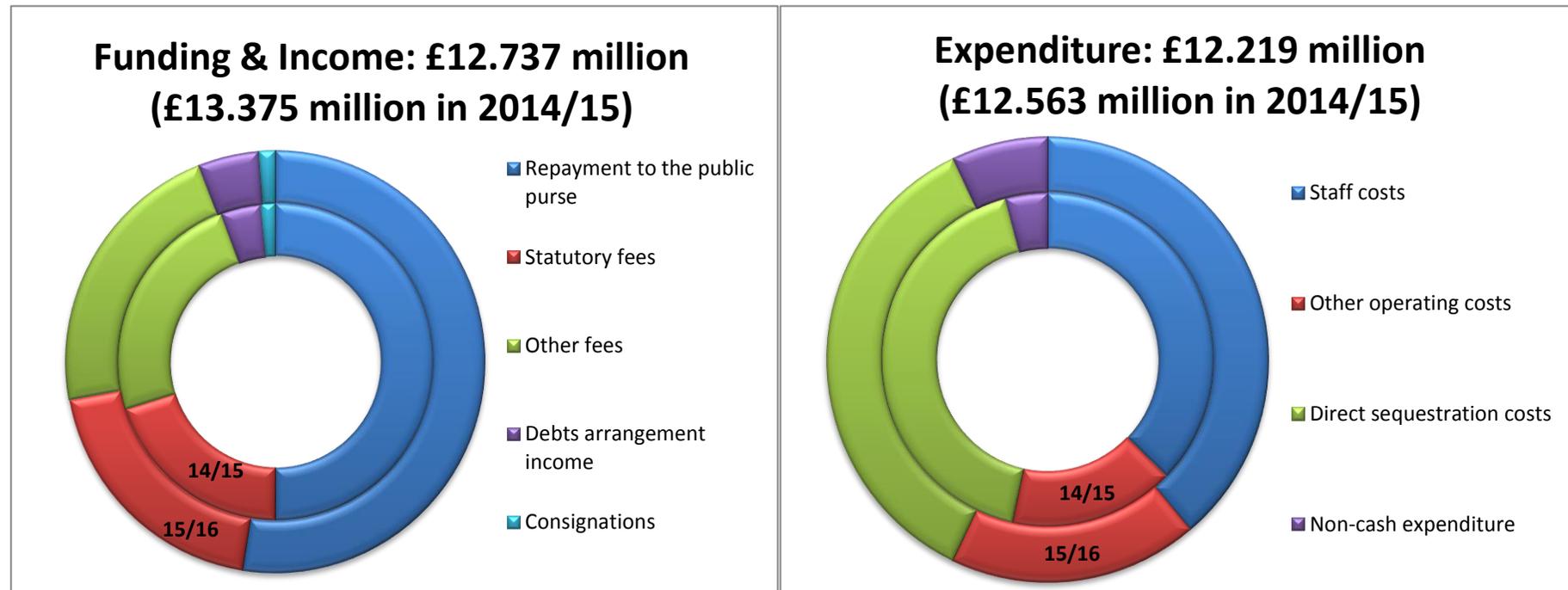
## Best Value

- There is a well developed performance management framework in place.
- The Agency has continued to implement recommendations in the 2014/15 Best Value Action Plan aimed at enhancing a culture of continuous improvement.
- There is no formal workforce plan. However a process is underway to develop workforce planning.

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Accountant in Bankruptcy (AiB or the Agency).
2. The accountable officer and management team of the Agency are responsible for:
  - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
  - ensuring the regularity of transactions, by putting in place systems of internal control
  - maintaining proper accounting records
  - publishing with their financial statements an annual governance statement and a remuneration report.
3. Our responsibility, as the external auditor, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by the Auditor General in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of the financial statements.
5. [Appendix I](#) sets out the audit risks and how we addressed each risk in arriving at our opinion on the financial statements.
6. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at [appendix II](#) and [appendix III](#).
7. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the Agency understands its risks and has arrangements in place to manage them. The Audit Committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
8. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of the Agency will be Grant Thornton. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

# Audit of the 2015/16 financial statements



The Statement of Comprehensive Net Expenditure in the financial statements shows operating income of £12.737 million this year which has reduced by £0.638m (5%) from last year. The main source of income was again repayments to the public purse. The financial statements also show that annual revenue expenditure has reduced (2.75%) from £12.563 million in 2014/15 to £12.219 million in 2015/16. This was mainly due to a reduction in direct sequestration costs as a result of a large drop in the number of personal insolvencies and debt payment programmes approved.

# Audit opinions

<b>Financial Statements</b>	<ul style="list-style-type: none"><li>• The financial statements of the Agency for 2015/16 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.</li><li>• We confirm that the financial statements have been properly prepared in accordance with the 2015/16 FReM and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions.</li></ul>
<b>Regularity</b>	<ul style="list-style-type: none"><li>• In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.</li><li>• The sums paid out of the Scottish Consolidated Fund were applied in accordance with section 65 of the Scotland Act 1998.</li></ul>
<b>Other prescribed matters</b>	<ul style="list-style-type: none"><li>• The part of the Remuneration Report and the Staff Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.</li><li>• The information given in the Performance Report of the Annual Report is consistent with the financial statements.</li></ul>

## Submission of annual report for audit

10. We received the annual report on 10 June 2016, in accordance with the agreed timetable. However this was a working draft which contained various disclosure errors and with sections outstanding including key information in the Remuneration Report and Staff Report resulting in additional work for the audit team.

### *Appendix IV – Action Plan No. 1*

## Submission of accounts for audit

11. We receive the unaudited accounts on 8 June 2016, in accordance with the agreed timetable. The working papers supporting the financial statements were of a good standard and staff provided support to the audit team which enabled us to complete our on-site fieldwork on 24 June 2016.

## Overview of the scope of the audit of the financial statements

12. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 2 March 2016.
13. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken any non-audit related services. The 2015/16 agreed

fee for the audit was £42,400 and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

14. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.
15. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. We revised our planning materiality for 2015/16 on receipt of the unaudited accounts to £122,000 (1% of total expenditure of £12.219m).
18. We also set a lower level, known as performance materiality, when defining our audit procedures. This is determined to ensure that

uncorrected and undetected audit differences do not exceed our materiality level. Performance materiality was set at £92,000 (i.e. 75% of materiality). We report all misstatements greater than £1,000.

## Evaluation of misstatements

19. We found no misstatements during our audit of the financial statements.

## Significant findings from the audit

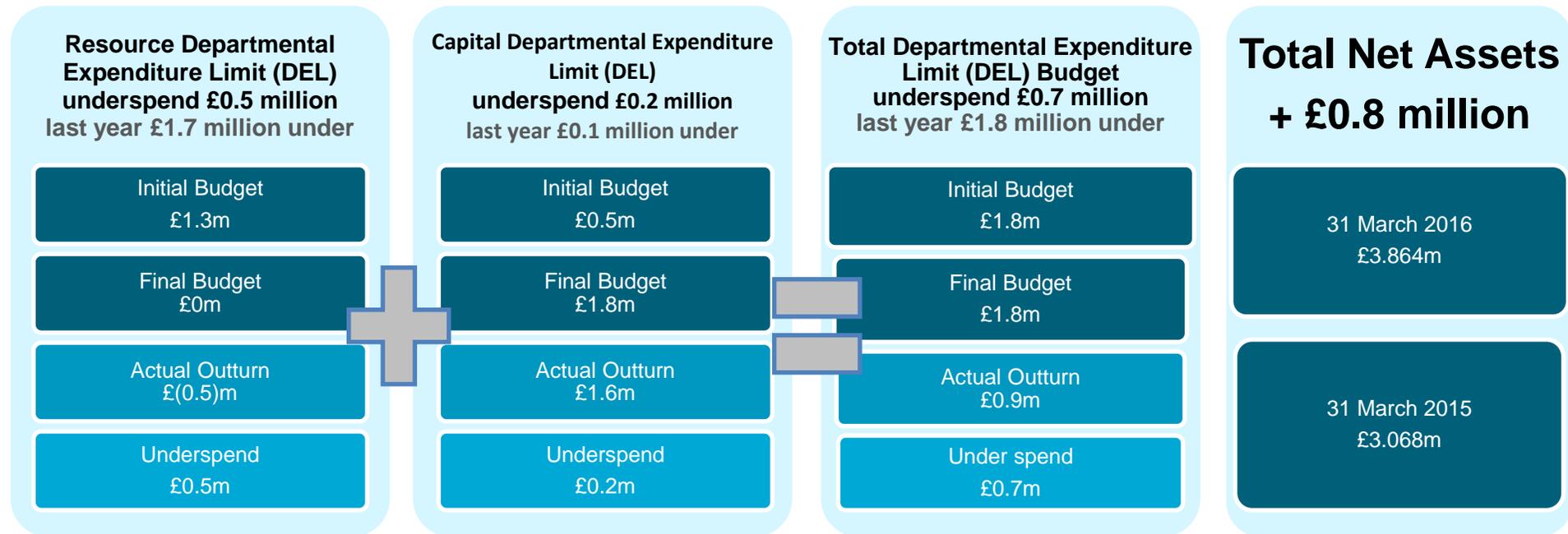
20. International Standard on Auditing 260 (ISA 260) requires us to communicate to you significant findings from the audit as detailed below:
  - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures.
  - Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.
  - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

21. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

**Table 1: Significant findings from the audit**

<b>Significant findings from the audit in accordance with ISA260</b>	
<b>Remuneration report salary disclosure</b>	<p>22. The Chief Executive received a taxable payment during 2015/16 which we were advised related to relocation costs. However the payment had been processed as an annual leave buyout. As the Scottish Government are responsible for the Agency’s payroll we requested evidence to confirm the regularity of the payment and we were provided with appropriate documentation to support this. It was our view that this payment should form part of the Chief Executive’s remuneration and be disclosed as such. Management agreed that a narrative disclosure should be included to ensure transparency for the users of the financial statements.</p>
<b>Asset tagging</b>	<p>23. During our testing of non-current assets we noted that a number of assets have not been tagged including laptops. There is a risk that non-current assets are materially misstated as without asset tags the Agency has no means of checking whether all assets owned by them are included in the asset register and whether all assets included in the asset register exist.</p> <p style="text-align: right;"><i><b>Appendix IV – Action Plan No. 2</b></i></p>
<b>Holiday pay accrual disclosure</b>	<p>24. The Agency uses an estimation technique to calculate their holiday pay accrual to be included as a creditor in the financial statements rather than an exact calculation. We accepted that this methodology was reasonable as it was consistent with previous years however as this methodology requires the use of judgement and estimation we requested that a disclosure was included in the accounting policies. Management agreed to make the appropriate disclosure.</p>

# Financial management and sustainability



25. The main financial objective for the Agency is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. The Agency operated within its overall resource budget for 2015/16 as detailed above.

### 2015/16 financial position

26. AiB's expenditure is primarily funded through fee income received in relation to the administration of bankruptcies and income received from discharged cases (repayments to the public purse).
27. The Statement of Financial Position at 31 March 2016 shows net assets of £3.864 million, an increase of £0.796 million. This position is largely attributable to further investment in intangible assets relating to the new case management system.
28. The financial position of the Agency remains stable with the body operating within its available funding and reporting an excess of total assets over liabilities.

### Financial Planning

29. The Agency's 2016/17 corporate plan and business plan includes a high level financial plan covering that period based on the assumed level of funding that will be available. It is expected that as discharged case volumes begin to reduce in line with a reduction in awards, the income realised in the year will also reduce, resulting in a greater requirement for funding from the Scottish Government. The budget for 2016-17 is set assuming a funding requirement of £500,000.

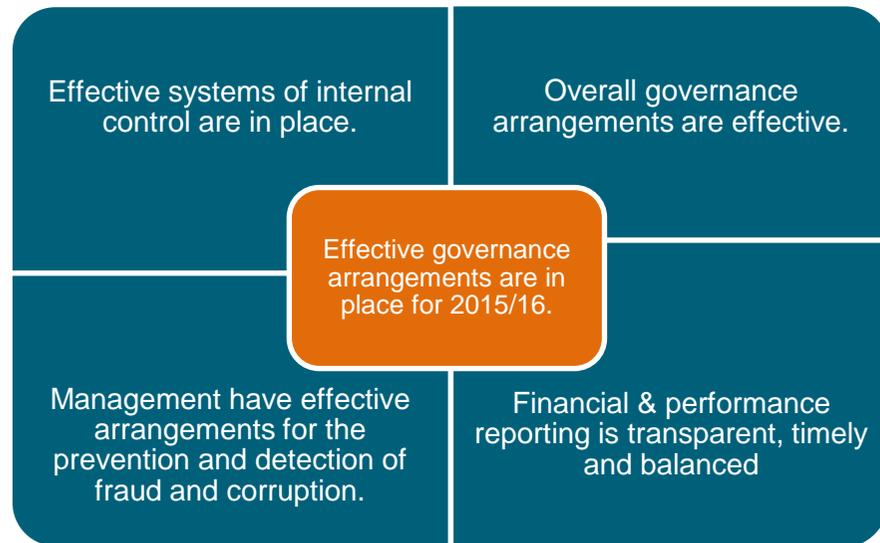
## Financial management

30. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the senior finance person has sufficient status
  - standing financial instructions and standing orders are comprehensive, current and promoted within the body
  - reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance
  - audit and risk committee members provide a good level of challenge and question significant variances.
31. Based on our knowledge, review of Board meeting papers and attendance at the Audit Committee we conclude that the Agency has strong financial management arrangements in place.

### 2016/17 budget

32. The Agency has an allocated budget of £1.2 million for 2016/17. This comprises a Scottish Government Departmental Expenditure Limit (DEL) resource budget for the year of £0.5 million and a budget for DEL capital expenditure of £0.7m million. The budget has reduced by a third compared to 2015/16 however this should be achievable as the planned level of capital expenditure for 2016/17 is lower.

# Governance and transparency



## Corporate governance

33. The Accountable Officer (Chief Executive), supported by the advisory board, is responsible for establishing arrangements for ensuring the proper conduct of the affairs of the Agency and for monitoring the adequacy of these arrangements.
34. Richard Dennis joined the Agency as Chief Executive and Accountant in Bankruptcy in April 2015.

35. The Chief Executive is accountable to Scottish Ministers and the board's non-executives are appointed by the Chief Executive. During 2015/16 the Chief Executive was supported by one other executive director and three non-executive directors.
36. The Board met seven times during the year and the Audit Committee met quarterly.
37. The Policy and Cases Committee is a sub committee of the Board and provides the Chief Executive with advice of challenging cases and policy issues. The committee met three times in 2015/16 to consider relevant matters and is chaired by one of the non-executive board members.
38. The Agency held quarterly meetings throughout the year with its Fraser Figure who is the Director of Economic Development at the Scottish Government and is responsible for facilitating relations between the Agency and the Scottish Government.
39. We concluded that the Agency has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

## Transparency

40. The Scottish Government's On Board guidance (<http://www.gov.scot/Publications/2015/04/9736/0>) for board members of public bodies was updated and reissued in April 2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:
- holding an annual open meeting
  - holding board meetings in public unless there is a good reason not to
  - publishing summary reports and/or minutes of meetings
  - inviting evidence from members of the public in relation to matters of public concern
  - consulting stakeholders and users on a wide range of issues
  - making corporate plans and the annual report widely available.
41. Audit Scotland also believes in transparency of financial reporting within the Annual Report and Accounts including:
- A clear reconciliation between expenditure and the outturn against Scottish Government Resource budgets.
  - Identification and explanation of any significant movements in budget during the year.
42. Board meetings of the Agency are not held in public, nor are papers relating to these meetings publicly available, however this is

considered appropriate given the sensitive nature of issues discussed at these meetings.

43. Overall we concluded that the Agency is open and transparent. In particular, we note that the minutes for board and Audit Committee meetings are available online.

## Internal control

44. No material weaknesses in the accounting and internal control systems were identified during the 2015/16 audit which could adversely affect the organisation's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

## Internal audit

45. Internal audit provides the Audit Committee, Board and Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
46. As part of our risk assessment and planning process our Scottish Government external audit team assessed the Scottish Government Internal Audit Division, the Agency's internal auditors, and concluded that they operate in accordance with the Public Sector Internal Audit Standards (PSIAS). This enabled us to place reliance

on the work of internal audit, in terms of our wider code responsibilities.

47. During 2015/16 internal audit issued three reports covering: Information Assurance & Data Handling, Organisational Communication & Relationship Strategies and Strategic Financial Governance. They also issued an annual assurance statement which provided substantial assurance over the Agency's risk management, control and governance arrangements.

## Arrangements for the prevention and detection of fraud

48. The Agency is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We reviewed and reported on these arrangements and have concluded that there are effective arrangements for the prevention and detection of fraud.

## National Fraud Initiative in Scotland

49. AiB participates in the National Fraud Initiative (NFI) through the Scottish Government Payroll Division. The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error.
50. As the Scottish Government does not hold a separate record of data matches relating specifically to AiB, we have not been able to establish the number of data matches identified for investigation.

However, the Agency has not been notified of any issues by the Scottish Government in relation to their matches.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

51. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place and have concluded that appropriate arrangements exist within the Agency.

# Best Value

## Arrangements for securing Best Value

52. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.
53. From review of the Agency's programme of best value self-assessments we consider this demonstrates a systematic approach to self-evaluation and continuous improvement.

## National performance audit reports

54. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued as outlined in [Appendix III](#).

## Workforce Management

55. As part of our 2015/16 audit activity we conducted a review of workforce management arrangements across all our audited bodies. This work was a follow-up to the *Scotland's Public Sector Workforce* report published by Audit Scotland in November 2013.
56. We discussed the Agency's current workforce management arrangements with the Head of Governance. Through discussions we established that the Agency do not currently have a workforce plan in place. However it is in the process of drafting one and has

set up a workforce planning board (strategy & objectives) and the workforce planning group (actions & proposals). Both groups have had initial meetings and their first quarterly meetings and a schedule has been set up for key discussion topics for the remainder of the year.

57. In line with good practice, the Agency should develop a workforce plan proportionate to its size and nature that includes:
  - Projections of short, medium and long term workforce requirements (i.e. staff numbers, skills and expertise and costs)
  - Arrangements for staff appraisal and training.
  - Plans for succession planning
  - Arrangements for joint working or shared resources with other public sector bodies.

**Appendix IV – Action Plan No. 3**

## Acknowledgements

58. We would like to express our thanks to the staff and members of the Agency for their help and assistance during the audit of this year's financial statements, and throughout the course of the five year audit appointment.

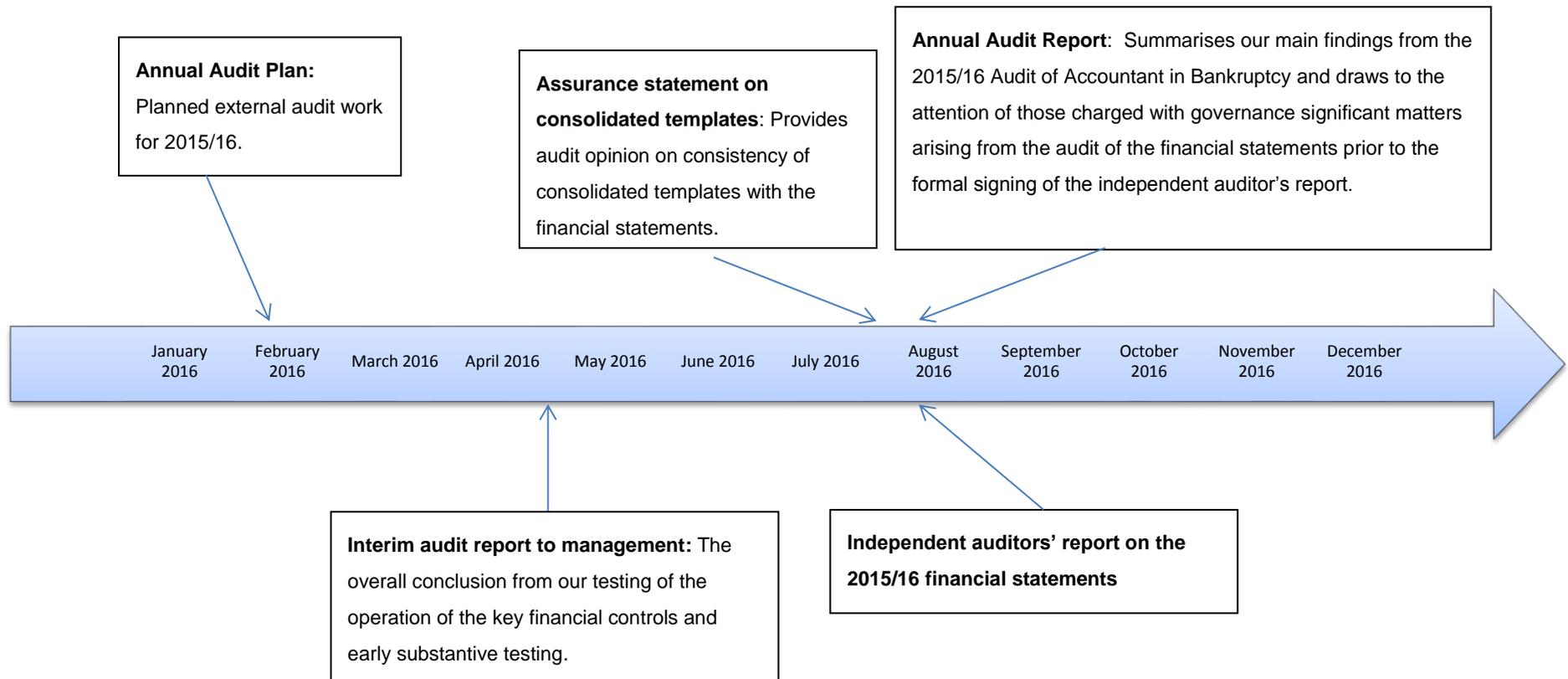
# Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

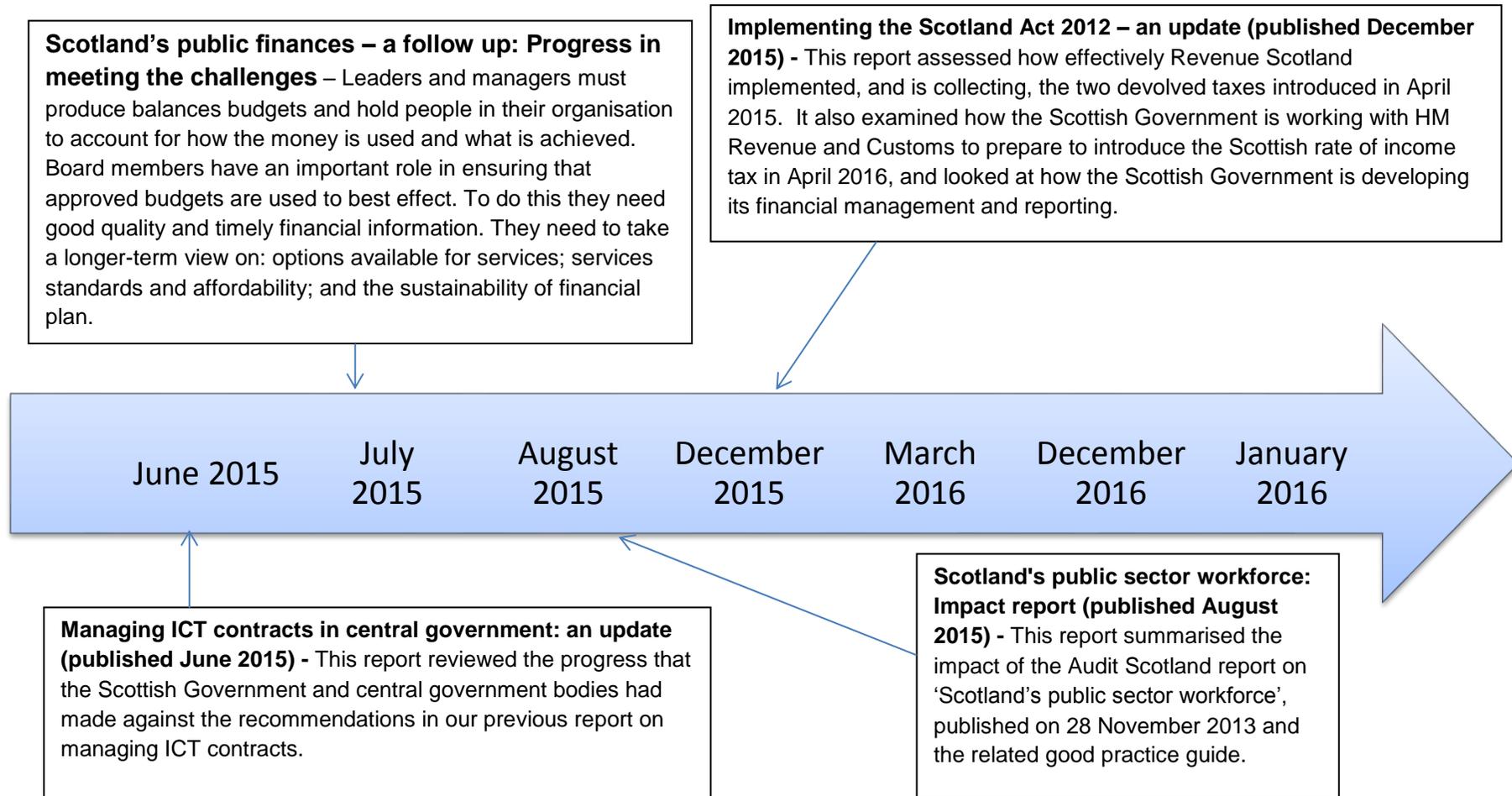
Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Risk of management override of controls</b></p> <p>Management have the ability to override controls.</p> <p><i>There is an inherent risk that management manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</i></p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates for bias.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Focused testing of accruals and prepayments.</p>	<p>Our audit procedures did not identify any instances of management override of controls.</p>
<p><b>Risk of material misstatement due to fraud in revenue recognition</b></p> <p>Fraud may occur in income recognition.</p> <p><i>Based on the material levels of income generated by the Agency there is a presumption that there are risks of fraud in revenue recognition.</i></p>	<p>Controls testing of the trade receivables system to provide assurance that the procedures for revenue recognition are operating effectively.</p> <p>Substantive testing of income transactions will confirm occurrence and accuracy.</p>	<p>Analytical review and detailed substantive testing of income transactions were undertaken and results satisfactory.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Restructuring of Annual Report</b></p> <p>The 2015/16 FReM has been extensively re-written and includes significant changes to the form and content of the annual report and accounts.</p> <p><i>There is a risk that the Agency's 2015/16 financial statements will not reflect the revised FReM requirements.</i></p>	<p>Ongoing liaison with management to ensure that the unaudited financial statements are prepared in line with the FReM.</p> <p>We will review the Annual Report included within the unaudited financial statements against the requirements of the 2015/16 FReM as part of the financial statements audit.</p>	<p>Our review did not identify any significant departures from the requirements of the 2015/16 FReM. However the first version of the annual report we received was a working draft which contained various disclosure errors with sections outstanding including key information in the Remuneration Report and Staff Report.</p> <p>Although this resulted in additional work for the audit team, management reflected the required changes in the final version of the accounts.</p>
<p><b>Capitalisation of expenditure</b></p> <p>There has been further significant expenditure in 2015/16 in relation to ICT development and changes in the finance team have required the recruitment of a temporary member of staff.</p> <p><i>There is the risk that the capital expenditure is not accounted for correctly.</i></p>	<p>Increased testing of capital transactions will provide assurance that expenditure has been correctly classified.</p>	<p>Testing of capital transactions was satisfactory.</p>

# Appendix II: Summary of local audit reports



# Appendix III: Summary of Audit Scotland national reports



## Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	10	<p><b>Submission of annual report</b></p> <p><b>Issue:</b> The annual report submitted for audit was a working draft which contained various disclosure errors and with sections outstanding including key information in the Remuneration Report and Staff Report.</p> <p><b>Recommendation:</b> Management should ensure that the annual report is quality checked before it is submitted for audit.</p>	<p>AiB works closely with External Audit throughout the drafting of the report and regularly shares working drafts to ensure the report meets requirements.</p> <p>As the issue outlines, these are working drafts and issues with any figures will be addressed ahead of the report being finalised.</p>	Stuart Riddell – 01 August 2016
2.	23	<p><b>Asset Tagging</b></p> <p><b>Issue:</b> During testing we identified that not all assets listed on the asset register have an asset tag number.</p> <p><b>Recommendation:</b> Management should ensure that all assets listed in the asset register are tagged with a unique reference number.</p>	<p>A significant proportion of assets in the register are IT development and therefore there is no asset as such to tag.</p> <p>Where there are groups of physical assets (e.g. computers) these are entered on the register as one asset and we have agreed to refer to the IT asset register numbers for these.</p>	Rebecca Crook – 30 September 2016

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	57	<p><b>Workforce Plan</b></p> <p><b>Issue:</b> The Agency do not currently have an organisation-wide workforce plan.</p> <p><b>Recommendation:</b> The Agency should develop a workforce plan that it proportionate to its size and nature.</p>	<p>A proposal outlining workforce planning was approved by the senior management team in February 2016, and the Term of Reference for the Workforce Planning Board and the Workforce Planning Group were approved in March 2016. Work is now well underway in 16/17 to take this forward.</p>	<p>Lisa Shaw - Ongoing</p>