



# Accountant in Bankruptcy (AiB)

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**External Audit Annual Report to the Accountable Officer and the Auditor General for Scotland for the financial year ended 31 March 2018**

Audit Committee 1 August 2018

**Joanne Brown**  
Engagement Leader

**John Boyd**  
Senior Manager



# Our audit at a glance



We have fulfilled our responsibilities per International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work and this final report to the Accountable Officer and the Auditor General for Scotland concludes our work.



Materiality was set at 1.6% of gross expenditure within our plan, and was updated to reflect the draft financial statements at £205,000. We did not identify any adjustments to the draft financial statements based on our work and minor disclosure amendments were discussed and agreed.



Significant audit risks were: management override of controls; the risk of fraud in revenue recognition; and the risk of fraud in expenditure recognition as set out in International Auditing Standards (ISAs UK) practice note 10. Our risk assessment remained unchanged and we did not identify any adjustments in these areas during our work.

## An audit underpinned by quality



We have built on our relationship with the Accountant in Bankruptcy (AiB) management during the year and this has ensured an efficient audit process to allow for the audit to be concluded by the end of July 2018.



Our work was undertaken in accordance with our agreed timetable. The draft financial statements produced by management were of a high standard with complete information and good supporting working papers. We thank management for their support and assistance during our work



A wider scope audit for AiB as set out in our plan, was considered not appropriate.

However we have considered your financial planning arrangements. We have raised one audit recommendation around future financial planning included in appendix 1.

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## Adding value through our external audit work

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of AiB's arrangements, sharing relevant practices with the Audit Committee and Management.

We have continued to build on our working relationship with management and our understanding of as an organisation. During the year we have worked with management to develop our audit approach through greater understanding of your financial transactions. In particular, we supported management in their view of the provider accrual to provide early independent review of the accounting treatment for 2017/18.

Lastly we are committed to audit quality. We shared our Audit Scotland Transparency report with the AiB Audit Committee and will share lessons learned on an annual basis, as our reporting in this area evolves.

# Introduction

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2018.

Our work has been undertaken in accordance with International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to Dr Richard Dennis as AiB Accountable Officer, in respect of his role as set out and agreed with Scottish Ministers. In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once finalised this report will be made publically available on the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

Our report was presented as a draft to the Audit Committee on 1 August 2018 alongside the final draft annual report and accounts.

We would like to thank AiB management and the finance team for an effective year-end audit process and all their support and assistance in the audit process.

## Structure of this report

As set out in our Audit Plan (5 February 2018) we consider in accordance with the Audit Scotland Code of Practice that AiB is a smaller body. Therefore full wider scope is not appropriate. Our report concludes on our financial statements audit and certain aspects of AiB's arrangements as follows:

Financial statements – Section 2 and Appendix 1

Performance and Strategic report – Section 2



## Our Opinion

For the financial year ended 31 March 2018 we have issued an **unqualified audit opinion**

- True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of AiB
- Other prescribed matters (which include the audited information in the remuneration report)



## The audit process

We received a good complete set of financial statements in line with the agreed audit timetable, including the performance report, strategic report and governance statement.

The draft financial statements were supported by good working papers and the audit was efficient.

We identified no changes to the financial statement balances and have no unadjusted differences to report to the Audit Committee and the Accountable Officer.

We identified minor disclosure enhancements and these have been reflected in the financial statements.



# The financial statements audit



Our audit work was completed in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). Based on our audit procedures performed we have issued an unqualified audit opinion on the financial statements including:

- they give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the financial statements e.g. Performance and Strategic report
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance

## Audit approach and materiality

Our audit approach was set out in our annual audit plan presented to the Audit Committee in February 2018. As set out in our plan, our materiality calculations were based on the audited 2016/17 financial statements. We subsequently updated our materiality calculation to be based on the draft 2017/18 financial statements. Overall materiality has been set at £205,000 (1.6% of gross expenditure) and performance materiality is set at £154,000. (75% of materiality). We report to management any audit difference identified over £10,000 (Trivial as 5% of materiality).

We did not identify any additional significant audit risks from those identified in our audit plan.

## Internal control environment

During the year we sought to understand AiB's overall control environment (design) as related to the financial statements. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls. In particular placing reliance on the work of Audit Scotland in their role of Scottish Government external auditors (key financial controls May 2018)
- Performed walkthrough procedures on key financial controls in particular journals, payroll and ledger controls

Our work over controls is limited to our ISA requirements in understanding an entities control environment. Our audit is not controls based and we do not seek reliance over controls. Our audit is fully substantive based in nature.

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

## Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of the Scottish Government Internal Audit Directorate, AiB's internal audit provider. We reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach, with none being noted.

The findings of internal audit do not disagree with our knowledge and understanding of AiB as an organisation.

## Identified audit risks and our conclusions

	Identified audit risk at planning	Work completed	Our conclusion
Risk of fraud in revenue	<p>As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. The majority of AiB's income is generated from income from charging schemes or recoveries (not grant-in-aid related). The risk is prevalent primarily on transactions around the year end where there is a inherently higher risk of misstatement.</p>	<ul style="list-style-type: none"> <li>Developed our understanding of AiB's material revenue streams including walkthrough of key transactions.</li> <li>Performed targeted review and testing of key revenue streams during the year, including analytical procedures and transaction testing including information from asset managers and underlying transactions</li> <li>Performing revenue cut off procedures and substantive testing over pre and post year end balances</li> <li>Testing the existence and recoverability of balances at the year end</li> </ul>	<p>From our audit procedures performed we are satisfied that revenue is free from material misstatement.</p> <p>We are satisfied that revenue has been recognised in the appropriate financial year.</p>
Operating expenditure is not treated correctly	<p>Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities, we recognise that there is a risk that expenditure could be materially misstated. The risk is prevalent primarily on transactions around the year end where there is a inherently higher risk of misstatement.</p>	<ul style="list-style-type: none"> <li>Developed our understanding of AiB's material expenditure streams including walkthrough of key transactions.</li> <li>Performing targeted review and testing of key expenditure streams during the year, including analytical review of expenditure and targeted transaction testing, including consideration of the regularity of expenditure incurred.</li> <li>Performing cut-off testing of expenditure transactions around the year end to ensure these had been allocated to the appropriate financial year. Reviewing post year end payments for any potential unrecorded liabilities.</li> </ul>	<p>Sufficient assurance gained that expenditure has been recorded within the appropriate financial year and that payable balances are free from material misstatement.</p> <p>We are satisfied that expenditure has been incurred in accordance with the type/nature of AiB as an organisation.</p>
Management override of controls	<p>As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities</p>	<ul style="list-style-type: none"> <li>Developed our understanding of the entity level controls in place at AiB that reduce the risk of management override</li> <li>Performed review of journal transactions for unusual transactions or balances.</li> <li>Evaluated key areas of judgement within the Financial statements and the basis for these judgements / application of accounting policies</li> <li>Reviewed unusual and/or significant transactions</li> </ul>	<p>We did not identify any significant areas of bias in key judgements by management. We have not identified any unusual or significant transactions during the course of the year that would indicate fraud.</p>

## Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.

### Performance Report

- The performance report is consistent with our understanding of AiB's performance during the year.
- It defines the organisations purpose and strategy as well as performance during the year
- The report continues to be developed and refined to ensure focus on key strategic performance and there are potentially opportunities to enhance presentation of performance

### Remuneration and Staff Report

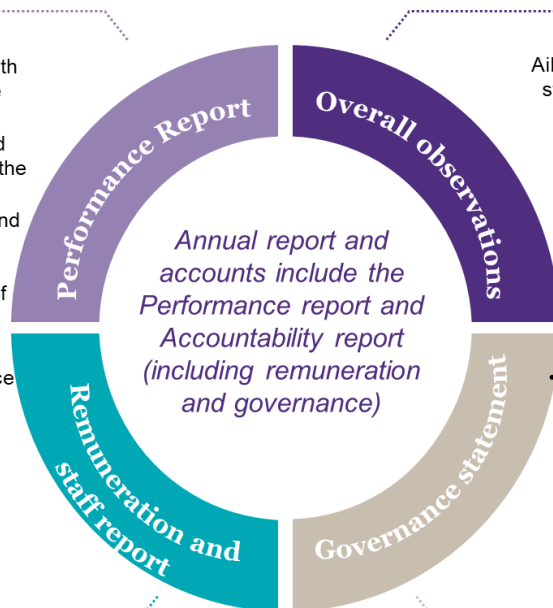
- Report has been prepared in accordance with applicable guidance
- The senior managers reflected in the report have been correctly identified in accordance with FReM

### Overall observations

AiB's 'front end' of the accounts aims to align strategic priorities with in year performance, while ensuring statutory disclosure requirements are met. The performance report continues to be an area of focus for management each year in the accounts production process.

### Governance Statement

- As required by the FReM the Governance statement is included in the Corporate Governance report
- No material issues of governance in year that are required to be reported
  - The governance statement is in accordance with the FReM



## Fraud and irregularity

There are no provisions or uncertainties related to the accounts.

In relation to the audit risk of fraud in respect of expenditure we tested AiB's cut off arrangements in particular (timing) and identified no issues in accruals or prepayments which would indicate potential fraud. There are no post balance sheet events or legal uncertainties at year-end.

## Going concern

The majority of AiB's income is generated through bankruptcy casework. The volumes of discharged cases have been falling in recent years, resulting in a fall in income. Management envisage this trend will continue in 2018/19 as well as a fall in case completions due to changes from recent bankruptcy reforms. Whilst the organisation forecasts efficiency savings through more efficient use of resources, and management of case work, AiB will require increased level of resource funding from the Scottish Government (£2.6 million revenue and £1.1 capital) than in 2017/18 (£1.2 million in total).

The Scottish Government has confirmed funding for 2018/19 and there is no indication that the government would not continue to support the organisation continue to deliver its statutory obligations.

Management are satisfied that the organisation continues to represent a going concern and based on our audit work performed we would concur with this assessment.

## Key aspects of your financial statements

As set out in our audit plan we consider particular aspects of your financial statements in relation to management judgements including estimates and where management may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised where these apply, and our conclusions below.

AiB's accounting policies are in accordance with the FReM and we consider these to be appropriate to the organisation and consistent with those adopted in prior years.

### Accounting estimates and judgements

AiB's significant accounting estimates and judgement impacting on the annual accounts are the following:

**Provider accrual (and debtor):** AiB recognise a liability in the accounts to reflect the amounts payable to third party insolvency providers in respect of live cases at the balance sheet date. The liability consists of two main elements: an accrual for amounts contractually payable to the provider for undertaking the case, and a provision for the amounts payable in commission. AiB accrue income in each of the cases based on historical amounts recoverable on claims. Until 2016/17, the calculated liability was also based on historical trends i.e. the amounts that were historically paid on live cases and an estimate made of the outstanding cases and amounts payable. The approach was based on best available information to AiB. During 2017/18, the level of data available on live cases was significantly improved. Furthermore, the number of providers with material volumes of claims outstanding at the year end had reduced.

Management have utilised live case information, including confirmations from third party providers, to determine a more accurate calculation of outstanding claims and the likely amount payable (and recoverable) on each of these cases. The revised approach represents a change in estimation technique rather than a change in accounting policy and provides a more accurate determination of liabilities at the balance sheet date using an approach that would not have been available in previous years.

While we are satisfied that the live case information provides a more accurate determination of the outstanding liabilities as at the balance sheet date, the approach creates uncertainty over future financial outturns due to the use of live information. However, this is likely to be offset through corresponding recognition of income and therefore the net impact year on year reduced. We recommend that AiB consider the impact on financial forecasts for 2018/19, including engagement with providers to understand the likely year end outturn position for financial planning purposes.

### Action plan 1

- **Bad debt provision calculations:** Allowances for bad and doubtful debts are based on discussions between management agents and Management, including legal representation. We have reviewed the provision recognised in the current year as well as considering the recoverability of outstanding debtors and are satisfied that these are appropriate.

We are satisfied that the estimates and judgements applied by management are reasonable and not subject to management bias.





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# AiB's financial and governance arrangements



## Financial management and sustainability

AiB's Corporate and Business Plan details AiB's corporate objectives for the next two years. The Plan recognises the financial pressures and challenges facing the organisation. The volume of operational activity reflects a number of societal and economic factors including the overall level of debt. AiB use trend analysis to forecast caseload volumes and thus operational (and revenue) forecasts. In addition, financial plans recognise other pressures including inflation and pay pressures.

AiB's financial plan assumes an increase of operating costs of £0.2 million. This reflects increasing operational and cost pressures. Due to the timing of income receipts, the Board envisage a reduction in operating income to £10.6 million and therefore will require revenue resource budget of £2.6 million from Scottish Government. This represents an increase of £2.1 million from 2017/18. AiB's financial forecasts as at the end of June 2018 project an underspend of budget of £1.2 million for the year, primarily through lower than projected operating costs.

Financial performance is monitored by the senior management team and the AiB Advisory Board. The reports include consideration of case volumes and forecast activity.



## Governance and transparency

The Advisory Board assists and advises the Accountable Officer on how Scottish Government policies can most effectively be delivered. This includes supporting the establishment of AiB's strategic direction and plans in place to support the delivery of these.

The Accountable Officer is further supported through the Audit Committee through oversight and scrutiny of the organisation's risk, control and governance processes.

We are satisfied that the governance arrangements in place a AiB are appropriate given the organisation's size and operating activities. There is a clear commitment to transparency and public accountability with minutes of both the Advisory Board and Audit Committee meetings being published online as well as corporate documentations such as business plans and performance reports.

## Implications of EU Withdrawal

AiB's caseload and operating activity driven by a range of external factors. The organisation recognises the potential implications of changes in legislation, wider credit availability within Scotland as well as the potential implications of political and social decisions and behaviours. This includes the potential consequences of EU withdrawal.

The organisation continues to explore options for working as efficiently and effective as possible. A key programme is the expansion and enhancement of the case management system functionality and resilience. During 2018/19 AiB will continue to invest in a range of systems, including eDEN, BASyS bankruptcy systems and ASTRA the trust deed system to support these improvements.

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# Appendices

**Action plan and follow up of 2016/17 recommendations**

**Audit adjustments**

**Independence, fees and fraud responsibilities**

**Communication of audit matters with the Accountable Officer**

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# Action plan and follow up of 2016/17 external audit recommendations

We have set out below, based on our audit work undertaken in 2017/18, those risks and recommendations we consider are of a higher risk to AiB that Management may wish to consider in the future. We have also completed follow up of our 2016/17 recommendations and this is reflected below for information.

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## Recommendation

## Agreed management response

### Provider accrual

The revised approach to determining the amount payable to third party providers uses live case information. The revised approach creates greater uncertainty around the year end expenditure. We recognise that this is likely to be offset by corresponding movements in income. However, we recommend that management consider early engagement with third party providers to help forecast likely outturn position to ensure financial plans remain appropriate.

**Management response:** The Agency will continue to engage with providers to help identify methods of estimating payments due to be paid and to assess the potential recoveries due from cases and any other financial information that will assist us with our financial planning.  
**Action owner:** Head of Finance  
**Timescale for implementation:** August 2018

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## Follow up of 2016/17 recommendations

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### Recommendation

### Update

#### Consigned funds

Review and update transfer of consignment fund transactions and journal posting protocols between AiB and the Scottish Government Finance Team.

#### **Issue closed**

AiB has revised the processes for surrendering the consigned funds with the Scottish Government to ensure there is greater transparency in any transfer of funds. No issues noted in the current year with regards Scottish Government postings.

#### Cash

Perform monthly bank reconciliations between bank statements and SEAS that include clear evidence of 'prepared by' checks and authorisation

#### **Issue closed**

AiB have implemented an additional step in the monthly close down processes to ensure a full reconciliation between bank accounts and SEAS.

#### Trade and other payables

Our testing identified that there is no review of the provider accrual against actual expenditure. Management should develop a method to compare the provider accrual to actual case expenditure

#### **Issue closed**

Management have undertaken a comprehensive review of the provider accrual process in the year and due to enhanced case information, now calculate the provider liability based on live case information. This significantly reduces the level of estimation and judgement required around the position at the year end.

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# Audit adjustments

## **Uncorrected and corrected misstatements**

We are pleased to report that there were no corrected or uncorrected misstatements to the financial statements arising during our audit.

## **Disclosure misstatements**

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow audit committees to evaluate the impact of these matters on the financial statements. There were minor disclosure amendments made to the draft financial statements. These were primarily around disclosure enhancements required under the FReM as well as the Remuneration and Staff Report. We do not consider these to be material to the financial statements.

# Fees, independence, fraud arrangements

## External Audit Fee

Service	Fees £
External Auditor Remuneration	32,560
Pooled Costs	8,130
Contribution to Audit Scotland costs	1,910
Contribution to Performance Audit and Best Value	0
<b>2017-18 Fee</b>	<b>42,600</b>

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

The above fee has not changed and our final fee was £42,600

## Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2017/18 financial year	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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

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

We can confirm no independence concerns have been identified.

For information we note in the appendix that Grant Thornton provides insolvency services but this is completely separate from the audit function and we declare this at all Audit Committee meetings.

## Fraud arrangements

In assessing our audit risks, the audit team was alert to the possibility of fraud at AiB.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls.
- Leading a discussion with those charged of governance (for AiB this is assumed to be the Audit Committee) on their view of fraud. We did this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit. – None were identified in-year

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

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

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

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

Throughout the audit we worked with AiB to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

# Communication of audit matters with the Accountable Officer

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and AiB's Accountable Officer	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity <b>We are independent of AiB and have not identified any conflicts of interest. Grant Thornton provides insolvency services on behalf of AiB. This service is independent from the audit function and not considered a conflict of interest.</b>	•	•
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 <b>We have not incurred any non-audit fees during the year and no threats to independence identified</b>	•	•
Significant matters in relation to going concern <b>No significant going concern matters identified</b>	•	•
Views about the qualitative aspects of AiB accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures <b>Set out in the Financial statements Section</b>		•
Significant findings from the audit <b>No significant findings from our audit</b>		•
Significant matters and issues arising during the audit and written representations that have been sought <b>Letter of representation will be shared and signed by the Accountable Officer when signing the financial statements. This is our standard, unmodified letter of representation.</b>		•
Significant difficulties encountered during the audit <b>No difficulties encountered</b>		•
Significant deficiencies in internal control identified during the audit <b>None identified</b>		•
Significant matters arising in connection with related parties <b>None identified</b>		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements <b>None identified. A nil fraud return was submitted to Audit Scotland in April 2018 in accordance with the planning guidance.</b>		•
Non-compliance with laws and regulations <b>None noted</b>		•
Unadjusted misstatements and material disclosure omissions <b>None noted. Minor disclosure amendments only and these were not material in nature</b>		•
Expected modifications to the auditor's report, or emphasis of matter <b>None, an unqualified opinion</b>		•

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 above.

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

