

# Accountant in Bankruptcy

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Accountant in Bankruptcy

March 2023

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Accountant in Bankruptcy (AiB). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the 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 (see [paragraph 22](#))

## Audit Appointment

2. We are pleased to be appointed as the external auditor of Accountant in Bankruptcy for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at Appendix 1.

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

## Adding value

5. We aim to add value to AiB through our external audit work by being constructive and forward looking, by attending meetings of the Audit 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.

## Respective responsibilities of the auditor and AiB

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and AiB. Key responsibilities are summarised below.

### Auditor responsibilities

7. Our responsibilities as independent auditors 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.

8. 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 the AiB. In doing this, we aim to support improvement and accountability.

### Accountant in Bankruptcy's responsibilities

9. AiB is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. AiB 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.

# Financial statements audit planning

## Introduction

**11.** 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.

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

## Materiality

**13.** 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 are required to plan our audit to obtain reasonable assurance that 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 2022/23 audit

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

## Exhibit 1

### 2022/23 Quantitative materiality levels for Accountant in Bankruptcy

Materiality	Amount
<p><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 2023 we have set our materiality at 2% of operating income based on the audited financial statements for 2021/22.</p>	£185,000
<p><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 should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.</p>	£140,000

**Reporting threshold (i.e., clearly trivial)** – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £10,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**15.** 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.

**16.** 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.

**17.** 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 risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	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 International Standard on Auditing (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</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
		<p>entries and focus on significant risk areas.</p> <ul style="list-style-type: none"> <li>• Consider the need to test journal entries and other adjustments during the period.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Focussed testing of accounting accruals and prepayments.</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</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>• Other income recognised in the period it is received in bank e.g., debtor application fees</li> </ul>	<ul style="list-style-type: none"> <li>• Walkthrough of controls over material income streams</li> <li>• Analytical procedures on income streams</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	Sources of assurance	Planned audit response
<p>Government, including fees and charges.</p> <p>The presumed risk focuses on other operating income streams.</p> <p>Our work will focus on income transactions on the year-end cut-off, to ensure the correct accounting treatment of transactions.</p>	<ul style="list-style-type: none"> <li>• Separation of duties for raising transaction/approving transaction</li> </ul>	
<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</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>

Source: Audit Scotland

## Other areas of audit focus

**18.** As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial



statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

**19.** The areas of specific audit focus are:

- **Provider Accrual calculation:** AiB estimate the provider expenditure accrual, and corresponding income accrual based on historical information and information from the third-party agents who support bankruptcy cases. The subjectivity around the estimates gives rise to a risk of material misstatement in the accounts. We will review the accrual calculations as part of our financial statements audit.
- **IFRS 16 implementation:** the implementation of IFRS 16 is mandatory for central government bodies (including AiB) from 2022/23 onwards. This is an area of audit focus for our 2022/23 audit as IFRS 16 will significantly change the way in which AiB accounts for operating leases, including recognising assets and liabilities for the rights and obligations arising from leases previously classified as operating leases.

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# Wider Scope and Best Value

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## Introduction

**20.** The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

**21.** In summary, the four wider scope areas cover the following:

- **Financial management** 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** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by AiB. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how AiB demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

**22.** 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.

**23.** We have not identified any wider scope risks for AiB.

## Duty of Best Value

**24.** [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

**25.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 3](#), 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).

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

**27.** 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. We will provide the Audited Body and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**28.** [Exhibit 3](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 August 2023.

## Exhibit 3 2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2023	To be issued to committee members by 31 March 2023
Independent Auditor's Report	31 August 2023	15 August 2023
Annual Audit Report	31 August 2023	15 August 2023

Source: Audit Scotland

## Timetable



**29.** 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 4](#) that has been discussed with management.

**30.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

**31.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. 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.

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### Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	29 May 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	29 May 2023
Latest date for final clearance meeting with the Head of Finance	1 August 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	early August 2023
Agreement of audited and unsigned annual report and accounts	early August 2023
Issue of Annual Audit Report to those charged with governance.	15 August 2023
Signed Independent Auditor's Report	15 August 2023
Latest date for signing of SG Consolidation return	31 August 2023

Source: Audit Scotland

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## Notional audit fee

**32.** In determining the audit fee, we have taken account of the risk exposure of AiB and the planned management assurances in place. The agreed notional audit fee for 2022/23 is £46,920 as set out in [Exhibit 5](#).

**33.** Audit fees are a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

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### Exhibit 5 Audit fees (including VAT)

Fee component	Fees (£)
External Auditor Remuneration	£48,120
Pooled costs	£3,200
Contribution to Audit Scotland costs	£1,690
Sectoral Cap Adjustment	(£6,090)
Total 2022/23 fee	£46,920

Source: Audit Scotland

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**34.** Details of the components of the audit fee have been separately communicated to management. In setting the fee for 2022/23 auditors have the opportunity for agreeing local increases from the baseline fee depending on the risks and anticipated audit work identified during audit planning. The above agreed notional fee has been retained at the baseline fee. We have assumed that AiB has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The notional 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

**35.** It is the responsibility of the 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.

**36.** While we are not planning to place formal reliance on the work of internal audit in 2022/23, 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

**37.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

**38.** Audit Scotland has robust arrangements in place to ensure compliance with these standards 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.

**39.** The appointed auditor for AiB is Stephanie Harold, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of AiB.

## Audit Quality

**40.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

**41.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

**42.** ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

**43.** Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**44.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.



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# Appendix 1. Your audit team

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**45.** The audit team involved in the audit of AiB have significant experience in public sector audit.

Stephanie Harold  
Engagement Lead  
Senior Audit Manager  
[sharold@audit-scotland.gov.uk](mailto:sharold@audit-scotland.gov.uk)

Stephanie is the Senior Audit Manager with overall responsibility for delivery of the audit. Stephanie has over 11 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Eilidh Nelson  
Senior Auditor  
[enelson@audit-cotland.gov.uk](mailto:enelson@audit-cotland.gov.uk)

Eilidh Nelson has considerable experience in planning and delivering audits. Eilidh will manage the team and work alongside the Senior Audit Manager and other colleagues to deliver the audit.

**46.** The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

# Accountant in Bankruptcy

## Annual Audit Plan 2022/23

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)

For the latest news follow us on social media or

[subscribe to our email alerts.](#)



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