



# Accountant in Bankruptcy (AiB)

**External Audit Annual Report to the Accountable Officer and the Auditor General  
for Scotland for the financial year ended 31 March 2020**

**Audit Committee – 5 August 2020**

**Joanne Brown**  
Engagement Leader

**Lewis Wilson**  
Audit Manager



# Our audit at a glance



We received a good complete set of financial statements at the outset of the audit and the front end of the accounts were received later. This was in line with the revised timeline agreed with management.

Good working papers were provided to support the audit process and our queries were responded to quickly by the Finance Team throughout.

This was greatly appreciated by the audit team as it allowed a quality audit to be delivered despite the challenges Covid-19 created as the need for remote delivery of the audit resulted in some inefficiencies.



The Accountability Report is in line with our understanding of AiB and in particular their vision and strategic priorities. The Governance Statement, included within the Accountability Report, outlines the governance framework.

The Remuneration and Staff report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000, and directions thereunder. The disclosures in the Remuneration and Staff report are consistent with underlying payroll records provided by the Scottish Government.



We have fulfilled our responsibilities per International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work.

This final report to the Accountable Officer and the Auditor General for Scotland concludes our work.

An audit  
underpinned by  
quality and adding  
value to you



We have issued an **unmodified audit opinion** on the annual report and accounts.



Significant audit risks are:

management override of controls; risk of fraud in revenue recognition and the risk of fraud in expenditure recognition as set out in Financial Reporting Council's (FRC) Practice Note 10. An additional significant audit risk was identified in relation to Covid-19 which caused significant disruption to all public sector entities in the later half of March 2020.

Our audit procedures in relation to the significant risks did not identify any exceptions with respect to revenue and expenditure recognition or evidence of management override of controls.



Materiality is set at £231,120, representing approximately 2% of gross income based on the 2019/20 draft financial statement income of £11.56 million.

This is higher than the materiality communicated at planning of £200,000 as a result of actual income in the year being greater than budgeted.

We did not identify any adjustments to the draft financial statements based on our work and minor disclosure amendments were discussed and agreed.

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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).

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 AiB as an organisation. We have acted on feedback received in prior year audits and ensured continuity of the audit in-charge and have also introduced more stringent quality control measures.

We discussed the approach to remote working at the outset of the year end audit and communicated with key members of the Finance Team on a weekly basis throughout the audit to keep them updated as to audit progress. We used our data sharing tool Inflo for ongoing sharing of working papers and improved data analysis, we continue to invest in this software and have shared management's feedback of their experience with this tool.

We have made a positive contribution at the Audit Committee during the year and continue to work with management on how we can add value through the audit process to support them strengthen their financial arrangements.

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# Introduction

## Reporting

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2020.

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 the Scottish Ministers. In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once the accounts have been laid before parliament, the finalised audit report will be made publicly available on the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

Our report was presented to the Audit Committee on 5 August 2020.

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

## Structure of this report

As set out in our Audit Plan (December 2019) we consider in accordance with the Audit Scotland Code of Practice that AiB meets the smaller body definition. Therefore full wider scope is not considered relevant.

However, as required in the Code of Audit Practice our report concludes on our audit of the annual report and accounts and certain aspects of AiB's arrangements as they relate to the governance statement and financial management.

## Covid-19

As a result of the Covid-19 pandemic an additional significant risk – Covid-19 was identified at financial statement level.

This risk reflects the challenges posed by remote working, market volatility and the risk to financial stability across the economy.

The additional risk was shared with the Audit Committee in May 2020.

Given the timing of the pandemic in March 2020, and the nature of AiB as an organisation, Covid-19 had little impact on the 2019/20 financial statements.

## Our opinion

For the financial year ended 31 March 2020 we 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 on 8 June 2020 while the front end of the accounts was received later on 6 July 2020. This was in line with the revised timeline agreed with management.

The draft financial statements were supported by good working papers and the finance team were very quick to respond to our queries which was particularly helpful given the remote delivery of the audit.

We have no unadjusted differences to report.

We noted minor disclosure and formatting changes which resulted from our review of the accounts. These have all been processed in the final annual report and accounts. None of these changes were considered material and/or significant in nature and helped to improve the readability of the accounts.

## Materiality

Our audit approach was set out in our audit plan presented to the Audit Committee on 4 December 2019. Overall materiality has been set at £231,120, approximately 2% of gross income and performance materiality is set at £173,340, 75% of materiality. This is an increase from materiality communicated at planning of £200,000 as a result of actual income being greater than budgeted.

We report to management any difference identified over £11,600 (trivial threshold being 5% of materiality).

Lastly we set a lower materiality level for the remuneration report. This was set at £2,500, based on the bandings disclosed in the accounts.

## 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.
- Performed walkthrough procedures of key financial processes including income and expenditure recognition, journal postings, and payroll controls. Note, where financial processes interface with Scottish Government systems our walkthroughs have only considered the process within AiB.

Our work over controls is limited to our ISA requirements in understanding an entities control environment. While we have assessed AiB's controls to determine if they are designed to mitigate financial statement risk we don't rely on controls in our approach. As such, our audit is fully substantive and the assessment of control design does not impact on our sample size.

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

## Internal Audit

As set out in our external audit plan our audit approach is to comply with the ISA's and we do not place formal reliance on the work of the Scottish Government Internal Audit Service, AiB's internal audit provider during 2019/20. We have reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach.

The opinion of internal audit for the year was:

*"we have provided "substantial" assurance for 2019-20, which means in summary that controls were "robust and well managed."*

The findings of internal audit are consistent with our knowledge and experience of AiB. From our review we are satisfied that there were no areas arising from the work of internal audit that would impact on our audit opinion or require specific disclosure in the annual governance statement. Additionally, we have no concerns with regards to the Internal Audit function or ability.

# Responding to significant risks

Risk area	Identified audit risks at planning
<b>Risk of fraud in expenditure recognition</b>	Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As payroll expenditure is well forecast and agreeable to underlying payroll systems, there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on non-pay expenditure. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure. We will consider the completeness of the expenditure recognised under the provider accrual and provision at the year end.

## Work completed

The audited financial statement value for Operating Expenditure (excluding payroll expenditure) in 2019/20 is £7.890 million. In our response to the risk we have performed the following:

- Walkthroughs of the controls and procedures over other expenditure.
- Substantive testing (at an elevated risk level) expenditure recognised post year end to identify if there is any potential understatement.
- Testing post year end bank statements and review of minutes and any legal expenses incurred to identify any potential unrecorded liabilities.
- Review of accruals and deferred income around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimate.
- Considered the completeness of expenditure accrued at year end in relation to transactions with third party providers to ensure complete and accurate.

## Our conclusion

Based on our testing we conclude:

- We did not identify any exceptions in our cut-off testing of year end expenditure.
- We did not identify any exceptions in the completeness and accuracy of accruals or deferred income balances at the year end.
- Through our substantive procedures and sample testing we confirmed expenditure testing was in accordance with the nature of AiB (regularity).

# Responding to significant risks

Risk area	Identified audit risks at planning
<b>Risk of fraud in revenue recognition</b>	<p>As set out in ISA 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue. AiB's most material revenue streams are through fees and charges as well as recoveries. Parliamentary funding is agreed to Scottish Government resource allocations, confirmations and receipts and therefore considered less susceptible to material misstatement. Our presumed risk therefore focuses on Operating Income, consisting of revenue from fees and charges and recoveries including repayments to the public purse. We consider the risk to be prevalent around the year end where financial performance is monitored against the Scottish Government funding allocation and there is a greater incentive for fraud. We therefore focus our audit work on transactions around the year end. We will explicitly consider the underlying assumptions and supporting documentation in relation to year end accrued income from providers.</p>
Work completed	
<p>The audited financial statement value for Operating Income in 2019/20 is £11.566 million. In our response to the risk we have performed the following:</p> <ul style="list-style-type: none"><li>• Walkthroughs of the controls and procedures over other income.</li><li>• Substantive testing (at an elevated risk level) over income recognised in the final two months of the year where there is an inherently higher susceptibility of fraudulent recognition.</li><li>• Evaluation of the existence of debtor balances held at 31 March 2020 by agreeing balances held to invoices and/or other supporting records.</li><li>• Reviewed Management's assessment of bad debts through ensuring consistent with underlying records and based on assessment of outstanding debt and forecast recovery.</li><li>• Income cut-off procedures and substantive testing over pre and post year end balances, over non GIA funding income streams.</li><li>• Reviewed the key assumptions supporting the provider accrued income by agreeing to supporting records, including third party provider confirmations.</li></ul>	
Our conclusion	
<p>Based on our testing we conclude:</p> <ul style="list-style-type: none"><li>• We did not identify any exceptions in our cut-off testing of year end expenditure.</li><li>• We did not identify any exceptions in the completeness and accuracy of accruals, deferred income or provisions balances at the year end.</li><li>• Through our substantive procedures and sample testing we confirmed expenditure testing was in accordance with the nature of AiB (regularity).</li></ul>	



## Risk area

### Management override of controls

## Identified audit risks at planning

As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the AiB's controls for specific transactions.

We consider those key judgements that are most susceptible to significant audit risk of management override are those over income and expenditure recognition. These are areas where management has the potential to influence the financial statement through estimate and judgement.

## Work completed

### Accounting estimates:

In assessing the risk of management override, we have considered those key accounting estimates and judgements that could impact on the organisations financial results and where there is an inherently increased risk of fraudulent misstatement or where management bias could result in a material misstatement. In response to the significant audit risk we have:

- Considered the design of controls in place over key accounting estimates and judgements.
- Reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2020 and retrospective review of those estimates as at 31 March 2019.

### Journals testing:

We used data analytics to support our evaluation of journal transactions during the year. In response to the significant risk we have:

- Assessed the design of controls in place over journal entries, including how these are prepared, authorised and processed onto the financial ledger;
- Risk assessed the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We have tested these journals to ensure they are appropriate and that they are suitably recorded in the financial ledger and appropriately recognised within the financial statements;
- We have performed targeted testing of transactions around the financial year end reviewing journals which are large or otherwise appear unusual to understand the rationale for the transaction.

## Our conclusion

Based on our testing we conclude:

- There was no evidence of management override in our testing of controls.
- AiB financial statements do not include material judgements or estimates. We considered the provider accrual (both accrued expenses and accrued income) with no matters to report.
- We did not identify any unusual or significant transactions throughout the financial year or during the financial close period which were out with the ordinary operations of AiB.

## Risk area

### Covid-19

## Identified audit risks at planning

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and the reliability of evidence we can obtain to corroborate management estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant financial statement risk, and potential for increased risk of misstatement.

## Work completed

In assessing the risk posed by Covid-19 we have:




- Worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach.
- Liaised with Audit Scotland and other providers under the Audit Scotland contract framework, and taken into account wider guidance emerging related to audit quality (for example FRC guidance) and specific sector guidance.
- Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic.
- Evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely.
- Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates including provisions.
- Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.
- Discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.

## Our conclusion




Based on our testing we can conclude:

- Covid-19 and remote working did not restrict AiB's ability to prepare the financial statements or restrict the audit evidence required to complete the audit.
- Management have adequately assessed the impact of Covid-19 on the organisations governance arrangements and there has been no detrimental impact as a result of effective use of remote working technologies.
- Management have not revised financial forecasts in relation to Covid 19 as at the time of the audit, while it is likely that the pandemic will increase the level of cases for AiB it is important that this is assessed. A recommendation has been included in [Audit recommendations 2019/20](#).

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	Income from case fees, charges and other recoveries income is recognised as it is earned and not on a cash basis.	<p>AiB's revenue recognition policies are in line with IFRS 15 as interpreted and adapted by the FReM. Case fees, charges and other recoveries are recognised as they are earned, when the services are provided by AiB or third party management agents where applicable.</p> <p>While we recognised the risk of fraud within revenue in respect of fees, charges and other recoveries the presumed risk was rebutted in relation to government funding.</p> <p>Our audit testing addressed the risk of revenue being recognised incorrectly through cut-off testing. Our testing did not identify any exceptions.</p>	 (GREEN)
<b>Judgements and estimates</b>	AiB accounts do not include any judgements or estimates. No accounting policy is included given none exist.	<p>Our testing of the AiB financial statements confirmed there were no critical judgements or estimates within the accounts.</p> <p>While there are significant balances of accrued income and accrued expenses in relation to the third party providers of insolvency services, these balances are based on confirmations from the third parties.</p> <p>Accrued expenses are derived from the case management system which records all fees due and paid to the provider. Confirmations are also obtained from the management agents at the year end date detailing ongoing cases and commissions paid to date.</p> <p>Management recognise income based on estimated future recoveries due from live bankruptcy cases as accrued above. The amount recognised is based on Management's estimate of future amounts recoverable on insolvency cases. This is informed through both consideration of existing cases, supported by confirmations from management agents as well as historic recovery trends.</p>	 (GREEN)
<b>Other critical policies</b>	None identified by AiB.	<p>We have reviewed AiB's accounting policies against the FReM requirements. Where appropriate AiB has tailored accounting policies, whilst still complying with the FReM. A number of accounting policies are of less relevance to AiB's annual reports and accounts.</p> <p>We recommended a small number of minor disclosure changes, which have been made in the audited financial statements.</p>	 (GREEN)

## Assessment

-  Marginal accounting policy which could potentially be open to challenge and/or interpretation
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed the narrative aspects of the annual accounts and report. We have considered the consistency of this narrative with our understanding of AiB 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 provides information on the AiB's financial and non-financial performance during the year and defines the organisation's purpose and strategy.

The report uses infographics to help highlight key aspects of performance during the year.

## Overall Observations

AiB's financial statements continue to be developed to provide the reader of the accounts with an understanding of the organisation's financial and non-financial performance.

The front end of the accounts continue to provide details on the wider economic environment and context that AiB operate within in addition to the annual performance.

The appendix to the accounts includes statistical information including the number and type of bankruptcy cases across Scotland. This information is not subject to audit

Annual Report and Accounts include the performance report and accountability report (including remuneration and governance)

## Remuneration and Staff Report

The Remuneration and Staff Report has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions thereunder.

The disclosures within the report are consistent with underlying payroll information and the requirements of the FReM.

## Governance Statement

All key information required by the FReM has been included within the Governance Statement.

No material issues of governance in the year have been required to be disclosed.

None of the information continued within the statement is inconsistent with our audit knowledge and understanding of AiB

# 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.



## Provider accrual (accrued expenses and accrued income)

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.

As at March 2020, AiB accrued £2.6m in relation to third party insolvency costs. We have agreed the amounts recognised to the case management system, validated for accuracy through sample testing as well as obtaining insolvency providers confirmation.

Management have accrued £2.1m of future recoveries through consideration of active cases and historic recovery rates and trends. We are satisfied that the amount recognised is a reasonable estimate of the amount recovered based on case information and historic recoveries.

## Lease obligations

In our 2018-19 audit report we recommended a valuation to be undertaken to assess potential future obligations which may arise in restoring the Kilwinning premises to its original state at the end of the lease. An independent valuation carried out by Hardies Property and Construction Consultants in November 2019 identified potential costs of £335,285.

The Heads of Terms in respect of the new lease, commencing October 2020, note that there is “*no obligation to return [the premises] to shell condition*”, as a result, a significant proportion of the dilapidation costs will not be incurred and no provision has been included in the accounts for the remaining potential future costs.

In accordance with IAS 37 we are satisfied with management's determination that a provision is not required and that this does not result in a material misstatement of the financial statements as at 31 March 2020.

## Going Concern

As set out in the performance and accountability reports, AiB's accounts have been prepared on the going concern basis.

We have assessed management's going concern assessment including review of the budget for 2020/21 (see page 14). We are satisfied that the assumptions underpinning management's assessment are reasonable.

# AiB's financial and governance arrangements



## Financial management

AiB's 2020-21 Business Plan details AiB's business objectives for the coming financial year. The plan was published in June 2020 and the budget information for the coming year has not yet been adjusted as a result of the Covid-19 pandemic. This is highlighted in the Plan which notes the uncertainty which the pandemic has created. Given AiB's role, the impact of the pandemic may not be felt for some time although it is not unreasonable to expect a significant increase in case volumes in the future as has been seen following previous economic crises.

	Budget 2020-21 (£'000s)	Audited 2019-20 (£'000s)	Movement (£'000s)
Staff costs	5,024	5,324	(300)
Direct sequestration costs	4,072	4,898	(826)
Other operating Costs	1,811	1,496	315
Non-cash expenditure	846	1,496	(650)
	<b>11,753</b>	<b>13,214</b>	<b>(1,461)</b>
Operating income	10,307	11,566	(1,259)
SG resource allocation (cash)	600	152	448
SG resource allocation (non-cash)	846	1,496	(650)
	<b>11,753</b>	<b>13,214</b>	<b>(1,461)</b>
SG capital allocation	800	758	42

In the table to the left we have reviewed the budget for 2020/21 and compared the financials against the audited position for 2019/20 to consider the reasonableness of the budget.

The budgeted figures are broadly in line with our understanding of AiB and take account of the financial pressures and challenges facing the organisation. The budgeted decrease in staff costs reflects the Voluntary Exit Scheme which resulted in 13 employees leaving at the end of June 2020. The reduction in non-cash expenditure is a result of the majority of intangible assets now being fully amortised while the forecast capital spend reflects the planned expansion and improvements of the main case management systems used by AiB.

The decrease in both direct sequestration costs and operating income reflect the forecast reduction in case numbers which had been observed in the period to 31 March 2020. As noted above the figures are yet to be revised following the impact of Covid-19 although it is noted that the impact of the pandemic may not translate into a higher number of cases until the end of 2020-21 or indeed into 2021-22.

As at the time of the audit AiB have not published their future strategy with the previous business strategy having concluded in the current year. While the 2020-21 business plan includes budget information for the coming year, there are no longer term financial plans in place. While we recognise that Management continue to forecast insolvency trends and activity and keep these under review it is important that the budgeted figures are updated to reflect the potential impact of the Covid-19 pandemic. As the impact of the pandemic is likely to be realised by AiB over the preceding financial years it is also important that potential impacts on operations are included in the future strategy. Audit finding noted in [Audit recommendations 2019/20](#).

Financial performance is monitored by the senior management team and the AiB Advisory Board. The reports include consideration of case volumes and forecast activity. Financial monitoring reports are clear and concise and subject to appropriate scrutiny.

## 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 AiBs strategic direction and plans in place to support the delivery of these. Throughout the financial year, the Advisory Board was composed of two executives and five non-executive directors. A number of membership changes occurred in the year with one member leaving in August 2019 and three members joining between August 2019 and January 2020.

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 at 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. We found that minutes of these were published on AiB's website in a timely manner.



## Covid-19 response

AiB moved to remote working as a result of the Covid-19 outbreak and have been able to continue operations with no noticeable interruption by utilising existing technologies. The Advisory Board and Audit Committee have continued to meet remotely and there has been no detrimental impact on governance of the organisation.

AiB have contributed significantly to the Scottish Government's response to the pandemic and all members of the policy team alongside several volunteers from other business areas have been redeployed to priority work within the Scottish Government.

As a result of the Coronavirus (Scotland) Act 2020 and the Coronavirus (Scotland) (No.2) Act 2020 a number of system changes were successfully implemented by the Efficiency and Technology teams to make debt relief and protection more accessible through the recovery phase of the pandemic.



## Fraud and irregularity

AiB has arrangements and controls in place to help prevent, detect and mitigate the risk of fraud or irregularity. While we consider these to be reasonable, no arrangements can fully prevent against the risk of fraud, theft or irregularity. We are not aware of any material frauds at AiB during the course of the year and have confirmed this with management.



# Appendices

- Audit adjustments
- Audit recommendations 2019/20
- Follow up of 2018/19 recommendations
- Audit fees and independence
- Fraud arrangements
- Communication of audit matters



# Audit adjustments

## Uncorrected and corrected misstatements

We are pleased to report that there were no 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.

We noted minor disclosure and formatting changes which resulted from our review, all of which have been processed in the final annual report and accounts. None of these changes were considered material and/or significant in nature and helped to improve the readability of the accounts.

# Audit recommendations 2019/20

We set out below our recommendation based on the 2019/20 audit.

## Recommendation

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### Recognising the impact of Covid and publication of the future strategy

AiB have not yet published their future strategy and the previous business strategy in place concluded in the current year.

While the 2020-21 business plan includes budget information for the coming year, there are no longer term financial plans in place. Furthermore, the budgeted figures do not reflect the potential impact of the Covid-19 pandemic, which is likely to impact AiB over the longer term. While Management continue to forecast insolvency trends and activity and keep these under review it is important that the impact of Covid is considered in medium and longer term financial and strategic plans as it may have a significant impact particularly in the case load volume once the economic impact is realised on individuals.

We recommend that the financial information in the business plan and the new strategy is revised to reflect the impact of Covid-19.

### Initial management response

While recognising the challenges of longer term financial forecasting in these uncertain times, we are committed to reviewing, revising and monitoring our longer term financial plans and will update our medium term finance strategy and business plan to reflect the impact of Covid-19 as soon as we are able to. We are in regular discussion with SG about our funding needs, but SG have yet to set a budget for 2021-22 or subsequent years. As and when our budget allocations are confirmed formal planning documents will be refreshed.

### Action Owner

The Head of Finance will be ultimately responsible for this action including the preparation of a revised medium term finance strategy. The Business Support Manager will be responsible for updating the business plan. These actions will be supported by information and advice from the senior management team and operational colleagues.

### Timescale for implementation

Work will commence in Q2 of the 2020-2021 financial year with a revised medium term financial plan likely to be completed by 31st March 2021, depending on the timing of forward decisions by the Scottish Government. It is anticipated that this will be an on-going piece of work which will continue to be refined as we gain a better understanding of the longer term impact of Covid-19 on the insolvency environment.

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# Follow up of 2018/19 recommendations

We set out below our follow up of our 2018/19 recommendations and these are reflected below for information.

## Recommendation

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### Lease obligations

Under the terms of the lease arrangement for the Kilwinning premises, at the end of the lease term or earlier termination of the lease, AiB are obliged to return the premises to its original condition. The lease has a break clause in 2020 but we understand there are currently no plans to exit the premises at this stage and the lease ends in 2021.

To date work undertaken by AiB includes installing air conditioning units and other improvements. There has also been ongoing maintenance expenditure. While there will likely be an obligation which the present value of any future liability should be recognised, to date given the level and nature of expenditure, Management do not consider any remediation costs to be significant. However, going forward, in the event that the lease is extended beyond 2020, or any similar lease arrangement entered, we recommend that Management conduct an annual assessment of the potential future costs in restoring the premises.

### Initial management response

There has been limited work done to the fabric of the building to date and in our opinion any remediation work is likely to be insignificant. We will review this position annually, with an assessment of any potential future costs including restoration of the premises.

### Follow up – recommendation is closed

An independent valuation was carried out in November 2019 which identified potential costs of £335,285. However, the Heads of Terms in respect of the new lease, commencing October 2020, note that there is “*no obligation to return [the premises] to shell condition*”, as a result, a significant proportion of the dilapidation costs will not be incurred and no provision has been included in the accounts for the remaining potential future costs.

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### Medium term financial planning

AiB's Corporate and Business includes financial projections over the period of the plan. As 2019/20 represents the final period of the current plan, there are no longer term financial plans in place. We recognise that Management continue to forecast insolvency trends and activity and keep these under review. Management has also developed a medium term financial strategy. However, there is an opportunity to align the financial strategy with Corporate and Business plans as well as wider strategies across the organisation. The new Corporate and Business plan will include forward looking projections over the period of the plan. We recommend that annual refreshes of the plan includes forecast financial outlooks to ensure management decisions are cognizant of longer term financial implications.

### Initial management response

In developing AiB's business strategy beyond 2020, we will align this with 2025 ICT, Finance, Stakeholder and People strategies.

### Follow up – recommendation is superseded

AiB's business strategy concluded in March 2020 and as at the date of the audit the future strategy has not been published. As a result this recommendation remains open but has been superseded by the recommendation identified in the current year in respect of the revision to the budget as a result of Covid.

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# Audit fees and independence

## External Audit Fee Service

Service	Fees £
External Auditor Remuneration	34,100
Pooled costs	8,830
Contribution to Audit Scotland costs	1,770
Contribution to Performance Audit and Best Value	-
<b>2019/20 Fee</b>	<b>44,700</b>

## Fees for other services

Service	Fees £
We confirm there are no non-audit fees	Nil

## Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.
- We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- Grant Thornton are private trustees in bankruptcy/PTD processes. AiB have a supervisory role over the performance of private trustees in exercising their duties in regards to these processes. We do not consider these arrangements to impact on our auditor independence.
- Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council'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.

## Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work ([joanne.e.brown@uk.gt.com](mailto:joanne.e.brown@uk.gt.com)). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

# Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is 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 relations to management override of controls.
- Leading a discussion with those charged of governance (for AiB this is assumed to be the Audit Committee and the Accountable Officer) on their view of fraud. Typically we do 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.

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.

## Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at AiB we will report to the Auditor General as required by Audit Scotland.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is the 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 work with AiB to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

# Communication of audit matters

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table below.

This document, our Annual Report, is issued prior to approval of the financial statements and presents key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Our communication plan

	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern. No significant matters on going concern identified.	•	•
Views about the qualitative aspects of AiB's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures. <b>Within this report, on pages 11, 12 and 13.</b>		•
Significant findings from the audit. <b>Communicated in this report including one recommendation for management.</b>		•
Significant matters and issues arising during the audit and written representations that have been sought. <b>Letter of representation sought and signed on the date the accounts were signed. No matters to report.</b>		•
Significant difficulties encountered during the audit. <b>No difficulties were encountered through the audit.</b>		•
Significant deficiencies in internal control identified during the audit. <b>No deficiencies in internal control were identified.</b>		•
Significant matters arising in connection with related parties. <b>No related party matters were identified.</b>		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements. <b>None identified.</b>		•
Non-compliance with laws and regulations. <b>None identified.</b>		•
Unadjusted misstatements and material disclosure omissions. <b>None identified.</b>		•
Expected modifications to the auditor's report, or emphasis of matter. <b>No modifications or emphasis of matter within the opinion.</b>		•



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