

Accountant in Bankruptcy

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Accountant in Bankruptcy and the Auditor General for Scotland
August 2023

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Key messages

2022/23 annual report and accounts

- 1** Audit opinions on the annual report and accounts are unmodified. The Accountant in Bankruptcy's (AiB) financial statements give a true and fair view of its financial position and its net expenditure for the year.
- 2** Key risks arising from the audit of AiB's accounts were detailed in our Annual Audit Plan. There are no matters relating to our significant risks of material misstatement to draw to the attention of members.
- 3** Material adjustments have been made to the annual report and accounts as a result of the audit process. Accrued provider income has been reclassified as a contingent asset within the 2022/23 annual report and accounts and restated within the prior year comparative figures. This has resulted in an increase in income of £100k and reduced current assets by £1.87m.
- 4** Following consideration of the revised methodology for the provider accrual, we identified that fixed fees meet the definition of a contingent liability and the 2022/23 annual report and accounts have been adjusted to disclose a contingent liability of £259k.

Wider scope

- 5** AiB operated within its revenue budget for 2022/23, with a small underspend noted in the Statement of Comprehensive Net Expenditure.
- 6** AiB would benefit from developing a medium-term financial plan, which looks forward over the next three to five years. We recommend that this is reviewed on an annual basis, to take account of new and up to date information. This will support identifying and addressing any financial sustainability risks that may arise.
- 7** Disclosures in the Annual Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.
- 8** AiB has appropriate arrangements in place for securing best value.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of the Accountant in Bankruptcy (AiB). The scope of the audit was set out in an Annual Audit Plan which was shared with members in March 2023 and then presented to the 9 May 2023 meeting of the Audit Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of AiB's annual report and accounts
- wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability.

2. This report is addressed to AiB and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I, Stephanie Harold, have been appointed by the Auditor General as auditor of AiB for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) (the Code) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank board and audit committee members, executive directors and particularly those in finance, for their cooperation and assistance in this year and we look forward to continuing to work together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. AiB has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. AiB is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

7. The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £46,920 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. We add value to AiB by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice identified.

Part 1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified. The Accountant in Bankruptcy's (AiB) financial statements give a true and fair view of its financial position and its net expenditure for the year.

Key risks arising from the audit of AiB's accounts were detailed in our Annual Audit Plan. There are no matters relating to our significant risks of material misstatement to draw to the attention of members.

Material adjustments have been made to the annual report and accounts as a result of the audit process. Accrued provider income has been reclassified as a contingent asset within the 2022/23 annual report and accounts and restated within the prior year comparative figures. This has resulted in an increase in income of £100k and reduced current assets by £1.87m.

Following consideration of the revised methodology for the provider accrual, we identified that fixed fees meet the definition of a contingent liability and the 2022/23 annual report and accounts have been adjusted to disclose a contingent liability of £259k.

Audit opinions on the annual report and are unmodified

11. The Accountable Officer approved the annual report and accounts for AiB for the year ended 31 March 2023 on 31 August 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income are regular and in accordance with applicable enactments and guidance

- the audited part of the remuneration and staff reports, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Overall materiality was assessed on receipt of the annual report and accounts as £170,000

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#). This did not impact on our audit approach.

Exhibit 1 Quantitative materiality values

Materiality level	Amount
Overall materiality	£170,000
Performance materiality	£130,000
Reporting threshold	£10,000

14. The overall materiality threshold was set with reference to operating income, which we judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting there was no history of errors in the accounts.

16. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

17. We have obtained audit assurances over the identified significant risks of material misstatement to the annual report and accounts. [Exhibit 2](#) sets out the

significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Identified significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of Material misstatement due to fraud cause by management override of controls</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>Assessed the design and implementation of controls over journal entry processing.</p> <p>Made enquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Detailed testing of journals entries.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Focussed testing of accruals and prepayments.</p> <p>Evaluation of controls in place for identifying and disclosing related party relationships and transactions.</p>	<p>Results and significant judgements:</p> <p>No issues identified in our consideration of the design of controls around journal entry processing.</p> <p>No findings from our enquiries of individuals involved in the financial reporting process around inappropriate or unusual activity relating to the processing of journal entries.</p> <p>No unusual or inappropriate transactions were identified as part of our detailed testing of journal entries.</p> <p>No significant transactions outside the normal course of business were identified.</p> <p>Focussed testing of accruals and prepayments resulted in adjustments to the accounts, all of which were agreed by management.</p> <p>No issues identified in our consideration of controls in place for identifying and disclosing related party relationships and transactions.</p> <p>Conclusion: there is no evidence of management override of controls.</p>
<p>2. Presumed risk of fraud over income</p>	<p>Walkthrough of controls over material income streams.</p>	<p>No issues identified in our walkthrough of controls over material income streams.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>ISA 240 requires that audit work is planned to consider the risk of fraud over income, which is presumed to be a significant risk in any audit.</p> <p>A proportion of AiB's income is received from the Scottish Government. This income stream can be agreed to Scottish Government resource allocations, reducing the likelihood of this income stream being materially misstated.</p> <p>AiB receives a material amount of other operating income from sources other than the Scottish Government, including fees and charges.</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>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of income transactions, focussing on the areas of greatest risk including pre and post year-end transactions to confirm they are accounted for in the correct financial year.</p>	<p>Analytical procedures on income streams did not identify any issues.</p> <p>Detailed testing of income transactions was concluded as satisfactory.</p> <p>Conclusion: there is no evidence of fraud over income.</p>
<p>3. Presumed risk of fraud over expenditure</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 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>Walkthrough of controls over material expenditure streams.</p> <p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions, focussing on the areas of greatest risk including pre and post year-end transactions to confirm they are accounted for in the correct financial year.</p>	<p>No issues identified in our walkthrough of controls over material expenditure streams.</p> <p>Analytical procedures on expenditure streams did not identify any issues.</p> <p>Detailed testing of expenditure transactions was concluded as satisfactory.</p> <p>Conclusion: there is no evidence of fraud over expenditure.</p>

Audit risk	Assurance procedure	Results and conclusions
Therefore, the presumed risk is on AiBs other significant expenditure streams. Our work will focus on year-end cut-off, to ensure the correct accounting treatment of transactions.		

18. In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be other risks of material misstatement to the financial statements. The areas of specific audit focus were:

- 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. See [Exhibit 3](#), which documents our findings following review of the accrual calculations.
- IFRS 16 implementation:** the implementation of IFRS 16 was mandatory for central government bodies (including AiB) from 2022/23 onwards. This was an area of audit focus for our 2022/23 audit as IFRS 16 significantly changed 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. We reviewed the implementation of IFRS 16 during our audit. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

Significant findings and key audit matters

19. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body’s accounting practices.

20. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

Exhibit 3

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Provider accrual - income</p> <p>We reviewed the provider accrual disclosed in the accounts. Through discussions with finance staff, we noted bankruptcy cases can take a number of years to settle with no accurate way of determining the timing of settlement. In addition, an estimate is in place of a 50% recovery rate on funds expended. Our judgement is that, in line with auditing standards, this falls out with the criteria for recognising this as accrued income in year.</p> <p>We identified that AiB should derecognise the accrued income in relation to the provider accrual and disclose this as a contingent asset, which more accurately reflects the uncertainty around the timing and value of recovery of funds</p>	<p>We identified that AiB should derecognise the accrued income of £1,865k in relation to the provider accrual and reclassify this as a contingent asset, which more accurately reflects the uncertainty around the timing and value of recovery of funds. Internal Accounting Standard 37 (IAS 37): Provisions, Contingent Liabilities and Contingent Assets defines a contingent asset as ‘a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity’.</p> <p>AiB has agreed with this assessment and updated the accounts for 2022/23 and 2021/22 comparative figures, in line with accounting standards. Earlier restatement was not practicable. A prior year adjustment has been included in the accounts.</p> <p>This was judged to be a key audit matter.</p>
<p>2. Provider accrual – expenditure</p> <p>We considered the revised methodology for the provider accrual. A prior year adjustment has been included in the accounts to reflect this change in policy.</p> <p>We agreed with the changes but noted that it also excluded the fixed fees expenditure element from the provider accrual.</p> <p>We reviewed and considered the circumstances around the fixed fees, including when these fees become payable by AiB. It was noted that these fees do not become payable until after receipt of management information from the providers. As such, we concluded that the fixed fees element had been correctly excluded from the provider accrual calculation.</p> <p>We identified that these fixed fees should be disclosed as a contingent liability.</p>	<p>We identified that AiB should disclose a contingent liability of £259k in relation to provider fixed fees. IAS 37 defines a contingent liability as ‘a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity’. The award for the case to a provider is the past event and the fixed fee requires specific performance obligations by providers.</p> <p>AiB has agreed with this assessment and updated the accounts for 2022/23 and 2021/22 comparative figures, in line with accounting standards.</p>

Issue	Resolution
<p>3 Prior period adjustment – Non Current Assets</p> <p>AiB adjusted the prior year comparative figures to reflect that indexation was incorrectly applied to two assets. These assets were restated to their original cost value less indexation. An adjustment of £434k was included in the comparative figures.</p> <p>We reviewed and considered the prior year adjustment, in line with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and recommended that this was separately disclosed as a prior year adjustment.</p>	<p>Per IAS 8, we recommended that the prior year adjustment be disclosed within its own restatement note to the accounts, with additional narrative to explain the restatement and the overall impact on accounts.</p> <p>We also recommended that in line with IAS 8, AiB restate the opening balances and indexation applied in 2021/22 comparatives to reflect the prior period adjustment rather than showing this as a movement during that year.</p> <p>AiB agreed with this assessment and updated the 2021/22 comparative figures in line with the accounting standards.</p>

There were material and non-material misstatements identified within the financial statements

21. As noted in [Exhibit 3](#), following review of the provider accrual - income, we recommended that AiB derecognise the accrual and disclose this as a contingent asset. This resulted in an overall increase in income of £100k (due to the net impact of the 2021/22 and 2022/23 accruals). This adjustment also reduced trade receivables and overall total assets in year by £1,865k.

22. We recommended, following review of the revised methodology for the provider accrual which excluded the fixed fee expenditure element, that these fees be disclosed as a contingent liability. This did not impact on the core 2022/23 financial statements however resulted in AiB disclosing a contingent liability of £259k in the accounts.

23. AiB updated the total number of days used to calculate the holiday pay accrual from 219 to 261 days, to bring this in line with best practice guidance. This resulted in trade and other payables within the 2022/23 statement of financial position being reduced by £36k and also reduced the staff costs within the statement of comprehensive net expenditure by £36k. A prior period restatement was not required as this was not material.

24. AiB identified the need to restate the value of two assets which were subject to indexation, when this should not have occurred. We identified that the opening balances should be restated for comparative figures rather than through movements in the note.

25. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted for these identified misstatements above our reporting threshold; there are no unadjusted misstatements to report.

The annual report and accounts were signed off in line with the agreed deadline date

26. The unaudited annual report and accounts were received in line with our agreed audit timetable of the week commencing 29 May 2023.

27. As AiB is an executive agency, the statutory deadline for the audited annual report and accounts was 31 August 2023. As AiB were able to deliver the unaudited financial statements in accordance with the agreed audit timetable, we have been able to sign off the annual report and accounts for the deadline date.

Good progress was made on prior year recommendations

28. AiB has made good progress in implementing the audit recommendations identified by Grant Thornton, AiB's previous external auditor, from the 2021/22 Annual Audit Report. Grant Thornton reported:

“There is an opportunity for AiB to review the current processes in place in determining the provider accrual at year end and estimate of accounts recoverable to the public purse. This should include a greater evaluation of the progress with cases during the year, through engagement with third party agents and also building on AiB's knowledge and understanding of live bankruptcy cases. This should ensure that Management have a greater expectation in advance of the year end over the provider expenditure position as well as enabling a more robust look forward to support amounts recoverable on cases. This should be supported through retrospective review of case files. This process could also enhance disclosures in the financial statements around key estimates, judgements and sensitivities around estimates.

The new provider contract came into effect from 1 July 2022. While initial working arrangements are being established a key aspect of this will be in ensuring timely communication and reporting of case activity. This process has still to embed and Management are hopeful this will be implemented by March 2023.”

29. AiB has engaged with third party agents to build their knowledge and understanding of live cases being managed by the providers. This allowed AiB finance staff to build a better expectation of the provider accrual position in advance of the year end. Through AiB's engagement with third party agents, we were able to review and assess the provider accrual calculation.

30. AiB have shared more information with us this year to allow us to build our understanding of the expenditure and associated income which has resulted in the findings in [Exhibit 3](#).

31. AiB will benefit from continuing to engage with third party agents to develop understanding of the information received and build knowledge. This will allow AiB finance staff to continue to build a better expectation of the financial position in advance of the year end, and factor this position into AiB's medium term financial planning.

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term

Conclusion

AiB operated within its revenue budget for 2022/23, with a small underspend noted in the Statement of Comprehensive Net Expenditure.

AiB would benefit from developing a medium-term financial plan, which looks forward over the next three to five years. We recommend that this is reviewed on an annual basis, to take account of new and up to date information. This will support identifying and addressing any financial sustainability risks that may arise.

Disclosures in the Annual Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.

AiB has appropriate arrangements in place for securing best value.

AiB operated within its revised budget for 2022/23

32. The main financial objective for AiB is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government.

33. The cost of operating AiB is met predominantly through income raised from fees and charges as set out by Bankruptcy Fees (Scotland) Regulations 2018. AiB's total operating expenditure for the year of £8.79 million was funded by operating income of £8.62 million, with the remaining net expenditure of £0.17 million being met by the Scottish Government budget allocation. This can be seen in the Statement of Comprehensive Net Expenditure.

34. A separate budget allocation of £1.10 million was provided to AiB by the Scottish Government for capital expenditure and this was fully utilised, with a slight overspend, with spending totalling £1.18 million at the end of the year. This spending was primarily in the development of the case management systems.

There are net assets recorded in the statement of financial position

35. The Statement of Financial Position summarises what is owned and owed by AiB. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen

from the application of revenues and that which has resulted through changes over time in the value of physical assets.

36. In line with guidance, AiB implemented IFRS 16 as part of their 2022/23 annual report and accounts. IFRS 16 significantly changed the way in which AiB accounted for leases, including recognising a right of use assets and lease liability in the accounts for the Kilwinning office building. AiB's 2022/23 statement of financial position includes the new right of use asset of £2.427 million whilst also recognising the associated finance lease liability of £2.482 million.

AiB should look to develop a new rolling medium-term financial plan

37. AiB's 2023/24 financial plan was approved by the Board on 9 February 2023, with a balanced budget forecast. AiB's 2023/24 forecast includes a decrease in the Scottish Government resource allocations for both cash and non-cash, as well as a decrease in operating income to reflect case load volumes.

38. AiB had completed a medium term financial strategy in March 2019 which detailed forecasts and included some scenario planning. This has not currently been refreshed. In line with Scottish Government requirements, the current financial plan only covers the coming year and does not account for pay inflationary costs as this is done centrally by Scottish Government. Some medium term financial projections are prepared but it would be useful for this to be formalised into an annual process.

39. AiB should look to develop their own medium-term financial plan, which looks forward over the next three to five years. These financial forecasts should be updated on an annual (rolling) basis to take account of up to date information, expected impacts of pay growth, inflationary pressures and new or additional information received from third party agents which will impact on AiB's income and expenditure streams. This will give a greater awareness of future cost pressures.

40. Further, the nature of AiB's pay base with proportionately more workers on lower pay bands, and recent pay awards supporting larger pay awards for lower paid workers, means that scenario planning for different levels of pay growth should be incorporated into the financial plans. These forecasts will be useful in identifying and developing methods to address risks of financial sustainability across the short and medium term.

Recommendation 1

We recommend that AiB develop its own medium-term financial plan. This should be reviewed and updated on an annual basis to account for additional costs in future budgets, including pay growth and inflationary pressures and information received from third party agents.

Disclosures in the Annual Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance

41. HM Treasury' Financial Reporting Manual (the FReM) states that AiB must prepare an annual governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Financial Manual (SPFM) for the content of the governance statement and provides assurances around the achievement if the organisation's strategic objectives.

42. The governance statement reflects a range of assurances received by the accountable officer in relation to the adequacy and effectiveness of AiB's system of internal control which operated during the financial year. We confirmed that the accountable officer received assurances from members of the senior management team covering their areas of responsibility.

AiB's governance and transparency arrangements are appropriate.

43. AiB is an Executive Agency of the Scottish Government responsible for administering the process of personal bankruptcy and recording corporate insolvencies in Scotland.

44. During 2022/23, the Advisory Board and Audit Committee meetings were held both remotely using Microsoft Teams and in person. We attend the Audit Committee meetings and papers are circulated to members in a timely manner in advance of meetings for review. From our attendance at Committee, we observed and concluded that members are engaged during meetings and provide effective scrutiny and challenge.

45. We have reviewed the minutes and papers submitted to the Advisory Board throughout the year. The papers are detailed and comprehensive to allow for effective decision making and scrutiny of performance.

The performance report complied with the requirements of the FReM.

46. We consider the qualitative aspects of the performance report included in the annual report and accounts. The performance report is to provide information on the main objectives and strategies of the organisation, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of performance, and is essential in helping stakeholders understand the financial statements.

47. We discussed some amendments to the draft performance report to better ensure this complied with the requirements of the FReM which management agreed to implement. We concluded that the information disclosed in the 2022/23 performance report complies with the FReM.

AiB has appropriate arrangements in place for securing Best Value

48. The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure best value. From discussions with AiB, we are satisfied that there are appropriate arrangements in place for securing best value.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Financial plan</p> <p>AiB's current financial plan does not look further ahead than the coming year or account for pay inflationary costs as this is done centrally by Scottish Government.</p> <p>Having a formalised three to five year financial plan updated on an annual basis will give greater certainty about future financial pressures.</p> <p>Without these plans, risks to financial sustainability may not be identified.</p>	<p>We recommend that AiB develop its own medium-term financial plan. This should be reviewed and updated on an annual basis to account for additional costs in future budgets, including pay growth and inflationary pressures and information received from third party agents.</p> <p>Paragraph 37. - 40.</p>	<p>The agency has been commissioned by Scottish Government to produce forecasts spanning the 2024-25 – 2028-29 years as part of the Strategic Approach to Budgeting (SAB) exercise. Further detailed forecasting work will be carried out with input from colleagues across the agency to ensure that up to date and accurate figures and assumptions are being used. A meeting is being held on 31 August 2023 with key staff to commence discussions on the medium term financial planning and the outcome of these discussions will be incorporated into the forecasting model as well as forming part of the longer term strategy.</p> <p>There is an action from the Audit Committee to produce a forecast paper for the November meeting with a view to there being a 'deep dive' in February to evidence financial planning as per the assurance map. As Head of Finance, I will have ultimate responsibility for ensuring the forecasts are continually reviewed and updated and I</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>am committed to developing a five year plan to help us achieve balanced budgets over the coming years. It is my intention to produce a forecasting paper by 31 October which sets out the best estimate of our future spend and income and to build on this by producing a five year plan which sets out how we can continue to deliver our services with no increase in budget against additional pay and inflationary pressures. I aim to have a draft five year plan completed by 31 January 2024 in advance of the February Audit Committee meeting.</p> <p>Responsible officer: Head of Finance</p> <p>Date: 31 January 2024</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Provider accrual (accrued income) 2021/22 AAR</p> <p>Grant Thornton noted that there was an opportunity for AiB to review the current processes to determine the provider accrual and estimated amounts recoverable.</p>	<p>Grant Thornton recommended that this should include greater evaluation of the progress with cases during the year, through engagement with third party agents and also building on AiB's knowledge and understanding of live cases. This should ensure that management have a greater expectation in advance of year end over the provider expenditure position as well as enabling a more robust forward look forward to support amounts recoverable on cases supported through</p>	<p>Complete</p>

Issue/risk	Recommendation	Agreed management action/timing
	retrospective review of case files.	

Accountant in Bankruptcy

2022/23 Annual Audit Report

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



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