Presented to Parliament pursuant to Section 409(4) of the Insolvency Act 1986

Insolvency Services Account 2010-2011

LONDON: The Stationery Office
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Contents

Insolvency Act 1986

Foreword

Statutory background

The Insolvency Act 1986 (the Act) requires the preparation of two financial statements:

i The Secretary of State is required to prepare a statement of sums received and paid out by him through the Insolvency Services Account (the ISA) for each year ending 31 March, in such form and manner as the Treasury may direct (Section 409(2) of the Act); and

ii The Commissioners for the Reduction of the National Debt (CRND) are required to prepare a statement of the sums debited and credited to the Insolvency Services Investment Account (the Investment Account) for each year ending 31 March, in such form and manner as the Treasury may direct (Section 409(1) of the Act).

The Insolvency Services Account (the ISA)

The Insolvency Regulations 1994, as amended, (the Regulations) require official receivers and insolvency practitioners to pay into the ISA at the Bank of England money received by them in the course of their administration of bankruptcies and compulsory liquidations. Voluntary liquidators may deposit funds into the ISA. The Regulations also provide for payments from the ISA of disbursements, expenses and distributions to creditors and to contributories in company liquidations (Regulations 7, 8, 22 and 23). Estate monies deposited in the ISA are generally transferred to the Investment Account (Section 403(2) of the Act) although the Regulations provide that trustees and liquidators may request investment in Government Securities of estate monies not required for immediate purposes (Regulation 9(1) and 23A).

The Insolvency Services Investment Account (the Investment Account)

This account is kept by CRND at the Bank of England. CRND may invest any money standing to the credit of the Investment Account in accordance with the Trustee Investments Act 1961 and Treasury directions.

Income earned on these investments is used to pay interest and tax under the Regulations to individual estates. Investments are realised to make repayments to the ISA to meet the demands in respect of bankrupts' or companies' estates.

General background

The official receiver deals with the administration and investigation of all personal and corporate (including partnership) insolvencies arising through orders made by the court (compulsory insolvencies). Creditors, or the Secretary of State, may appoint an insolvency practitioner to take over the insolvency from the official receiver to act as trustee in bankruptcy (personal insolvency) or liquidator (corporate insolvency). In either case, the official receiver or insolvency practitioner must pay any receipts arising in the insolvency into the ISA.

In addition to insolvencies arising through orders made by the court, an insolvency practitioner may also be appointed to administer a voluntary liquidation. This can be a members' voluntary liquidation (for solvent companies) or a creditors' voluntary liquidation (for insolvent companies). Voluntary liquidations do not involve the official receiver or the courts. Insolvency practitioners appointed to administer voluntary liquidations may make payments into the ISA although the Regulations differ to those governing the payments made by trustees and liquidators of compulsory insolvencies. See the Forward Look for changes implemented in 2011-12.

The ISA is administered by the Estate Accounts Services of the Insolvency Service.

Aims and objectives

The Estate Accounts Services seeks to be a centre of excellence in providing estate accounting and investment services for bankruptcy and liquidation estate funds by:

- delivering a high standard of service to all users of the ISA;
- listening to the views of users about the administration of the ISA;
- making use of new technology to improve efficiency and extend the range of services provided;
- minimising the regulatory burden on users of the ISA, within the statutory framework; and
- ensuring the correct application and recovery of insolvency fees.

The aims and objectives of CRND are:

- to maintain sufficient liquid funds to meet expected payments;
- to maintain capital (nominal) cover over the Investment Account's liability to the Insolvency Service;
- to invest in secure, short-dated money market instruments and UK Government bonds to maintain capital value and access to liquidity; and
- income earned must, over time, be sufficient to cover the interest due to trustees and liquidators on money deposited with the ISA.

Review of activities

Level of insolvencies

The total number of new insolvencies – bankruptcies and compulsory and voluntary liquidations – decreased from 89,713 in 2009-10 to 72,872 in 2010-11. New voluntary liquidation cases increased by 13 per cent to 14,843; bankruptcy cases decreased by 26 per cent to 53,456; and compulsory cases increased by 12 per cent to 4,573.

Estate accounts maintained for insolvency practitioners decreased in 2010-11 to 26,000 (2009-10: 30,008), for bankruptcies and compulsory liquidations, while estate accounts maintained for official receivers increased in 2010-11 to 125,729 (2009-10: 96,722). This increase is due to cases not yet being closed on the new Insolvency Service Case Information System (ISCIS). Voluntary estate accounts maintained for insolvency practitioners decreased in 2010-11 to 2,918 (2009-10: 3,398).

The value of bankruptcy and compulsory liquidation estate accounts increased to £200 million (2009-10: £162 million), while the value of voluntary liquidation estate accounts has decreased to £508 million during 2010-11 (2009-10: £620 million).

Transactions

The Insolvency Services Account

Receipts into the ISA decreased in 2010-11 by £69 million to £1,213 million.

Payments decreased by £74 million to £1,208 million.

Receipt and payment volumes in 2010-11 were lower than the year before. Receipts fell from 133,000 to 114,000 (14 per cent). Payment requests fell from 234,000 to 176,000 (25 per cent). Written balance statements requested by IPs decreased by 54 per cent due to the increasing number of insolvency practitioners using the online internet access facility to view account details.

The Insolvency Services Investment Account

Funds invested by CRND at 31 March 2011 were £994 million, a decrease of £42 million compared to the figure a year earlier. Interest earned on these funds together with interest earned on the ISA working balances is paid to insolvency estates (after meeting interest under Regulation 9(6) of the Regulations 1994 and associated income tax). During the year the interest earned in the Investment Account exceeded the interest payable to liquidators, resulting in net income of £1.0 million. This reduced the net deficit on interest to £2.5 million. There remains a surplus on interest and profits on disposals in the funds of £43.5 million.

Banking

From March 2010 the Government Banking Service (GBS), part of Her Majesty's Revenue and Customs (HMRC), began processing retail banking transactions for the ISA taking over from the Office of the Paymaster General. GBS and its supplier banks are commercially bound by a memorandum of understanding concerning the obligations it will meet. During the year the payable order system for paper-based payments has continued to deliver a high level of security. BACS payments are used for payments when sufficient payee information is provided.

Interest paid to estates

The rate of interest paid on sums deposited in the ISA has remained unchanged at 0.5 per cent since 13 May 2009.

The interest rate amendments are published by a notice in *The London Gazette* pursuant to Regulation 9(6B). The rate of interest is subject to regular review by Estate Accounts Services and the CRND.

Fees

Estate Accounts Services is responsible for ensuring that the correct fees are charged and collected on bankruptcies, compulsory liquidations and any voluntary liquidation holding an account in the ISA.

Banking Fees for the year have remained unchanged at £18 per quarter for bankruptcies and compulsory liquidations and £23 per quarter for voluntary liquidations where an account is maintained in the ISA. Banking fees charged to estates during 2010-11 totalled £2.1 million (2009-10: £2.3 million).

During the year the cheque issue fee remained unchanged at £1.00 per cheque, the BACS transaction fee remains unchanged at £0.15 and the CHAPS issue fee remains unchanged at £10. Cheque, BACS and CHAPS fees totalling £130,000 (2009-10: £138,000) were charged to estates during the year.

Case administration fees charged decreased to £101 million (2009-10: £136 million) as a consequence of lower compulsory insolvencies.

Fees accrued by the Insolvency Service are shown in separately prepared agency accounts.

Key performance indicators

Performance was impacted by the introduction of ISCIS. In particular only 83.7 per cent (2009-10: 99.0 per cent) of Insolvency Services Account payments were actioned within 4 days of receipt during the year. However, performance had recovered to over 97 per cent by the end of the financial year.

Online services

During the year, an additional 30 insolvency practitioners signed up to use the on-line facility, enabling them to view estate accounts via the internet and print off account statements, bringing the total number of IPs registered for this service to 1,396 at 31 March 2011 (1,366 at 31 March 2010).

Forward Look

The migration from legacy systems to the new ISCIS system and the new general ledger was completed in two stages, in October 2010 and April 2011. However, a fees recovery module still remains to be implemented and this will be completed in 2011-12. A number of post implementation amendments and fixes have already been made to ISCIS but further changes continue to be implemented to enable the full range of intended benefits and efficiency gains from the new integrated ISCIS system to be delivered.

Except for the increase in deposits on compulsory insolvencies from 1 June 2011 there are no fee increases planned for 2011-12.

Following a consultation in 2010-11 changes to the Regulations were implemented from 1 October 2011 which prevent the payment into the ISA in relation to any new voluntary liquidation cases being administered by insolvency practitioners. The ISA has seen a significant decline in the number of voluntary cases since 2004 and the change in regulations will now result in reducing numbers as current cases are completed or withdrawn.

Preparation and audit

The financial statements are prepared by the Insolvency Service (an executive agency of the Department for Business, Innovation and Skills (BIS)), which is responsible for administering the accounts on behalf of the Secretary of State. The costs of administering the accounts are borne by the Insolvency Service.

The financial statements are audited by the Comptroller and Auditor General. His notional audit fee of £11,500 for the audit of the ISA for 2010-11 is recorded in the financial statements of the Insolvency Service.

As far as we are aware, there is no relevant audit information of which the auditors are unaware and we have taken all steps that we ought to have taken to make ourselves aware of any relevant audit information and to establish that the Agency's auditors are aware of that information.

Stephen Speed
The Insolvency Service
14 December 2011

Jo Whelan
Commissioners for the Reduction of the National Debt
14 December 2011

Statement of Chief Executive's and Comptroller and Auditor General's responsibilities

Accounting Officers must ensure that financial statements for which they are responsible are prepared in accordance with Treasury directions and guidance. The responsibilities of an Accounting Officer, including the preparation of the financial statements, are set out in *Managing Public Money,* issued by the Treasury. The Inspector General and Chief Executive of the Insolvency Service is the Accounting Officer for the ISA. The Insolvency Service's total income and expenditure as an Executive Agency is accounted for in separate accounts. The Comptroller General to the Commissioners for the Reduction of the National Debt is responsible for the propriety, regularity and the keeping of proper records with regard to the Investment Account.

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control in respect of the administration of the Insolvency Services Account. I am advised and supported by:

- the Insolvency Service Steering Board whose role is to advise the Secretary of State, generally through the Director General Market Frameworks (BIS), on governance of the agency, its corporate plan, targets and performance. The Steering Board meets at least five times a year to review plans, strategic direction and performance of the agency. The Board comprises senior officials from the agency and BIS, as well as up to five independent members, one of whom chairs it;
- the Directing Board (The Insolvency Service's executive committee) which meets twice-monthly and during the year reviews management accounts prepared by the Estate Accounts Services which has day, to day, responsibility for the management and administration of the Insolvency Services Account;
- an Audit Committee chaired by an independent member of the Steering Board. The Audit Committee meets four times a year and receives reports from both internal and external auditors on control, assurance, risk and other audit matters; and
- the Risk Management Committee, which considers the overall risks to the agency's objectives, the management and control of those risks, including those in relation to the Insolvency Services Account, and the review and monitoring of the agency's risk register. The Risk Management Committee meets at least four times a year and reports to the Directing Board and the Audit Committee.

The purpose of the system of internal control

The system of internal control is designed to manage risk to the achievement of agency policies, aims and objectives rather than to eliminate risk completely. It can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on a set of continuous processes designed to: identify and prioritise the risks in relation to the administration of the Insolvency Services Account; evaluate the likelihood of those risks being realised; assess their impact should they be realised; and manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2011 and up to the date of approval of the annual account, and accords with guidance from HM Treasury.

Capacity to handle risk

The Directing Board sets the policies on risk management and internal control and also promotes and supports the development of risk management and internal control activity.

The Risk Management Committee provides risk management oversight and advice to the Directing Board and Audit Committee on the agency's corporate governance practices.

Training has been provided to key managers and staff in risk identification, evaluation and management. Written guidance on risk management and evaluation is published on the agency's intranet, to which all staff have access.

Systems are in place to identify and escalate any significant risk or control weaknesses to ensure that appropriate action is taken to manage the risk and implement improvements to internal controls to reduce the likelihood of recurrence. Procedures are in place for the planning, monitoring and reporting on all major projects. Furthermore, all key projects in the agency are subject to Gateway Review, which includes an assessment of the key risks they face.

Internal Audit and the Corporate Governance Section operate to Government Internal Audit Standards. They review the adequacy and effectiveness of the Estate Accounts Services systems of internal control on a risk-based audit programme. The work of the Corporate Governance Section and Internal Audit is informed by the analysis of the risks to which the agency is exposed. The analysis of risk and joint plans of Internal audit and Corporate Governance Section are endorsed by the Agency's Audit Committee and approved by me.

The risk and control framework

A risk appetite matrix is in place against which risks at all levels are assessed. An agency-wide risk register which is aligned to the main business objectives of the agency ensures the risks are evaluated by type (financial, reputational, operational) and by level of exposure (likelihood and impact).

All agency-level risks have been evaluated and allocated to appropriate Directing Board members and include those relating to the Insolvency Services Account. Risk registers are maintained for Estate Account Services and have been reviewed, as a minimum, four times a year and updated as necessary during 2010-11.

Risk Identification and Management is tied to the business planning process at all levels and ensures that top-down and bottom-up risks are communicated and managed at the appropriate level. In year, each quarter, the Risk Management Committee considers overall risks to the agency's objectives, the management and control of those risks, and the review and monitoring of the agency's risk register, in order to ensure mitigation action remains effective. Outcomes are reported to the Directing Board and the Audit Committee.

A Security and Business Resilience Forum meets on a regular basis to ensure the security of information and other assets and to ensure the maintenance of plans for the prompt and efficient recovery of essential operations from any incident or physical disaster. The Head of Estate Account Services is a member of this forum. It reports to the Risk Management Committee.

During 2010-11, the Insolvency Service implemented a new IT system, ISCIS, to replace both the management and the accounting of insolvency case work. The financial case data on the legacy systems LOLA and BANCS which were managed by Estate Account Services was migrated to the new ISCIS system. In advance of, during and after implementation of the IT system, new and additional risks were identified and guidance was provided by Corporate Governance Section. Risks arose in relation to new processes but workarounds were also put in place where there were deficiencies in system functionality or system bugs. Increased management and control of these risks was put in place to ensure business continuity and avoid any financial or data loss. However, following the migration in October 2010 certain key reconciliation processes were not implemented; this omission was identified and addressed in November 2011. A mixed – discipline team was in place throughout the implementation as a control process. Resources to fix bugs were prioritised based on the level of risk identified by this team.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the joint work programme of Internal Audit and the Corporate Governance Section, together with executive managers within the agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been assisted in my review of the effectiveness of internal control by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the system of internal control is reviewed by my Directors who each provide me with a Statement on Risk Management, Internal Control and Corporate Governance for their directorate. The chairman of the Audit Committee and I, together with the Head of Internal Audit, review these statements, meeting with a sample of directors to discuss their key findings.

During the year particular attention has been given to reviewing and managing the risks associated with the introduction of the ISCIS IT system. The Insolvency Service's Corporate Governance Section staff and Internal Audit have advised me on the adequacy of the risk management and control in response to issues as they arose and I am satisfied that they have been effective (see below).

Internal Audit and Corporate Governance Section's audit programme is focussed around the agency's main risks. They submit regular reports on the adequacy and effectiveness of internal control together with recommendations for improvement. The Head of Internal Audit provides me with an Annual Report, which contains an independent opinion on the adequacy and effectiveness of internal control.

During 2010-11 Internal Audit reviewed the migration of financial data to ISCIS and were satisfied with the controls that were in place to ensure an effective migration. The new system required a second migration of the financial data into a new general ledger in ISCIS which was not completed until after the year end. A post – migration review of the first migration and a pre – migration review of the second migration was also undertaken during 2010-11. Where weaknesses were identified these have been addressed. The second migration was completed in early 2011-12. One significant workaround post migration has been in relation to the fee recovery module. The fees figures used in the agency annual accounts and this account have been generated using a reporting workaround, the results of which were subject to testing by internal audit. Issues relating to migration to the new ISCIS system and supporting general ledger were disclosed in the Statement on Internal Control to the Insolvency Service's Annual Report and Accounts 2010-11 published on 18 July 2011 (HC 1388).

Stephen Speed 14 December 2011
The Insolvency Service Accounting Officer

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Insolvency Services Account for the year ended 31 March 2011 under the Insolvency Act 1986. These comprise the Receipts and Payments Account, the Statement of Balances and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Chief Executive and Comptroller and Auditor General

As explained more fully in the Statement of Chief Executive's and Comptroller and Auditor General's responsibilities, the Chief Executive is responsible for the preparation of the financial statements in accordance with the Insolvency Act 1986 and HM Treasury directions made thereunder. My responsibility is to audit, certify and report on the financial statements in accordance with the Insolvency Act 1986. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Insolvency Services Account circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Insolvency Service; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Foreword, Chief Executive's and Comptroller and Auditor General's responsibilities and Statement on Internal Control to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements properly present the receipts and payments of the Insolvency Services Account for the year ending 31 March 2011; and
- the financial statements have been properly prepared in accordance with the Insolvency Act 1986 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters for which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

16 December 2011

National Audit Office
157–197 Buckingham Palace Road
Victoria
London SW1W 9SP

Receipts and Payments for the year ended 31 March 2011

	Notes	**2010-11 £000**	2009-10 £000
Receipts			
Realisation of assets of estates in compulsory insolvencies and voluntary liquidations		**792,723**	651,489
Frequent petitioners	12	**2,421**	2,894
From the Investment Account	2	**407,000**	591,000
Realisation of Government Securities at the request of liquidators and trustees	3	**0**	349
Unclaimed dividends	7	**7,801**	11,782
Interest received	4	**3,313**	24,403
Gain on Exchange	11	**0**	0
		1,213,258	1,281,917
Payments			
Payments requested by liquidators and trustees of estates in compulsory insolvency and voluntary liquidation and reissued dividends	6	**755,451**	991,505
To the Investment Account: excess cash balances on the ISA	2	**364,000**	196,000
Interest on ISA working balances	4	**0**	21
Investments in Government Securities at the request of liquidators and trustees	3	**0**	0
To the Consolidated Fund	8	**4,334**	6,919
To the Insolvency Service	5	**84,162**	87,196
Loss on Exchange	11	**225**	471
		1,208,172	1,282,112
Excess of payments over receipts	10		(195)
Excess of receipts over payments	10	**5,086**	

The notes on pages 14 to 17 form part of these accounts

Statement of Balances as at 31 March 2011

	Notes	**2011 £000**	2010 £000
Balances			
The Investment Account	2	**948,000**	991,000
Government Securities	3	**24**	24
Cash at bank	10	**(6,560)**	(11,646)
		941,464	979,378
Representing			
Insolvency Estates	11	**873,703**	917,677
Frequent petitioners	12	**(12)**	223
Fees due to the Insolvency Service	5	**18,461**	11,150
Amounts due to the Investment Account	2	**0**	0
Unclaimed dividends	7	**48,983**	45,573
Amount due to the Consolidated Fund	8	**(48)**	4,334
Amounts due to the Treasury Solicitor (BV)	9	**377**	421
		941,464	979,378

The notes on pages 14 to 17 form part of these accounts

Stephen Speed 14 December 2011
The Insolvency Service
Accounting Officer

Notes to the accounts

1 Accounting policies

i The accounts have been prepared on a cash basis as directed by HM Treasury.

ii US dollar transactions are accounted for as follows:

- receipts and payments are translated at the exchange rate at the date of the transaction; and
- balances are translated using the year end exchange rate.

The resulting notional gain/loss on exchange is credited/charged to the account in the appropriate period.

2 The Investment Account

The Act requires excess cash balances on the ISA to be transferred for investment to the Investment Account and for the Investment Account to realise investments and transfer appropriate funds to meet the needs of the ISA. The balance on the Investment Account, excluding interest, represents the liability of the Investment Account to the ISA.

	2010-11	2009-10
	£000	£000
Balance at 1 April	**991,000**	1,382,648
Excess cash balances transferred to the Investment Account	**364,000**	196,000
Reversal of Consolidated Fund Payment (Note 8)	**0**	3,352
	1,355,000	1,582,000
Less: Transfers to the ISA	**(407,000)**	(591,000)
Less: Payment to Consolidated Fund (Note 8)	**0**	0
Balance at 31 March	**948,000**	991,000

There are no outstanding amounts due to the Investment Account in relation to interest earned on foreign currency deposits.

The payment to the Consolidated Fund in 2008-09 was incorrectly made from the Investment Account rather than the ISA. This was rectified in 2009-10.

3 Government Securities

The Regulations allow the investment of surplus balances, from liquidations and bankruptcies, in Government Securities (Treasury Bills or Government Stocks) for the benefit of the individual estates. These securities are realised at the request of liquidators and trustees.

	2010-11	2009-10
	£000	£000
Balance at 1 April at cost	**24**	374
Amounts invested in the period	**0**	0
Amounts realised in the period	**(0)**	(349)
Net loss on Government Securities	**(0)**	(1)
Balance at 31 March at cost	**24**	24

4 Interest received

Interest is received on Government Securities, working cash balances held at the Bank of England and foreign currency deposits as follows

	2010-11 £000	2009-10 £000
On Government Securities	**2**	12
On deposits in the ISIA	**3,293**	24,370
On working balances*	**18**	21
On foreign currency deposits**	**0**	0
	3,313	24,403

* The £18,000 interest earned on working balances was paid to the Investment Account during the period.

** Interest is earned on estate monies held in the US Dollar Account during the period. The balance of accrued interest on foreign currency deposits at the year-end was £0.

5 Fees

Fees charged to insolvent estates (including VAT) are required to be paid to the Insolvency Service to fund the administration of insolvency estates and to discharge the costs of providing estate accounting and investment services. BIS continues to fund disbursements charged to estates where there are insufficient funds.

	2010-11 £000	2009-10 £000
Balance at 1 April	**11,150**	8,727
Fees on unclaimed dividends	**20**	16
(Unrecovered)/Recovered disbursements*	**(1,780)**	266
Fees and VAT recovered from estates	**93,233**	89,337
Net fees and VAT paid from the ISA	**(84,162)**	(87,196)
Balance at 31 March	**18,461**	11,150

* Unrecovered disbursements of £1,780,367 represents funds due from the Insolvency Service to the ISA at 31 March 2011.

6 Payments requested by liquidators and trustees of estates in insolvency and voluntary liquidation

The Act provides for:

- the repayment to liquidators and trustees of necessary disbursements made and expenses properly incurred in the course of their administration of companies' and bankrupts' estates out of any money standing to the credit of the estate in the ISA; and
- the payment of dividends to creditors in respect of debts owed to them by companies in liquidation and bankrupts, and distributions to contributories in company liquidations.

It is the responsibility of the trustee or liquidator concerned to ensure that any requisitions for expenses or disbursements relate to amounts which are properly due and payable and that payments of dividends relate to claims of creditors which have been established as being owed by the insolvent estate.

7 Unclaimed dividends

After a period determined by the Treasury (currently seven years) creditors' unclaimed dividends are required to be surrendered to the Consolidated Fund.

	2010-11	2009-10
	£000	£000
Balance at 1 April	**45,573**	46,742
Receipts	**7,801**	11,782
Payments to creditors	**(3,904)**	(4,624)
Fees	**(20)**	(16)
Transfers from estates	**35**	494
Transfers to estates	**(550)**	(1,652)
Transfer to the Consolidated Fund (Note 8)	**48**	(7,153)
Balance at 31 March	**48,983**	45,573

From 6 April 2008 receipts into the unclaimed dividends account includes unclaimed dividends in company administrations and administrative receivership cases.

8 Surrenders to the Consolidated Fund

The Act requires unclaimed monies and amounts which are too small to be divided among the persons entitled to them to be surrendered to the Consolidated Fund;

	2010-11	2009-10
	£000	£000
Balance at 1 April	**4,334**	0
Unclaimed dividends (Note 7)	**(48)**	7,153
Undistributed balances	**0**	748
	4,286	7,901
Consolidated Fund payment from the ISA	**(4,334)**	(6,919)
Consolidated Fund Payment from the ISIA (Note 2)	**0**	0
Consolidated Fund Reversal (Note 2)	**0**	3,352
Balance at 31 March	**(48)**	4,334

9 Amounts due to the Treasury Solicitor (Bona Vacantia (BV))

Regulation 18 of the Regulations requires liquidators (or former liquidators) of dissolved companies to pay into the ISA any unclaimed or undistributed company money in their hands. S1012 of the Companies Act 2006 provides that, on the dissolution of a company, such money is deemed to be bona vacantia and accordingly accrues to the Crown.

The Treasury Solicitor (BV) receives bona vacantia money on behalf of the Crown and amounts held in the ISA are remitted periodically to the Treasury Solicitor (BV) by arrangement with Estate Accounts Services.

	2010-11	2009-10
	£000	£000
Balance at 1 April	**421**	367
Money from dissolved companies	**46**	119
Payments to Treasury Solicitor	**(90)**	(65)
Balance at 31 March	**377**	421

10 Cash at Bank

The ISA balance is held at the Bank of England.

	2010-11	2009-10
	£000	£000
Balance at 1 April	**(11,646)**	(11,451)
Excess of receipts over payments	**5,086**	0
Excess of payments over receipts	**0**	(195)
Balance at 31 March	**(6,560)**	(11,646)

The balance at 31 March 2011 represents a timing difference and does not reflect the account being overdrawn.

11 Insolvency Estates

Insolvency estates are the funds held 'in trust' in respect of companies and individuals undergoing liquidation or bankruptcy proceedings.

	2010-11	2009-10
	£000	£000
Balance at 1 April	**917,677**	1,315,324
Net realisations/(payments)	**41,556**	(332,247)
Net Interest	**3,313**	24,382
Other payments/adjustments	**2,835**	292
(Loss)/Gain on exchange*	**(225)**	(471)
Unrecovered/(Recovered) disbursements	**1,780**	(266)
Fees and VAT recovered	**(93,233)**	(89,337)
Balance at 31 March	**873,703**	917,677

* The total loss on exchange was £225,333, which was the notional loss on estates held in foreign currencies at the year-end.

12 Frequent petitioner accounts

Frequent Petitioner accounts assist those creditors who issue large volumes of petitions that are subsequently dismissed or withdrawn. Under current legislation a deposit must be paid to the court before a petition can be filed, unless the court has written notice from the Secretary of State that a suitable alternative method of payment has been arranged. If a petitioner sets up an approved account with The Insolvency Service they are only required to fund the account to a level sufficient to pay a deposit on any petition where a bankruptcy or winding-up order is subsequently made.

	2010-11	2009-10
	£000	£000
Balance at 1 April	**223**	410
Funds received from frequent petitioners	**2,421**	2,894
Deposits credited to Insolvency estates	**(2,656)**	(3,081)
Balance at 31 March	**(12)**	223

Stephen Speed 14 December 2011
The Insolvency Service
Accounting Officer

Commissioners for the Reduction of the National Debt

Insolvency Services Investment Account

Accounts for the year ended 31 March 2011

Foreword

Introduction

These accounts have been prepared by the Commissioners for the Reduction of the National Debt (CRND), under a direction issued by HM Treasury in accordance with section 409(1) of the Insolvency Act 1986 (the Act).

Background to the Insolvency Services Investment Account

The Insolvency Services Investment Account (ISIA) was opened in 1970 as part of the rationalisation of procedures for the funds arising from company bankruptcies and liquidations under the Insolvency Services (Accounting and Investment) Act 1976 (repealed by the 1986 Act).

By virtue of section 403 of the Act, when the Secretary of State has excess cash in the Insolvency Service Account (the ISA) the excess amount is remitted to CRND for investment in the ISIA; when the balance in the ISA is insufficient to meet demands, CRND makes good the shortfall from the ISIA. Under paragraph 16 of Schedule 8 to the Act, income earned by the ISIA is used by the Insolvency Service to pay its liabilities of interest and tax to insolvency estates.

Section 404 of the Act empowers CRND to invest all the monies in the ISIA, in accordance with directions given by HM Treasury, in those securities specified in Part II of Schedule 1 to the Trustee Investments Act 1961 (currently restricted to paragraphs 1, 2, 3, 8, 9 and 9A).

Section 408(1) of the Act enables HM Treasury to make payments from the Consolidated Fund to the ISIA to meet any further shortfalls in the investment account.

Sections 271 and 272 of the Enterprise Act 2002 amended the Insolvency Services Act 1986 to allow the Secretary of State to set the interest rates payable to liquidators administratively rather than by secondary legislation in order to facilitate more frequent changes in the interest rate paid in response to changing rates of return on investments. In parallel, the legislation established that, for a given year, a surplus of interest received from investments over interest payable to liquidators would not routinely be paid to the Consolidated Fund as it had been previously. Instead, the surplus would be retained in the ISIA and would be available to be paid over to the insolvent estates in future years.

Historically, the investments made by CRND included gilt-edged securities with periods to maturity of up to 10 years. However, under a new regime introduced by the Enterprise Act 2002, voluntary liquidators were, from 1 April 2004, able to invest and divest from the ISIA at will and this fundamentally changed the outlook for the account's stability. In those circumstances, continuing to invest in gilts would have given rise to significant market and interest rate risk.

The investment profile of the ISIA is now such that the interest rate earned by the account is more closely related to current short-term interest rate levels. ISIA's gilt holdings were disposed of in 2004 and the proceeds were placed as short-term deposits with the Debt Management Account. This arrangement has remained in place throughout 2010-11.

CRND expects to continue the current investment strategy throughout 2011-12 and beyond. Investment in deposits with the Debt Management Account enables the account to earn a rate of interest very closely correlated with prevalent short-term sterling interest rates, whilst protecting its capital position and access to liquidity at all times.

The resources used to deliver CRND's objectives are accounted for within the United Kingdom Debt Management Office's (DMO) agency vote and Report and Accounts 2010-11. The cost of managing the ISIA is recharged to the Insolvency Service; in 2010-11, this amounted to £85,000 (2009-10: £85,000).

Commissioners for the Reduction of the National Debt

CRND's main function is the investment and management of major Government funds. The investment powers differ from fund to fund.

There are eight Commissioners, but the Secretary and Comptroller General and Assistant Comptroller, who are appointed by and act on behalf of the Commissioners, make the day-to-day decisions. There is no legislation that determines the specific responsibilities of the Secretary and Comptroller General and the Assistant Comptroller. However, in practice the role of the Secretary and Comptroller General is considered analogous to acting as the Accounting Officer for CRND. Therefore, the Secretary and Comptroller General takes responsibility for preparing and signing the accounts on behalf of the Commissioners.

The arrangements made between CRND and the Insolvency Service in respect of the investment service provided by CRND are set out in a Memorandum of Understanding which describes how CRND intends to achieve the agreed investment objectives.

Audit arrangements

Section 409(1) of the Act requires the Commissioners to send accounts prepared by them to the Comptroller and Auditor General.

Under section 409(4) of the Act, the Comptroller and Auditor General examines, certifies and reports on the accounts and lays copies of them with this report before each House of Parliament.

The Secretary and Comptroller General has taken the necessary steps to make herself aware of any relevant audit information and to establish that ISIA's auditors are aware of that information. So far as she is aware, there is no relevant audit information of which the ISIA's auditors are unaware.

Management commentary

Results for 2010-11

Total comprehensive income for 2010-11 was £0.981 million (2009-10: £0.118 million expenditure). Interest income of £5.137 million was lower than the prior year (£6.176 million) as a result of lower average funds on deposit. Interest payable to liquidators was £4.156 million (2009-10: £6.294 million).

The Insolvency Service withdrew £43.0 million (net of advances) from ISIA over the course of the year (2009-10: £391.6 million). Assets held by ISIA decreased to £993.6 million at 31 March 2011 (31 March 2010: £1,035.8 million) largely due to net withdrawals.

Date of authorisation for issue

The Secretary and Comptroller General authorised these financial statements for issue on 29 November 2011.

Jo Whelan 29 November 2011
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

Statement of Secretary and Comptroller General's responsibilities

Section 409(1) of the Insolvency Act 1986 requires CRND to prepare accounts for each financial year in the form and on the basis directed by HM Treasury.

The annual accounts of the ISIA are prepared on an accruals basis and must give a true and fair view of the financial position of the ISIA at the year end and of its income and cash flows for the financial year.

The Commissioners have appointed the Secretary and Comptroller General to discharge their statutory responsibilities, a role that is analogous to acting as an Accounting Officer. Therefore the Secretary and Comptroller General has responsibility for preparing the annual accounts and for transmitting these to the Comptroller and Auditor General.

In preparing the accounts an Accounting Officer is required to observe the applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Account, and apply suitable accounting policies on a consistent basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, and for the keeping of proper accounting records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Managing Public Money*.

Statement on Internal Control

Scope of responsibility

The Commissioners for the Reduction of the National Debt (CRND) are responsible for preparing the accounts. They have appointed me as Secretary and Comptroller General of CRND to discharge their responsibilities in this regard. As Secretary and Comptroller General, I also have responsibility for ensuring the operation of a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios whilst safeguarding the public funds for which I am accountable, in accordance with the responsibilities assigned to me.

CRND is a separate business entity managed within the control framework of the DMO. While I am responsible for CRND's system of internal control, the Accounting Officer of the DMO is responsible for the wider control framework within which CRND is managed. In discharging my own control responsibilities I take assurance on the continued sound maintenance of the wider control framework from the Statement on Internal Control for the DMO, although I understand that only reasonable and not absolute assurance can be given that risks have been controlled.

It is also my responsibility to ensure that all CRND fund management activities are conducted with due regard to value for money and operated in line with client instructions. I have put arrangements in place to ensure that there is a proper evaluation of the balance of cost and risk in our operations.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide a reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of DMO policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Relevant elements of the DMO system of internal control have been implemented for CRND. The system of internal control has been in place for the year ended 31 March 2011 and up to the date of approval of this account, and accords with HM Treasury guidance.

Capacity to handle risk

The DMO has a formal risk management framework document agreed by the Managing Board that summarises at a high level the principles which govern the DMO's approach to risk management, the different types of risk that the DMO manages, including CRND activities, and the various mechanisms that the DMO employs to ensure that risks are identified, assessed and managed at all levels within the organisation. The DMO also has more detailed risk management policies and has documented the risk management processes. Elements of these policies have been reviewed and adjusted during the year and have proved effective during a period of continued uncertainty in the financial markets.

The DMO's Managing Board is responsible for setting strategic direction and considering high-level operational issues. An executive sub-committee of the Managing Board (Sub MB) generally meets weekly. The terms of reference of the Managing Board and those of the Fund Management, Operational Risk and Business Delivery Committees clearly set out their roles and responsibilities for providing the organisational capacity to consider issues and make relevant decisions at the appropriate level.

The Business Delivery Committee includes the executive members of the Managing Board and key business managers. The committee exists to progress and review the status of the delivery of DMO's business and work plan as a collective cross-functional body, resolving emerging issues together to ensure the business and work plan is delivered in a timely and cost effective manner.

Staff are required to signify that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the use of information systems and technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies with respect to whistle blowing, fraud and anti-money laundering. The DMO ensures that the exercise is undertaken on an annual basis in order to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions which include reference to the specific key risks they are expected to manage. Managers in each business function are responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation.

During the year the new Coalition Government has introduced measures that have altered the DMO's risk profile over current and future years. In response, the DMO has placed increased focus on financial control, staff planning and responding to additional transparency requirements.

The risk and control framework

The DMO's formal risk management framework document sets out the various mechanisms for managing its risks that are incorporated into its approach to both regular operations and new business initiatives. There are processes in place to ensure regular measurement and monitoring of key business risks including market, credit, operational and liquidity risks. A statement of the risk appetite for these risks is included within the risk management framework document.

The DMO's Risk Management Unit (RMU) provides control advice on risks throughout the DMO. In the DMO's management reporting structure, the RMU is separate and independent of the DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risks are facilitated by the RMU, via consultation with heads of business units and functional teams. Regular meetings are held with heads of business units and functional teams to assess whether risks to their operations are being managed effectively. Significant risk issues are assessed by likelihood and materiality of occurrence. New risks and risks with an increased risk profile are highlighted and actions are taken to ensure effective management of all risks. The DMO has senior risk owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. The RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Progress against treatment actions is obtained on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines.

Risks to data and information held by the DMO are owned and managed by designated information asset owners. There is a senior information risk owner (SIRO) for the DMO, responsible for the information risk policy and risk assessment relating to information, who provides assurance over information risks to the Managing Board.

The DMO has designated Information Technology (IT) security officers who are responsible for the DMO's electronic network, including access to information and GSI accreditation. During the year, the DMO has continued a defined programme of work to deliver IT security and information management improvements.

The DMO continues to work to maintain the required level of protective security, covering physical, personnel and information security. An annual assessment is made against the policies and standards set out in the Government's Security Policy Framework and, when necessary, controls are strengthened to manage identified risks. During the year, physical security arrangements were reviewed and a revised physical security policy is being developed. IT security is subject to annual reviews, including tests by external specialists and assessment against the CESG requirements for continuing connection to the Government Secure Intranet (GSI).

The RMU communicates key risk issues to management on a regular basis within a number of forums, to enable management to take informed decisions on risk issues. Key forums are as follows:

- The Fund Management Committee, comprising CRND managers, other senior managers and DMO specialist staff, meets regularly to review CRND operational issues.
- The Operational Risk Committee meets regularly to monitor operational risks and to review significant risk issues, risk incidents and exceptions and progress against treatment actions. This review is supported by regular operational risk reporting produced by the RMU. The scope of this meeting covers issues relating to information risk, IT security, business continuity, anti – fraud issues and key supplier risks.
- A Controls Group meets periodically to review issues affecting the DMO's system of internal control (including CRND) and to analyse material changes to the control environment. The group recommends actions to management to implement changes where appropriate. The Controls Group consisted of representatives of the DMO teams responsible for finance, risk, compliance and internal audit.
- The DMO Audit Committee supports me as Secretary and Comptroller General of CRND on matters relating to risk, internal control and governance and associated assurance.
- A high – level strategic risk report is published to promote awareness of all high – level issues and risks that the DMO faces at an organisational level. The report is based on a High – 4Level Risk Register maintained by RMU, and is presented to the Managing Board on a regular basis.

A key component of the CRND's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities. All teams have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.

The DMO's business continuity plan (BCP) including disaster recovery (DR) and other arrangements is subject to continual review and update. The DMO ensured a programme of DR testing was carried out. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives.

CRND has established effective communication channels with each of its clients. Where relevant, an up-to-date memorandum of understanding is in place with each body responsible for the fund outlining their respective responsibilities.

Improvements and changes were implemented during the year, including improved controls surrounding information management and IT security; additional controls to improve the CRND payment process; and improved budgeting and forecasting processes.

Review of effectiveness

As Secretary and Comptroller General, my review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers in the DMO who have been delegated responsibility for the development and maintenance of the internal control framework, and by the reports and comments made by the external auditors.

I have been supported by the DMO Audit Committee and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. The DMO Audit Committee met five times during the year to 31 March 2011.

The Fund Management Committee has monitored and advised me on development of CRND governance mechanisms. The Fund Management Committee met four times during the year.

The DMO's RMU has conducted regular controls and compliance testing providing the executive sub-committee of the Managing Board with assurance on the effectiveness of operational controls and compliance with relevant FSA rules in the dealing and settlements areas.

The Operational Risk Committee and senior risk owners have advised me during the year on significant operational risk concerns, significant risk issues and trends, as well as actions to mitigate such risks. The Operational Risk Committee met seven times during the year.

The Controls Group has advised me on any significant risk concerns relating to the introduction of new business activities into the DMO as well as risks relating to other change management activities, and has made me aware of actions taken to mitigate identified risks.

The combined activities of the Fund Management Committee, RMU, Operational Risk Committee and the Controls Group have given me assurance that all risk, control and governance issues relevant to CRND have been dealt with effectively during the year.

The DMO Audit Committee considered the 2010-11 accounts in draft and provided me with its views before I formally signed the accounts.

During the period of this Statement on Internal Control, Internal Audit has provided reports on the effectiveness of the risk management, control and governance processes for the DMO, including aspects relevant to CRND, to the DMO Audit Committee throughout the period. The audits made a series of recommendations that have been addressed as part of our focus on continuous improvement in this area. The audits identified no serious breaches of risk or control systems. The Internal Audit work programme is approved by the DMO Audit Committee at the start of the year.

Internal Audit attended each meeting of the DMO Audit Committee to report the results of audit work and the results of follow-up work to confirm that appropriate management action had been taken to address audit recommendations.

On the basis of Internal Audit work during the year, the Head of Internal Audit has provided assurance to me on the adequacy and effectiveness of the risk management, control and governance arrangements relevant to the accounts, and has confirmed that there were no matters arising from the work of Internal Audit in the period that would give rise to separate comment in the Statement on Internal Control.

Significant Internal Control Issues 2010-11

In my opinion, the overall system of internal control relating to CRND was effective throughout the financial year 2010-11 and remains so on the date I sign this statement.

Jo Whelan 29 November 2011
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Insolvency Services Investment Account for the year ended 31 March 2011 under the Insolvency Act 1986. These comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Client Funds and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Commissioners for the Reduction of National Debt, the Secretary and Comptroller General and the Auditor

As described in the Statement of Secretary and Comptroller General's Responsibilities, the Commissioners are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. They have appointed the Secretary and Comptroller General to discharge these responsibilities.

My responsibility is to audit, certify and report on the financial statements in accordance with the Insolvency Act 1986. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Insolvency Services Investment Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Secretary and Comptroller General; and the overall presentation of the financial statements. In addition I have read all the financial and non-financial information in the Foreword, Management Commentary, Statement of Secretary and Comptroller General's responsibilities, and Statement on Internal Control to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Insolvency Services Investment Account's affairs as at 31 March 2011, and of its total comprehensive income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Insolvency Act 1986 and the HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion, the information given in the Foreword and the Management commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

1 December 2011

National Audit Office
157 – 197 Buckingham Palace Road
Victoria
London SW1W 9SP

Statement of Comprehensive Income for the year ended 31 March 2011

	Note	**2011** **£000**	2010 £000
Interest income		**5,137**	6,176
Interest payable to liquidators via the ISA	2	**(4,156)**	(6,294)
Total comprehensive income/(expenditure) for the year		**981**	(118)

The notes on pages 32 to 34 form part of these accounts

Statement of Financial Position as at 31 March 2011

	Note	**2011 £000**	2010 £000
Assets			
Demand deposits with the Debt Management Account (DMA) and the National Loans Fund (NLF)		**993,578**	1,035,776
Total		**993,578**	1,035,776
Insolvency Services Account funds and liabilities			
Client funds			
ISIA funds		**948,000**	991,000
Accumulated net profits on disposals		**45,990**	45,990
Surplus less interest payable to liquidators		**(2,505)**	(3,486)
		991,485	1,033,504
Liabilities			
Interest payable to liquidators	2	**2,093**	2,272
Total		**993,578**	1,035,776

The notes on pages 32 to 34 form part of these accounts

Jo Whelan 29 November 2011
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

Statement of Cash Flows for the year ended 31 March 2011

	2011	2010
	£000	£000
Operating activities		
Interest received	**5,158**	6,413
Interest paid to the Insolvency Services Account	**(4,335)**	(30,299)
Decrease in demand deposits with the Debt Management Account and the NLF	**42,177**	415,513
Net cash from operating activities	**43,000**	391,627
Financing activities		
Advanced by the Insolvency Services Account	**364,000**	199,373
Withdrawn by the Insolvency Services Account	**(407,000)**	(591,000)
Net cash used in financing activities	**(43,000)**	(391,627)
Increase/(decrease) in cash	**0**	0

The notes on pages 32 to 34 form part of these accounts

Statement of changes in Client Funds for the year ended 31 March 2011

	ISIA Funds £000	Accumulated net profits on disposals £000	(Deficit)/ Surplus less interest payable to liquidators £000	Total ISIA Funds £000
At 1 April 2009	**1,382,648**	**45,990**	**(3,389)**	**1,425,249**
Total comprehensive expenditure	0	0	(118)	(118)
Transferred from Client money employed account	(21)	0	21	0
Funds received from ISIA	199,373	0	0	199,373
Funds paid to ISIA	(591,000)	0	0	(591,000)
At 31 March 2010	**991,000**	**45,990**	**(3,486)**	**1,033,504**
Total comprehensive income	0	0	981	981
Funds received from ISIA	364,000	0	0	364,000
Funds paid to ISIA	(407,000)	0	0	(407,000)
At 31 March 2011	**948,000**	**45,990**	**(2,505)**	**991,485**

The notes on pages 32 to 34 form part of these accounts.

Notes to the accounts for the year ended 31 March 2011

1 Accounting policies

1.1 Basis of preparation

These accounts have been prepared in accordance with a direction made by HM Treasury under section 409(1) of the Insolvency Services Act 1986, in accordance with International Financial Reporting Standards (IFRS) in so far as they are appropriate, and under the historical cost convention, and on a going concern basis. In particular, the following standards have been applied:

- IAS 1 Presentation of Financial Statements (revised 2007)
- IAS 7 Statements of Cash Flows
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events after the Reporting Period
- IAS 18 Revenue
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 7 Financial Instruments: Disclosures

An income statement has not been presented, as the content would be identical to the statement of comprehensive income.

Certain IFRS have been issued or revised last year, but are not yet effective, which will impact on the ISIA in subsequent reporting periods. These are:

- IFRS 9 Financial Instruments, which will replace IAS 39. IFRS 9 is expected to improve and simplify the reporting of financial instruments. Application of IFRS 9 is required for any reporting period beginning on or after 1 January 2013. Earlier application is permitted. The ISIA expects to apply IFRS 9 in 2013-14. The application of IFRS 9 is not expected to impact on the disclosure of financial instruments reported by the ISIA.
- IAS 24 Related Party Disclosures, which has been revised. The changes required by the revisions to IAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government. Application of the revised IAS 24 is required for any reporting period beginning on or after 1 January 2011. Earlier application is permitted. The ISIA expects to apply the revised IAS 24 in 2011-12. The application of IAS 24 is not expected to impact on the disclosure of related parties.

1.2 Assets

Deposits with the DMA and NLF are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are therefore treated as loans and receivables measured at amortised cost.

1.3 Income recognition

Interest income is recognised using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the instrument.

1.4 Administrative expenditure

Administrative costs are accounted for in the DMO Report and Accounts 2010-11 and a recovery is made from Insolvency Services.

1.5 Accounting estimates

Interest payable to liquidators for the half-year period to 31 March 2011 (see note 2) had not been paid at the time of signing these accounts, so this accrual has been estimated. This estimate is based on the rate offered to liquidators applied each day to the applicable deposit balance held at the Debt Management Account.

2 Interest payable to liquidators via the ISA

	2011	2010
	£000	£000
Gross interest paid to the Insolvency Services Account for the half year to 30 September	**(2,063)**	(4,022)
Gross interest due to be paid to the Insolvency Services Account for the half year to 31 March	**(2,093)**	(2,272)
	(4,156)	(6,294)

3 Risk

3.1 Credit risk

Credit risk is the risk that a counterparty, or security issuer, will fail to discharge a contractual obligation resulting in financial loss to the Insolvency Services Investment Account.

The investments of the Insolvency Services Investment Account comprise deposits with the DMA and the NLF. Deposits with these accounts are considered to have no credit risk because they are obligations of HM Government.

3.2 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Insolvency Services Investment Account is considered to comprise interest rate risk.

The interest returns on deposits are closely linked to the official Bank Rate.

CRND monitors interest rate movements to help inform the Insolvency Services Investment Account client of potential issues and events. The Fund is not subject to active management and thus no formal market risk parameters are in place.

3.3 Liquidity risk

Liquidity risk is the risk that the Insolvency Services Investment Account will encounter difficulty in meeting obligations associated with client withdrawal requests.

Assets held by the Insolvency Services Investment Account are highly liquid to enable all client obligations to be met as they fall due.

4 Related parties

CRND is a separate entity within the DMO. CRND client mandates are kept distinct from other DMO business.

During the year the ISIA had a significant number of material transactions with the Debt Management Account, which is operated by the DMO. CRND client mandates require the bulk of the funds to be invested in gilts or deposited with the Debt Management Account.

During the year, the ISIA had a significant number of material transactions with the Insolvency Service due to monies advanced and withdrawn in respect of investments. During the year, the Insolvency Service withdrew £43.0 million (net of advances) from ISIA (2009-10: £391.6 million).

Appendix – Accounts Direction

Accounts direction given by HM Treasury in accordance with section 409(1) of Insolvency Services (Accounting & Investment) Act 1976 (Amended 1986)

1 This direction applies to the Insolvency Services Investment Account.

2 The Commissioners for the Reduction of the National Debt shall prepare accounts for the financial year ended 31 March 2010 and subsequent financial years which give a true and fair view of the state of affairs of the Account at the reporting date, and of its income and cash flows for the year then ended.

3 The accounts shall be prepared in accordance with applicable accounting standards, and shall be consistent with relevant requirements of the extant Government Financial Reporting Manual.

4 The accounts shall present an income statement, a statement of comprehensive income, a statement of financial position, a statement of cash flows, and a statement of changes in client funds. The statement of financial position shall present assets and liabilities in order of liquidity.

5 The notes to the accounts shall include disclosure of assets and liabilities, and of income and expenditure, relating to other central government funds including the National Loans Fund.

6 The report shall include:

- a brief history of the Account, and its statutory background;
- an outline of the scope of the Account, its relationship to HM Treasury and other central funds, and its management arrangements;
- a management commentary, including information on financial performance and financial position, which reflects the relationship between the Account and other central funds; and
- a statement on internal control.

7 This accounts direction shall be reproduced as an appendix to the accounts.

This accounts direction supersedes all previous Directions issued by HM Treasury.

Chris Wobschall 30 March 2010
Head, Assurance and Financial Reporting Policy
Her Majesty's Treasury

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