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

Insolvency Services Account 2011-12

LONDON: The Stationery Office
HC 445 £10.75

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Contents

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) & 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 72,872 in 2010-11 to 59,184 in 2011-12. New voluntary liquidation cases increased by 5 per cent to 15,590; bankruptcy cases decreased by 28 per cent to 38,469; and compulsory cases increased by 12 per cent to 5,125.

Estate accounts maintained for insolvency practitioners decreased in 2011-12 to 25,269 (2010-11 26,000), for bankruptcies and compulsory liquidations, while estate accounts maintained for official receivers increased in 2011-12 to 162,216 (2010-11 125,729). 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 2011-12 to 2,103 (2010-11 2,918).

The value of bankruptcies and compulsory liquidations estate accounts decreased to £162 million (2010-11 £200 million), whilst the value of voluntary liquidation estate accounts has decreased to £307 million during 2011-12 (2010-11 £508 million). It should be noted that from October 1 2011 we ceased maintaining banking facilities for voluntary cases which did not already hold funds with the ISA.

Transactions

The Insolvency Services Account

Receipts into the ISA decreased in 2011-12 by £336 million to £877 million.

Payments decreased by £330 million to £878 million.

During the year aggregate receipt and payment volumes decreased when compared to 2010-11: receipts volumes were down to 95,000 in 2011-12 (2010-11 114,000) and payment requests were up to 186,000 in 2011-12 (2010-11 176,000). We are not producing automatic statements. We are only currently producing statements for insolvency practitioners who do not have access to ISCIS On-line.

The Insolvency Services Investment Account

Funds invested by CRND at 31 March 2012 were £780 million, a decrease of £214 million. 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). A total of £4.0 million was paid to estates. During the year the interest earned in the Investment Account exceeded the interest payable to liquidators, resulting in net income of £1.3 million. This reduced the net deficit on interest to £1.1 million. There remains a surplus on interest and profits on disposals in the fund of £44.8 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 the 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

The 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 2011-12 totalled £1.9 million (2010-11 £2.1million).

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 £122,000 (2010-11 £130,000) were charged to estates during the year.

Case administration fees charged decreased to £76 million (2010-11 £101 million) as a consequence of lower compulsory insolvencies.

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

Key Performance Indicators

The key performance indicator was up with 96.4 per cent (2010-11 83.7 per cent) of Insolvency Services Account payments being actioned within 4 days of receipt.

On-line Services

During the year, an additional 134 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 1,530 at 31 March 2012 (1,396 at 31 March 2011).

Forward look

The migration from legacy systems to the new ISCIS system and new general ledger was completed in two stages in October 2010 and April 2011. In 2011-12 we completed the fees recovery module and implemented it into the live system. A number of post implementation amendments and fixes have been made to ISCIS but further changes will continue to be implemented throughout 2012-13 to enable the full range of intended benefits and efficiency gains from the new integrated ISCIS system to be delivered.

Except for the increase on deposits for compulsory insolvencies and Banking Fees for both compulsory and voluntary insolvencies there are no fee increases planned for 2012-13.

Preparation and audit

The financial statements are prepared by The Insolvency Service (an Executive Agency of the Department for Business, Innovation and Skills (BIS)), 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 2011-12 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.

Graham Horne
Interim Chief Executive
and Accounting Officer
The Insolvency Service
3 July 2012

Jo Whelan
Commissioners for the Reduction
of the National Debt

3 July 2012

Statement of Chief Executive's and Comptroller 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.

The Governance Statement

Scope of responsibility

As acting Accounting Officer I have primary responsibility for reviewing the effectiveness of governance, risk management and internal control processes for my organisation and internal control and for ensuring that the public funds and assets for which I am responsible are properly managed and accounted for and used economically, efficiently and effectively.

The Purpose of the Governance Statement

The Governance Statement, for which I take personal responsibility, sets out the framework for assurance, risk management and management control which has been established within The Service to ensure that decision-making and control are exercised within a properly regulated environment. The Governance statement describes the key elements of the framework and assesses its contribution to and effectiveness in supporting the delivery of key organisational goals.

The statement explains how The Insolvency Service has complied with the principles of the UK Central Government Corporate Governance Code, in so far as these principles are applicable to The Insolvency Service and reviews the effectiveness of these arrangements. With the exception of having in place arrangements for the evaluation of Steering Board and Audit Committee effectiveness, I am satisfied that The Insolvency Service operates in all material respects with the requirements of the Code. Arrangements for the evaluation of Board effectiveness will be considered as part of a wider review of Corporate Governance, currently being led from within BIS.

The Organisation's Governance Framework/Structure

Framework

The Insolvency Service is an Executive Agency of BIS. It is accountable to Ministers for its performance and to the public through Parliament for its stewardship of public funds.

Oversight of The Insolvency Service is exercised through a Steering Board whose role is to advise the Secretary of State, generally through the Director General, Markets and Local Growth, on governance of the agency, its corporate plan, targets and performance. The Steering Board meets at least five times a year to review the plans, strategic direction, targets and performance of the agency. The Board comprises senior officials from the agency, BIS, as well as up to five independent members, one of whom chairs it.

Operational management is exercised through the Agency's Directing Board which is The Insolvency Service's executive committee chaired by the Chief Executive. A system of Directing Board sub-committees is in place to support the Directing Board. These sub-committees deal with Operational Policy, Finance and Business Planning, Risk Management and Corporate Services. The Directing Board meets twice a month to review progress against key targets, financial performance, risk and other issues of strategic significance.

The Insolvency Service Audit Committee is a sub-committee of the Steering Board. It is chaired by an independent member of the Steering Board and its membership is completed by two further independent board members. The Audit Committee meets four times a year and receives reports from both internal and external auditors, and the chair of the Risk Committee. The Audit Committee reviews the annual financial statements prior to publication. The Audit Committee provides support to the Chief Executive as Accounting Officer and provides assurance to the Steering Board on Controls and Risk.

The Annual Audit Programme conducted jointly by The Service's Corporate Governance Team and BIS Internal Audit is developed via an annual Audit Universe exercise, through scrutiny of the Governance Submissions prepared by Directors, by reference to The Service's Risk Register and in conjunction with Directing Board members. The plan is reviewed and approved by the Audit Committee and subsequent outcomes are monitored by them.

Steering Board

The Board advises the Secretary of State and other ministers, through the Director General, on matters relating to The Service but does not take executive decisions. It also advises the executive on strategic matters, reviews and advise on risk and risk management and otherwise provides challenge and support to the executive in their work of managing The Service. The independent members, who have been chosen because of the relevance of their experience and knowledge of the work of The Service, provide guidance to the Chief Executive and his senior team on the operation and development of The Service and whether The Service continues to apply best practice for corporate governance as set out in relevant codes.

During the year the Steering Board met six times. Attendance during 2011-12 was:

	Start Date	End Date	No. of meetings held	No. of meetings attended
Phil Wallace	Mar-07	Sep-12	6	6
Derek Morrison	May-08	May-14	6	6
Peter Holmes	May-08	May-14	6	4
David Ereira	Nov-10	Sep-12	6	5
Ros Wright	Mar-06	Dec-11	5	3
Pat Boyden	Jan-12	Jan-15	0	0

Main areas of the Steering Board's work included:

- a review of the strategic direction of The Service including our Delivery Strategy proposals;
- a review of our Corporate Plan, annual budgets and associated delivery targets including consideration of the degree of alignment between INSS targets, Departmental and wider Government aims;
- consideration of the funding review established to provide options for future stabilisation of INSS income in the light of falling case levels;
- the regular assessment of The Service's exposure to and management of risk; and
- the monitoring of performance against key targets and financial allocations

No formal assessment of Board performance was carried out during 2011-12. Arrangements in this respect are currently under review.

Audit Committee

The Committee met four times over the course of the year. On one occasion the committee was not quorate and so an additional meeting was held in March to formally approve the decisions of that meeting as well as to review work on production of the 2011-12 financial statements. Details of attendance during 2011-12 were:

	Start Date	End Date	AC Attended 2011-12
Phil Wallace	Mar-07	Sep-12	4
Derek Morrison	May-08	May-14	4
David Ereira	Nov-10	Sep-12	2

The main areas of the Committee's work included:

- oversight of the work on the case management system (ISCIS) and in particular the basis on which reports on Fee Income and Debtors were produced via a specially commissioned script. The Audit Committee maintained a close watch on the subsequent implementation of the Agresso Fees Module;
- a review of the work undertaken by the Risk Management Committee with particular reference to the handling of significant risks Around skills and capacity of The Service's staff following a major VES exercise and emerging issues round Estates and IT;
- the lessons learned from a recent fraud and measures being put in place by management to ensure that the risk of future similar incidents had been properly mitigated;
- reviewing the Gateway report on The Service's Enabling the Future Programme and the management changes being put in place in the light of the report to improve management of major investment programmes; and
- the Agency Annual Report and Accounts and ISA (White Paper) Accounts. Work on both was regularly reviewed by the Audit Committee and incorporated both financial performance and the scope and coverage of the Statement on Internal Control. The Committee reviewed work undertaken in connection with the Clear Line of Sight Programme (CLOS) and reviewed plans to ensure that the faster reporting deadlines put in place by BIS could be delivered by The Service.

No formal assessment of Audit Committee performance was carried out during 2011-12. Arrangements in this respect are currently under review.

The risk and internal control framework

The Insolvency Service has an established business planning process. All Directorates have clear business plans linked to the Corporate Business Plan which are considered by the Finance and Business Planning Committee and reviewed and updated as necessary at the mid-year stage. Directorate plans in turn are supported by team plans and individual performance agreements. The Service's budgets are similarly allocated at Director level and monitored by the Directing Board and Director Management teams.

A system of delegations and approvals is in place throughout the organisation to ensure that proper processes exist for the assessment of new expenditure and once approved is properly authorised. The Accounting Officer's delegations are set by BIS and sub-delegated to Directors.

The Service maintains an Agency Risk Register which captures current financial, reputational, operational or legal risks to the Agency and then details the controls put in place to mitigate those risks. Each risk is owned by an individual Directing Board member who assesses the risk by reference to likelihood, impact and organisational appetite. Information risks are included in the agency-wide risk management identification and evaluation process which is supplemented by quarterly reporting from the information asset owners assigned to each main agency business area.

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 from any incident or physical disaster. It reports to the Risk Management Committee.

The Agency Risk Register is managed through the Risk Management Committee which reviews the scoring and control of individual risks. The Register is also scrutinised by the Directing Board and the Audit Committee to ensure that the correct risks are included and that controls are consistent with Risk appetite. The Agency Risk Register links to Directorate Risk Registers and is used to inform the annual Audit Plan.

The Directing Board continues to look for ways of strengthening risk management. Over the last quarter of 2011-12 risk workshops were held in collaboration with BIS Internal Audit and the Government Actuary's Department to improve the identification and mitigation of key external strategic risks.

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 of BIS Internal Audit and The Service's Corporate Governance team 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. Managers are responsible for drawing up plans to address weaknesses and ensure that systems are strengthened as part of a process of continuous improvement.

The effectiveness of the system of internal control is reviewed by Directors who provide me a Statement of Governance together with an assessment of effectiveness against a number of key indicators (Leadership, Governance Structures, Culture, Stakeholder Management and Risk Management) for the areas of the business for which they have responsibility. The Chair of the Audit Committee together with the Director of Internal Audit and the Chief Executive review these statements, meeting a sample of Directors to discuss key issues.

I have considered the evidence provided with regards to the production of the Annual Governance Statement. The conclusion of the review is that the overall governance and internal control structures are sound.

Internal Audit programme

Internal Audit and Corporate Governance's audit programme is substantially informed by the agency's key risks. They submit regular reports on the adequacy of internal control together with recommendations for improvement. The Director of Internal audit provides me with an annual report which contains an independent opinion on the adequacy and effectiveness of internal control.

For 2011-12 the assessment was scored as 'Satisfactory'. This was recognition that management had considerably strengthened controls and risk management around the tendering and award of contracts. Among the improvements put in place were revised policies and procedures guidance on The Service's intranet. Revised arrangements for improved management of contracts are also in place.

Considerable attention continued to be focused in 2011-12 on the implementation of the ISCIS case management system and associated accounting functionality. After some delay the General Ledger Module that provides automated fee recovery and reporting was implemented. The tests and controls put in place together with the subsequent reliability of the module itself were subjected to an audit review in March. The Audit report concluded that the system was operating satisfactorily.

The most significant incident in year concerned losses resulted from internal incidents which involved the alleged theft by an Insolvency Service manager of £126,444.84, resulting in fruitless payments of £155,343.48 to compensate estate account losses. Solicitors have been instructed to take civil recovery action in this case and £88,000 of the losses have been secured against the property of the member of staff. Details of the incident have also been reported to the police. Changes have been effected to improve the systems of internal control and there is an increased level of local audit in place across The Service.

This incident has reinforced the need for The Service to ensure that robust anti-fraud measures are in place. New guidance to managers in this respect has been produced and a programme of audits to local offices was started. In 2011-12, too, The Service in common with other government organisations began work in connection with the introduction of Managing the Risk of Financial Loss. During the year we undertook and reported on three process areas:

- OR Payments
- Government Procurement Cards
- Rail Travel

The audit concluded that these areas were generally controlled. Increased resource will be allocated to this work in 2012-13 in order to recover some slippage in the delivery of this initiative.

Key risk issues

The Insolvency Service has experienced considerable fluctuations in the demand for its services in recent years. Bankruptcy levels rose between 2006 and 2009 reaching 80,000 new cases a year at their peak, only to fall away just as rapidly as the effects of the credit crunch began to be felt. Last year there were 43,594 new cases and in 2012-13 we expect around 35,000.

As a net funded agency, The Service is expected to flex resources in response to rises and falls in caseloads. As caseloads have fallen so staff numbers have been reduced, partly through the release of temporary staff and partly through running voluntary exit schemes for permanent staff. Over the past two years over 500 staff have exited the Agency through the latter. The exit schemes have resulted in the loss of a number of experienced managers and staff and a consequential weakening of the control environment. Our audit plans in 2011-12 and 2012-13 have therefore sought to address this specific area of risk as a priority. Managers across the business are monitoring the position ensuring that service delivery and quality are not adversely impacted.

Over the past 4 – 5 years The Service has invested considerably in the development of IT systems designed to modernise and streamline key areas of front-line services. Last year we reported on key risks and issues around the implementation of a new case management system (ISCIS), some of which were overcome by the development of work-rounds. Problems with completing the work on the financial elements of ISCIS continued through much of the year although the final implementation of the necessary functionality was completed in March 2012. Work aimed to further strengthen the functionality and performance of ISCIS will continue in 2012-13.

During 2011-12 levels of activity round business change increased markedly. The Directing Board developed a new Delivery Strategy, aimed at improving the efficiency and effectiveness of agency services. The Strategy includes a reduction in the number of sites and the creation of new structures with increased emphasis on centralisation of back office services whilst continuing to ensure public facing services are located close to the point of delivery. This complex process of change brings with it increased levels of financial, technological and organizational risk. More rigorous management of business change risk has been established and The Service has also recently recruited a Change Director to bring greater focus and professional rigour to managing change, for example by improving programme and project management. The Service routinely uses external reviews (e.g. OGC Gateways) of major programmes and projects.

Data Handling and Data Security

The Agency working closely with BISs security and information management teams has continued to make progress in embedding the requirements of The Security Policy Framework, which incorporates the recommendations of the Data Handling Review, including:

- Information Asset Owners representing each main Business Area to meet on a quarterly basis to review and update information asset risks and the implementation of systems and guidance within The Service.
- Quarterly review of IT and data risks by the Risk Management Committee.
- Information Asset Owners and senior managers have undertaken levels 1, 2 and 3 ‘Protecting Information’ training and all other staff have undertaken at least the level 1 training.
- Incident logging and reporting.
- Embedding of policy and guidance on protective markings to ensure that access to information and other assets is correctly managed and safeguarded.

There were no significant incidents in 2011-12.

Graham Horne 3 July 2012
Interim Chief Executive and Accounting Officer
The Insolvency Service

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 2012 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 Auditor

As explained more fully in the Statement of Chief Executive 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 General's responsibilities and Governance Statement 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 recorded in the financial statements 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 recorded in the financial statements 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 2012; 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 to the accounts 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 Governance Statement does not comply with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

4 July 2012

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

Receipts and Payments for the year ended 31 March 2012

	Notes	**2011-12 £000**	2010-11 £000
Receipts			
Realisation of assets of estates in compulsory insolvencies and voluntary liquidations		**498,475**	792,723
Frequent petitioners	12	**5,371**	2,421
From the Investment Account	2	**365,000**	407,000
Realisation of Government Securities at the request of liquidators and trustees	3	**0**	0
Unclaimed dividends	7	**3,888**	7,801
Interest received	4	**4,062**	3,313
Gain on Exchange	11	**0**	0
		876,796	1,213,258
Payments			
Payments requested by liquidators and trustees of estates in compulsory insolvency and voluntary liquidation and reissued dividends	6	**656,532**	755,451
To the Investment Account: Excess cash balances on the ISA	2	**152,000**	364,000
Interest on ISA working balances	4	**34**	0
Investments in Government Securities at the request of liquidators and trustees	3	**0**	0
To the Consolidated Fund	8	**0**	4,334
To the Insolvency Service	5	**69,000**	84,162
Loss on Exchange	11	**5**	225
		877,571	1,208,172
Excess of payments over receipts	10	**(775)**	
Excess of receipts over payments	10		5,086

The notes on pages 16 to 19 form part of these accounts.

Statement of Balances as at 31 March 2012

	Notes	**2011-12 £000**	2010-11 £000
Balances			
The Investment Account	2	**735,000**	948,000
Government Securities	3	**24**	24
Cash at bank	10	**(7,335)**	(6,560)
		727,689	941,464
Representing			
Insolvency Estates	11	**630,194**	873,703
Frequent petitioners	12	**(175)**	(12)
Fees due to the Insolvency Service	5	**46,767**	18,461
Amounts due to the Investment Account	2	**0**	0
Unclaimed dividends	7	**50,799**	48,983
Amount due to the Consolidated Fund	8	**(299)**	(48)
Amounts due to the Treasury Solicitor (BV)	9	**403**	377
		727,689	941,464

The notes on pages 16 to 19 form part of these accounts.

Graham Horne 3 July 2012
Interim Chief Executive and Accounting Officer
The Insolvency Service

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.

	2011-12 £000	2010-11 £000
Balance at 1 April	**948,000**	991,000
Excess cash balances transferred to the Investment Account	**152,000**	364,000
	1,100,000	1,355,000
Less: Transfers to the ISA	**(365,000)**	(407,000)
Balance at 31 March	**735,000**	948,000

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

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.

	2011-12 £000	2010-11 £000
Balance at 1 April at cost	**24**	24
Amounts invested in the period	**0**	0
Amounts realised in the period	**(0)**	(0)
Net loss on Government Securities	**(0)**	(0)
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

	2011-12 £000	2010-11 £000
On Government Securities	**2**	2
On deposits in the ISIA	**4,042**	3,293
On working balances*	**18**	18
On foreign currency deposits**	**0**	0
	4,062	3,313

* The £34,027 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.

	2011-12 £000	2010-11 £000
Balance at 1 April	**18,461**	11,150
Fees on unclaimed dividends	**25**	20
Unrecovered/(Recovered disbursements)*	**22**	(1,780)
Fees and VAT recovered from estates	**97,259**	93,233
Net fees and VAT paid from the ISA	**(69,000)**	(84,162)
Balance at 31 March	**46,767**	18,461

* Unrecovered disbursements of £21,729 represents funds due from the Insolvency Service to the ISA at 31 March 2012.

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.

	2011-12 £000	2010-11 £000
Balance at 1 April	**48,983**	45,573
Receipts	**3,888**	7,801
Payments to creditors	**(1,951)**	(3,904)
Fees	**(25)**	(20)
Transfers from estates	**122**	35
Transfers to estates	**(469)**	(550)
Transfer to the Consolidated Fund (Note 8)	**251**	48
Balance at 31 March	**50,799**	48,983

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;

	2011-12 £000	2010-11 £000
Balance at 1 April	**(48)**	4,334
Unclaimed dividends (Note 7)	**(251)**	(48)
Undistributed balances	**0**	0
	(299)	4,286
Consolidated Fund payment from the ISA	**(0)**	(4,334)
Balance at 31 March	**(299)**	(48)

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.

	2011-12 £000	2010-11 £000
Balance at 1 April	**377**	421
Money from dissolved companies	**26**	46
Payments to Treasury Solicitor	**0**	(90)
Balance at 31 March	**403**	377

10 Cash at Bank

The ISA balance is held at the Bank of England.

	2011-12 £000	2010-11 £000
Balance at 1 April	**(6,560)**	(11,646)
Excess of receipts over payments	**0**	5,086
Excess of payments over receipts	**(775)**	0
Balance at 31 March	**(7,335)**	(6,560)

The balance at 31 March 2012 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.

	2011-12 £000	2010-11 £000
Balance at 1 April	**873,703**	917,677
Net realisations/(Payments)	**(150,493)**	41,556
Net Interest	**4,028**	3,313
Other payments/adjustments	**242**	2,835
(Loss)/Gain on exchange*	**(5)**	(225)
Unrecovered/(Recovered) disbursements	**(22)**	1,780
Fees and VAT recovered	**(97,259)**	(93,233)
Balance at 31 March	**630,194**	873,703

* The total loss on exchange was £5,252, 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.

	2011-12 £000	2010-11 £000
Balance at 1 April	**(12)**	223
Funds received from Frequent Petitioners	**5,371**	2,421
Deposits credited to Insolvency Estates	**(5,534)**	(2,656)
Balance at 31 March	**(175)**	(12)

Graham Horne 3 July 2012
Interim Chief Executive and Accounting Officer
The Insolvency Service

Commissioners for the Reduction of the National Debt

Insolvency Services Investment Account

Accounts for the year ended 31 March 2012

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 Services 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 make 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 Services 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 2011-12.

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 2011-12. The cost of managing the ISIA is recharged to the Insolvency Services; in 2011-12, this amounted to £80,000 (2010-11: £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 Services 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 2011-12

Total comprehensive income for 2011-12 was £1.322 million (2010-11: £0.981 million). Interest income of £4.466 million was lower than the prior year (£5.137 million), as a result of lower average funds on deposit. Interest payable to liquidators of £3.144 million was lower than prior year (2010-11: £4.156 million) as a result of a declining fund balance over the period. No new voluntary cases have been opened or created since October 2011.

The Insolvency Services withdrew £213.0 million (net of advances) from ISIA over the course of the year (2010-11: £43.0 million). Assets held by ISIA decreased to £780.1 million at 31 March 2012 (31 March 2011: £993.6 million) largely due to net withdrawals.

Date of authorisation for issue

The Secretary and Comptroller General authorised these financial statements for issue on 31 July 2012.

Jo Whelan 25 July 2012
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*.

Governance Statement

Scope of responsibility

As Secretary and Comptroller General of the Commissioners for the Reduction of the National Debt (CRND) I am responsible 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 Governance Statement 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 CRND is committed to the highest standards of corporate governance and is guided by the Corporate Governance Code for central government departments (the Code) and the following principles laid down in that Code:

- Parliamentary accountability;
- The role of the board;
- Board composition;
- Board effectiveness; and
- Risk Management.

CRND does not conduct any part of its business with or through arm's length bodies (ALBs) and therefore has not applied principle six which covers departmental governance arrangements with ALBs.

Managing Board

The Secretary and Comptroller General was supported during 2011-12 by the DMO Managing Board (the board) which, in addition to the Secretary and Comptroller General, is comprised of:

Robert Stheeman

DMO Chief Executive and Accounting Officer

Jim Juffs

Chief Operating Officer

Joanne Perez

Joint Head of Policy and Markets

Sam Beckett

Non-executive HM Treasury representative

Brian Larkman

Non-executive director – Brian Larkman was Global Head of Money Markets at the Royal Bank of Scotland PLC from 2000 to 2001 and Managing Director, Global Money Markets at National Westminster Bank PLC from 1991 to 2000. He was a member of the Regulatory Decisions Committee of the Financial Services Authority until 2006.

Brian Duffin

Non-executive director – Brian Duffin was Chief Executive of Scottish Life from 1999 to 2007 and Executive Director of Royal London Mutual from 2001 to 2007.

Board membership remained unchanged throughout the period under review. Non-executive directors are appointed by the DMO Accounting Officer following a formal process and have fixed terms defined in their contracts of service. HM Treasury's representative was appointed by the DMO Accounting Officer in accordance with the DMO's Framework Document. All non-executive board members receive an induction on joining and have access to additional information and training where they consider it necessary in the discharge of their duties.

One of the roles of the board is to advise the Secretary and Comptroller General on any key decisions affecting the CRND.

An executive sub-committee of the board generally meets weekly and supports the Secretary and Comptroller General on operational decisions.

The board has undertaken a formal self evaluation of its performance covering 2011-2012. The board concluded that, during the period under review, it has operated effectively in delivering the objectives set out in its terms of reference. Suggestions for minor improvement are being considered and will be implemented where appropriate.

2011-12 Board Activities

Board meetings were held throughout 2011-12 and covered regular agenda items, including risk management, staffing and progress against the operational business plan.

Board attendance is outlined in the table below:

	Possible	Actual
Robert Stheeman	8	8
Jo Whelan	8	8
Jim Juffs	8	8
Joanne Perez	8	8
Sam Beckett	8	5
Brian Larkman	8	7
Brian Duffin	8	8

Audit Committee

The Secretary and Comptroller General was supported during 2011-2012 by the Audit Committee on matters relating to risk, internal control and governance. The members of the Audit Committee during 2011-2012 were:

Brian Larkman (Chair)

Brian Duffin

Caroline Mawhood – Caroline Mawhood was an Assistant Auditor General at the National Audit Office until 2009 and President of the Chartered Institute of Public Finance and Accountancy for 2008-09. She is a non-executive member of the Audit Committees of the Department of Energy and Climate Change and the Corporation of London and an independent member of the Audit Progress Committee of the European Commission. She is also the Honorary Treasurer of Breakthrough Breast Cancer charity.

Audit Committee meetings are typically attended by the DMO Accounting Officer, the Secretary and Comptroller General, the Joint Head of Policy and Markets, the Chief Operating Officer and the Head of Internal Audit.

One of the Audit Committee's objectives is to give assurance to the Secretary and Comptroller General that:

- High quality processes are in place to manage and control risk for the DMO's financial and non-financial activities;
- Overall governance arrangements are appropriate and operating effectively;
- The financial control framework is effective and supported by an appropriate compliance culture;
- External financial reporting is prudent, accurate, timely, appropriate and consistent with relevant guidance;
- Internal financial and management reporting is timely, prudent, appropriate and consistent with external financial reports;
- Whistle blowing arrangements for confidentially raising and investigating concerns over possible improprieties in the conduct of the DMO's business are adequate; and
- Relationships with the National Audit Office (NAO) are effective.

During the period under review the Audit Committee paid particular attention to the following areas:

- Business continuity planning;
- Anti-money laundering controls;
- Anti-fraud controls;
- Staff resourcing;
- Risk management and financial control; and
- External and internal financial reporting.

The Audit Committee covers a regular programme of agenda items, together with other current topics, through an annual schedule of four meetings. All scheduled meetings were held and no additional meetings were deemed necessary.

The Secretary and Comptroller General has also been informed by the following operational committees throughout the period under review:

Fund Management Review Committee

The Fund Management Review Committee reviews CRND activity relating to the performance of the government funds under management, including any reporting on compliance activities undertaken in relation to the funds.

The Fund Management Review Committee met four times in 2011-12.

Business Delivery Committee

The Business Delivery Committee reviews the status of the delivery of DMO's business and work plan as a collective cross functional body, resolving emerging issues in a timely way, and agreeing priorities, to ensure the plan stays on track.

The Business Delivery Committee met regularly (typically weekly) throughout 2011-12.

Risk Committees

The Secretary and Comptroller General is informed by three risk committees covering credit and market risk, operational risk and risk control. More detail on the roles, responsibilities and activities of these committees can be found in the sections below.

Risk Management and Internal Control

The Secretary and Comptroller General is responsible for maintaining 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 she is accountable, in accordance with the responsibilities assigned to her.

The CRND is managed within the wider DMO system of internal control which is based upon what the DMO Accounting Officer, with the support of the board, considers to be appropriate taking account of the DMO's activities, the materiality of risks inherent in those activities and the relative costs and benefits of implementing specific controls to mitigate those risks. The DMO's position differs to that of a commercial organisation in that it must always be in a position to transact the underlying business required to meet its remit. As a result the risks associated with this activity cannot be avoided and the system of internal control can only provide reasonable assurance against failure to achieve aims and objectives.

The Risk and Control Framework

The board has designed and put in place a formal risk management framework covering all the activities conducted and overseen by the DMO. This Framework helps ensure that the Accounting Officer is appropriately informed and advised of any identified risks and also allows the management of risks to be monitored. The risk management framework covers both regular operations and new business initiatives, and evolves as the range and nature of the DMO's activities change. The Framework is supported by a clear 'three lines of defence' model:

First line of defence:

Day-to-day management of risk is the responsibility of management staff within business areas. The DMO fosters a risk aware culture and encourages all members of staff, including board members to identify new risks and changes in previously identified risks, so that these may be assessed and so that appropriate mitigating actions may be put in place.

Mitigating actions typically include segregation of duties, staff training, clear lines of management delegation and robust business continuity arrangements.

Second line of defence:

Oversight of risk is provided by the board and risk committees, whose role is to provide regular and systematic scrutiny of risk issues which lie within their remit and to support the Accounting Officer in exercising his overall responsibility for risk management.

The DMO considers that the principal risks it faces arise in three broad areas: credit and market risk, operational risk, and risk controls, so it has established committees to meet regularly to review the changing risk pattern for each of these areas and to set up appropriate responses. The work of these committees is described in more detail below.

Credit and Market Risk Committee

The Credit and Market Risk Committee (CMRC) meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. It monitors and reviews the management of market, credit, and liquidity risk. It sets limits across a range of exposures including counterparties, countries, instruments held as collateral as well as setting absolute limits on net daily flows across the DMA. CMRC met twelve times during the year.

Operational Risk Committee

The Operational Risk Committee (ORC) meets regularly to monitor operational risks and to review significant risk issues. The ORC is responsible for reviewing risk incidents identified through the DMO's risk incident reporting process, and considering whether planned mitigating action is appropriate. The Committee also reviews and tracks the progress of actions identified by Internal Audit. The Committee's scope includes issues relating to information risk, IT security, business continuity, anti fraud and key supplier risks.

The ORC has advised the Accounting Officer and the board, during the year, on significant operational risk concerns, significant risk issues and trends as well as actions to mitigate such risks. The Committee has focused this year on further developing business continuity planning, including operational planning for the Olympic period, reviewing trading controls and improving the data quality and reliability of the DMO website. ORC met eight times during the year.

Controls Group

The Controls Group meets periodically to review issues affecting the DMO's system of internal control and to analyse material changes to the control environment. The Group recommends actions to management to implement changes where appropriate. The Controls Group consists of representatives from Finance, Risk, Compliance and Internal Audit.

The Controls Group has advised the Accounting Officer, the board and senior management on any significant risk concerns stemming from the introduction of new business activities as well as risks relating to other change management activities. The Group has also advised the Accounting Officer on suitable mitigating action where appropriate.

During the year the Controls Group review work has included improvements in cash forecasting and trade settlement processing, and changes to banking arrangements for CRND funds.

Risk Management Unit (RMU)

The risk committees are supported by the DMO's Risk Management Unit (RMU) which ensures key risk issues arising from these committees are communicated to the Accounting Officer and senior management on a regular basis, with additional ad hoc reporting if an emerging issue requires it. The RMU also supports the formal risk reporting processes with defined outputs, including regular detailed risk reports which are reviewed by the board and senior management.

As well as supporting the risk committee structure, the RMU provides control advice on risks. As part of the second line of defence the RMU is separate from 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 risk is facilitated by the RMU, via quarterly consultation with heads of business units and functional teams. Significant risk issues are assessed for materiality and probability of occurrence. New risks, and risks to which exposure is increasing 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.

Third line of defence:

The DMO's Internal Audit function provides the Accounting Officer with independent and objective assurance on the overall effectiveness of the Agency's system of internal control. It does this through a risk based work programme which is approved by the Audit Committee at the start of each year. All audits make a series of recommendations which, once agreed by management, are monitored for implementation. The function is independent of the DMO's trading activities and operations and has a direct reporting line to the Accounting Officer. The work of Internal Audit includes assessing the effectiveness of both control design and control performance. With its independence and overall remit, Internal Audit provides a third line of defence against the risks that might prevent the DMO delivering its objectives.

Risk policies and procedures

The DMO's risk policies reflect the high level standards and requirements which determine the way in which risks are managed and controlled. The Accounting Officer, with the support of the board, ensures that policies are regularly reviewed to reflect any changes in the DMO's operations and/or best practice. In 2011 this included broadening the scope of certain DMO policies to cover requirements introduced by the Bribery Act.

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 on whistle blowing, fraud and anti-money laundering. The DMO ensures that this exercise is undertaken on an annual basis allowing staff 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.

Risk profile

The Secretary and Comptroller General and board believe that the principal risks and uncertainties facing the CRND are outlined in the table below together with the key actions taken to manage and mitigate them:

Principal risks and uncertainties	**Mitigation and management**
IT Systems and infrastructure	
The CRND relies on a number of IT and communications systems to conduct its operations effectively and efficiently. A number of the operational systems and services on which the CRND relies are provided or supported by third party suppliers.	In line with good practice the DMO has put in place comprehensive business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business as usual activity. These arrangements extend to cover CRND. 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 in 2011, and that BCP arrangements to support auctions were observed during the year, with teams working from the DR site during auction sessions. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives. The DMO recruited a dedicated business continuity specialist in 2011 to help enhance and promote planning across the organisation. The DMO is represented on the Public Finance Business Continuity Management Group and took part in a market wide business continuity exercise conducted in November 2011. To mitigate the risk of failure of a key third party the DMO undertakes a corporate risk assessment of each potential supplier in order to assess financial strength and operational capacity. Additionally the DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against agreed SLAs.
Transaction processing	
CRND relies on its operational processes to successfully execute a significant number of high value transactions on a daily basis. Reliance on the accurate execution of processes exposes the CRND to operational risk arising from process breakdown and human error.	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, including CRND, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally. In 2011-12 system enhancements were made to improve management information on trade activity and regular accounting reports. The RMU conducts regular control and compliance testing, providing the executive sub-committee of the board with assurance on the effectiveness of operational controls and compliance with relevant Financial Services Authority rules in the dealing and settlement areas. The DMO also maintains a strong audit and control environment which includes a well embedded incident reporting procedure which extends to cover CRND. This promotes early identification and resolution of risk incidents and provides visibility to the Accounting Officer and board. DMO recruitment policies help ensure that individuals with the appropriate level of skill and experience are appointed at all levels within the organisation. This helps mitigate the level of human error resulting in process failures.

People risk	
The DMO, including CRND, relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, and to deliver its strategic objectives. The DMO is exposed to an increased risk of operational failure if it is unable to compete for, and retain, sufficiently skilled staff over time.	The DMO's Training and Development policy aims to ensure that its staff have the right skills to meet its objectives. The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates. The DMO has put in place a formal performance appraisal process and all staff are given clear and achievable objectives. Where appropriate, staff are encouraged to engage in activities which promote development and the DMO provides regular training opportunities and support for professional studies to enhance the skills base of its employees. The DMO also provides cross-training for different roles to help improve staffing flexibility and reduce turnover pressure. A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been an effective conduit for wider communication and consultation with all staff. On an annual basis DMO staff take part in the Civil Service employee engagement survey and any issues raised, including mitigating action if required, will be considered by the Accounting Officer and board. The DMO was reaccredited as an Investor in People in 2011.
IT and security	
Through its activities the DMO gathers, disseminates and maintains sensitive information including market sensitive information and personal data about staff and market participants. The DMO seeks to ensure the highest standards of data protection and information management. The DMO is exposed to risk of an external attack on its IT systems and infrastructure.	The DMO continues to work to maintain the required level of protective security covering physical, personnel and information security. Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. The DMO has a Senior Information Risk Owner (SIRO) who is responsible for the information risk policy and the assessment of information risks. The SIRO also provides assurance to the board that information risks are being managed effectively. The DMO has put in place several layers to defend against external attack and its infrastructure undergoes an annual penetration test to ensure the control environment is robust. These tests are undertaken by specialists and form part of the assessment against the CESG requirements. This is a condition for continuing connection to the Government Secure Internet (GSI).

Review of effectiveness

I have reviewed the effectiveness of the system of internal control and confirm that an ongoing process designed to identify, evaluate and prioritise risks to the achievement of the CRND's aims and objectives has been in place throughout 2011-12. This review included an assessment of any material risk and control issues identified and reported during the relevant period.

My review has been informed by the advice of the risk committees and by the work of the internal auditors and the executive managers within the DMO, who have been delegated 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.

In my role as Secretary and Comptroller General I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board and the Audit Committee.

Plans to address weaknesses and ensure continuous improvement of the system are in place.

No significant internal control issues, including data security incidents, have been identified in 2011-12, and no ministerial directions were given.

In my opinion, the CRND's system of internal control was effective throughout the financial year and remains so on the date I sign this statement.

Jo Whelan 25 July 2012
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 2012 under the Insolvency Act 1986. The financial statements 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 explained more fully 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 read all the financial and non-financial information in the Foreword, Management Commentary and Governance Statement, 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.

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

Opinion on regularity

In my opinion, in all material respects, the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements 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 2012, and of the 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 returns adequate for my audit have not been received from branches not visited by my staff; 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 Governance Statement 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

31 July 2012

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

Statement of Comprehensive Income for the year ended 31 March 2012

	2012 £000	2011 £000
Interest income	**4,466**	5,137
Interest payable to liquidators	**(3,144)**	(4,156)
Total comprehensive income	**1,322**	981

The notes on pages 39 to 40 form part of these accounts.

Statement of Financial Position as at 31 March 2012

	2012	2011
	£000	£000
Assets		
Demand deposits with the Debt Management Account (DMA) & the National Loans Fund (NLF)	**780,052**	993,578
Total	**780,052**	993,578
Insolvency Services Account funds and liabilities		
Liabilities		
Interest payable to liquidators	**211**	2,093
Client Funds		
ISA funds	**735,000**	948,000
Accumulated net profits on disposals	**45,990**	45,990
Surplus less interest payable to liquidators	**(1,149)**	(2,505)
	779,841	991,485
Total	**780,052**	993,578

The notes on pages 39 to 40 form part of these accounts.

Jo Whelan 25 July 2012
Secretary and Comptroller General
to the Commissioners for the Reduction of the National Debt
Insolvency Services Investment Account

Statement of Cash Flows for the year ended 31 March 2012

	2012 £000	2011 £000
Operating activities		
Interest received	**4,557**	5,158
Interest paid to the Insolvency Services Account	**(5,025)**	(4,335)
Decrease in demand deposits with the Debt Management Account & the NLF	**213,434**	42,177
Net cash from operating activities	**212,966**	43,000
Financing activities		
Funds received from the Insolvency Services Account	**152,034**	364,000
Funds paid to the Insolvency Services Account	**(365,000)**	(407,000)
Net cash used in financing activities	**(212,966)**	(43,000)
Increase/(decrease) in cash	**0**	**0**

The notes on pages 39 to 40 form part of these accounts.

Statement of Changes in Client Funds for the year ended 31March 2012

	ISA funds	Accumulated net profits on disposals	(Deficit) / surplus less interest payable to liquidators	Total ISA funds
	£000	£000	£000	£000
At 1 April 2010	**991,000**	**45,990**	**(3,486)**	**1,033,504**
Total comprehensive income	0	0	981	981
Funds received from ISA	364,000	0	0	364,000
Funds paid to ISA	(407,000)	0	0	(407,000)
At 31 March 2011	**948,000**	**45,990**	**(2,505)**	**991,485**
Total comprehensive income	0	0	1,322	1,322
Transferred from Client money employed account	(34)	0	34	0
Funds received from ISA	152,034	0	0	152,034
Funds paid to ISA	(365,000)	0	0	(365,000)
At 31 March 2012	**735,000**	**45,990**	**(1,149)**	**779,841**

The notes on pages 39 to 40 form part of these accounts.

Notes to the Accounts for the year ended 31 March 2012

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 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, but are not yet effective, which will impact on the NIFIA 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 2015. Earlier application is permitted. The ISIA expects to apply IFRS 9 in 2015-16. The application of IFRS 9 is not expected to impact on the disclosure of financial instruments reported by the ISIA.

1.2 Assets

Deposits with the DMA & 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 2011-12 and a recovery is made from Insolvency Services.

2 Risk

2.1 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.

2.2 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.

2.3 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.

3 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 Services due to monies advanced and withdrawn in respect of investments. During the year, the Insolvency Services withdrew £213.0 million (net of advances) from ISIA (2010-11: £43.0 million).

Appendix

Accounts direction given by the Treasury in Accordance with Section 409 (1) of Insolvency Services (Accounting and 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 2012 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 governance statement.

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 23 March 2012
Head, Assurance and Financial Reporting Policy
Her Majesty's Treasury

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