Insolvency Services Account 2012-13

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Insolvency Services Account 2012-13

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

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Contents

Insolvency Act 1986

Foreword

Statutory background

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

- 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
- 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.

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;
- 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 59,184 in 2011-12 to 49,316 in 2012-13. New voluntary liquidation cases increased by 3 per cent to 16,049; bankruptcy cases decreased by 24 per cent to 29,287; and compulsory cases decreased by 22 per cent to 3,980.

Estate accounts maintained for insolvency practitioners decreased in 2012-13 to 20,814 (2011-12: 25,269), for bankruptcies and compulsory liquidations, while estate accounts maintained for official receivers decreased in 2012-13 to 133,717 (2011-12: 162,216). Voluntary estate accounts maintained for insolvency practitioners decreased in 2012-13 to 1,418 (2011-12: 2,103).

The value of bankruptcies and compulsory liquidations estate accounts increased to £254 million (2011-12 £162 million), whilst the value of voluntary liquidation estate accounts has decreased to £185 million during 2012-13 (2011-12 £307 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 2012-13 by £180 million to £697 million.

Payments decreased by £175 million to £703 million.

During the year aggregate receipt and payment volumes decreased when compared to 2011-12: receipts volumes were down to 80,000 in 2012-13 (2011-12: 95,000) and payment requests were down to 146,000 in 2012-13 (2011-12: 186,000). 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 2013 were £681 million, a decrease of £99 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 £2.3 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 £1.0 million. This reduced the net deficit on interest to £0.1 million. There remains a surplus on interest and profits on disposals in the fund of £45.8 million.

Banking

The Government Banking Service (GBS), part of Her Majesty's Revenue and Customs (HMRC), provides retail banking transactions for the ISA. GBS and its supplier banks are commercially bound by a memorandum of understanding concerning the obligations they 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. 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 increased from 1 October 2012 from £18 to £22 per quarter for bankruptcies and compulsory liquidations and from £23 to £25 per quarter for voluntary liquidations where an account is maintained in the ISA. Banking fees charged to estates during 2012-13 totalled £2.1m (2011-12 £1.9 million).

During the year the cheque issue fee increased from 1 October 2012 from £1.00 to £1.10 per cheque, the BACS transaction fee remains unchanged at £0.15, while the CHAPS issue fee increased from 1 October 2012 from £10 to £10.30. Cheque, BACS and CHAPS fees totalling £84,000 (2011-12 £122,000) were charged to estates during the year.

The unclaimed dividend fee increased from 1 October 2012 from £25 to £25.75.

Case administration fees charged decreased to £59 million (2011-12 £76 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 has improved with 98.4 per cent (2011-12: 96.4 per cent) of ISA payments being actioned within 4 days of receipt.

On-line services

during the year, an additional 39 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 1,321 at 31 March 2013 (1,530 at 31 March 2012).

Forward look

We have allocated £52million from the Migration Suspense Account in ISCIS December 2012 to named accounts in ISCIS. Work will continue into 2013-14 to clear the remaining £33million funds from this ISCIS account to their correct destination account. This will improve reporting and the customer experience for Official Receivers and Insolvency Practitioners. There has been no effect on these accounts by those movements within ISCIS. We will continue to monitor the future movements to ensure the integrity of these accounts.

There still remains further data fixes and system fixes/enhancements to the financial systems that will need to be progressed throughout 2013-14 to enable the full range of intended benefits and efficiency gains from the new integrated ISCIS system to be delivered.

Currently there are no fee increases planned for 2013-14.

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 2012-13 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.

Richard Judge 11 July 2013
Chief Executive Officer
The Insolvency Service
Accounting Officer

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.

Governance Statement

The Insolvency Service is an executive agency of The Department for Business, Innovation and Skills (BIS). As such it is fully accountable to Parliament through ministers.

Governance structure

This section describes the governance arrangements in place during 2012-13. These changed significantly on 1 April 2013 to reinforce accountabilities and to enhance the role of the non-executive board members. Details of the revised arrangements are formalised in a Framework Document which is available to download at www.bis.gov.uk/insolvency.

The Minister responsible for Employment Relations, Consumer and Postal Affairs will account for the Insolvency Service's business in Parliament. The Principal Accounting Officer (PAO) for BIS is accountable to Parliament for the issue of financial resources to the agency. The BIS sponsor is the Director General of Markets and Local Growth who was a member of the Steering Board and is The Chief Executive's line manager. The PAO and departmental sponsor are responsible for advising Ministers on an appropriate framework of objectives and targets for the agency; on an appropriate budget and reporting on performance and delivery of value for money.

The Chief Executive and Accounting Officer has personal responsibility to Parliament for maintaining a sound system of governance, risk management and internal control that supports the achievement of the Insolvency Service's policies, aims and objectives. This responsibility includes safeguarding public funds and assets, in accordance with HM Treasury guidance, in particular Managing Public Money. To deliver this role the Chief Executive and Accounting Officer is supported and challenged by the Steering Board.

The Steering Board had responsibility for providing oversight on the governance of the Insolvency Service, its corporate plan, targets and performance. It also advised the executive on strategic matters, reviews, risk and risk management and otherwise provided challenge and support to the executive. Membership of the Steering Board included an independent chairman, three non-executive members, senior officials from BIS and the agency's senior executives.

The Steering Board met six times during the year. Matters considered by them included:

- a review of the strategic direction to agree a 3 -5 year strategy and associated actions to tackle deficit, to create a stronger, more resilient organisation, and to be able to respond to volatile changes in demand;
- revised governance arrangements, including the establishment of new Board structures and a refreshed framework document;
- 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;
- the regular assessment of exposure to and management of risk; and
- the monitoring of performance against key targets and financial allocations.

The Audit Committee was a sub-committee of the Steering Board and is chaired by an independent non-executive member of the Steering Board. Its membership is completed by two further independent non-executive board members. Internal and external auditors attended all formal meetings. The Committee receives reports from both internal and external auditors and from the agency's Risk Committee.

The Audit Committee provided support to the Chief Executive as Accounting Officer. It reviewed the annual financial statements prior to publication and provided assurance to the Steering Board on controls and risk. The Audit Committee met four times during the year. Matters considered by them included:

- the post-implementation impact of our general ledger package (Agresso) within our estates accounts, and received assurances throughout the year on progress being taken to improve legacy issues as well as discussing how future fee recoveries and debtor levels are assessed;
- approval of the internal audit plan, review of quarterly internal audit summary reports and annual audit opinion on risk management, governance and internal control;
- a review of the work undertaken by the agency's Risk Committee and scrutiny of the Agency Risk Register;
- the Agency Annual Report and Accounts and ISA (White Paper) Accounts. Work on both was regularly reviewed by the Audit Committee; and
- counter fraud management and arrangements.

Responsibility for operational and financial management resided with the Directing Board, which was the Insolvency Service's executive committee chaired by the Chief Executive. A system of Directing Board sub-committees was in place to support the Directing Board. These sub-committees dealt with Operational Policy, Finance and Business Planning, Risk Management and Corporate Services. The Directing Board met twice a month and reviewed progress against key targets, financial performance, risk and other issues of strategic significance.

Effectiveness of Steering Board and Audit Committee performance

The table below shows Non-Executive attendance at Board and Committee meetings held during 2012-13.

	Steering Board (6 in year)	**Audit Committee (4 in year)**
Non Executive Directors		
Phil Wallace (Chair of Steering Board to 31 August 2012) **	2	2
David Ereira (Chair of Steering Board from 1 September 2012)	3	3
Derek Morrison (Chair of Audit Committee)	6	4
Peter Holmes	3	*
Pat Boyden	5	2

* Not a member of the Committee.

** Appointment expired end August 2012.

A self-assessment of the Steering Board's effectiveness was carried out, by all Board members using questionnaires as the basis for discussion. The Audit Committee undertook a self-assessment of their performance by reviewing compliance against HM Treasury's guidance *The Audit Committee Handbook*.

Areas that both assessments highlighted for improvement, was the need for clearer instructions for new members on their roles and responsibilities, which is to be provided in revised letters of appointment, together with implementing a more structured induction programme for new Board members.

As noted above, the Governance structure for the Insolvency Service changed on 1 April 2013. Relevant principles and protocols outlined in the *Corporate Governance in Central Government Departments: Code of Good Practice* (2011) have been adopted in these refreshed arrangements.

Internal control framework

Delegated authorities

The context for delegated authorities is an established Business Planning process. All Directorates have local Plans linked to the Insolvency Service Business Plan. These are reviewed and updated as necessary at the mid-year stage. Directorate Plans in turn are supported by team plans and individual performance agreements. The agency's budgets are allocated at Director level, in line with Directorate Plans, and monitored by the Directing Board and Director Management teams.

A system of delegations and approvals is in place through the organisation to ensure that proper processes exist for the assessment, approval and authorisation of new expenditure. The Accounting Officer's delegations are set by BIS and sub-delegated to Directors.

Internal Audit

The audit programme is delivered in partnership by BIS Internal Audit and the agency's Corporate Governance Section, and complies with Government Internal Audit Standards. The annual audit programme is substantially informed by the agency's key risks and is reassessed throughout the year to ensure assignments due are still in areas deemed at highest risk.

The audits also cover wider responsibilities, for example the control framework covering redundancy payments from the National Insurance Fund. This particular assurance supported a positive statement to the Accounting Officer in HMRC about the control environment linked to the redundancy payments system.

Customer feedback and complaints processes

The Insolvency Service maintains insight on how service delivery is perceived by customers via a user satisfaction survey and a complaints process. The results of the user satisfaction survey for 2012-13 was positive with 95.7 per cent either satisfied or very satisfied with the service they received. The complaints process has two internal complaint tiers. The first tier investigates and responds; the second is designed to review the decision taken at the first tier. A third tier (external) utilises the Adjudicator's Office, an independent complaints adjudication body, which investigates complaints referred by a complainant about our service. The complainant and the Insolvency Service are either given assurance that the complaint has been correctly handled or the Adjudicator advises what further action the Insolvency Service should take if the complaint is upheld.

During the year, the Adjudicator investigated 14 complaints, of which 12 were not upheld. Two complaints were partially upheld. The elements of the complaints that were upheld were firstly, in relation to a delay in releasing monies due and secondly, a delay in collecting accounting records.

Information security

The agency's Senior Information Risk Owner (SIRO) oversees information risk and is supported in the role by an IT Security Officer and a network of Information Asset Owners from across the business.

A self-assessment against The Cabinet Office Security Policy Framework was undertaken, which has been validated by Internal Audit. The outcome demonstrates that the business is at or above Level 2/3 (Largely compliant/ Fully compliant). There were no significant data losses reported in 2012-13.

Tax arrangements

During 2012, the Government reviewed the tax arrangements of public sector appointees. This highlighted the possibility of arrangements that might enable tax avoidance, such as by the use of personal service companies. Recommendations of the review were published in May 2012, including measures for Departments to implement from August 2012.

In response, INSS has implemented a policy developed by the Department of Business, Innovation and Skills. All new contracts and contract renewals have been amended to include a clause which allows us to gain assurance that individuals are paying the correct amount of tax with no contracts to be entered into or renewed without this clause. Tax assurance evidence has been sought and scrutinised to ensure it is sufficient to provide the relevant assurance and contracts terminated where it has not been forthcoming.

Risk profile

The Insolvency Service maintains an Agency Risk Register which captures current financial, reputational, operational, information or legal risks and then details the controls put in place to mitigate those risks. Each risk was owned by an individual Directing Board member who assesses the risk by reference to likelihood, impact and organisational risk appetite.

The Agency Risk Register was managed through the Risk Management Committee which reviews the scoring and control of individual risks. The Register was also scrutinised by the Directing Board and the Audit Committee to ensure that the correct risks were included and that controls were consistent with risk appetite. The Agency Risk Register links to local (Directorate) Risk Registers and is used to inform the annual Audit Plan. Key risks identified and managed during the year related to:

- Reducing the risk of fee write-offs by actively monitoring levels of fee recovery. Improved recoveries have reduced the bad debt write off from 12 per cent to 6 per cent. This improving position reflects a revised fee structure put in place in 2010, a reduction in the amount of income a bankrupt could retain in an IPA/O and successful Payment Protection Insurance claims have all helped increase recoveries. Ongoing analysis and improvements in management information available have also assisted in managing this risk

- Maintaining service delivery by actively managing the rate of reduction in operational and resource costs as demand fell. Cases continued to fall in 2012-13. Two voluntary exit schemes were held during the year and eligibility was targeted to specific grades and/or offices/sections which helped to reduce the risk of a negative impact on service delivery, as evidenced by strong performance against ministerial targets and budgets

- Mitigating potential reputation risks resulting from the LEAP (Legal Entltlements and Administrative Practices) correction exercise. The Redundancy Payment Service received legal advice regarding the interpretation of section 186 of the Employment Rights Act 1996 that changes the way claims to individuals are calculated. The Insolvency Service has liaised closely with HMRC throughout the year to reach agreement on how the exercise should be conducted, with decisions agreed with Ministers where appropriate. A pilot will commence making payments in April 2013. The full exercise, which involves a high level of automation via IT, is expected to be launched in January 2014.

- Mitigating project risks, costs and impact on strategy linked to delays in delivery of the Desktop 21 IT solution. We are productively working with IT partners (ATOS and Thales) on the rebaselined agreed implementation plans and the D21 solution is currently undergoing functional acceptance testing. Risks are being mitigated through robust programme and project management and contractual liabilities in respect of delays. Forward planning is in place to support the wider organisational strategy (Direction of Travel) pre and post implementation.

The Insolvency Service is refreshing detail within its risk processes in 2013-14. Although the current process works well, improvements have been identified that will further strengthen our approach. These include a clearer separation of strategic and operational risks, and an improved quantification of impacts to reflect the Board's risk appetite and to enhance consistency when reporting risks.

Significant Issues

The Insolvency Service is dealing with the impact of a broad range of legacy issues resulting from the spike in caseload seen over the past decade and tackling the associated deficit. Issues managed through the year, and where further action is planned as part of our 3 – 5 year strategy, include:

- addressing overcapacity and excess estates as demand for our services falls, while maintaining service levels and ensure on-going flexibility;
- introducing reliable IT infrastructure, developing more integrated ways of working and sustaining our investment in people and professional capability to improve efficiency and secure longer term resilience;
- ensuring fee structures are robust in the face of volatile case numbers and low asset values in insolvent estates
- addressing required improvements to collecting and reporting operational performance data to support day to day decision making and Board oversight; and
- managing the impact on staff engagement while the Service is undergoing significant change and restructuring.

Summary of effectiveness on internal control

The Head of Internal Audit provides a report annually on the internal audit activity during the year. The report provides an opinion on the adequacy and effectiveness of internal control and for 2012-13 the assessment given is 'Satisfactory'. This was recognition that management had strengthened controls in operational processes, which had been identified by auditors as weak early in the financial year. The weaknesses identified were not considered to be systemic.

Richard Judge
Chief Executive Officer
The Insolvency Service
Accounting Officer

11 July 2013

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 2013 under the Insolvency Act 1986. The financial statements 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's Responsibilities, the Chief Executive is responsible for the preparation of the financial statements in accordance with the Insolvency Act 1986. 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 and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Insolvency Services Account; 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.

I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments 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 receipts and payments 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 financial statements

In my opinion:

- the financial statements properly present the receipts and payments of the Insolvency Services Account for the year ended 31 March 2013; 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 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 and 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

11 July 2013

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

Receipts and Payments for the year ended 31 March 2013

	Notes	2012-13 £000	2011-12 £000
Receipts			
Realisation of assets of estates in compulsory insolvencies and voluntary liquidations		**422,532**	498,475
Frequent petitioners	12	**4,307**	5,371
From the Investment Account	2	**262,000**	365,000
Unclaimed dividends	7	**6,640**	3,888
Interest received	4	**1,163**	4,062
Gain on Exchange	11	**149**	0
		696,791	876,796
Payments			
Payments requested by liquidators and trustees of estates in compulsory insolvency and voluntary liquidation and reissued dividends	6	**422,327**	656,532
To the Investment Account:			
Excess cash balances on the ISA	2	**161,000**	152,000
Interest on ISA working balances	4	**15**	34
To the Consolidated Fund	8	**2,975**	0
To The Insolvency Service	5	**117,000**	69,000
Loss on Exchange	11	**0**	5
		703,317	877,571
Excess of payments over receipts	10	(6,526)	(775)

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

Statement of Balances as at 31 March 2013

	Notes	2013 £000	2012 £000
Balances			
The Investment Account	2	**634,000**	735,000
Government securities	3	**24**	24
Cash at bank	10	**(13,861)**	(7,335)
		620,163	727,689
Representing			
Insolvency Estates	11	**546,264**	630,194
Frequent petitioners	12	**(52)**	(175)
Fees due to The Insolvency Service	5	**20,082**	46,767
Unclaimed dividends	7	**53,777**	50,799
Amount due to the Consolidated Fund	8	**(329)**	(299)
Amounts due to the Treasury Solicitor (BV)	9	**421**	403
		620,163	727,689

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

Richard Judge 11 July 2013
Chief Executive Officer
The Insolvency Service
Accounting Officer

Notes to the accounts

1 Accounting policies

i The accounts have been prepared on a receipts and payments basis.

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 gain or loss on exchange is recorded in the account in the period in which it occurs.

2 The Investment Account

	2012-13 £000	2011-12 £000
Balance at 1 April	**735,000**	948,000
Cash deposited with CRND	**161,000**	152,000
	896,000	1,100,000
Cash withdrawn from CRND	**(262,000)**	(365,000)
Balance at 31 March	**634,000**	735,000

The Insolvency Act 1986 requires cash held on behalf of Insolvent Estates in excess of daily working requirements, to be deposited with the Commissioner for the Reduction of National debt (CRND). Cash is withdrawn from deposit to support payments and ensure working balances at the bank are appropriately maintained.

3 Government Securities

	2012-13 £000	2011-12 £000
Balance at 1 April and 31 March	**24**	24

Cash in excess of daily requirements may, at the request of liquidators and trustees of individual estates in bankruptcy, be invested in Government Securities. The investments are shown at cost. Investments are sold when requested by the Liquidators or trustees.

4 Interest received

	Note	**2012-13 £000**	2011-12 £000
On cash deposited with CRND	11	**1,144**	4,042
On working Balances at the bank		**17**	18
On Government Securities		**2**	2
		1,163	4,062

Interest is received on deposits made with CRND in accordance with the rate determined by Her Majesty's Treasury and is apportioned across the individual estates according to the ratio of the cash holding of the individual estate to the total cash invested.

Interest received on working balances at the bank is similarly apportioned.

Interest earned on Government Securities is attributed to the specific estate on whose behalf the investments were made.

Interest paid	**2012-13 £000**
Interest earned 2011-12 b/fwd at 01/04/12	**2**
Interest earned 2012-13	**17**
Excess interest earned on US$ account	**0**
	19
Amount paid over 2012-13	**–15**
Balance carried forward at 31/03/13	**4**

* £15380 of interest earned on working balances was paid to the Investment Account during the period

5 Due to the Insolvency Agency

	Notes	**2012-13 £000**	2011-12 £000
Balance at 1 April		**46,767**	18,461
Fees and VAT adjustment relating to prior periods		**713**	0
Fees and VAT charged to estates in insolvency	11	**89,826**	97,259
Net disbursements (unrecovered)/recovered		**(250)**	22
Fees on unclaimed dividends		**26**	25
Net payments made to the Insolvency Agency		**(117,000)**	(69,000)
Balance at 31 March		**20,082**	46,767

Fees are charged to individual estates in insolvency to cover the cost of administration. The fees are collected on behalf of the Insolvency Agency via the Estate Account by a charge on the individual estates.

The Estate Account makes payments on behalf of Administrators to cover disbursements necessary to the administration and safe keeping of the respective case. Where there are insufficient funds in the individual case account, these payments are funded by the Insolvency Agency. When assets are realised in the individual case and funds are available to cover the cost of previous payments, the Insolvency Agency is reimbursed.

The fees collected and payments recovered are subsequently paid to the Insolvency Agency.

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;
- the payment of dividends to creditors in respect of debts owed to them by; and
- 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

	2012-13	2011-12
	£000	£000
Balance at 1 April	**50,799**	48,983
Dividends recognised as unclaimed in the year	**6,640**	3,888
Dividends paid out previously categorised as unclaimed	**(792)**	(1,951)
Fees claimed on payments made	**(26)**	(25)
Transfers from estates	**6**	122
Transfers to estates	**(73)**	(469)
Transfer to the Consolidated Fund (Note 8)	**(2,777)**	251
Balance at 31 March	**53,777**	50,799

Dividends which have been paid to creditors but which creditors have not claimed (unpresented cheques) are collected in the Estate Account and are held for seven years. Those remaining unclaimed after seven years are transferred to the Consolidated Fund.

8 Surrenders to the Consolidated Fund

		2012-13	2011-12
	Notes	**£000**	£000
Balance at 1 April		**(299)**	(48)
Dividends not claimed	7	**2,777**	(251)
De Minimise balances		**168**	0
		2,646	(299)
Payments made to the Insolvency Agency		**(2,975)**	0
Balance at 31 March		**(329)**	(299)

Unclaimed dividends and amounts which are too small to be divided among the persons entitled to them, are collected in the Estate Account for the benefit of the Consolidated Fund of the sponsoring department (BIS). Such funds are periodically paid to the Insolvency Agency.

9 Funds held on behalf of the Treasury Solicitor

	2012-13	2011-12
	£000	£000
Balance at 1 April	**403**	377
Funds received from dissolved companies	**18**	26
Balance at 31 March	**421**	403

Any unclaimed or undistributed funds. remaining in a company at the point of dissolution of that company are deemed to be bona vacantia, (S1012, Companies Act 2006). Liquidators are required to pay such funds in to the Estate Account. The funds are periodically paid to the Treasury Solicitor.

10 Cash at Bank

	2012-13 £000	2011-12 £000
Balance at 1 April	**(7,335)**	(6,560)
Excess of Payments over Receipts	**(6,526)**	(775)
Balance at 31 March	**(13,861)**	(7,335)

Cash is held in sterling with the Government Banking Service.

A US$ facility is held at the Bank of England.

An in-hand cash working balance is maintained with the banks at all times. The deficit reported at 31 March reflects cheques drawn but not yet presented at the bank.

11 Insolvency Estates

	Notes	2012-13 £000	2011-12 £000
Balance at 1 April		**630,194**	873,703
Fees and VAT adjustment relating to prior periods		**(713)**	0
Fees and VAT charged	5	**(89,826)**	(97,259)
Net realisations/(payments)		**4,883**	(150,493)
Net Interest paid to funds lodged with the Estate Account.		**1,148**	4,028
Net disbursements unrecovered/(recovered)	5	**250**	(22)
Other payments or adjustments		**179**	242
Gain/(Loss) on exchange		**149**	(5)
Balance at 31 March		**546,264**	630,194

The Insolvency Estate is the total of funds held on behalf of Trustees and Liquidators in respect of companies and individuals undergoing liquidation or bankruptcy proceedings

12 Frequent petitioner

	2012-13 £000	2011-12 £000
Balance held at 1 April	**(175)**	(12)
Funds received from HMRC	**4,307**	5,371
Deposits applied to petitions from HMRC	**(4,184)**	(5,534)
Balance at 31 March	**(52)**	(175)

Under current legislation a deposit must be paid to the court before a petition can be filed. As HMRC lodge a large number of petitions, there is an arrangement in place whereby HMRC lodge funds with the Estate Accounts which are then applied to petitions filed by HMRC. Periodically HMRC top up the funds lodged.

Richard Judge 11 July 2013
Chief Executive Officer
The Insolvency Service
Accounting Officer

Insolvency Services Investment Account

Accounts for the year ended 31 March 2013

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 1970 (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 insolvent 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 Service 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 UK Government 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 ISA 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. The 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 2012-13.

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 2012-13. The cost of managing the ISIA is recharged to the Insolvency Services; in 2012-13, this amounted to £75,000 (2011-12: £80,000).

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 all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the 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 2012-13

Total comprehensive income for the year was £1.0 million (2011-12: £1.3 million). Interest income of £3.6 million was lower than the prior year (£4.5 million), as a result of lower average funds on deposit in 2012-13. Interest payable to liquidators of £2.6 million was lower than the prior year (£3.1 million), as a result of a reduction in average funds deposited by liquidators in 2012-13.

As at 31 March 2013, the total value of investments held by the ISIA was £681.3 million (31 March 2012; £780.1 million). The decrease in investments was due to net withdrawals from the ISIA during the year.

Date of authorisation for issue

The Secretary and Comptroller General authorised these financial statements for issue on 28 June 2013.

Jo Whelan 27 June 2013
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, the Secretary and Comptroller General is required to observe the applicable accounting standards and be consistent with the relevant requirements of the Financial Reporting Manual (FReM), and in particular to:

- observe the relevant accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going-concern basis.

As the role of the Secretary and Comptroller General is analogous to acting as an Accounting Officer, it is considered that the responsibilities of an Accounting Officer, as set out in Managing Public Money published by HM Treasury, apply to the Secretary and Comptroller General. These include responsibility for the propriety and regularity of the public finances for which the Secretary and Comptroller General is answerable, for keeping proper records, and for safeguarding the ISIA's assets.

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.

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 2012-13 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 *(resigned July 2012)*
Non-executive HM Treasury representative

James Richardson (appointed July 2012)
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.

Non-executive directors are appointed by the DMO Accounting Officer following a formal process and have fixed terms defined in their contracts of service. Sam Beckett resigned from the Board in July 2012 and was replaced as HM Treasury's representative by James Richardson. James 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 it is considered necessary for the effective discharge of their duties.

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

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

Board has put in place a formal process to self-evaluate its performance on a regular basis. The Board undertook a self-evaluation of its performance in 2012 and concluded that it has operated effectively in delivering the objectives set out in its Terms of Reference. The Terms of Reference also underwent a full review by the Board in 2012.

2012-13 Board activities

Board meetings were held throughout 2012-13 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	7
Jim Juffs	8	8
Joanne Perez	8	8
Sam Beckett (resigned July 2012)	2	1
James Richardson (appointed July 2012)	6	5
Brian Larkman	8	7
Brian Duffin	8	8

Audit Committee

The Secretary and Comptroller General was supported during 2012-13 by the Audit Committee on matters relating to risk, internal control and governance. The members of the Audit Committee during 2012-13 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 – 2009. 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 and a trustee of the Wimbledon Guild charity.

Audit Committee meetings are typically attended by the DMO Accounting Officer, the Secretary and Comptroller General, the Joint Heads of Policy & 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, especially with regard to the Olympics period;
- Anti-money laundering controls;
- Anti-fraud controls;
- Regulatory compliance;
- Risk management and financial control;
- Implementation of audit recommendations;
- External and internal financial reporting; and
- Information systems security.

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 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. In addition to regular agenda items the Committee has been monitoring the progress of updating the Memoranda of Understanding for a number of the funds.

The Fund Management Committee met four times in 2012-13.

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 2012-13.

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.

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 DMO 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 DMO 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 eight 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 DMO 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, improving data security arrangements and extending the scope of the DMO's internal compliance testing programme. ORC met eight times during 2012-13.

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 DMO 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 DMO Accounting Officer on suitable mitigating action where appropriate.

During the year the Controls Group review work has included reviewing the processes in place to control the introduction of IT changes as well as specific CRND reconciliation items.

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 DMO 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 DMO 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. In 2012 Internal Audit conducted a review of CRND concluding that there is a satisfactory level of control over managing and processing transactions. The function is independent of the DMO's trading activities and operations and has a direct reporting line to the DMO 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 DMO 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 2012 this included revisions to the Information Security Policy, the Confidentiality and Official Information Policy and the Telephone Use and Recording Policy.

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 the DMO Board believe that the principal risks and uncertainties facing 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	
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 CRND relies are provided or supported by third party suppliers.	The DMO has put in place structured business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business operations. These arrangements extend to cover CRND. The DMO's Business Continuity Plan (BCP) including Disaster Recovery (DR) and other arrangements are subject to continuous programme of testing, review and update. During 2012 the DMO ensured a thorough programme of DR testing was carried out, and that BCP arrangements to support auctions were undertaken during the year with teams working from the DR site during auctions. Assessment of business continuity needs is a specific requirement for new projects and major business initiatives, including those related to or affecting CRND. The DMO is represented on the Public Finance Business Continuity Management Group and played an active part in the Group's contingency planning for the Olympics in 2012. In addition the DMO also conducted an in house DR exercise as part of its contingency planning for the Olympic period. 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. 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 CRND to operational risk arising from process breakdown and human error.	A key component of 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. In addition during 2012-13 the DMO continued to enhance its management information around trading activity and strengthened its reconciliation processes and controls. All teams, including CRND, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally. The RMU conducts regular control and compliance testing of CRND activities, 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 DMO 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. Competition for skilled staff is generally against employers from the private financial services sector which is not subject to public sector remuneration policies and which have historically offered higher remuneration than either the private sector in general or the public sector.	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. Salaries are reviewed annually, taking account of benchmarks derived from equivalent private sector pay levels. In addition the DMO has a policy to recognise those staff who have performed well in their roles through the payment of one off performance related awards. Any awards are assessed annually by the DMO Pay Committee and are determined by individual performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay. 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 DMO Accounting Officer and Board. The DMO was reaccredited as an Investor in People in 2011.
IT and data 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. In 2012 the DMO experienced a breach of its data handling policies. Although no personal data was affected and there was no consequential impact from this lapse, the DMO's information security policies and controls were fully reviewed and enhancements introduced. These included strengthening the processes for the induction of new staff and raising the level of awareness of information security issues for existing staff. In addition the DMO has a project underway to enhance system logging and improve control of system access rights. 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 is a member of the Board and provides advice to Board members on the management of information risk. 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 which is a condition for continuing connection to the GSI Convergence Framework (GCF).

Review of effectiveness

I have reviewed the effectiveness of the system of internal control and confirm that an on-going process designed to identify, evaluate and prioritise risks to the achievement of CRND's aims and objectives has been in place throughout 2012-13. 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.

In 2012-13, no ministerial directions were given and no material conflicts of interest have been noted by the Board or Audit Committee members in the Register of Interests.

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

Jo Whelan 27 June 2013
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 2013 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 2013 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

28 June 2013

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

Statement of Comprehensive Income for the year ended 31 March 2013

	2013	2012
	£000	£000
Interest income	**3,629**	4,466
Interest payable to liquidators	**(2,639)**	(3,144)
Total comprehensive income	**990**	1,322

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

Statement of Financial Position as at 31 March 2013

	2013 £000	2012 £000
Assets		
Demand deposits with the Debt Management Account and the National Loans Fund	**681,274**	780,052
Total	**681,274**	780,052
Liabilities and client funds		
Liabilities		
Interest payable to liquidators	**1,428**	211
Client funds		
ISA funds	**634,000**	735,000
Accumulated net profits on disposals	**45,990**	45,990
Surplus less interest payable to liquidators	**(144)**	(1,149)
	679,846	779,841
Total	**681,274**	780,052

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

Jo Whelan 27 June 2013
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

Statement of Cash Flows for the year ended 31 March 2013

	2013 £000	2012 £000
Operating activities		
Interest received	**3,672**	4,557
Interest paid to the Insolvency Services Account	**(1,423)**	(5,025)
Decrease in demand deposits with the Debt Management Account and the National Loans Fund	**98,736**	213,434
Net cash from operating activities	**100,985**	212,966
Financing activities		
Funds received from the Insolvency Services Account	**161,015**	152,034
Funds paid to the Insolvency Services Account	**(262,000)**	(365,000)
Net cash used in financing activities	**(100,985)**	(212,966)
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 31 March 2013

	ISA funds £000	Accumulated net profits on disposals £000	Surplus less interest payable to liquidators £000	Total ISA funds £000
At 1 April 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**
Total comprehensive income	0	0	990	990
Transferred from Client money employed account	(15)	0	15	0
Funds received from ISA	161,015	0	0	161,015
Funds paid to ISA	(262,000)	0	0	(262,000)
At 31 March 2013	**634,000**	**45,990**	**(144)**	**679,846**

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

Notes to the Accounts for the year ended 31 March 2013

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

Certain IFRS have been issued or revised, but are not yet effective, and will be applied in subsequent reporting periods. These are:

- IAS 1 Presentation of Financial Statements, which has been revised. Application is required for reporting periods beginning on or after 1 July 2012. Earlier application is permitted. The ISIA expects to apply these revisions to IAS 1 in 2013-2014. The application of these revisions, which relate to presentation of items in the income statement based on their potential to be reclassified, is not expected to impact the presentation of information in the ISIA.
- IFRS 13 Fair Value Measurement, which has been issued. Application is required for reporting periods beginning on or after 1 January 2013. Earlier application is permitted. The ISIA expects to apply IFRS 13 in 2013-14. The application of IFRS 13 is not expected to materially change the valuation or disclosure of transactions or balances in the ISIA.
- IAS 1 Presentation of Financial Statements, which has been revised as part of the IASB's annual improvements process. Application is required for reporting periods beginning on or after 1 January 2013. Earlier application is permitted. The ISIA expects to apply these revisions to IAS 1 in 2013-2014. The application of these revisions to IAS 1 do not materially change the minimum requirements for comparative information and are expected to have an immaterial impact on the ISIA.
- IFRS 9 Financial Instruments, which will replace IAS 39. Application is required for reporting periods 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 reporting of financial instruments in the ISIA.

A separate income statement, as required by the accounts direction, has not been presented as the content would be identical to the statement of comprehensive income. A statement of comprehensive income is required by IAS 1.

1.2 Assets

Demand deposits

Deposits with the Debt Management Account and the National Loans Fund 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 costs

Administrative costs are accounted for in the DMO Report and Accounts 2012-13 and a recovery is made from the Insolvency Service.

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 ISIA.

The investments of the ISIA comprised deposits with the Debt Management Account and the National Loans Fund. These deposits were considered to have no exposure to credit risk because they were 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 ISIA is considered to comprise interest rate risk.

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

CRND monitored interest rate movements to help inform the Insolvency Services of potential issues and events. The ISIA was not subject to active management and thus no formal market risk parameters were in place.

2.3 Liquidity risk

Liquidity risk is the risk that the ISIA will encounter difficulty in meeting obligations associated with client withdrawal requests.

Assets held by the ISIA are highly liquid to enable all client obligations to be met as they fell due.

3 Related party transactions

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's 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 ISA due to monies advanced and withdrawn in respect of investments. During the year, the ISA withdrew £101 million (net of advances) from the ISIA (2011-12: net withdrawal of £213 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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