

# Insolvency Services Account 2014-15



# Insolvency Services Account 2014-15

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

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# 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)
- 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 Service 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 Service 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
- 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 44,520 in 2013-14 to 39,214 in 2014-15. New voluntary liquidation cases decreased by 3% to 16,615 bankruptcy cases decreased by 19% to 19,029; and compulsory cases decreased by 4% to 3,570.

Estate accounts maintained for insolvency practitioners increased in 2014-15 to 22,277 (2013-14 21,838), for bankruptcies and compulsory liquidations, while estate accounts maintained for official receivers decreased in 2014-15 to 92,034 (2013-14 102,825). Voluntary estate accounts maintained for Insolvency Practitioners decreased in 2014-15 to 984 (2013-14 1,171).

The value of bankruptcies and compulsory liquidations estate accounts increased to £311 million (2013 14 £261 million), whilst the value of voluntary liquidation estate accounts has decreased to £125 million during 2014-15 (2013-14 £171 million). It should be noted that from 1 October 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 2014-15 by £22 million to £421 million.

Payments decreased by £54 million to £351 million.

During the year aggregate receipt and payment volumes decreased when compared to 2013-14: receipts volumes were down to 69,000 in 2014-15 (2013-14 72,000) and payment requests were down to 112,000 in 2014-15 (2013-14 146,000).

### *The Insolvency Service Investment Account*

Funds invested by CRND at 31 March 2015 were £641 million (consisting of ISIA balance of £625 million shown in Notes to the Accounts; plus £14.8 million surplus on interest and profits on disposals; plus £1.8 million net surplus on interest – see below) a decrease of £32 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 £2.0 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 £0.9 million. This resulted in a net surplus on interest of £1.8 million. During the year £33 million was paid out of the surplus on profits on disposals to the Consolidated Fund. This was following a review of the solvency margin. There remains a surplus on interest and profits on disposals in the fund of £14.8 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, with no reported instances of financial fraud. 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% since the 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 charged to estates during 2014-15 totalled £2.0 million (2013-14 £2.2 million), shown as part of the £86 million in Notes 5 and 11 (called 'Fees and VAT charged to estates in insolvency') Cheque, BACS and CHAPS fees totalling £45,000 (2013-14 £66,000) were charged to estates during the year.

Case administration fees charged decreased to £44 million (2013-14 £49 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 slightly weakened with 98.7% (2013-14 99.5%) of ISA payments being actioned within 4 days of receipt (but still meeting the target being 98.5% of payments made within 4 working days).

### **On-line services**

During the year, an additional 34 Insolvency Practitioners (IPs) 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 1,411 at 31 March 2015 (1,377 at 31 March 2014). This equates to 72% of IPs.



## Forward look

During 2014-15, there was a program of change in Estate Accounts in order to drive forward the savings identified in the market test which took place in 2013-14. Estate Accounts finished its restructure at the end of the financial year which saw the staffing model reduce and the conclusion of the implementation of new IT features. During 2015-16, an upgrade of the IT systems is due to complete during quarter one; and the priorities for the year will be working with customers and stakeholders to make the most of the new features available to continue to simplify our processes and lead to better value for money. Estate Accounts are also embarking on implementing principles of continuous improvement into our daily routines and into our culture which we envisage also will be a benefit to our customer service and working environment.

We have begun the transition of our official receiver banking from Lloyds into our current government banking services account and plan to conclude this by the end of quarter two. The tender for the new Government Banking Services has now been concluded and the transition to the new model is due to begin in quarter three.

## 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 of the National Audit Office. The audit fee of £11,500 for the audit of the ISA for 2014-15 is included within the £70,000 disclosed in the Agency Accounts.

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.

*Sarah Albon*  
Chief Executive

8 September 2015

## 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 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

## Framework

The Chief Executive (CE) of The Insolvency Service has been designated the Accounting Officer for the Insolvency Services Account (ISA). The Insolvency Act 1986 (the Act) requires the preparation of a statement of sums received and paid out through the ISA for each year ending 31 March, in such form and manner as the Treasury may direct (Section 409(2) of the Act).

As Accounting Officer, the CE has personal responsibility and accountability to Parliament for the organisation and quality of management within the organisation, including its use and stewardship of public assets. This responsibility includes safeguarding public funds and assets, in accordance with HM Treasury guidance, in particular *Managing Public Money*.

## Operation

The day to day operations of the ISA is undertaken by Estate Accounts Services (EAS) which is within the Business Services Division (BSD). The Head of EAS has in place systems for communications with all staff, including policy, operational and financial matters, and for informing them of new developments and key issues. The Director of the BSD is part of the senior management team and is subject to the governance and wider control system that is described in the Insolvency Service Annual Report and Financial Statements 2014-15.

The Insolvency Service seeks advice and a challenge function from its board, internal audit and the audit and risk assurance committee (ARAC) as and when required. Assurance on control is also gained from internal audit work undertaken during the year.

## Risk Management and Internal Control

The system of internal control, managed through the BSD, is in place to manage risk to achieve aims and objectives. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of aims and objectives; to evaluate the likelihood and impact of those risks being realised; and to manage them efficiently and effectively. The risks are related to the key targets and priority work areas set out in the EAS business plan. Risk is managed by identifying and evaluating risks and appropriate control measures, which are set out in the EAS risk register.

The system of control underpinning the ISA includes:

- a budget and business plan which defines priorities, key targets and accountability for delivery;
- systematic identification and management of risks through a risk register linked to the business plan;
- standardised processes and procedures set out in internal desk instructions;
- segregation of duties in key areas such as post opening and cheque and cash handling;
- procedures for handling valuables and cheques received during post opening to account for all valuable items in a secure way and ensuring there is a clear audit trail;
- management arrangements including a system of delegated financial authorities for all case related payments made by EAS.

The Deputy Director of BSD is the information asset owner for all information held by the division.

The ARAC provides support in monitoring and reviewing the risk, control and governance processes. It is chaired by an appropriately qualified independent non-executive board member (NEBM). Its membership is completed by two further NEBMs. The committee met five times during the year.

Internal audit is delivered by The Cross Departmental Internal Audit Service (Government Internal Audit Agency from 1 April 2015) and their annual audit programme is substantially informed by the agency's key risks.

### Risk assessment and issues

The risk register for 2014-15 records the main areas of risk to the work of EAS as inability to respond to legislative or policy changes; unable to maintain normal service delivery due to IT issues and the migration suspense account. These risks continued to be addressed during the year and the action taken to mitigate the risks included:

- early notification of proposed changes affecting the systems and monitoring of development testing timetables;
- a review of business continuity plans and progress IT fixes;
- all staff have completed the responsible for information e-learning and security discussions have been held at the monthly management meetings; and
- working closely with finance section to progress issues still outstanding with migration suspense. Where funds still remain in the suspense account devising processes for the removal of the funds with a view of bringing the account to a zero balance while allowing day to day business process to also take place.

### Significant issues

There were no significant control issues relating to the ISA identified during the year.

*Sarah Albon*  
Chief Executive

8 September 2015

# 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 2015 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 and Comptroller General'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, Statement of the 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 2015; 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.

*Sir Amyas C E Morse KCB*  
Comptroller and Auditor General

9 September 2015

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London SW1W 9SP

## Receipts and Payments for the year ended 31 March 2015

	Notes	2014-15 £	2013-14 £
<b>Receipts</b>			
Realisation of assets of estates in compulsory insolvencies and voluntary liquidations		<b>421,271</b>	443,088
Frequent petitioners	12	<b>3,976</b>	3,711
From the Investment Account	2	<b>178,000</b>	228,000
Unclaimed dividends	7	<b>9,618</b>	22,095
Interest received	4	<b>2,012</b>	2,159
Gain on Exchange	11	<b>–</b>	–
		<b>614,877</b>	<b>699,053</b>
<b>Payments</b>			
Payments requested by liquidators and trustees of estates in compulsory insolvency and voluntary liquidation and reissued dividends	6	<b>350,752</b>	405,243
To the Investment Account:-			
Excess cash balances on the ISA	2	<b>178,000</b>	219,000
Interest on ISA working balances	4	<b>16</b>	19
To the Consolidated Fund	8	<b>–</b>	–
To The Insolvency Service	5	<b>86,000</b>	72,000
Loss on Exchange	11	<b>0</b>	8
		<b>614,768</b>	<b>696,270</b>
<b>Excess of receipts over payments</b>	10	<b>109</b>	<b>2,783</b>

*The notes on pages 13 to 17 form part of these accounts.*

## Statement of Balances as at 31 March 2015

	Notes	2014-15 £	2013-14 Restated (see notes 7 & 8) £	2012-13 Restated (see notes 7 & 8) £
<b>Balances</b>				
The Investment Account	2	<b>625,000</b>	625,000	634,000
Government securities	3	<b>24</b>	24	24
Cash at bank	10	<b>(10,969)</b>	(11,078)	(13,861)
		<b>614,055</b>	613,946	620,163
<b>Representing</b>				
Insolvency Estates	11	<b>497,921</b>	507,146	546,204
Frequent petitioners	12	<b>(98)</b>	(66)	(52)
Fees due to The Insolvency Service	5	<b>34,013</b>	32,874	20,082
Unclaimed dividends	7	<b>66,449</b>	63,600	49,230
Amount due to the Consolidated Fund	8	<b>15,735</b>	9,962	4,218
Amounts due to the Treasury Solicitor	9	<b>35</b>	430	421
		<b>614,055</b>	613,946	620,163

*The notes on pages 13 to 17 form part of these accounts.*

Sarah Albon  
Inspector General and Chief Executive

8 September 2015



## 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
  - 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

	2014-15 £	2013-14 £
Balance at 1 April	<b>625,000</b>	634,000
Cash deposited with CRND	<b>178,000</b>	219,000
	<b>803,000</b>	853,000
Cash withdrawn from CRND	<b>(178,000)</b>	(228,000)
Balance at 31 March	<b>625,000</b>	625,000

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

	2014-15 £	2013-14 £
Balance at 1 April and 31 March	<b>24</b>	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	2014-15 £	2013-14 £
On cash deposited with CRND	11	<b>1,993</b>	2,141
On working Balances at the bank		<b>16</b>	17
On Government Securities		<b>3</b>	1
		<b>2,012</b>	2,159

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.

	<b>2014-15</b>
	<b>£</b>
<b>Interest paid</b>	
Interest earned 2013-14 b/fwd at 1 April 2014	<b>2</b>
Interest earned 2014-15	<b>16</b>
Excess interest earned on US\$ account	–
	<b>18</b>
Amount paid over 2014-15	<b>(16)</b>
Balance carried forward at 31 March 2015	<b>2</b>

£16,376 of interest earned on working balances was paid to the Investment Account during the period.

## 5 Due to the Insolvency Agency

	Notes	<b>2014-15</b>	2013-14
		<b>£</b>	<b>£</b>
Balance at 1 April		<b>32,874</b>	20,082
Fees and VAT charged to estates in insolvency		<b>86,993</b>	84,903
Net disbursements (unrecovered)/recovered.	11	<b>120</b>	(136)
Fees on unclaimed dividends		<b>26</b>	25
Net payments made to the Insolvency Agency		<b>(86,000)</b>	(72,000)
Balance at 31 March		<b>34,013</b>	32,874

Fees are charged to individual estates in insolvency to cover the cost of administration. The fees are collected on behalf of the Insolvency Service 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 Service. When assets are realised in the individual case and funds are available to cover the cost of previous payments, the Insolvency Service is reimbursed.

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

## 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 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

	<b>2014-15</b>	2013-14	2012-13
	£	Restated £	Restated £
Balance at 1 April	<b>63,600</b>	49,230	50,799
Dividends recognised as unclaimed in the year	<b>9,618</b>	22,095	6,640
Dividends paid out previously categorised as unclaimed	<b>(1,835)</b>	(1,517)	(792)
Fees claimed on payments made	<b>(26)</b>	(25)	(26)
Transfers from estates	<b>1,015</b>	211	6
Transfers to estates	<b>(150)</b>	(650)	(73)
Transfer (to)/from the Consolidated Fund (Note 8)	<b>(5773)</b>	(5,744)	(7,324)
<b>Balance at 31 March</b>	<b><u>66,449</u></b>	<u>63,600</u>	<u>49,230</u>

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 7 years. Those remaining unclaimed after 7 years are transferred to the Consolidated Fund.

The amounts transferred to/from the Consolidated Fund have been restated for prior years to reflect the amount due to the consolidated fund at that point in time. For 2013-14, the amount transferred as due from the consolidated fund of £19,000 has been restated to £5.7 million due to the Consolidated Fund. For 2012-13 the amount transferred as due to the Consolidated Fund of £2.8m has been restated to £7.3 million due to the Consolidated Fund – see Note 8.

## 8 Surrenders to the Consolidated Fund

	Notes	<b>2014-15</b>	2013-14	2012-13
		£	£	£
Balance at 1 April		<b>9,962</b>	4,218	(299)
Dividends not claimed.	7	<b>5,773</b>	5,744	7,324
De Minimise balances		–	–	168
		<b><u>15,735</u></b>	<u>9,962</u>	<u>7,193</u>
Payments made to the Insolvency Agency		–	–	(2975)
<b>Balance at 31 March</b>		<b><u>15,735</u></b>	<u>9,962</u>	<u>4,218</u>

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 Service.

As per Note 7, the 2013-14 and 2012-13 amounts for dividends not claimed payable to the Consolidated Fund have been restated from being due to the Consolidated Fund of £19,000 and due to the Consolidated Fund of £2.8 million respectively. This results in an adjustment to the balance of surrenders due to the Consolidated Fund to £4.2 million (2012-13) and £9.9 million (2013-14), resulting in £15.7 million as at 31 March 2015.

**9 Funds held on behalf of the Treasury Solicitor**

	<b>2014-15</b> <b>£000</b>	2013-14 £000
Balance at 1 April	<b>430</b>	421
Funds received from dissolved companies	<b>35</b>	9
Payments to Treasury Solicitor	<b>(430)</b>	–
Balance at 31 March	<b>35</b>	430

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 HM Treasury Solicitor.

**10 Cash at Bank**

	<b>2014-15</b> <b>£000</b>	2013-14 £000
Balance at 1 April	<b>(11,078)</b>	(13,861)
Excess of Receipts over Payments	<b>109</b>	2,783
Balance at 31 March	<b>(10,969)</b>	(11,078)

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	<b>2014-15</b> <b>£000</b>	2013-14 £000
Balance at 1 April		<b>507,146</b>	546,264
Fees and VAT charged		<b>(86,993)</b>	(84,903)
Net realisations/(payments)	5	<b>76,096</b>	43,111
Net Interest paid to funds lodged with the Estate Account.		<b>1,996</b>	2,140
Net disbursements recovered (unrecovered)	5	<b>(120)</b>	136
Other payments or adjustments		<b>(204)</b>	406
Loss on exchange		–	(8)
Balance at 31 March		<b>497,921</b>	507,146

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

	<b>2014-15</b> <b>£000</b>	2013-14 £000
Balance held at 1 April	<b>(66)</b>	(52)
Funds received from HMRC	<b>3,976</b>	3,711
Deposits applied to petitions from HMRC	<b>(4,008)</b>	(3,725)
Balance at 31 March	<b>(98)</b>	(66)

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.

*Sarah Albon*  
Inspector General and Chief Executive

8 September 2015

# Insolvency Services Investment Account

## Accounts for the year ended 31 March 2015

### 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 drawn down by the ISA to pay its liabilities of interest to insolvent estates and the associated tax is paid directly to HM Revenue & Customs (HMRC) by ISIA.

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. The legislation also established that HM Treasury may direct payments from the Consolidated Fund to the Investment Account, to make good any shortfall due to suitors, and that CRND may pay surplus funds into the Consolidated Fund.

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 remained in place throughout 2014-15.

The resources used to deliver CRND's objectives are accounted for within the United Kingdom Debt Management Office's (DMO) agency vote and reported in the DMO Annual Report and Accounts 2014-15. The cost of managing the ISIA is recharged to the Insolvency Services; in 2014-15, this amounted to £68,000 (2013-14: £74,000).

## 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 confirms that, as far as she is aware, there is no relevant audit information of which the ISIA's auditors are unaware, and that she has taken all the steps that she ought to have taken as Secretary and Comptroller General in order to make herself aware of any relevant audit information and to establish that the ISIA's auditors are aware of that information.

## Management Commentary

CRND's strategy of investing in the Debt Management Account was maintained throughout 2014-15. This strategy enabled the ISIA to earn a rate of interest very closely correlated with prevailing short-term sterling interest rates, whilst protecting its capital position and access to liquidity at all times.

### Results for 2014-15

During the year, the ISIA generated total comprehensive income of £1,019,000 (2013-14: £976,000). Interest income of £3,454,000 (2013-14: £3,350,000) was higher than the prior year as a result of higher average funds on deposit in 2014-15. Interest payable to liquidators of £2,435,000 (2013-14: £2,374,000) was higher than the prior year as a result of an increase in average funds deposited by liquidators in 2014-15.

On 25 February 2015, ISIA paid £33.1 million of its accumulated net profits on disposals in prior years to the Consolidated Fund.

As at 31 March 2015, the total value of investments held by the ISIA was £640.9 million (31 March 2014: £673.0 million). The decrease in investments was primarily due to the payment of £33.1 million of accumulated net profits on disposals to the Consolidated Fund.

### Date of authorisation for issue

The Secretary and Comptroller General authorised these financial statements for issue on 25 June 2015.

*Jo Whelan*  
Secretary and Comptroller General to the  
Commissioners for the Reduction of the National Debt

24 June 2015



## Statement of Secretary and Comptroller General's responsibilities

Section 409(1) of the Insolvency Act 1986 requires CRND to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the ISIA, its income and expenditure, changes in client funds 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.

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 Government Financial Reporting Manual (FRM), 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 to 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 2014-15 by the DMO Managing Board (the Board) which, in addition to the Secretary and Comptroller General, is comprised of:

Robert Steeman  
DMO Chief Executive and Accounting Officer

Jim Juffs  
Chief Operating Officer

Joanne Perez (to 12 March 2015)  
Co-Head of Policy and Markets

James Richardson  
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. 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.

The 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 2014 and concluded that it has operated effectively in delivering the objectives set out in its Terms of Reference. The Terms of Reference underwent a full review by the Board in 2012.

## 2014-15 Managing Board activities

Board meetings were held throughout 2014-15 and covered regular agenda items, including risk management, staffing and progress against the operational business plan.

Board and Audit Committee attendance is outlined in the table below:

	Managing Board		Audit Committee	
	Possible	Actual	Possible	Actual
Robert Stheeman	8	8		
Jo Whelan	8	7		
Jim Juffs	8	8		
Joanne Perez	8	8		
James Richardson	8	7		
Brian Larkman	8	8	4	4
Brian Duffin	8	8	4	4
Caroline Mawhood	NA	NA	4	4

## Audit Committee

The Secretary and Comptroller General was supported during 2014-15 by the Audit Committee on matters relating to risk, internal control and governance. The members of the Audit Committee during 2014-15 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 one of two external members 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 Co-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 effective; 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 IT resilience and recoverability;
- Anti-money laundering controls;
- Anti-fraud controls;
- Risk management and financial control;
- Implementation of audit recommendations;
- External and internal financial reporting;
- Information systems security and controls;
- Transaction processing risks and controls;
- Controls related to testing for IT systems in development;
- People risks; and
- Changes in financial management in government.

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 Review Management Committee monitors 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 Committee met four times in 2014-15.

#### **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 2014-15.

### **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 considers effective risk management to be central to its operations and fosters a risk aware culture in which all members of staff, including Board members, are encouraged to understand and own the risks that are inherent in those operations. In particular the DMO seeks to promote an environment in which staff feel comfortable to identify new risks and changes in previously identified risks, as well as weaknesses so that these may be assessed and appropriate mitigating actions 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 risk, market risk and operational risk. 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 five times during 2014-15.

### **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 transaction processing risks and controls, IT and data security, business continuity planning and the ongoing resourcing challenges faced by the DMO. ORC met eight times during 2014-15.

### **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 covered upgrades to the DMO's core trading system, project work to strengthen the resilience of the DMO's IT architecture, and improvements in IT change management processes.

### **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 consultations 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 monitored 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. 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 standards and robust 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 2014-2015, this included reviews of the DMO's Spreadsheet Management, Physical Security and IT Security, Confidentiality and Information Handling policies, as well as its Personal Dealing Rules.

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
<b>IT Systems and infrastructure</b>	
<p>CRND relies on a number of IT and communications systems to conduct its operations effectively and efficiently.</p> <p>A number of the operational systems and services on which CRND relies are provided or supported by third party suppliers.</p>	<p>In 2014-15, the DMO completed upgrades to parts of its IT infrastructure and its core trading system. This work has reduced operational risk by helping to ensure that levels of support for key technology remain robust.</p> <p>During the year the DMO has undertaken a review of its most significant IT systems in the context of current and anticipated business requirements including those of CRND. In the medium term this work will inform strategic decisions regarding investment in the DMO's IT infrastructure.</p> <p>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.</p> <p>The DMO is represented on the Public Finance Business Continuity Management Group and, in 2014 together with HM Treasury and the Bank of England took part in an exercise designed to test the impact of a cyber-attack on key aspects of public finance processes.</p> <p>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 Service Level Agreements.</p>
<b>Transaction processing</b>	
<p>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.</p>	<p>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, in 2014 the DMO supported its settlement agent, the Bank of England, to complete a project to introduce straight through processing for a number of their settlement processes. By helping to minimise manual intervention this project has helped reduce the risk of operational errors in the processing of CRND transactions.</p> <p>All teams, including CRND, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.</p> <p>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 Conduct Authority and Prudential Regulation Authority rules in the dealing and settlement areas.</p> <p>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.</p> <p>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.</p>



**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. In response to developments in regulatory best practice, in particular in the area of market conduct, the DMO organised focused training sessions in 2014. These sessions were delivered in conjunction with regulators and external advisers and were aimed at helping front office staff better understand the regulatory environment in which the DMO's market counterparties operate.

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, 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 all DMO staff are encouraged to 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 is accredited as an Investor in People.

<b>IT and data security</b>	
<p>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.</p> <p>The DMO is exposed to risk of an external attack on its IT systems and infrastructure.</p>	<p>The DMO continues to work to maintain the required level of protective security covering physical, personnel and information security and is particularly aware of the growing threat posed by cyber security risk. Cyber security has been a specific area of focus in 2014-2015 and the DMO's IT team continue to work to strengthen controls against both external and internal threats to IT systems and infrastructure. This includes developing an additional BCP scenario which combined a test of technical monitoring controls with a desktop exercise to evaluate how the DMO would manage in the event of a successful breach of its security. In addition the DMO completed a number of upgrade projects in 2014 which have helped improve the resilience of the DMO's IT security environment, including an upgrade of its firewall technology and network components.</p> <p>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.</p> <p>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. The test is undertaken by specialists and forms part of the assessment against the Communications Electronics Security Group (CESG) requirements which is a condition for continuing connection to the Public Service Network (PSN). In response to the results of the test undertaken in 2014 the DMO improved security on its core networks and was reaccredited as a member of the PSN.</p>

## 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 CRND's aims and objectives has been in place throughout 2014-15. 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 2014-15, 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*  
Secretary and Comptroller General to the  
Commissioners for the Reduction of the National Debt

24 June 2015

# 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 2015 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 the 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2015 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.

*Sir Amyas C E Morse*  
Comptroller and Auditor General

25 June 2015

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

## Statement of Comprehensive Income for the year ended 31 March 2015

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Interest income	<b>3,454</b>	3,350
Gross interest payable to liquidators	<b>(2,435)</b>	(2,374)
<b>Total comprehensive income</b>	<b>1,019</b>	976

*The notes on pages 38 to 40 form part of these accounts.*

## Statement of Financial Position as at 31 March 2015

	Note	2015 £000	2014 £000
<b>Assets</b>			
Demand deposits with the Debt Management Account and the National Loans Fund		<b>640,896</b>	672,989
<b>Total assets</b>		<b>640,896</b>	672,989
<b>Liabilities and client funds</b>			
<b>Liabilities</b>			
Net interest payable to liquidators		<b>899</b>	922
Tax (on interest) payable to HMRC		<b>187</b>	226
		<b>1,086</b>	1,148
<b>Client funds</b>			
ISA funds		<b>625,000</b>	625,000
Accumulated net profits on disposals	2	<b>12,924</b>	45,990
Surplus less interest payable to liquidators		<b>1,886</b>	851
		<b>639,810</b>	671,841
<b>Total</b>		<b>640,896</b>	672,989

*The notes on pages 38 to 40 form part of these accounts.*

*Jo Whelan*  
Secretary and Comptroller General to the  
Commissioners for the Reduction of the National Debt

24 June 2015

## Statement of Cash Flows for the year ended 31 March 2015

	2015 £000	2014 £000
<b>Operating activities</b>		
Interest received	3,453	3,672
Interest paid to the Insolvency Services Account	(1,993)	(1,144)
Tax (on interest) paid to HMRC	(503)	(279)
Decrease in demand deposits with the Debt Management Account and the National Loans Fund	32,093	8,268
Payment to the Consolidated Fund	(33,066)	–
<b>Net cash (used in)/from operating activities</b>	<b>(16)</b>	<b>8,981</b>
<b>Financing activities</b>		
Funds received from the Insolvency Services Account	178,016	219,019
Funds paid to the Insolvency Services Account	(178,000)	(228,000)
<b>Net cash used in financing activities</b>	<b>16</b>	<b>(8,981)</b>
<b>Increase/(decrease) in cash</b>	<b>–</b>	<b>–</b>

*The notes on pages 38 to 40 form part of these accounts.*



## Statement of Changes in Client Funds for the year ended 31 March 2015

	ISA funds £000	Accumulated net profits on disposals £000	Surplus less interest payable to liquidators £000	Total ISA funds £000
<b>At 1 April 2013</b>	<b>634,000</b>	<b>45,990</b>	<b>(144)</b>	<b>679,846</b>
Total comprehensive income	–	–	976	976
Transferred from Client money employed account	(19)	0	19	–
Funds received from ISA	219,019	0	0	219,019
Funds paid to ISA	(228,000)	0	0	(228,000)
<b>At 31 March 2014</b>	<b><u>625,000</u></b>	<b><u>45,990</u></b>	<b><u>851</u></b>	<b><u>671,841</u></b>
Total comprehensive income	–	–	976	976
Transferred from Client money employed account	(16)	–	16	–
Funds received from ISA	178,016	–	–	178,016
<b>Funds paid to ISA</b>	<b><u>(178,000)</u></b>	<b><u>–</u></b>	<b><u>–</u></b>	<b><u>(178,000)</u></b>
<b>Payment to the Consolidated Fund</b>	<b><u>–</u></b>	<b><u>(33,066)</u></b>	<b><u>–</u></b>	<b><u>(33,066)</u></b>
<b>At 31 March 2015</b>	<b><u>625,000</u></b>	<b><u>12,924</u></b>	<b><u>1,886</u></b>	<b><u>639,810</u></b>

*The notes on pages 38 to 40 form part of these accounts.*

# Notes to the Accounts for the year ended 31 March 2015

## 1 Accounting policies

### *i 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:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 13 Fair Value Measurement
- 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

Certain IFRS have been issued or revised, but are not yet effective. Those issues or revisions expected to be relevant in subsequent reporting periods are:

- IAS 24 Related Party Disclosures, which has been revised as part of the IASB's annual improvements process. Application is required for reporting periods beginning on or after 1 July 2014. The ISIA expects to apply these revisions to IAS 24 in 2015-2016. The application of these revisions, which clarify that entities as well as individuals may be considered as key management personnel and thus may be related parties of the reporting entity, is not expected to alter the disclosure of related parties of the ISIA.
- IAS 1 Presentation of Financial Statements, which has been revised as part of the IASB's 'Disclosure Initiative (Amendments to IAS 1)'. Application is required for reporting periods beginning on or after 1 January 2016. The ISIA expects to apply these revisions to IAS 1 in 2016-2017. The application of these revisions, which ensure that entities are able to use their judgement when presenting their financial reports within the requirements of IAS 1, is not expected to materially alter the presentation of the financial statements of the ISIA.
- IFRS 9 Financial Instruments, which will replace IAS 39. Application is required for reporting periods beginning on or after 1 January 2018, with earlier adoption permitted. The ISIA expects to apply IFRS 9 in 2018-2019. The application of IFRS 9, which sets out requirements for recognition, measurement, impairment and derecognition of financial instruments, is not expected to change 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.

### *ii 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.

*iii 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.

*iv Interest payable to liquidators*

The interest payable to liquidators is an estimated value provided half yearly by the Insolvency Service.

*v Administrative costs*

Administrative costs are accounted for in the DMO Annual Report and Accounts 2014-15 and a recovery is made from the Insolvency Service.

**2 Accumulated net profits on disposals**

On 25 February 2015, the ISIA paid £33.1 million of its accumulated net profits on disposals of gilts in prior years to the Consolidated Fund. This payment was made following agreement with the Insolvency Service and HM Treasury that these funds should be paid to the Consolidated Fund in accordance with section 408 of the Insolvency Act 1986. This reduced the accumulated net profits on disposals retained by the ISIA at 31 March 2015 to £12.9 million (31 March 2014: £46.0 million). The retained accumulated net profits on disposals provided a solvency margin of around 2% over and above the ISIA's liabilities in order to help ensure that the ISIA could continue to make payments to the ISA when required.

**3 Risk***i 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 are obligations of HM Government.

*ii 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 was considered to comprise interest rate risk.

The interest returns on deposits were 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.

*iii 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 were highly liquid to enable all client obligations to be met as they fell due.

#### **4 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 required 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 advanced £16,000 (net of withdrawals) to the ISIA (2013-14: £9 million net withdrawal).

## 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*  
Head, Assurance and Financial Reporting Policy  
Her Majesty's Treasury

23 March 2012



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