

# Insolvency Services and the Insolvency Investment Accounts 2018-19



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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 Service 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 via the court or the adjudicator’s office (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 or via the adjudicator, 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 Insolvency (Amendment) Regulations 2011 which came into force on 1st October 2011 prevents the payment of monies into the Insolvency Services Account except where payments have already been made into the Insolvency Services Account in relation to a voluntary liquidations wound up before 1 October 2011. Unclaimed Monies remains unaffected by this change. The ISA is administered by the Estate Accounts & Scanning of the Insolvency Service.

## Aims and objectives

Estate Accounts and Scanning 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
- Working with colleagues across the agency minimising the regulatory burden on users of the ISA, within the statutory framework
- Ensuring systems are in place to the correctly apply fees and recover of insolvency fees from estates

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

### Transactions

#### *The Insolvency Services Account*

Receipts into the ISA decreased in 2018 -19 by £37 million to £501 million. Payments decreased by £82 million to £411 million.

#### *The Insolvency Service Investment Account (ISIA)*

Funds invested by CRND as at 31 March 2019 increased by £20 million to £660 million (Note 2). Interest earned on these funds together with interest earned on the ISA working balances is paid to insolvency estates (after meeting interest under Regulation 9 (6) of the Regulations 1994 and associated income tax). During 2018-19 there were no payments out of the surplus on profits on disposals to the Consolidated Fund and the interest earned exceeded the interest payable by £1 million. There remains a surplus on interest and profits on disposals in the fund of £19.1 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. 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 when sufficient payee information is provided.

## Interest Paid to Estates

The rate of interest paid on sums deposited in the ISA changed from 0.50% to 0.75% from 10 September 2018 to match the Bank of England base interest rate. Interest rate amendments are published in the London Gazette pursuant to Regulation 9 (6B). The rate of interest is subject to regular review by Estate Accounts and Scanning and the CRND.

## **Fees**

Estate Accounts and Scanning 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.

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

Fee recovery increased in 2018-19 by £18.7 million to £99.4 million from £80.7million in 2017-18

## **Key Performance Indicators**

The key performance indicator of Estate Accounts and Scanning is to ensure 98% of ISA payments are made within 2 working days.

## **Forward look**

Estate Accounts and Scanning have exceeded payment timeliness targets this year and will seek to maintain this high standard of delivery throughout 2019-20.

During 2018-19 Estate Accounts and Scanning have worked within a number of change projects to support the implementation of new Information and Communications Technology (ICT) systems. Some aspects of these have been delivered and Estate Accounts and Scanning will continue to focus and support delivery of additional elements of these projects in 2019-20.

Estate Accounts and Scanning have begun a series of data cleansing activities that need to be applied in current systems over the next year and this work will continue during 2019-20. This will allow Estate Accounts and Scanning to be prepared for migration to new ICT systems expected in the coming years enhancing the ability to effectively manage the ISA through times of change.

In quarter four of 2018-19 The Insolvency Service started an exercise to collect PPI funds that are due to bankruptcy estates. Due to this activity we anticipate the balance of the ISA increasing significantly over 2019-20. Current estimates suggest the balance of the ISA could rise by more than £500 million over a period of 12 months. It is believed that the majority of these PPI funds will be received February 2020. The collection of these monies will then facilitate the return of dividends to creditors of bankrupt estates.

## **Preparation and audit**

The financial statements are prepared by the Insolvency Service (an Executive Agency of the Department Business, Energy and Industrial Strategy (BEIS)), 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 £12,000 for the audit of the ISA for 2018-19 is included within the £112,000 disclosed in the Agency Accounts.

As far as I, the Accounting Officer, am aware, there is no relevant information of which the auditors are unaware. I have taken all the steps that ought to have been taken to make myself aware of any relevant audit information, and to establish that the auditors are aware of that information.

*Sarah Albon*  
Chief Executive

5 July 2019

## Statement of the Chief Executive 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 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 Service Accounts (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.

## Operation

The day to day operations of the ISA is undertaken by Estate Accounts and Scanning (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 Business Services Division is part of the Senior Management Team and is subject to the governance and wider control system that is described in the Insolvency Services Annual Report and Accounts 2018-19.

The Insolvency Service seeks advice and a challenge function from its Board, Internal Audit and the Audit and Risk Assurance Committee 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 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 section of the Business Plan. Risk is managed by identifying and evaluating risks and appropriate control measures, which are set out in the EAS Risk Register and escalated to the BSD Risk Register as appropriate.

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 paper 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; and
- management arrangements including a system of delegated financial authorities for all case related payments made by EAS.

The Business Support Manager in Business Services Division is the Information Asset Owner for all information held by the Division.

The Audit and Risk Assurance Committee is chaired by an appropriately qualified independent NEBM. Its membership comprised three further non-executive Board Members, including the nominee of the agency's sponsoring department. This NEBM resigned on 31 July 2018. The Chief Executive and Finance and Commercial Director, and internal and external auditors, attend all meetings. Other Senior Leaders attend as required.

Internal audit is delivered by the Government Internal Audit Agency and their annual audit programme is substantially informed by the agency's key risks.

## Risk assessment and issues

The Risk Register for 2018-19 records the main areas of risk to the work of EAS as resourcing, which could result in the inability to maintain sufficient operational controls in the unit. This risk continued to be addressed during the year and the action taken to mitigate the risks included:

- Use of agency, temporary promotion to fill vacant posts while recruiting
- Request's through the relevant channels to increase staffing complement at certain grades.
- Cross training of staff to ensure all processes are sufficiently resourced.
- Prioritisation of work across the various resolver groups in the Estate Accounts and Scanning Team

## Significant issues

In August 2018 there was an incident where the days BACS payments were approved without the approval process being followed correctly. The management checks that should be done prior to approving payment to take place were not carried out and this caused the incorrect file to be sent. The result was £215,572.48 being paid out in error and requiring recovery from recipients. The approver concerned was new to the role and was on temporary cover. Subsequent to this staff were reminded of protocol and recruitment has taken place to reduce the amount of temporary cover in management roles. The check that failed will feature in the EAS Audit Plan for 2019-20.

The measures put in place in regard to EAS being resourced sufficiently to allow achievement of all key performance indicators were successful.

*Sarah Albon*  
Chief Executive

5 July 2019

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

## Opinion on financial statements

I certify that I have audited the financial statements of the Insolvency Services Account for the year ended 31 March 2019 under the Insolvency Act 1986. The financial statements comprise: the Receipts and Payments Account, the Statement of Balances and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the financial statements properly present the receipts and payments of the Insolvency Services Account for the year ended 31 March 2019; and
- the financial statements have been properly prepared in accordance with the Insolvency Act 1986 and HM Treasury directions issued thereunder.

## 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.

## Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Insolvency Services Account in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Responsibilities of the Chief Executive for the financial statements

As explained more fully in the Statement of the Chief Executive and Comptroller General's responsibilities, the Chief Executive is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Insolvency Act 1986.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Insolvency Services Account's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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.

#### **Other Information**

The Chief Executive is responsible for the other information. The other information comprises information included in the Foreword, Statement of Chief Executive and Comptroller General's responsibilities and the Governance Statement, other than the parts of the Foreword described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

#### **Opinion on other matters**

In my opinion:

- in the light of the knowledge and understanding of the Insolvency Services Account and its environment obtained in the course of the audit, I have not identified any material misstatements in the Foreword, Statement of Chief Executive and Comptroller General's responsibilities and the Governance Statement; and
- the information given in Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements and have been prepared in accordance with the applicable legal requirements.

#### **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 and the parts of the Foreword to be audited 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.

Gareth Davies  
Comptroller and Auditor General

15 July 2019

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

## Receipts and Payments for the Year ended 31 March 2019

	Note	2018-19 £'000	2017-18 £'000
<b>Receipts</b>			
Realisation of assets of estates in compulsory insolvencies and voluntary liquidations		<b>500,725</b>	538,211
Frequent Petitioners	12	<b>4,528</b>	4,460
From the Investment Account	2	<b>206,000</b>	358,500
Realisation of Government Securities at the request of liquidators and trustees	3	<b>0</b>	0
Unclaimed dividends	7	<b>11,060</b>	19,423
Interest received	4	<b>1,596</b>	976
PPI Funds Received	13	<b>14</b>	0
		<b>723,923</b>	921,570
<b>Payments</b>			
Payments requested by liquidators and trustees of estates in compulsory insolvency and voluntary liquidation and reissued dividends	6	<b>411,192</b>	493,030
To the Investment Account			
Excess cash balances on the ISA	2	<b>226,000</b>	381,500
Interest on ISA working balances	4	<b>68</b>	70
To the Consolidated Fund	8	<b>1,744</b>	5,161
To the Insolvency Service	5	<b>80,436</b>	40,206
PPI Payments	13	<b>0</b>	0
		<b>719,440</b>	919,967
<b>Excess of receipts over payments</b>	10	<b>4,483</b>	1,603

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

## Statement of Balances as at 31 March 2019

	Note	2018-19 £'000	2017-18 £'000
<b>Balances:</b>			
The Investment Account	2	<b>660,000</b>	640,000
Government Securities	3	<b>0</b>	0
Cash at Bank	10	<b>620</b>	(3,863)
		<b><u>660,620</u></b>	<b><u>636,137</u></b>
<b>Representing:</b>			
Insolvency Estates	11	<b>431,010</b>	440,115
Frequent Petitioners	12	<b>(124)</b>	(17)
Fees due to the Insolvency Service	5	<b>130,356</b>	107,112
Unclaimed Dividends	7	<b>88,739</b>	78,397
Amount due to the Consolidated Fund	8	<b>10,558</b>	10,463
Amounts due to the Treasury Solicitor	9	<b>67</b>	67
Payment Protection Insurance (PPI)	13	<b>14</b>	0
		<b><u>660,620</u></b>	<b><u>636,137</u></b>

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

Sarah Albon  
Chief Executive

5 July 2019

## Notes to the accounts

### 1 Accounting Policies

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

### 2 The Investment Account

	<b>2018-19</b>	2017-18
	<b>£'000</b>	£'000
Balance at 1 April	<b>640,000</b>	617,000
Cash deposited with CRND	<b><u>226,000</u></b>	<u>381,500</u>
	<b>866,000</b>	998,500
Cash withdrawn from CRND	<b><u>(206,000)</u></b>	<u>(358,500)</u>
<b>Balance at 31 March</b>	<b><u>660,000</u></b>	<u>640,000</u>

The Insolvency Act 1986, Part XIV Public Administration (England and Wales), Insolvency Service finance, accounting and investment states:

Whenever the cash balance standing to the credit of the Insolvency Services Account is in excess of the amount which in the opinion of the Secretary of State is required for the time being to answer demands in respect of bankrupts' estates or companies' estates, the Secretary of State shall

- a notify the excess to the National Debt Commissioners, and
- b pay into the Insolvency Services Investment Account ("the Investment Account") kept by the Commissioners with the Bank of England the whole or any part of the excess as the Commissioners may require for investment in accordance with the following provisions of this Part.

### 3 Government Securities

	<b>2018-19</b>	2017-18
	<b>£'000</b>	£'000
Balance at 1 April	<b>0</b>	0
Amounts realised in period at cost	<b>0</b>	0
Net gain on Government Securities	<b><u>0</u></b>	<u>0</u>
<b>Balance at 31 March</b>	<b><u>0</u></b>	<u>0</u>

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 and Paid

##### Interest Received

		<b>2018-19</b>	2017-18
		<b>£'000</b>	£'000
On cash deposited with CRND	11	<b>1,528</b>	906
Prior Year interest movement			22
On working Balances at the bank		<b>68</b>	48
On Government Securities		<b>0</b>	0
<b>Balance at 31 March</b>		<b><u>1,596</u></b>	<u>976</u>

Interest received from investments is for the benefit of the specific case for which the investment was purchased. Interest received from ISIA and the ISA is apportioned between all interest bearing estates based on the monies held in the estate over the period. The rate applied is advertised in the London Gazette and is based on the Bank of England Bank Rate.

##### Interest Paid

		<b>2018-19</b>	2017-18
		<b>£'000</b>	£'000
Balance at 1 April		<b>2</b>	24
Interest earned during the year		<b><u>68</u></b>	<u>48</u>
		<b>70</b>	72
Amount paid over during the year		<b><u>(68)</u></b>	<u>(70)</u>
<b>Balance at 31 March</b>		<b><u>2</u></b>	<u>2</u>

#### 5 Due to the Insolvency Service

		<b>2018-19</b>	2017-18
		<b>£'000</b>	£'000
Balance at 1 April		107,112	58,086
Fees and VAT charged to estates in insolvency	11	99,381	80,673
Net disbursements recovered		4,275	8,536
Fees on unclaimed dividends		24	23
Net payments made to the Insolvency Service		<u>(80,436)</u>	<u>(40,206)</u>
<b>Balance at 31 March</b>		<b><u>130,356</u></b>	<u>107,112</u>

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.

Estate Accounts and Scanning 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

	2018-19 £'000	2017-18 £'000
Balance at 1 April	78,397	63,415
Dividends recognised as unclaimed in the year	11,060	19,423
Dividends paid out previously categorised as unclaimed	(4,664)	(3,289)
Fees claimed on payments made	(24)	(23)
Transfers from estates	6,267	3,300
Transfers to estates	(496)	(1,020)
Transfer to the Consolidated Fund	<u>(1,801)</u>	<u>(3,409)</u>
<b>Balance at 31 March</b>	<b><u>88,739</u></b>	<b><u>78,397</u></b>

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.

## 8 Surrenders to the Consolidated Fund

	2018-19 £'000	2017-18 £'000
Balance at 1 April	10,463	10,545
Dividends not claimed	1,801	3,409
Write off of aged cash reconciling items	<u>38</u>	<u>1,670</u>
	<b>12,302</b>	15,624
Payments made to the Consolidated Fund	<u>(1,744)</u>	<u>(5,161)</u>
<b>Balance at 31 March</b>	<b><u>10,558</u></b>	<b><u>10,463</u></b>

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. Such funds are periodically paid to HM Treasury.

**9 Funds held on behalf of the Treasury Solicitor (BV)**

	<b>2018-19</b> <b>£'000</b>	2017-18 £'000
Balance at 1 April	<b>67</b>	64
Funds received from dissolved companies	<b>0</b>	3
Payments to Treasury Solicitor	<u><b>0</b></u>	<u>0</u>
<b>Balance at 31 March</b>	<u><b>67</b></u>	<u>67</u>

When a company is dissolved, all property and rights whatsoever vested in or held on trust for the company immediately before its dissolution (including leasehold property, but not including property held by the company on trust for another person) are deemed to be bona vacantia (BV), (S1012, Companies Act 2006). Liquidators are required to pay such funds in to the Estate Account. The funds are paid to HM Treasury Solicitor.

**10 Cash at Bank**

	<b>2018-19</b> <b>£'000</b>	2017-18 £'000
Balance at 1 April	<b>(3,863)</b>	(5,466)
Excess of Receipts over Payments	<b>4,445</b>	(67)
Write off of aged cash reconciling items	<u><b>38</b></u>	<u>1,670</u>
<b>Balance at 31 March</b>	<u><b>620</b></u>	<u>(3,863)</u>

Cash is held in sterling with the Government Banking Service.

**11 Insolvency Estates**

		<b>2018-19</b> <b>£'000</b>	2017-18 £'000
Balance at 1 April		<b>440,115</b>	479,560
Fees and VAT charged	Note 5	<b>(99,381)</b>	(80,673)
Net realisations / (payments)		<b>98,775</b>	51,146
Net Interest paid to funds lodged with the Estate Account.		<b>1,528</b>	906
Net disbursements (recovered) / unrecovered	Note 5	<b>(4,275)</b>	(8,536)
Other payments or adjustments		<b>(5,752)</b>	(2,288)
Write off of aged cash reconciling items		0	0
Loss on exchange		<u>0</u>	<u>0</u>
<b>Balance at 31 March</b>		<u><b>431,010</b></u>	<u>440,115</u>

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

**12 Frequent Petitioner**

	<b>2018-19</b>	2017-18
	<b>£'000</b>	£'000
Balance at 1 April	<b>(17)</b>	(136)
Funds received from HMRC	<b>4,528</b>	4,460
Deposits applied to petitions from HMRC	<b><u>(4,635)</u></b>	<b><u>(4,341)</u></b>
<b>Balance at 31 March</b>	<b><u>(124)</u></b>	<b><u>(17)</u></b>

Under current legislation a deposit must be paid to the court before a petition can be filed by a creditor. 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. The Insolvency Proceedings (Fees) Order 2016 introduced a dismissal /withdrawal administration fee which is included as well. Periodically HMRC top up the funds lodged.

**13 Payment protection insurance (PPI)**

	<b>2018-19</b>	2017-18
	<b>£'000</b>	£'000
Balance at 1 April	<b>0</b>	0
Funds received	<b>14</b>	0
Funds paid to the Insolvency Account	<b>0</b>	0
Funds paid to the Agent	<b><u>0</u></b>	<b><u>0</u></b>
<b>Balance at 31 March</b>	<b><u>14</u></b>	<b><u>0</u></b>

In 2019 The Insolvency Service opened a holding bank account for payment protection insurance money collected by an agent acting on behalf of the service. Upon validation and reconciliation the funds are paid into ISA account after the deduction of agent's fees.

*Sarah Albon*  
Chief Executive

# Insolvency Services Investment Account Report and Accounts for the year ended 31 March 2019

## Performance report

### Overview

The purpose of the overview is to provide sufficient information to understand the Insolvency Services Investment Account (ISIA), its purpose, the key risks to the achievement of its objectives and how it has performed during the year.

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).

#### Purpose and principal activities of the Insolvency Services Investment Account

The 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 (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 ISA. 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 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 ISIA, 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 2018-2019.

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 2018-2019. The cost of managing the ISIA is recharged to the Insolvency Service; in 2018-2019, this amounted to £67,000 (2017-2018: £67,000).

## 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.

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

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

### Performance summary

CRND's strategy of investing in the Debt Management Account was maintained throughout 2018-2019. 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.

### Performance analysis

During the year, the ISIA generated total comprehensive income of £2,037,000 (2017-2018: £768,000). Interest income of £4,570,000 (2017-2018: £2,136,000) was higher than the prior year primarily due to a rise in average interest rates on the ISIA's investments with the Debt Management Account, which offered rates that corresponded to the official Bank Rate. Interest payable to liquidators of £2,533,000 (2017-2018: £1,368,000) was higher than the prior year as a result of a rise in the average interest rate payable on funds deposited by liquidators in 2018-2019.

As at 31 March 2019, the total value of investments held by the ISIA was £680 million (31 March 2018: £658 million). This increase was due to a net deposit of funds by the ISA during the year.

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

25 June 2019

## Accountability Report

The accountability report comprises two sections: a corporate governance report and a parliamentary accountability and audit report. The corporate governance report includes the following information: the responsibilities of the Secretary and Comptroller General; the composition, responsibilities and actions of the Managing Board and Audit Committee and how they have supported the Secretary and Comptroller General and enabled the objectives of the ISIA; the key risks faced by the ISIA and how it seeks to manage them. The parliamentary accountability and audit report includes a formal opinion by the ISIA's external auditor to certify that the financial statements give a true and fair view of the state of the ISIA's affairs for the year and that they have been prepared in accordance with all relevant rules.

These two sections contribute to the ISIA's accountability to Parliament and comply with best practice in relation to corporate governance norms and codes. In particular, the corporate governance report seeks to do so by describing the key mechanisms the ISIA employs to ensure it maintains high standards of conduct and performance. This includes the statement of Secretary and Comptroller General's responsibilities which describes her accountability to Parliament for the ISIA's use of resources and compliance with rules set by HM Treasury to ensure best practice in financial management. The governance statement reflects the applicable principles of the Corporate Governance Code for Central Government Departments. The parliamentary accountability and audit report confirms that expenditure and income of the ISIA have been applied to the purposes intended by Parliament and confirms that information in the parliamentary accountability disclosures has been audited and approved by external auditors.

## Corporate governance report

### Directors' report

Operationally, the CRND is part of the DMO and its staff are employees of the DMO. The CRND therefore has no staff of its own. The structure of the CRND is described on page 5.

#### Directors' conflicts of interest

In 2018-2019, no material conflicts of interest were declared by DMO Managing Board members.

#### Reporting of personal data related incidents

The ISIA had no protected personal data related incidents during 2018-2019.

*Jo Whelan* 25 June 2019  
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 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, statement of financial position 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 (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;
- prepare the accounts on a going-concern basis; and
- confirm that the annual report and accounts as a whole are fair, balanced and understandable, and take personal responsibility for the annual report and accounts and the judgements required for determining they are fair, balanced and understandable.

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 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.

### Disclosure to auditors

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.

As the Secretary and Comptroller General, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the ISIA's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.



## 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 2018-2019 by the DMO Managing Board (the Board) which, in addition to the Secretary and Comptroller General, is comprised of:

**Sir Robert Stheeman**

DMO Chief Executive and Accounting Officer

**Jim Juffs**

Chief Operating Officer

**Jessica Pulay**

Co-Head of Policy and Markets

**Richard Hughes**

Non-executive HM Treasury representative

**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.

**Paul Fisher**

Non-executive director - During a 26 year career at the Bank of England, Paul Fisher served as a member of the Monetary Policy Committee from 2009 to 2014, the interim Financial Policy Committee from 2011 to 2013 and the PRA Board from 2015 to 2016. He has a number of current roles including Chair of the London Bullion Market Association.

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 2017 and concluded that it has operated effectively in delivering the objectives set out in its Terms of Reference, and that the information used by the Board was accurate and relevant. The Terms of Reference underwent a review by the Board in 2018.

**2018-2019 Managing Board activities**

Board meetings were held throughout 2018-2019 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:

	<b>Managing Board</b>		<b>Audit Committee</b>	
	Possible	Actual	Possible	Actual
Sir Robert Stheeman	8	8		
Jo Whelan	8	8		
Jim Juffs	8	8		
Jessica Pulay	8	8		
Richard Hughes	8	4		
Brian Duffin	8	8	5	5
Paul Fisher	8	8	5	5
Caroline Mawhood	n/a	n/a	5	5

**Audit Committee**

The Secretary and Comptroller General was supported during 2018-2019 by the Audit Committee on matters relating to risk, internal control and governance. The members of the Audit Committee during 2018-2019 were:

Brian Duffin (Chairman)

Paul Fisher

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 Audit Committee of the Corporation of London and its Performance and Resource Management Sub (Police) Committee and one of three external members of the Audit Progress Committee of the European Commission. She is also a trustee of the Wimbledon Guild charity.

Although a departure from the Corporate Governance Code for central government departments, the Audit Committee Chairman's membership was extended by an additional year to 31st December 2019 in view of the need for continuity and to retain knowledge during a period of considerable change both externally (in particular, the implications of the UK leaving the EU) and also internal to the DMO (including the Trading Systems Replacement project).

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, the Head of Internal Audit, the Head of Finance and the National Audit Office.

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

- The overall processes for risk, control and governance and the governance statement;
- Management assurances and appropriate actions to follow from internal and external audit findings, risk analysis and reporting undertaken;
- The financial control framework and supporting compliance culture;
- Accounting policies and material judgements, the accounts and the annual report and management's letter of representation to the external auditors;
- Whistleblowing arrangements for confidentially raising and investigating concerns over possible improprieties in the conduct of the DMO's business;
- Processes to protect against money laundering, fraud and corruption; and
- The planned activity and results of both internal and external audit.

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

- Trading Systems Replacement (TSR) Project;
- General Data Protection Regulation (GDPR);
- Dispute Resolution Policies and Staff Conduct;
- Operational Risk Framework Risk Registers;
- Pension Contributions;
- Critical Suppliers – Use of Subcontractors;
- Business Continuity Management;
- Cyber Security;
- Disclosure of Market Sensitive Information;
- User Access and Permission Rights;
- International Financial Reporting Standard (IFRS) 9; and
- Programme Management.

The Audit Committee covers a regular programme of agenda items, together with other current topics, and met five times during the year.

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

*Fund Management Review Committee*

The Fund Management Review Committee 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 Review Committee met four times in 2018-2019.

*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 most significant initiative monitored by the Business Delivery Committee during the year was the project to implement a trading systems replacement including those used to process CRND transactions.

The Business Delivery Committee met regularly (typically weekly) throughout 2018-2019.

*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. The CMRC monitors and reviews the management of market, credit, and liquidity risk. It sets limits across a range of exposures including counterparties, countries, and instruments held as collateral as well as setting absolute limits on net daily flows across the DMA. The CMRC met eight times during 2018-2019.

### *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 ORC also reviews and tracks the progress of actions identified by Internal Audit. The ORC'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 ORC has focused this year on supplier risk, data protection, IT and data security and business continuity planning. The ORC met seven times during 2018-2019.

### *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 Controls 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 Controls Group has also advised the DMO Accounting Officer on suitable mitigating action where appropriate.

During the year the Controls Group review work has covered the design, building and testing of the trading system replacement, including CRND process improvements.

### *Risk Management Unit*

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.

### **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 presented to the Audit Committee at the start of each year and approved by the Audit Committee at the start of each quarter. All audits make a series of findings relating to control weaknesses. Progress against agreed management 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. 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 2018-2019, this included policies relating to anti-fraud, telephony and voice recording, data protection, health & safety and spreadsheet controls.

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 whistleblowing, anti-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.

During 2018-2019 no concerns were raised by staff under the DMO's whistleblowing policy relating to CRND.

### **Key Developments**

UK leaving the EU

During the year the DMO has continued to work with HM Treasury and other stakeholders to identify, assess and raise awareness of potential indirect impacts on CRND activities resulting from the United Kingdom's exit from the European Union and take mitigating actions where possible.

### **Trading Systems Replacement Project**

The Trading Systems Replacement Project has been a significant multi-year project for the DMO which aims to update its IT systems for deal input, settlement, risk management and accounting, as well as to simplify the current transaction processing architecture. During 2018-2019 focus of the implementation stage of the project has been on the design, build and testing of the new systems and processes. The project has been overseen through an established governance framework in order to maintain the strength and resilience of all operational processes and to make improvements where appropriate.

## 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>	
CRND relies on a number of IT and communications systems to conduct its operations effectively and efficiently.	During the year the DMO has progressed initiatives to further strengthen the resilience and security of its IT network. The Public Service Network (PSN) accreditation was reconfirmed as a result of an IT healthcheck.
	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.
<b>IT and data security</b>	
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 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. IT and data security risks continued to be a specific area of focus in 2018-2019 and the DMO's IT team have been enhancing the security environment and appropriateness of transaction systems and processes.
The DMO is exposed to risk of an external attack on its IT systems and infrastructure	<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. This year particular attention has been paid to ensuring the DMO's policies and processes are compliant with the new General Data Protection Regulation (GDPR) which came into force in May 2018. This included documenting personal data assets and security arrangements.</p>



<b>Reliance on third parties</b>	
A number of the operational systems and services on which CRND relies are provided or supported by third party suppliers.	To mitigate the risk of failure of a key third party supplier the DMO undertakes regular corporate risk assessments of each key supplier in order to assess a range of factors including its 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 where appropriate. The procurement manager and the recently formed vendor management group have been working to embed consistent standards of supplier management across account managers by improving visibility of key contracts, sharing best practice to ensure relationships start on a firm footing.
	The supplier of the new trading system will become a key long-term partner. During the year more focus has been given to understanding where key suppliers are themselves reliant on sub-contractors to supply business critical services to the DMO and this is an area where greater assurance will be sought in future procurements.
<b>Transaction processing</b>	
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.
	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 Conduct Authority and Prudential Regulation 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.
	The main focus of improvements to transaction processing has been the trading system implementation which covers the full trade life-cycle. The implementation is focussed on maintaining control standards and improving processes and resilience.



<b>People risk</b>	
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.	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.
	The DMO's Training and Development policy is designed to help ensure that staff have the right skills to meet its 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.	<p>The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates.</p> <p>The DMO has 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.</p>
	Salaries are reviewed annually, taking account of benchmarks derived from equivalent private sector pay levels. During the year particular consideration has been given to the issues faced by staff working increased hours and weekends on the programme to strengthen IT infrastructure. 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 was reaccredited as an Investor in People in 2017.

## 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 2018-2019. 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 2018-2019, 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

25 June 2019

## Parliamentary accountability and audit report

### Regularity of expenditure

The investments, income and expenditure of the ISIA were applied to the purposes intended by Parliament.

The above statement has been audited.

### Fees and charges

The ISIA received no fees or charges during the year.

The above statement has been audited.

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

## Opinion on financial statements

I certify that I have audited the financial statements of the Insolvency Services Investment Account for the year ended 31 March 2019 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that are described in that report as having been audited.

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 2019 for the year then ended; and
- the financial statements have been properly prepared in accordance with the Insolvency Act 1986 and HM Treasury directions issued thereunder.

## 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.

## Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Commissioners for the Reduction of the National Debt in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Insolvency Services Investment Account's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

## Responsibilities of the Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt for the financial statements

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.

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Insolvency Act 1986.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commissioners' internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, 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.

## Other Information

The Secretary and Comptroller General is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report disclosures described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with the Insolvency Act 1986 and HM Treasury directions issued thereunder;
- in the light of the knowledge and understanding of the Commissioners for the Reduction of the National Debt and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in Performance Report and Accountability Report 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 and the parts of the Accountability Report to be audited 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.

*Gareth Davies*  
Comptroller and Auditor General

28 June 2019

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

## Statement of Comprehensive Income for the year ended 31 March 2019

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Interest income	<b>4,570</b>	2,136
Gross interest payable to liquidators	<b>(2,533)</b>	(1,368)
<b>Total comprehensive income</b>	<b><u>2,037</u></b>	<u>768</u>

*The notes on pages 40 to 42 form part of these accounts.*

## Statement of Financial Position as at 31 March 2019

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Assets</b>		
Demand deposits with the Debt Management Account and the National Loans Fund	<b>680,439</b>	657,711
<b>Total assets</b>	<b><u>680,439</u></b>	<u>657,711</u>
<b>Liabilities and client funds</b>		
<b>Liabilities</b>		
Net interest payable to liquidators	<b>1,100</b>	602
Tax on interest payable to HMRC	<b>275</b>	150
	<b><u>1375</u></b>	<u>752</u>
<b>Client funds</b>		
ISA funds	<b>660,000</b>	640,000
Accumulated net profits on disposal of gilts	<b>12,924</b>	12,924
Surplus less interest payable to liquidators	<b>6,140</b>	4,035
	<b><u>679,064</u></b>	<u>656,959</u>
<b>Total liabilities and client funds</b>	<b><u>680,439</u></b>	<u>657,711</u>

*The notes on pages 40 to 42 form part of these accounts.*

*Jo Whelan*

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

25 June 2019



## Statement of Cash Flows for the year ended 31 March 2019

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Operating activities</b>		
Interest received	<b>4,365</b>	2,029
Interest paid to the Insolvency Services Account	<b>(1,528)</b>	(957)
Tax on interest paid to HMRC	<b>(382)</b>	(239)
(Increase)/decrease in demand deposits with the Debt Management Account and the National Loans Fund	<b>(22,523)</b>	(23,903)
<b>Net cash (used in)/from operating activities</b>	<b>(20,068)</b>	(23,070)
<b>Financing activities</b>		
Funds received from the Insolvency Services Account	<b>226,068</b>	381,570
Funds paid to the Insolvency Services Account	<b>(206,000)</b>	(358,500)
<b>Net cash from/(used in) financing activities</b>	<b>20,068</b>	23,070
<b>Increase in cash</b>	<u>          </u>	<u>          </u>
Cash at the beginning of the year	<u>          </u>	<u>          </u>
Cash at the end of the year	<u>          </u>	<u>          </u>

*The notes on pages 40 to 42 form part of these accounts.*

## Statement of Changes in Client Funds for the year ended 31 March 2019

	ISA funds £000	Accumulated net profits on disposal of gilts £000	Surplus less interest payable to liquidators £000	Total ISA funds £000
<b>At 31 March 2017</b>	<b>617,000</b>	<b>12,924</b>	<b>3,197</b>	<b>633,121</b>
Total comprehensive income	–	–	768	768
Transferred from client money employed account	(70)	–	70	–
Funds received from ISA	381,570	–	–	381,570
Funds paid to ISA	(358,500)	–	–	(358,500)
<b>At 31 March 2018</b>	<b><u>640,000</u></b>	<b><u>12,924</u></b>	<b><u>4,035</u></b>	<b><u>656,959</u></b>
Total comprehensive income	–	–	2,037	2,037
Transferred from client money employed account	(68)	–	68	–
Funds received from ISA	226,068	–	–	226,068
Funds paid to ISA	(206,000)	–	–	(206,000)
<b>At 31 March 2019</b>	<b><u>660,000</u></b>	<b><u>12,924</u></b>	<b><u>6,140</u></b>	<b><u>679,064</u></b>

*The notes on pages 40 to 42 form part of these accounts.*

# Notes to the accounts for the year ended 31 March 2019

## 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 applicable International Financial Reporting Standards (IFRS) and relevant requirements of the Government Financial Reporting Manual; 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 9 Financial Instruments
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements (revised 2007)
- IAS 7 Statement of Cash Flows
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Reporting Period
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets

The ISIA adopted IFRS 9 on 1 April 2018, which replaced IAS 39. IFRS 9 sets out requirements for recognition, measurement, impairment and de-recognition of financial instruments. The impact of the replacement of IAS 39 with IFRS 9 on the financial statements of the ISIA is considered immaterial. The ISIA's assets were measured at amortised cost under IAS 39 and, as highlighted in Note 1 (ii), the ISIA continues to measure its assets at amortised cost under IFRS 9.

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 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 2020. The ISIA expects to apply these revisions to IAS 1 in 2020-2021. The application of these revisions, which relate to a revised definition of 'material', are not expected to materially alter the presentation of the financial statements of the ISIA.
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, 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 2020. The ISIA expects to apply these revisions to IAS 8 in 2020-2021. The application of these revisions, which relate to a revised definition of 'material', are not expected to materially alter the presentation of the financial statements of 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 financial assets held by the ISIA in order to collect contractual cash flows of principal and interest on specified dates. Therefore these deposits are treated as financial assets 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 2018-2019 and a recovery is made from the Insolvency Service.

**2 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.

There were no renegotiated assets or assets considered impaired at 31 March 2019 (31 March 2018: no renegotiated or impaired assets).

*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 Service 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.

### **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 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 £20,068k (net of withdrawals) to the ISIA (2017-2018: £23,070k net advance).

### **4 Events after the reporting date**

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the Secretary and Comptroller General authorises the accounts for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

## Accounts Direction Given By The Treasury In Accordance With Section 409 (1) Of Insolvency Services (Accounting & Investment) Act 1976 (Amended 1986)

- 1 This direction applies to the Insolvency Services Investment Account.
- 2 The Commissioners for the Reduction of the National Debt shall prepare accounts for the financial year ended 31 March 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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