

# Insolvency Services Account 2015-16



# Insolvency Services Account 2015-16

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

Ordered by the House of Commons to be printed on 19 July 2016

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO, which employs some 785 people.

The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £1.21 billion in 2015.



© Crown copyright 2016

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated.

To view this licence, visit [nationalarchives.gov.uk/doc/open-government-licence/version/3](http://nationalarchives.gov.uk/doc/open-government-licence/version/3) or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk).

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

ISBN: 9781910305614

Printed on paper containing 75% recycled fibre content minimum

# Contents

	Page
Insolvency Act 1986 – Foreword	2
Statement of Chief Executive’s and Comptroller General’s responsibilities	6
Governance Statement	7
The Certificate and Report of the Comptroller and Auditor General	9
Receipts and Payments	11
Statement of Balances	12
Notes to the Accounts	13
Insolvency Services Investment Account – Overview	18
Accountability Report	20
Management Commentary	20
Statement of Secretary and Comptroller General’s responsibilities	21
Governance Statement	22
Parliamentary Accountability and Audit Report	32
The Certificate and Report of the Comptroller and Auditor General	33
Statement of Comprehensive Income	35
Statement of Financial Position	36
Statement of Cash Flows	37
Statement of Changes in Client Funds	38
Notes to the Accounts	39
Appendix – Accounts Direction	42

## 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 Service 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 by the court (compulsory insolvencies). Creditors, or the Secretary of State, may appoint an Insolvency Practitioner to take over the insolvency from the Official Receiver to act as trustee in bankruptcy (personal insolvency) or liquidator (corporate insolvency). In either case, the Official Receiver or Insolvency Practitioner must pay any receipts arising in the insolvency into the ISA.

In addition to insolvencies arising through orders made by the court, an Insolvency Practitioner may also be appointed to administer a voluntary liquidation. This can be a members' voluntary liquidation (for solvent companies) or a creditors' voluntary liquidation (for insolvent companies). Voluntary liquidations do not involve the Official Receiver or the Courts. Insolvency Practitioners appointed to administer voluntary liquidations may make payments into the ISA although the regulations differ to those governing the payments made by trustees and liquidators of compulsory insolvencies.

The ISA is administered by the Estate Accounts Service (EAS) of the Insolvency Service.

## Aims and objectives

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

- Delivering a high standard of service to all users of the ISA
- Listening to the views of users about the administration of the ISA
- Making use of new technology to improve efficiency and extend the range of services provided
- Minimising the regulatory burden on users of the ISA, within the statutory framework
- Ensuring the correct application and recovery of insolvency fees

The aims and objectives of CRND are:

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

## Review of activities

### Level of insolvencies

The total number of new insolvencies (bankruptcies and compulsory and voluntary liquidations) decreased from 39,214 in 2014-15 to 38,314 in 2015-16. New voluntary liquidation cases decreased by 18% to 20,357; bankruptcy cases decreased by 25% to 15,179; and compulsory cases decreased by 28% to 2,778.

Estate accounts maintained for insolvency practitioners increased in 2015-16 to 40,715 (2014-15 22,277), for bankruptcies and compulsory liquidations, while estate accounts maintained for official receivers decreased in 2015-16 to 65,573 (2014-15 92,034). Voluntary estate accounts maintained for insolvency practitioners decreased in 2015-16 to 885 (2014-15 984).

The value of bankruptcies and compulsory liquidations estate accounts decreased to £238 million (2014-15 £311 million), whilst the value of voluntary liquidation estate accounts decreased to £95 million (2014 15 £125 million).

### Transactions

#### *The Insolvency Services Account*

Receipts into the ISA increased in 2015-16 by £164 million to £585 million.

Payments increased by £118 million to £469 million.

During 2015-16 receipt volumes decreased compared to 2014-15, a reduction to 44,000 (2014-15 69,000). Payment requests increased slightly to 113,000 (2014-15 112,000).

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

Funds invested by CRND as at 31 March 2016 increased by £35 million to £677 million. This comprised an ISIA balance of £660 million (Note 2); £15.6 million surplus on interest and profits on disposals; and £2.7 million net surplus on interest. Interest earned on these funds together with interest earned on the ISA working balances is paid to insolvency estates (after meeting interest under Regulation 9 (6) of the Regulations 1994 and associated income tax). A total of £2.3 million was paid to estates. During the year the interest earned in the Investment Account exceeded the interest payable to liquidators, resulting in net income of £0.9 million. This resulted in a net surplus on interest of £2.7 million. During 2015-16 there were no payments out of the surplus on profits on disposals to the Consolidated Fund. There remains a surplus on interest and profits on disposals in the fund of £15.6 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 has remained unchanged at 0.5% since 13 May 2009. Interest rate amendments are published in the London Gazette pursuant to Regulation 9 (6B). The rate of interest is subject to regular review by EAS and the CRND.

### **Fees**

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

Banking fees charged to estates during 2015-16 totalled £1.9 million (2014-15 £2.0 million), shown as part of the £82 million in Notes 5 and 11 (called 'Fees and VAT charged to estates in insolvency'). Cheque, BACS and CHAPS fees totalling £40,000 (2014-15 £45,000) were charged to estates during the year.

Case administration fees charged decreased to £36 million (2014-15 £44 million) as a consequence of lower compulsory insolvencies.

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

### **Key performance indicators**

A key performance indicator of EAS is to action ISA payments within 2 working days; the target being 98.5%. During 2015-16, this has reduced from 2014-15 to 96.2% (2014-15 98.7%).

### **On-line services**

During the year, an additional 29 Insolvency Practitioners (IPs) signed up to use the on-line facility, enabling them to view estate accounts via the Internet and print off account statements. This brings the total number of IPs registered for this service to 1,440 at 31 March 2015 (1,411 at 31 March 2014) which is 73% of IPs.



## Forward look

During 2015-16, EAS began their first full year post implementation of measures put in place to achieve savings identified in the market test which took place in 2013-14. The upgrade of the IT system which was due to complete 2015-16 has not taken place due to other priorities and there is currently not an expected date to report for completion of this. Due to periods of system unavailability in April and November 2015, EAS have experienced difficulties in achieving targets for 2015-16 and have had to review the level of expected achievement for 2016-17. EAS believe that the turn around times planned for 2016-17 will provide a good level of service.

Estate Accounts have been implementing principles of continuous improvement into daily routines and culture. This has been drawn upon to assist in recovery when experiencing a service disruption or peaks in volume of requests for service.

The planned transition of Lloyds Banking service to the Government Banking Service (GBS) was due to conclude by the end of quarter two 2015-16. However, this was put on hold while we transitioned to the new GBS model following the completion of its tender exercise. We transitioned to the new GBS model during February and March 2016 and it is our intention to close all Lloyds accounts in April 2016.

During quarter one and two of 2016-17, EAS will focus on implementation of The Insolvency Service's Fees and Funding project. In particular the part EAS plays in assuring that system generated fees are applied correctly to estates.

## Preparation and audit

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

The financial statements are audited by the Comptroller and Auditor General of the National Audit Office. The audit fee of £12,000 for the audit of the ISA for 2015-16 is included within the £70,000 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

30 June 2016

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

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

# Governance Statement

## Framework

The Chief Executive 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 *Managing Public Money*.

## 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 2015-16.

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

The Deputy Director of BSD is the Information Asset Owner for all information held by the Division.

The Audit and Risk Assurance Committee provides support in monitoring and reviewing the risk, control and governance processes. It is chaired by an appropriately qualified independent Non-executive Board Member (NEBM). Its membership is completed by two further NEBMs. The Committee met four times during the year.

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 2015-16 records the main areas of risk to the work of EAS as inability to achieve targets for the financial year due to disruption of services (downtime experienced in April and November 2015). These risks continued to be addressed during the year and the action taken to mitigate the risks included:

- Management planning sessions with a number of trials taking place to attempt to rectify the situation, including reallocation of staff between resolver groups.
- Increased assurance that we have the right number of staff in office during peak leave periods.
- All resolver groups pulling work from across EAS to a set priorities list to assist in meeting daily demands.
- Movement of experienced staff into roles where key needs were identified.
- Attempts to bring management resolver group to full capacity.
- Overtime initiated to assist with recoveries of backlog from downtime.

### Significant issues

Although system downtime had a significant impact on the ability of EAS to achieve its tight targets some of which are 24hr targets, it did not cause any significant control issues with banking reconciliation. EAS were able to maintain the deposit of cheques received during the downtime and process any 'extremely urgent' payments via the bank.

*Sarah Albon*  
Chief Executive

30 June 2016

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

I certify that I have audited the financial statements of the Insolvency Services Account for the year ended 31 March 2016 under the Insolvency Act 1986. The financial statements comprise: the Receipts and Payments Account, the Statement of Balances and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Chief Executive and Auditor

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

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Insolvency Services Account and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Insolvency Services Account; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Foreword, Statement of the Chief Executive's and Comptroller General's responsibilities and Governance Statement to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

### Opinion on regularity

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

### Opinion on financial statements

In my opinion:

- the financial statements properly present the receipts and payments of the Insolvency Services Account for the year ended 31 March 2016; and
- the financial statements have been properly prepared in accordance with the Insolvency Act 1986 and HM Treasury directions issued thereunder.

### Opinion on other matters

In my opinion the information given in the Foreword to the accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

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

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

**Report**

I have no observations to make on these financial statements.

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

7 July 2016

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

## Receipts and Payments for the year ended 31 March 2016

	Notes	2015-16 £000	2014-15 £000
<b>Receipts</b>			
Realisation of assets of estates in compulsory insolvencies and voluntary liquidations		<b>585,351</b>	421,271
Frequent petitioners	12	<b>3,007</b>	3,976
From the Investment Account	2	<b>324,000</b>	178,000
Realisation of Government Securities at the request of liquidators and trustees	3	<b>61</b>	–
Unclaimed dividends	7	<b>13,760</b>	9,618
Interest received	4	<b>1,905</b>	2,012
		<u><b>928,084</b></u>	<u>614,877</u>
<b>Payments</b>			
Payments requested by liquidators and trustees of estates in compulsory insolvency and voluntary liquidation and reissued dividends	6	<b>468,932</b>	350,752
To the Investment Account:-			
Excess cash balances on the ISA	2	<b>359,000</b>	178,000
Interest on ISA working balances	4	<b>24</b>	16
To the Consolidated Fund	8	<b>16,100</b>	–
To The Insolvency Service	5	<b>78,000</b>	86,000
		<u><b>922,056</b></u>	<u>614,768</u>
<b>Excess of receipts over payments</b>	10	<b>6,028</b>	109

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

## Statement of Balances as at 31 March 2016

		<b>2015-16</b>	2014-15 Restated (see notes 10 & 11 £000)	2013-14 Restated (see notes 10 & 11) £000
	Notes	<b>£000</b>		
<b>Balances</b>				
The Investment Account	2	<b>660,000</b>	625,000	625,000
Government securities	3	-	24	24
Cash at bank	10	<b>(11,564)</b>	(17,592)	(17,701)
		<b><u>648,436</u></b>	<u>607,432</u>	<u>607,323</u>
<b>Representing</b>				
Insolvency Estates	11	<b>527,963</b>	491,298	500,523
Frequent petitioners	12	<b>(275)</b>	(98)	(66)
Fees due to The Insolvency Service	5	<b>39,558</b>	34,013	32,874
Unclaimed dividends	7	<b>67,363</b>	66,449	63,600
Amount due to the Consolidated Fund	8	<b>13,788</b>	15,735	9,962
Amounts due to the Treasury Solicitor	9	<b>39</b>	35	430
		<b><u>648,436</u></b>	<u>607,432</u>	<u>607,323</u>

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

Sarah Albon  
Inspector General and Chief Executive

30 June 2016



## Notes to the Accounts

### 1 Accounting policies.

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

### 2 The Investment Account

	<b>2015-16</b>	2014-15
	<b>£000</b>	£000
Balance at 1 April	<b>625,000</b>	625,000
Cash deposited with CRND	<b>359,000</b>	178,000
	<b>984,000</b>	803,000
Cash withdrawn from CRND	<b>(324,000)</b>	(178,000)
Balance at 31 March	<b>660,000</b>	625,000

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

### 3 Government Securities

	<b>2015-16</b>	2014-15
	<b>£000</b>	£000
Balance at 1 April	<b>24</b>	24
Amounts realised in period at cost	<b>(61)</b>	–
Net gain on Government Securities	<b>37</b>	–
Balance at 31 March	<b>0</b>	24

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

### 4 Interest Received and Paid

		<b>2015-16</b>	2014-15
	Note	<b>£000</b>	£000
<b>Interest Received</b>			
On cash deposited with CRND	11	<b>1,880</b>	1,993
On working Balances at the bank		<b>24</b>	16
On Government Securities		<b>1</b>	3
Balance at 31 March		<b>1,905</b>	2,012

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

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

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

<b>Interest Paid</b>	Note	<b>2015-16 £000</b>	2014-15 £000
Opening balance of Interest held as at 1 April	11	<b>2</b>	2
Interest earned during the year		<b>24</b>	16
		<b>26</b>	<b>18</b>
Amount paid over during the year		<b>(24)</b>	(16)
Balance at 31 March		<b>2</b>	2

£23,771 (2014-15-£16,376) of interest earned on working balances was paid to the Investment Account during the period.

## **5 Due to the Insolvency Service**

	Notes	<b>2015-16 £000</b>	2014-15 £000
Balance at 1 April		<b>34,013</b>	32,874
Fees and VAT charged to estates in insolvency	11	<b>81,850</b>	86,993
Net disbursements recovered	11	<b>1,671</b>	120
Fees on unclaimed dividends		<b>24</b>	26
Net payments made to the Insolvency Service		<b>(78,000)</b>	(86,000)
Balance at 31 March		<b>39,558</b>	34,013

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.

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

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

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

The Act provides for:

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

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

**7 Unclaimed dividends**

	<b>2015-16</b>	2014-15
	<b>£000</b>	£000
Balance at 1 April	<b>66,449</b>	63,600
Dividends recognised as unclaimed in the year	<b>13,760</b>	9,618
Dividends paid out previously categorised as unclaimed	<b>(1,111)</b>	(1,835)
Fees claimed on payments made	<b>(24)</b>	(26)
Transfers from estates	<b>2,491</b>	1,015
Transfers to estates	<b>(49)</b>	(150)
Transfer (to) the Consolidated Fund (Note 8)	<b>(14,153)</b>	(5,773)
<b>Balance at 31 March</b>	<b><u>67,363</u></b>	<u>66,449</u>

Dividends which have been paid to creditors but which creditors have not claimed (unpresented cheques) are collected in the Estate Account and are held for 7 years. Those remaining unclaimed after 7 years are transferred to the Consolidated Fund.

**8 Surrenders to the Consolidated Fund**

	Notes	<b>2015-16</b>	2014-15
		<b>£000</b>	£000
Balance at 1 April		<b>15,735</b>	9,962
Dividends not claimed.	7	<b>14,153</b>	5,773
		<b><u>29,888</u></b>	<u>15,735</u>
Payments made to the Consolidated Fund		<b>(16,100)</b>	–
Balance at 31 March		<b><u>13,788</u></b>	<u>15,735</u>

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

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

	<b>2015-16</b>	2014-15
	<b>£000</b>	£000
Balance at 1 April	<b>35</b>	430
Funds received from dissolved companies	<b>4</b>	35
Payments to Treasury Solicitor	<b>–</b>	(430)
Balance at 31 March	<b><u>39</u></b>	<u>35</u>

Any unclaimed or undistributed funds remaining in a company at the point of dissolution of that company 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 periodically paid to HM Treasury Solicitor.

**10 Cash at Bank**

	<b>2015-16</b> <b>£000</b>	2014-15 Restated £000	2013-14 Restated £000
Balance at 1 April	<b>(17,592)</b>	(17,701)	(13,861)
Excess of Receipts over Payments	<b>6,028</b>	109	2,783
Write off of aged cash reconciling items	-	-	(6,623)
Balance at 31 March	<b><u>(11,564)</u></b>	<u>(17,592)</u>	<u>(17,701)</u>

Cash is held in sterling with the Government Banking Service.

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

The cash at bank balance has been restated for prior years to reflect the amount of aged cash reconciling items written off relating to outstanding deposits that will not be recovered. For 2013-14, the balance carried forward has been restated to £17.7 million from £11.1 million. For 2014-15, the balance carried forward has been restated to £17.6 million from £11.0 million.

**11 Insolvency Estates**

	<b>2015-16</b> <b>£000</b>	2014-15 Restated £000	2013-14 Restated £000
Balance at 1 April	<b>491,298</b>	500,523	546,264
Fees and VAT charged	<b>(81,850)</b>	(86,993)	(84,903)
Net realisations/(payments)	<b>121,072</b>	76,096	43,111
Net Interest paid to funds lodged with the Estate Account	<b>1,881</b>	1,996	2,140
Net disbursements recovered/(unrecovered)	<b>(1,671)</b>	(120)	136
Other payments or adjustments	<b>(2,767)</b>	(204)	406
Write off of aged cash reconciling items	-	-	(6,623)
Loss on exchange	-	-	(8)
Balance at 31 March	<b><u>527,963</u></b>	<u>491,298</u>	<u>500,523</u>

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

The Insolvency Estate has been restated for prior years to reflect the amount of cash reconciling items written off relating to outstanding deposits that will not be recovered. For 2013-14, the balance carried forward has been restated to £500.5 million from £507.1m. For 2014-15, the balance carried forward has been restated to £491.3 million from £497.9 million.

**12 Frequent Petitioner**

	<b>2015-16</b>	2014-15
	<b>£000</b>	£000
Balance held at 1 April	<b>(98)</b>	(66)
Funds received from HMRC	<b>3,007</b>	3,976
Deposits applied to petitions from HMRC	<b>(3,184)</b>	(4,008)
Balance at 31 March	<b><u>(275)</u></b>	<u>(98)</u>

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

*Sarah Albon*  
Chief Executive

30 June 2016

# Insolvency Services Investment Account

## Accounts for the year ended 31 March 2015

### Overview

#### Introduction

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

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

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

By virtue of section 403 of the Act, when the Secretary of State has excess cash in the Insolvency Services Account (the ISA) the excess amount is remitted to CRND for investment in the ISIA; when the balance in the ISA is insufficient to meet demands, CRND make good the shortfall from the 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 further shortfalls in the investment account.

Sections 271 and 272 of the Enterprise Act 2002 amended the Insolvency Service Act 1986 to allow the Secretary of State to set the interest rates payable to liquidators administratively, rather than by secondary legislation, in order to facilitate more frequent changes in the interest rate paid in response to changing rates of return on investments. The legislation also established that HM Treasury may direct payments from the Consolidated Fund to the Investment Account, to make good any shortfall due to suitors, and that CRND may pay surplus funds into the Consolidated Fund.

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

The investment profile of the ISIA is now such that the interest rate earned by the account is more closely related to current short-term interest rate levels. The ISIA's gilt holdings were disposed of in 2004 and the proceeds were placed as short-term deposits with the Debt Management Account. This arrangement remained in place throughout 2015-2016.

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 2015-2016. The cost of managing the ISIA is recharged to the Insolvency Services; in 2015-2016, this amounted to £67,000 (2014-2015: £68,000).

## Commissioners for the Reduction of the National Debt

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

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

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

### Performance summary

CRND's strategy of investing in the Debt Management Account was maintained throughout 2015-2016. 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 £1,285,000 (2014-2015: £1,019k). Interest income of £3,363,000 (2014-2015: £3,454,000) was lower than the prior year as a result of lower average funds on deposit in 2015-2016. Interest payable to liquidators of £2,078 (2014-2015: £2,435,000) was lower than the prior year as a result of a decrease in average funds deposited by liquidators in 2015-2016.

As at 31 March 2016, the total value of investments held by the ISIA was £677.0 million (31 March 2015: £640.9 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

29 June 2016

## Accountability Report

### 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 4.

#### Directors' conflicts of interest

In 2015-2016, 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 2015-2016.

*Jo Whelan*

29 June 2016

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, changes in client funds and cash flows for the financial year.

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

In preparing the accounts, the Secretary and Comptroller General is required to observe the applicable accounting standards and be consistent with the relevant requirements of the Government Financial Reporting Manual (FReM), and in particular to:

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

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

## Governance Statement

### Scope of responsibility

As Secretary and Comptroller General 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 2015-2016 by the DMO Managing Board (the Board) which, in addition to the Secretary and Comptroller General, is comprised of:

Robert Stheeman  
DMO Chief Executive and Accounting Officer

Jim Juffs  
Chief Operating Officer

Jessica Pulay (from 30 July 2015)  
Co-Head of Policy and Markets

James Richardson (to 18 March 2016)  
Non-executive HM Treasury representative

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

Brian Duffin

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

Non-executive directors are appointed by the DMO Accounting Officer following a formal process and have fixed terms defined in their contracts of service. All non-executive Board members receive an induction on joining and have access to additional information and training where it is considered necessary for the effective discharge of their duties.

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

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

The Board has put in place a formal process to self-evaluate its performance on a regular basis. The Board undertook a self-evaluation of its performance in 2015 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 full review by the Board in 2012.

## 2015-2016 Managing Board activities

Board meetings were held throughout 2015-2016 and covered regular agenda items, including risk management, staffing and progress against the operational business plan.

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

	Managing Board		Audit Committee	
	Possible	Actual	Possible	Actual
Sir Robert Stheeman	8	8		
Jo Whelan	8	8		
Jim Juffs	8	8		
Jessica Pulay	5*	5		
James Richardson	8	7		
Brian Larkman	8	8	4	4
Brian Duffin	8	8	4	4
Caroline Mawhood	NA	NA	4	4

## Audit Committee

The Secretary and Comptroller General was supported during 2015-2016 by the Audit Committee on matters relating to risk, internal control and governance. The members of the Audit Committee during 2015-2016 were:

Brian Larkman (Chaired to 30 June 2015)

Brian Duffin (Chaired from 1 July 2015)

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

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

One of the Audit Committee's objectives is to give 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;
- Whistle-blowing 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:

- Business continuity planning;
- Risk management and financial control;
- Internal management reporting;
- Implementation of audit recommendations;
- Effectiveness of whistleblowing arrangements;
- Security policy framework, including information systems security and controls;
- Internal management reporting;
- IT configuration management;
- Payroll Controls; and
- Implementation of the financing remit.

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

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

#### **Fund Management Review Committee**

The Fund Management Review Committee 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 2015-2016.

### **Business Delivery Committee**

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

The Business Delivery Committee met regularly (typically weekly) throughout 2015-2016.

### **Risk committees**

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

### **Risk management and internal control**

The Secretary and Comptroller General is responsible for maintaining a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios whilst safeguarding the public funds for which she is accountable, in accordance with the responsibilities assigned to her.

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

### **The risk and control framework**

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

#### **First line of defence**

Day-to-day management of risk is the responsibility of management staff within business areas. The DMO considers effective risk management to be central to its operations and fosters a risk aware culture in which all members of staff, including Board members, are encouraged to understand and own the risks that are inherent in those operations. In particular the DMO seeks to promote an environment in which staff feel comfortable to identify new risks and changes in previously identified risks, as well as weaknesses so that these may be assessed and appropriate mitigating actions put in place.

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

#### **Second line of defence**

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

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

### **Credit and Market Risk Committee**

The Credit and Market Risk Committee (CMRC) meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. It monitors and reviews the management of market, credit, and liquidity risk. It sets limits across a range of exposures including counterparties, countries, instruments held as collateral as well as setting absolute limits on net daily flows across the DMA. CMRC met fourteen times during 2015-2016.

### **Operational Risk Committee**

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

The ORC has advised the DMO Accounting Officer and the Board, during the year, on significant operational risk concerns, significant risk issues and trends as well as actions to mitigate such risks. The Committee has focused this year on transaction processing risks and controls, IT and data security, security classifications for email communications, policy for escalation of concerns and business continuity planning. ORC met eight times during 2015-2016.

### **Controls Group**

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

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

During the year the Controls Group review work has covered the DMO's strengthening the resilience of the IT infrastructure and changes to the banking arrangements.

### **Risk Management Unit (RMU)**

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

As well as supporting the risk committee structure, the RMU provides control advice on risks. As part of the second line of defence the RMU is separate from, and independent of, the DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risk is facilitated by the RMU via quarterly consultations with heads of business units and functional teams. Significant risk issues are assessed for materiality and probability of occurrence. New risks, and risks to which exposure is increasing, are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. The RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Progress against treatment actions is monitored on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines.

### Third line of defence

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

### Risk policies and procedures

The DMO's risk policies reflect the high standards and robust requirements which determine the way in which risks are managed and controlled. The DMO Accounting Officer, with the support of the Board, ensures that policies are regularly reviewed to reflect any changes in the DMO's operations and/or best practice. In 2015-2016, this included the DMO's Whistleblowing and Escalation Policies.

Staff are required to signify that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the use of information systems and technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies on whistle blowing, fraud and anti-money laundering. The DMO ensures that this exercise is undertaken on an annual basis allowing staff to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions which include reference to the specific key risks they are expected to manage.

Managers in each business function are responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation.

### Risk profile

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

Principal risks and uncertainties	Mitigation and management
<b>IT Systems and infrastructure</b>	
<p>CRND relies on a number of IT and communications systems to conduct its operations effectively and efficiently.</p> <p>A number of the operational systems and services on which CRND relies are provided or supported by third party suppliers.</p>	<p>During the year the DMO has undertaken a review of its most significant IT systems in the context of current and anticipated business requirements including those of CRND. The DMO has strengthened the resilience of systems further to the strategic review conducted in 2014-2015. The DMO has put in place structured business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business operations.</p> <p>To mitigate the risk of failure of a key third party the DMO undertakes a corporate risk assessment of each potential supplier in order to assess financial strength and operational capacity. The DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against agreed Service Level Agreements.</p>
<b>Transaction processing</b>	
<p>CRND relies on its operational processes to successfully execute a significant number of high value transactions on a daily basis. Reliance on the accurate execution of processes exposes CRND to operational risk arising from process breakdown and human error.</p>	<p>A key component of CRND's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities.</p> <p>All teams, including CRND, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.</p> <p>The RMU conducts regular control and compliance testing of CRND activities, providing the executive sub-committee of the Board with assurance on the effectiveness of operational controls and compliance with relevant Financial Conduct Authority and Prudential Regulation Authority rules in the dealing and settlement areas.</p> <p>The DMO also maintains a strong audit and control environment which includes a well embedded incident reporting procedure which extends to cover CRND. This promotes early identification and resolution of risk incidents and provides visibility to the DMO Accounting Officer and Board.</p> <p>DMO recruitment policies help ensure that individuals with the appropriate level of skill and experience are appointed at all levels within the organisation. This helps mitigate the level of human error resulting in process failures.</p>



**People risk**

The DMO, including CRND, relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, and to deliver its strategic objectives.

The DMO is exposed to an increased risk of operational failure if it is unable to compete for, and retain, sufficiently skilled staff over time. Competition for skilled staff is generally against employers from the private financial services sector which is not subject to public sector remuneration policies and which have historically offered higher remuneration than either the private sector in general or the public sector.

The DMO's Training and Development policy is designed to help ensure that staff have the right skills to meet its objectives. In response to developments in regulatory best practice, the DMO organised focused training sessions in 2015 covering the Escalation and Whistleblowing Policies.

The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates.

The DMO has put in place a formal performance appraisal process and all staff are given clear and achievable objectives. Where appropriate, staff are encouraged to engage in activities which promote development and the DMO provides regular training opportunities and support for professional studies to enhance the skills base of its employees. The DMO also provides cross-training for different roles to help improve staffing flexibility and reduce turnover pressure.

Salaries are reviewed annually, taking account of benchmarks derived from equivalent private sector pay levels. 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 is accredited as an Investor in People.

<b>IT and data security</b>	
<p>Through its activities the DMO gathers, disseminates and maintains sensitive information including market sensitive information and personal data about staff and market participants. The DMO seeks to ensure the highest standards of data protection and information management.</p> <p>The DMO is exposed to risk of an external attack on its IT systems and infrastructure.</p>	<p>The DMO continues to work to maintain the required level of protective security covering physical, personnel and information security and is particularly aware of the growing threat posed by cyber security risk. Cyber security has been a specific area of focus in 2015 - 2016 and the DMO's IT team have worked to strengthen controls against both external and internal threats to IT systems and infrastructure. The DMO completed a number of upgrade projects in 2015 which have helped improve the resilience of the DMO's IT security environment, including an upgrade of information technology patching and network components.</p> <p>Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. The DMO has a Senior Information Risk Owner (SIRO) who is responsible for the information risk policy and the assessment of information risks. The SIRO is a member of the Board and provides advice to Board members on the management of information risk.</p> <p>The DMO has put in place several layers to defend against external attack and its infrastructure undergoes an annual penetration test. This year particular attention has been paid to the auction process and systems used to ensure the control environment remains robust. Further support and guidance from Communications Electronics Security Group (CESG) has been received and acted upon over the course of the year to ensure that the DMO meets their requirements, which are a condition for continuing connection to the Public Service Network (PSN). In response to this the DMO has updated its security strategy and continues to progress improvements to the control environment.</p>

## Review of effectiveness

I have reviewed the effectiveness of the system of internal control and confirm that an ongoing process designed to identify, evaluate and prioritise risks to the achievement of CRND's aims and objectives has been in place throughout 2015-2016. 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 2015-2016, 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

29 June 2016

## 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 the Houses of Parliament

I certify that I have audited the financial statements of the Insolvency Services Investment Account for the year ended 31 March 2016 under the Insolvency Act 1986. The financial statements comprise: the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Client Funds and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

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

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

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

## Scope of the audit of the financial statements

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

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

### Opinion on regularity

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

### Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Insolvency Services Investment Account's affairs as at 31 March 2016 and of the total comprehensive income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Insolvency Act 1986 and the HM Treasury directions issued thereunder.

### **Opinion on other matters**

- the part of the Accountability Report to be audited has been properly prepared in accordance with Secretary of State/HM Treasury directions made under the Insolvency Act 1986; and
- the information given in the Accountability Report and Performance 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 are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

### **Report**

I have no observations to make on these financial statements.

*Sir Amyas C E Morse*  
Comptroller and Auditor General

30 June 2016

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

## Statement of Comprehensive Income for the year ended 31 March 2016

	<b>2015</b> <b>£000</b>	<b>2015</b> <b>£000</b>
Interest income	<b>3,363</b>	3,454
Gross interest payable to liquidators	<b>(2,078)</b>	(2,435)
<b>Total comprehensive income</b>	<b><u>1,285</u></b>	<u>1,019</u>

*The notes on pages 39 to 41 form part of these accounts.*

## Statement of Financial Position as at 31 March 2016

	Note	2015 £000	2015 £000
<b>Assets</b>			
Demand deposits with the Debt Management Account and the National Loans Fund		<b>676,977</b>	640,896
<b>Total assets</b>		<b>676,977</b>	640,896
<b>Liabilities and client funds</b>			
<b>Liabilities</b>			
Net interest payable to liquidators		<b>686</b>	899
Tax (on interest) payable to HMRC		<b>172</b>	187
		<b>858</b>	1,086
<b>Client funds</b>			
ISA funds		<b>660,000</b>	625,000
Accumulated net profits on disposals	2	<b>12,924</b>	12,924
Surplus less interest payable to liquidators		<b>3,195</b>	1,886
		<b>676,119</b>	639,810
<b>Total</b>		<b>676,977</b>	640,896

*The notes on pages 39 to 41 form part of these accounts.*

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

29 June 2016



## Statement of Cash Flows for the year ended 31 March 2016

	2015 £000	2015 £000
<b>Operating activities</b>		
Interest received	3,347	3,453
Interest paid to the Insolvency Services Account	(1,880)	(1,993)
Tax (on interest) paid to HMRC	(427)	(503)
Decrease in demand deposits with the Debt Management Account and the National Loans Fund	(36,064)	32,093
Payment to the Consolidated Fund	0	(33,066)
<b>Net cash (used in)/from operating activities</b>	<b>(35,024)</b>	<b>(16)</b>
<b>Financing activities</b>		
Funds received from the Insolvency Services Account	359,024	178,016
Funds paid to the Insolvency Services Account	(324,000)	(178,000)
<b>Net cash used in financing activities</b>	<b>35,024</b>	<b>16</b>
<b>Increase/(decrease) in cash</b>	<b>-</b>	<b>-</b>

*The notes on pages 39 to 41 form part of these accounts.*

## Statement of Changes in Client Funds for the year ended 31 March 2016

	ISA funds £000	Accumulated net profits on disposals £000	Surplus less interest payable to liquidators £000	Total ISA funds £000
<b>At 1 April 2014</b>	<b>634,000</b>	<b>45,990</b>	<b>851</b>	<b>671,841</b>
Total comprehensive income	–	–	1,019	1,019
Transferred from Client money employed account	(16)	–	16	–
Funds received from ISA	178,016	–	–	178,016
Funds paid to ISA	(178,000)	–	–	(178,000)
Payment to the Consolidated Fund	–	(33,066)	–	(33,066)
<b>At 31 March 2015</b>	<b><u>625,000</u></b>	<b><u>12,924</u></b>	<b><u>1,886</u></b>	<b><u>639,810</u></b>
Total comprehensive income	–	–	1,285	1,285
Transferred from Client money employed account	(24)	–	24	–
Funds received from ISA	359,024	–	–	359,024
Funds paid to ISA	(324,000)	–	–	(324,000)
<b>At 31 March 2016</b>	<b><u>660,000</u></b>	<b><u>12,924</u></b>	<b><u>3,195</u></b>	<b><u>676,119</u></b>

*The notes on pages 39 to 41 form part of these accounts.*

# Notes to the Accounts for the year ended 31 March 2016

## 1 Accounting policies

### *i Basis of preparation*

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

- IFRS 7 Financial Instruments: Disclosures
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements (revised 2007)
- IAS 7 Statement of Cash Flows
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Reporting Period
- IAS 18 Revenue
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement

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

- IAS 1 Presentation of Financial Statements, which has been revised as part of the IASB's 'Disclosure Initiative (Amendments to IAS 1)'. Application is required for reporting periods beginning on or after 1 January 2016. The ISIA expects to apply these revisions to IAS 1 in 2016-2017. The application of these revisions, which ensure that entities are able to use their judgement when presenting their financial reports within the requirements of IAS 1, is not expected to materially alter the presentation of the financial statements of the ISIA.
- IAS 7 Statement of Cash Flows, which has been revised as part of the IASB's 'Disclosure Initiative (Amendments to IAS 7)'. Application is required for reporting periods beginning on or after 1 January 2017. The ISIA expects to apply these revisions to IAS 7 in 2017-2018. The application of these revisions, which ensure that users can evaluate changes in financing, may result in additional disclosures regarding changes in liabilities arising from financing activities of the ISIA.
- IFRS 9 Financial Instruments, which will replace IAS 39. Application is required for reporting periods beginning on or after 1 January 2018. The ISIA expects to apply IFRS 9 in 2018-2019. The application of IFRS 9, which sets out requirements for recognition, measurement, impairment and derecognition of financial instruments, is not expected to change the reporting of financial instruments in the ISIA.

A separate income statement, as required by the accounts direction, has not been presented as the content would be identical to the statement of comprehensive income. A statement of comprehensive income is required by IAS1.

### *ii Assets*

#### **Demand deposits**

Deposits with the Debt Management Account and the National Loans Fund are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are therefore treated as loans and receivables measured at amortised cost.

*iii Income recognition*

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

*iv Interest payable to liquidators*

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

*v Administrative costs*

Administrative costs are accounted for in the DMO Annual Report and Accounts 2015-2016 and a recovery is made from the Insolvency Service.

## **2 Accumulated net profits on disposals**

On 25 February 2015, the ISIA paid £33,066,000 of its accumulated net profits on disposals of gilts in prior years to the Consolidated Fund. This payment was made following agreement with the Insolvency Service and HM Treasury that these funds should be paid to the Consolidated Fund in accordance with section 408 of the Insolvency Act 1986. The retained accumulated net profits on disposals provided a solvency margin of around 2% over and above the ISIA's liabilities in order to help ensure that the ISIA could continue to make payments to the ISA when required. Accumulated net profits on disposals retained by the ISIA at 31 March 2016 were £12,924,000 (31 March 2015: £12,924,000).

## **3 Risk**

*i Credit risk*

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

The investments of the ISIA comprised deposits with the Debt Management Account and the National Loans Fund. These deposits were considered to have no exposure to credit risk because they are obligations of HM Government.

There were no renegotiated assets or assets considered impaired at 31 March 2016 (31 March 2015: none).

*ii Market risk*

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

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

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

*iii Liquidity risk*

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

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

**4 Related party transactions**

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

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

During the year, the ISIA had a significant number of material transactions with the ISA due to monies advanced and withdrawn in respect of investments. During the year, the ISA advanced £35,024,000 (net of withdrawals) to the ISIA (2014-2015: £16,000 net advance).

**5 Date of authorisation for issue**

The Secretary and Comptroller General authorised these financial statements for issue on 30 June 2016.

## Appendix

### Accounts direction given by the Treasury in accordance with Section 409 (1) of Insolvency Services (Accounting and Investment) Act 1976 (Amended 1986)

- 1 This direction applies to the Insolvency Services Investment Account.
- 2 The Commissioners for the Reduction of the National Debt shall prepare accounts for the financial year ended 31 March 2012 and subsequent financial years which give a true and fair view of the state of affairs of the Account at the reporting date, and of its income and cash flows for the year then ended.
- 3 The accounts shall be prepared in accordance with applicable accounting standards, and shall be consistent with relevant requirements of the extant Government Financial Reporting Manual.
- 4 The accounts shall present an income statement, a statement of comprehensive income, a statement of financial position, a statement of cash flows, and a statement of changes in client funds. The statement of financial position shall present assets and liabilities in order of liquidity.
- 5 The notes to the accounts shall include disclosure of assets and liabilities, and of income and expenditure, relating to other central government funds including the National Loans Fund.
- 6 The report shall include:
  - a brief history of the Account, and its statutory background;
  - an outline of the scope of the Account, its relationship to HM Treasury and other central funds, and its management arrangements;
  - a management commentary, including information on financial performance and financial position, which reflects the relationship between the Account and other central funds; and
  - a governance statement.
- 7 This accounts direction shall be reproduced as an appendix to the accounts

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

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

23 March 2012

For further information about the National Audit Office please contact:

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP  
Tel: 020 7798 7400  
Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

DG Ref: 11189

ISBN 978-1-910305-61-4



9 781910 305614