Insolvency Services and the Insolvency Services Investment Accounts 2020-21

HC 970

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Foreword

1 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. The ISIA account is shown in a separate section of this joint report.

2 General background

The Official Receiver deals with the administration of personal bankruptcy and company compulsory liquidation cases. Creditors, or the Secretary of State, may appoint an Insolvency Practitioner to replace the Official Receiver 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.

Insolvency Practitioner are also appointed to administer voluntary liquidation cases. 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. 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 1 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 liquidation which occurred before 1 October 2011. Any unclaimed Monies remain unaffected by this change.

Aims and objectives

The ISA is administered by the Estate Accounts & Scanning (EAS) team of the Insolvency Service. EAS provide 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 insolvency sector to minimise the regulatory burden on users of the ISA, within the statutory framework; and
- Ensuring systems are in place to correctly charge statutory insolvency fees to estates and to process the recovery of these fees.

The key aims and objectives of the CRND relevant to the ISA are:

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

3 Review of activities

Transactions

The Insolvency Services Account

Receipts into the ISA decreased in 2020-21 by £195 million to £1,112 million (2019-20 £1,306 million). Payments decreased by £507 million to £563 million (2019-20 £1,070 million).

It's difficult to equate the movement to specific factors such as case volume or large insolvencies as it relates to realisations of assets on insolvencies during the reporting period, and insolvencies can span multiple years. In 2019-2020, receipts included £640m received from HM Government for the Official Receiver's costs as liquidator of British Steel and Thomas Cook.

The level of excess receipts over payments has increased due to the continued work being carried out to deal with Payment Protection Insurance (PPI) claims. The Official Receiver submitted a high volume of PPI claims and is continuing to engage with the financial services sector on PPI monies that may be due to historic bankruptcy estates, prior to making distributions to creditors.

The Insolvency Service Investment Account (ISIA)

Funds invested by CRND as at 31 March 2021 increased by £271.2 million to £925.7 million (Note 2). Interest earned on these funds together with interest earned on the ISA working balance is paid to insolvency estates (after meeting interest under Regulation 9 (6) & 23A (6) of the Regulations 1994 as amended, and any associated income tax due). During 2020-21 there were no payments out of the surplus on profits on disposals to the Consolidated Fund held by CRND and the interest earned exceeded the interest payable by £0.2 million. There remains a surplus on interest and profits on disposals in the fund of £21.3 million. These funds are unconnected to the consolidated funds reported as part of the Insolvency Service account and are managed separately and as they relate to the investment account.

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 remained unchanged at 0.1% matching the Bank of England base interest rate. Interest rate amendments are published in the London Gazette pursuant to Regulation 9(6B) & 23A (6). 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.

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

Fee recovery decreased in 2020-21 by £35.6million to £63.9million from £99.5million in 2019-20.

Key Performance Indicator

The key performance indicator of EAS is to ensure 98% of ISA payments are made within 2 working days. In 2020-21, 99.2% of ISA payments were processed within 2 working days.

4 Forward look

EAS has achieved its payment timeliness targets this year and will seek to maintain this high standard of delivery throughout 2021-22.

The Official Receiver will continue to collect PPI funds that are due to bankruptcy estates and distributing these funds to the creditors of bankrupt estates remains a key priority and will continue through 2021-2022.

In response to Covid-19, Estate Accounts and Scanning made numerous changes to how payment requests were received and processed to ensure business continuity during periods of lockdown. On a positive note, these changes have been generally welcomed by our stakeholders and we will continue with these practices going forwards.

5 Preparation and audit

The financial statements are prepared by the Insolvency Service (an Executive Agency of the Department for Business, Energy and Industrial Strategy (BEIS)), which is 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. The audit fee of £20,000 for the audit of the ISA for 2020-21 is included within the £173,000 audit fee 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.

Statement of the Chief Executive's responsibilities

Under the Insolvency Act 1986, HM Treasury has directed the Insolvency Service 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 a receipts and payments basis and must properly present of the state of affairs of the Insolvency Services Account, its Receipts and Payments and Statement of Balances for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of HM Treasury's Accounts Direction and in particular to:

- observe the Accounts Direction issued, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis; and
- confirm that the Insolvency Services Accounts (ISA) as a whole is fair, balanced and understandable and take personal responsibility for the ISA and the judgements required for determining that it is fair, balanced and understandable.

The Department for Business, Energy and Industrial Strategy has appointed the Chief Executive as Accounting Officer of the Insolvency Service.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, and for keeping proper records and for safeguarding the Insolvency Service's assets, are set out in Managing Public Money published by HM Treasury.

As the Accounting Officer, 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 Insolvency Service'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.

Dean Beale 12 November 2021
Chief Executive

Governance Statement

Framework

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 Chief Executive 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.

This Governance Statement is prepared specifically for the ISA. The Insolvency Service also prepares a Governance Statement for its Annual Report and Accounts which includes more information about the internal control framework across the whole agency, including the ISA.

Operation

The day to day operation of the ISA is undertaken by Estate Accounts and Scanning (EAS) which is within the Business Services Directorate (BSD). EAS has in place guidance and appropriate training for all staff to deliver their respective function and robust system controls including both IT and physical security. There are also systems for communication with all staff, including on policy, operational and financial matters, and for informing them of new developments and key issues. EAS use the principles of continuous improvement to provide assurance that processes remain effective. The Director of the Business Services Directorate is part of the Executive Leadership Team and is subject to the governance and wider control system that is described in the Insolvency Services Annual Report and Accounts 2020-21.

EAS receives advice and guidance from its Board, the agency's corporate governance and technical teams, Internal Audit and the Audit and Risk Assurance Committee as and when required.

Risk Management and Internal Control

The system of internal control, managed through BSD, is in place to manage risks to service delivery, fraud and transaction errors, and cyber security. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the overall management of the ISA; to evaluate the likelihood and impact of those risks being realised; and to manage them efficiently and effectively. Risk is managed by identifying and evaluating risks and implementing 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 to provide security to 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;
- system of internal management checks and process audits
- 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.
- assurance gained from internal audit work undertaken during the year.

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

The Audit and Risk Assurance Committee is chaired by an appropriately qualified independent non-executive Board Member. Its membership comprises of two further non-executive Board Members. 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 (GIAA) and their annual audit programme is substantially informed by the agency's key risks, and as such, the 2020-21 Internal Audit Plan delivered by GIAA did not include any work with EAS in relation to the ISA. Assurance on ISA processes and the internal control framework was gained through our EAS audit and management check functions.

Risk assessment and issues

The Risk Register for 2020/21 records the main area of risk to the work of EAS as business continuity following the impact of Covid-19. Risk was also identified in relation to HM Treasury requirement to deliver monthly cash forecasts with penalties been applied for inaccurate forecasting from 2021-22. These risks continued to be addressed during the year and the actions taken to mitigate the risks included:

- Review of processes carried out with changes implemented to support business continuity through the pandemic.
- Review meetings with governance colleagues to ensure new processes did not introduce additional risks.
- Regular communications issued to both internal and external stakeholders to advise of the changes implemented and to seek feedback.
- Regular meetings with other business areas within the Agency to assist with cash management. Ad-hoc meetings with BEIS and UKSBS to assist with the accuracy of the monthly cash forecast.

Significant issues

During 2020-21 the most significant impact on EAS was the closure of offices affecting our ability to carry out office-based tasks. The EAS management team, assisted by the corporate governance team acted quickly to introduce new processes that used electronic communication and payment methods. These changes have been well received by our stakeholders and we intend to build on this as we move through 2021-22. The action taken has been effective and this is evidenced by the achievement by EAS of its key performance indicator to ensure 98% of ISA payments are made within 2 working days

Dean Beale
Chief Executive

12 November 2021

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 2021 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. The financial reporting framework that has been applied in their preparation is applicable law and the Insolvency Act 1986.

In my opinion:

- the financial statements properly present the receipts and payments of the Insolvency Services Account for the year ended 31 March 2021; 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Insolvency Service in accordance with the ethical requirements that are relevant to my audit of 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.

Other Information

The other information comprises information included in the Foreword, Statement of Chief Executive's responsibilities and the Governance Statement, the financial statements and my auditor's certificate thereon. The Chief Executive is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Insolvency Service and its environment obtained in the course of the audit, I have not identified any material misstatements in the Foreword, Statement of Chief Executive's responsibilities and the Governance Statement. 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 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.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Chief Executive's responsibilities, the Chief Executive of the Insolvency Service as Accounting Officer is responsible for:

- the preparation of the financial statements in accordance with the Insolvency Act 1986 and for being satisfied that they are properly presented; and
- internal controls as the Chief Executive as Accounting Officer determines is necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the Insolvency Service's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Insolvency Service Agency's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Insolvency Service's controls relating to the Insolvency Act 1986 and Managing Public Money.
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: posting of unusual journals; and
- obtaining an understanding of the Insolvency Service's framework of authority as well as other legal and regulatory frameworks that the Insolvency Service operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Insolvency Services Account. The key laws and regulations I considered in this context included the Insolvency Act 1986 and Managing Public Money.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- reading minutes of meetings of those charged with governance and the Board; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

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

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.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

12 November 2021

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The Insolvency Services Account Receipts and Payments for the Year ended 31 March 2021

	Note	**2020-21** £'000	2019-20 £'000
Receipts			
Realisation of assets of estates in compulsory insolvencies and voluntary liquidations		**1,111,927**	1,306,355
Frequent Petitioners	11	**497**	3,243
From the Investment Account	2	**259,300**	906,000
Unclaimed dividends	6	**13,703**	14,981
Interest received	3	**1,094**	2,987
		1,386,521	2,233,566
Payments			
Payments requested by liquidators and trustees of estates in compulsory insolvency and voluntary liquidation and reissued dividends	5	**562,902**	1,070,142
To the Investment Account			
Excess cash balances on the ISA	2	**530,500**	900,500
Interest on ISA working balances	3	**34**	292
To the Consolidated Fund	7	**21,664**	6,459
To the Insolvency Service	4	**84,380**	90,000
		1,199,480	2,067,393
Excess of receipts over payments	9	**187,041**	166,173

The Insolvency Services Account Statement of Balances as at 31 March 2021

	Note	**2020-21** £'000	2019-20 Restated £'000
Balances:			
The Investment Account	2	**925,700**	654,500
Cash at Bank	9	**353,834**	166,793
		1,279,534	821,293
Representing:			
Insolvency Estates	10	**1,135,442**	606,949
Frequent Petitioners	11	**(52)**	(238)
Fees due to the Insolvency Service	4	**43,049**	104,009
Unclaimed Dividends	6	**90,028**	100,013
Amount due to the Consolidated Fund	7	**10,990**	10,557
Amounts due to the Treasury Solicitor	8	**77**	3
		1,279,534	821,293

2019-20 fees due to the Insolvency Service have been re-stated to include amounts due to BEIS and other departments, which was previously shown as a separate line on the statement - see Note 4. There have been no changes to the overall balances.

The notes on pages 18 to 23 form part of these accounts.

Dean Beale 12 November 2021
Chief Executive

Notes to the accounts

1 Accounting Policies

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

2 The Investment Account

	2020-21	2019-20
	£'000	£'000
Balance at 1 April	**654,500**	660,000
Cash deposited with CRND	**530,500**	900,500
	1,185,000	1,560,500
Cash withdrawn from CRND	**(259,300)**	(906,000)
Balance at 31 March	**925,700**	654,500

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 Interest Received and Paid

Interest Received

		2020-21	2019-20
	Note	**£'000**	£'000
On cash deposited with CRND	10	**1,060**	2,697
On working Balances at the bank		**34**	290
On Government Securities		**0**	0
Balance at 31 March		**1,094**	2,987

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 represents Interest earned outside the ISIA being paid from the ISA to the ISIA.

Interest Paid

	2020-21 £'000	2019-20 £'000
Balance at 1 April	**0**	0
Interest earned during the year	**34**	290
	0	0
Amount paid over during the year	**(34)**	(292)
Balance at 31 March	**0**	0

4 Due to the Insolvency Service

		2020-21 £'000	2019-20 £'000
Balance at 1 April		**104,009**	130,356
Fees and VAT charged to estates in insolvency	**10**	**63,902**	99,512
Net disbursements recovered / (unrecovered)*	**10**	**(40,497)**	(35,881)
Fees on unclaimed dividends	**6**	**15**	22
Net payments made to the Insolvency Service		**(84,380)**	(90,000)
Balance at 31 March		**43,049**	104,009

*Net disbursements recovered / (unrecovered) for 2019-20 have been restated to remove indemnified cash adjustments of £31.4m. These relate to National Interest Cases (NICs) where Government bodies have specifically underwritten any losses to the Official Receiver in the event that asset realisations on NICs do not cover the necessary disbursements. The Insolvency Service (the "Agency") has done further analysis on the payments and recoveries for 2019-20 and the table below has the revised £36.7m figure.

The 2020-21 net disbursements unrecovered figure excludes the equivalent indemnified funding from other government agencies with respect to these NICs (£56.1m). Until these indemnities are claimed or realisations received the Agency's cashflow from fees is utilised. These amounts are shown in the table below.

Reconciliation to the Agency Accounts

	2020-21 **£'000**	2019-20 £'000
Balance held on behalf of the Agency including the benefit of specific indemnities and other funding mechanisms	**101,638**	122,133
Cumulative net disbursements funded by the OR indemnified by government departments (National Interest Cases)	**(56,120)**	(36,733)
Other Cumulative net disbursements funded by the OR	**(2,469)**	18,609
Net balance held on behalf of the Agency	**43,049**	104,009

The Agency holds a £102m cash and cash equivalents balance with the ISA as disclosed in the Agency's cash disclosures. This total investment by the Agency in the ISA is due to the Agency in full, but these accounts also reflect certain disbursements made by the ISA on behalf of Official Receivers and Insolvency Practitioners to cover disbursements necessary to the administration and safe-keeping of specific cases. Where these are funded out of Estate assets, only Estate balances (Note 10) are affected. However, where there are insufficient funds in the individual case account, payments on Official Receiver cases are funded by the Agency.

Recovery of these amounts is, in practice, expected to arise from future asset recoveries, and when assets are realised in the individual case and funds are available to cover the cost of previous payments, the Agency is reimbursed. These adjustments therefore represent, essentially, timing differences. However, they are still included as part of the Agency's recoverable investment, since even in the absence of future recoveries, the Agency is able to rely on the following sources for the making good of any deficit position on disbursements:

- specific indemnities for National Interest Cases from government departments, and
- an expectation of funding to be drawn from the Consolidated Fund under s408 of the Insolvency Act 1986, in respect of Business As Usual cases.

5 Payments requested by liquidators and trustees of estates in insolvency and voluntary liquidation

The Act provides for:

1 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

2 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.

6 Unclaimed Dividends

		2020-21	2019-20
		£'000	£'000
Balance at 1 April		**100,013**	88,739
Dividends recognised as unclaimed in the year		**13,703**	14,981
Dividends paid out previously categorised as unclaimed		**(2,637)**	(1,710)
Fees claimed on payments made	**4**	**(15)**	(22)
Transfers from estates		**2,254**	5,791
Transfers to estates		**(1,193)**	(1,308)
Transfer to the Consolidated Fund	**7**	**(22,097)**	(6,458)
Balance at 31 March		**90,028**	**100,013**

Dividends which have been paid to creditors but not yet claimed (e.g. 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.

7 Surrenders to the Consolidated Fund

	2020-21	2019-20
	£'000	£'000
Balance at 1 April	**10,557**	10,558
Dividends not claimed	**22,097**	6,458
Write off of aged cash reconciling items	**0**	0
Payments made to the Consolidated Fund	**(21,664)**	(6,459)
Balance at 31 March	**10,990**	10,557

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 paid to HM Treasury after 7 years.

8 Funds held on behalf of the Treasury Solicitor (BV)

	2020-21 £'000	2019-20 £'000
Balance at 1 April	**3**	67
Funds received from dissolved companies	**995**	1
Payments to Treasury Solicitor	**(921)**	(65)
Balance at 31 March	**77**	3

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 then paid to HM Treasury Solicitor.

9 Cash at Bank

	2020-21 £'000	2019-20 £'000
Balance at 1 April	**166,793**	620
Excess of Receipts over Payments	**187,041**	166,173
Write off of aged cash reconciling items	**0**	0
Balance at 31 March	**353,834**	166,793

Cash is held in sterling with the Government Banking Service.

10 Insolvency Estates

		2020-21 £'000	2019-20 £'000
Balance at 1 April		**606,949**	431,024
Fees and VAT charged	**4**	**(63,902)**	(99,512)
Net realisations / (payments)		**552,894**	241,343
Net Interest paid to funds lodged with the Estate Account.		**1,060**	2,695
Net disbursements (recovered) / unrecovered	**4**	**40,497**	35,881
Other payments or adjustments		**(2,056)**	(4,482)
Balance at 31 March		**1,135,442**	606,949

Insolvency Estates is the total of funds held on behalf of Trustees and Liquidators in respect of insolvency proceedings.

11 Frequent Petitioner

	2020-21	2019-20
	£'000	£'000
Balance at 1 April	**(238)**	(124)
Funds received from HMRC	**497**	3,243
Deposits applied to petitions from HMRC	**(311)**	(3,357)
Balance at 31 March	**(52)**	(238)

Under current legislation a deposit must be paid to the court before a petition can be filed by a creditor. As HMRC are a frequent petitioner, there is a statutory provision which allows HMRC to lodge funds, topped up from time to time, with the ISA from which deposits are then transferred to an insolvency estate when an insolvency order is made on a petition filed by HMRC. The Insolvency Proceedings (Fees) Order 2016 introduced a dismissal /withdrawal administration fee which is also included.

Dean Beale 12 November 2021
Chief Executive

Annex 1

Accounts direction given by HM Treasury in accordance with section 409(2) of the Insolvency Act 1986

1 This direction is given to the Insolvency Service.

2 This direction applies to the financial year ended on 31 March 2020 and to each subsequent financial year.

3 The statement mentioned in section 409(2) of the Insolvency Act 1986 ("the Statement") must comprise

a A Foreword, which will include items of interest to readers such as, but not limited to:

- Statutory Background, including the Insolvency Services Account (ISA) and the Insolvency Service Investment Account (ISIA)
- General Background, including aims and objectives of the ISA and the ISIA
- Review of Activities, including items such as transactions, banking, interest paid to estates, fees and key performance indicators
- Forward look
- Preparation and Audit

b Statement of Chief Executive's responsibilities

c Governance Statement prepared according to best practice, incorporating information such as the governance framework, operation of the ISA and risk management and internal control

d Audit certificate: in line with current regulations, The Certificate and Report of the Auditor and Comptroller General to the Houses of Parliament

e An account of Receipts and Payments, presenting the main categories of both receipts and payments applicable in the year

f A Statement of Balances, showing where major balances are held and what they represent

4 The Statement must properly present the receipts flowing into and payments flowing out of the ISA and the balances as at the reporting date.

5 This direction shall be reproduced as an appendix to the accounts.

6 This direction supersedes all previous directions issued by HM Treasury under section 409(2) of the Insolvency Act 1986.

Vicky Rock
Interim Director, Public Spending, HM Treasury
22 May 2020

Insolvency Services Investment Account Report and Accounts for the year ended 31 March 2021

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 ISIA. Under paragraph 16 of Schedule 8 to the Act, income earned by the ISIA is drawn down by the ISA to pay its liabilities of interest to insolvent estates and the associated tax is paid directly to HM Revenue & Customs (HMRC) by ISIA.

Section 404 of the Act empowers CRND to invest all the monies in the ISIA, in accordance with directions given by HM Treasury, in those securities specified in Part II of Schedule 1 to the Trustee Investments Act 1961 (currently restricted to paragraphs 1, 2, 3, 8, 9 and 9A).

Section 408(1) of the Act enables HM Treasury to make payments from the Consolidated Fund to the ISIA to meet any 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 2020-2021.

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 2020-2021. The cost of managing the ISIA is recharged to the Insolvency Service; in 2020-2021, this amounted to £67,000 (2019-2020: £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 2020-2021. 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 £202k (2019-2020: £1,900k). Despite a higher average balance of funds available for investment in the ISIA during the year, interest income of £936k (2019-2020: £5,078k) was lower than the prior year due to a fall in average interest rates on the ISIA's investments. Interest payable to liquidators of £734k (2019-2020: £3,178k) was lower than the prior year primarily as a result of a fall in the average interest rate offered to liquidators.

As at 31 March 2021, the total value of investments held by the ISIA was £948 million (31 March 2020: £677 million). This increase was due to a net advance of funds by the ISA during the year.

Jo Whelan 14 October 2021
Secretary and Comptroller General
to the Commissioners for the Reduction of the National Debt

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 2020-2021, 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 2020-2021.

Jo Whelan 14 October 2021
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 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 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.

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.

The Comptroller and Auditor general charges no audit fee for undertaking this statutory audit.

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 2020-2021 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

Tom Josephs
Non-executive HM Treasury representative

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.

Paul Richards
Non-executive director - During a 29 year career at Bank of America Merrill Lynch, Paul was MD of business in fixed income trading, Debt Capital Markets and Corporate Banking across Europe, the Americas and Asia Pacific. Following his retirement from banking, he spent 18 months as a senior consultant to the FCA. He is currently Chairman of Insignis, a FinTech company he launched in 2015.
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 undertook a self-evaluation of its performance led by a non-executive director in March 2021 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. Between formal reviews the Board considers its effectiveness on an ongoing basis. The Terms of Reference underwent a review by the Board in 2020.

2020-2021 Managing Board activities

Board meetings were held throughout 2020-2021 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	8	8		
Tom Josephs	8	7		
Paul Fisher	8	8	6	6
Paul Richards	8	8	6	6
Rodney Norman	n/a	n/a	6	6

Audit Committee

The Secretary and Comptroller General was supported during 2020-2021 by the Audit Committee on matters relating to risk, internal control and governance. The Audit Committee covers the activities of the DMO, Debt Management Account (DMA), PWLB lending facility and CRND. The members of the Audit Committee during 2020-2021 were:

Paul Fisher (Chairman)

Paul Richards

Rodney Norman

Audit Committee member - Rodney Norman was Finance Director of NS&I until 2018. Prior to that he was the Treasury Accountant at HM Treasury. This was preceded by a career in the City where he qualified as a Chartered Accountant with PWC and was Finance Director of the Banking Division of Close Brothers. He is currently a non-executive director of the Pension Protection Fund, a non-executive member of the Audit and Risk Committee of the Army and a senior advisor to the Bank of England. Until recently he was a non-executive member of the Office of Rail and Road's Audit and Risk Committee.

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, the Head of Risk, 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:

- Impact of COVID-19, working from home and hybrid working arrangements;
- COVID-19 risk assessment and risk mitigation plan;
- UK leaving the European Union;

- DMO accommodation and data centres relocation;
- Human Resources processes and controls;
- Cyber security;
- Static data processes and controls and counterparty static data in the core trading system;
- User access rights in the core trading system;
- IT asset management and desktop support;
- Policies, departmental procedures and committee Terms of References;
- Anti-fraud policies and arrangements;
- Risk management framework;
- International Financial Reporting Standards (IFRS) 16; and
- IT change management process.

The Audit Committee covers a regular programme of agenda items, together with other current topics, and met six 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 2020-2021.

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 were the transition to remote working due to COVID-19, the accommodation relocation project and all data centre relocations.

The Business Delivery Committee met regularly (typically weekly) throughout 2020-2021.

Risk Committees

The Secretary and Comptroller General is informed by two risk committees covering operational risk and material change programmes. 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. The CMRC met seven times during 2020-2021.

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 IT & cyber security, hybrid working arrangements, business continuity planning and key supplier risks. The ORC met seven times during 2020-2021.

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 continued to review the controls in place for increased remote working arrangements. In addition, the Controls Group covered the risk assessment and risk mitigation plan for more staff returning to the office as the impact of COVID-19 subsides. Other topics reviewed included a review of access controls for the core trading system for CRND.

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. 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 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 2020-2021, this included policies relating to misconduct escalation, procurement, information security, IT security, and remote working.

Staff are required to confirm 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 2020-2021 no concerns were raised by staff under the DMO's whistleblowing policy relating to CRND.

Key Developments

COVID-19

The DMO has continued to actively review and refine its contingency arrangements to minimise the impact of COVID-19 as the situation develops. A robust assurance framework has been implemented to ensure the maintenance of control standards for critical operations in an environment where the majority of staff have been working remotely. The assurance framework was enhanced for a longer-term view.

The hybrid working group formulated the risk assessment and risk mitigation plans in ensuring the office premises remained COVID-19 secure and compliant with guidelines. A change in working arrangements whereby the majority of staff were working from home is a principal risk under the Risk Profile section.

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 direct and indirect impacts on all CRND operational activities. Various scenarios regarding the United Kingdom's exit from the European Union were considered, with early mitigating actions taken where possible.

Risk Profile

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

Principal risks and uncertainties	**Mitigation and management**
IT systems and infrastructure	
CRND relies on a number of IT and communications systems to conduct its operations effectively and efficiently.	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 health check. 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.

	Arrangements to support CRND activities were in place throughout the year with the majority of staff working from home. During the year, the most significant initiatives were the data centre relocations. All data centres are now physically separate from the main office location which increases resilience. 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.
IT and data security	
Through its activities the DMO gathers, disseminates and maintains sensitive information including market sensitive information and personal data about staff and market participants. The DMO seeks to ensure the highest standards of data protection and information management. The DMO could be the subject of an external attack on its IT systems and infrastructure.	The DMO, including CRND, 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 2020-2021 and the DMO's IT team have been enhancing the security environment and appropriateness of transaction systems and processes. The focus was in identifying and mitigating any changes to IT and data security risks as a result of increased remote working. 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.

Reliance on third parties	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 and reliance on sub-contractors. The DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against the agreed Service Level Agreements, where appropriate. The procurement manager and the vendor management group have been working to embed consistent standards of supplier management across account managers by improving visibility of key contracts and sharing best practice. The supplier of the new trading system, the new office landlord and the providers of the data centres have become key long-term partners. During the year, more focus has been given to understanding any potential supply chain challenges from COVID-19 and the United Kingdom exiting the European Union.
A number of the operational systems and services on which CRND relies are provided or supported by third party suppliers.	
Transaction processing	
CRND relies on its operational processes to successfully execute a significant number of high value transactions on a daily basis. Reliance on the accurate execution of processes exposes CRND to operational risk arising from process breakdown and human error.	A key component of CRND's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities. 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 focus has been on enhanced compliance monitoring on transaction processing, in light of adjustments to processes to facilitate remote working. This was the first full year of the operational running of the core trading systems. As with any new system, some issues were encountered but were all addressed swiftly with minimal impact resulting in greater operational resilience. Contingency processes worked successfully with other key systems also, for example the Bank of England TOLL System issue in November 2020, that resulted in manual payments being made as contingency for three working days.
Hybrid working	
In light of COVID-19, a change in working arrangements could lead to increased operational risks due to the majority of staff working from home.	During the year, remote working controls were put in place when hybrid working was urgently implemented in light of COVID-19. Controls continued to be adapted as new working practices evolved to ensure overall control standards were maintained. The robust control framework was reviewed by Internal Audit. The majority of meetings were conducted via secure conference and video calls to ensure governance and communication was maintained. Strategic planning continued for hybrid working to develop a long-term view of working practices and associated controls. An independent external review confirmed the existing control framework as robust.

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 who have historically offered higher remuneration packages that are not subject to public sector remuneration policies.	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 which could result 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 follows the Civil Service Commission's recruitment principles and selection process to ensure vacancies are filled on merit on the basis of fair and open competition. The DMO has a formal performance appraisal process and all staff are given clear and achievable objectives. 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 benchmarked annually to equivalent private sector pay levels in order to keep management aware of any significant disparities that are developing. During the year, particular consideration has been given to the issues faced by staff working increased hours due to increased market operations and additional I.T support needed as part of the transition to remote working. The DMO has a policy to recognise those staff who have performed well in their roles through the payment of one-off non-consolidated performance related awards. Any awards are assessed annually by the DMO PRT (Performance Review Team). They are determined by individual performance and criteria associated with the DMO's performance management process, which are also 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. This has been an effective conduit for wider communication and consultation with all staff. On an annual basis all DMO staff are given the opportunity to take part in the Civil Service People survey. Any issues raised via this route, with suggested mitigating action if required, are considered by the Accounting Officer and the 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 2020-2021. 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, 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. Comments made by the external auditors in their management letter and other relevant reports have also informed this review.

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 2020-2021, 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
14 October 2021

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.

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

14 October 2021

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 2021 under the Insolvency Act 1986. The financial statements comprise: Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

I have also audited the information in the Accountability Report that is 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 Service Investment Account's affairs as at 31 March 2021 and of the Insolvency Service Investment Account's total comprehensive income for the year then ended; and
- have been properly prepared in accordance with the Insolvency Act 1986 and HM Treasury's directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects, the income and expenditure 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), applicable law 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Insolvency Service Investment Account in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that the Insolvency Service Investment Account's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Insolvency Service Investment Account's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Commissioners and the Secretary and Comptroller General with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Insolvency Service Investment Account is adopted in consideration of the requirements set out in the HM Treasury's Government Financial Reporting Manual which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the annual report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's certificate thereon. The Commissioners and Secretary and Comptroller General is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with the Insolvency Act 1986 and HM Treasury direction issued thereunder; and
- the information given in the 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

In the light of the knowledge and understanding of the Insolvency Service Investment Account and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Reports. 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.

Responsibilities of the Commissioners and the Secretary and Comptroller General for the financial statements

As explained more fully in the Statement of Secretary and Comptroller General's Responsibilities, the Commissioners and the Secretary and Comptroller General are responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Commissioners and the Secretary and Comptroller General Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing the Insolvency Service Investment Account's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Commissioners and the Secretary and Comptroller General anticipates that the services provided by the Insolvency Service Investment Account will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- inquiring of management, the audited entity's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Insolvency Services Investment Account's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Insolvency Service Investment Account's controls relating to the Insolvency Act 1986.

- discussing among the engagement team involving relevant internal and external specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals, bias in management's estimates, and significant transactions that are unusual or outside the usual course of business;
- obtaining an understanding of Insolvency Service Investment Account's framework of authority as well as other legal and regulatory frameworks that the Insolvency Service Investment Account operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Insolvency Service Investment Account's. The key laws and regulations I considered in this context included Insolvency Act 1986 and Managing Public Money; and
- other risk assessment procedures performed relating to fraud, non-compliance with laws and regulations and regularity.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the Audit committee concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Commissioners;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- other audit procedures responsive to the risk of fraud, non-compliance with laws and regulation or irregularity including reviewing transactions for unusual trading activities or payments, confirming that transactions are in line with the activities permitted the Insolvency Act 1986 and making enquiries of those charged with governance.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

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

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.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

21 October 2021

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

Statement of Comprehensive Income for the year ended 31 March 2021

	2021	2020
	£000	£000
Interest income	**936**	5,078
Gross interest payable to liquidators	**(734)**	(3,178)
Total comprehensive income	**202**	**1,900**

The notes on pages 58 to 61 form part of these accounts.

Statement of Financial Position as at 31 March 2021

	2021	2020
	£000	£000
Assets		
Demand deposits with the Debt Management Account	**947,782**	677,013
Total assets	**947,782**	**677,013**
Liabilities and client funds		
Liabilities		
Net interest payable to liquidators	**472**	946
Tax on interest payable to HMRC	**118**	311
	590	**1,257**
Client funds		
ISA funds	**925,700**	654,500
Accumulated net profits on disposal of gilts	**12,924**	12,924
Surplus less interest payable to liquidators	**8,568**	8,332
	947,192	675,756
Total liabilities and client funds	**947,782**	**677,013**

The notes on pages 58 to 61 form part of these accounts.

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

14 October 2021

Statement of Cash Flows for the year ended 31 March 2021

	2021	2020
	£000	£000
Operating activities		
Interest received	**1,073**	5,305
Interest paid to the Insolvency Services Account	**(1,060)**	(2,697)
Tax on interest paid to HMRC	**(340)**	(599)
(Increase)/decrease in demand deposits with the Debt Management Account	**(270,907)**	3,199
Net cash (used in)/from operating activities	**(271,234)**	5,208
Financing activities		
Funds received from the Insolvency Services Account	**530,534**	900,792
Funds paid to the Insolvency Services Account	**(259,300)**	(906,000)
Net cash from/(used in) financing activities	**271,234**	(5,208)
Increase in cash	–	–
Cash at the beginning of the year	–	–
Cash at the end of the year	–	–

The notes on pages 58 to 61 form part of these accounts.

Statement of Changes in Client Funds for the year ended 31 March 2021

	ISA funds	Accumulated net profits on disposal of gilts	Surplus less interest payable to liquidators	Total ISA funds
	£000	**£000**	**£000**	**£000**
At 31 March 2019	**660,000**	**12,924**	**6,140**	**679,064**
Total comprehensive income	-	–	1,900	1,900
Transferred from client money employed account	(292)	–	292	–
Funds received from ISA	900,792	–	–	900,792
Funds paid to ISA	(906,000)	–	–	(906,000)
At 31 March 2020	**654,500**	**12,924**	**8,332**	**675,756**
Total comprehensive income	–	–	202	202
Transferred from client money employed account	(34)	–	34	–
Funds received from ISA	530,534	–	–	530,534
Funds paid to ISA	(259,300)	–	–	(259,300)
At 31 March 2021	**925,700**	**12,924**	**8,568**	**947,192**

The notes on pages 58 to 61 form part of these accounts.

Notes to the accounts for the year ended 31 March 2021

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 Act 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

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 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)'. Application is required for reporting periods beginning on or after 1 January 2023. The ISIA expects to apply these revisions to IAS 1 in 2023-2024. The application of these revisions, which the IASB has delayed by a year, and which affect only the presentation of liabilities in the statement of financial position and relate to a clarification of the classification of current and non-current liabilities, are not expected to materially alter the presentation of the financial statements of the ISIA.
- IFRS 7 - Financial Instruments: Disclosures, which has been revised as part of the IASB's 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)'. Application is required for reporting periods beginning on or after 1 January 2021. The ISIA expects to apply these revisions to IFRS 7 in 2021-2022. The application of these revisions, which require additional disclosures to allow users to understand the nature and extent of the risks arising from the IBOR reform to which the entity is exposed and how the entity manages those risks, are not expected to materially alter the presentation of the financial statements of the ISIA.

- IFRS 9 – Financial Instruments, which has been revised as part of the IASB's 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)'. Application is required for reporting periods beginning on or after 1 January 2021. The ISIA expects to apply these revisions to IFRS 9 in 2021-2022. The application of these revisions, which require additional disclosures to allow users to understand the nature and extent of the risks arising from the IBOR reform to which the entity is exposed and how the entity manages those risks, are not expected to materially alter the presentation of the financial statements of the ISIA.

- IFRS 9 – Financial Instruments, which has been revised as part of the IASB's 'Annual improvements to IFRS Standards 2018-2020 (fees in the '10 per cent' test for derecognition of financial liabilities)'. Application is required for reporting periods beginning on or after 1 January 2022. The ISIA expects to apply these revisions to IFRS 9 in 2022-2023. The application of these revisions, which clarify which fees an entity includes when it applies the '10 per cent' test of IFRS 9 in assessing whether to derecognise a financial liability, are not expected to materially alter the presentation of the financial statements of the ISIA.

- IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, which has been revised as part of the IASB's 'Onerous Contracts – Cost of Fulfilling a Contract' (Amendments to IAS 37)'. Application is required for reporting periods beginning on or after 1 January 2022. The ISIA expects to apply these revisions to IAS 37 in 2022-2023. The application of these revisions, which deal with which costs a company should include when assessing whether a contract will be loss-making 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 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 2020-2021 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. 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 2021 (31 March 2020: 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 £271,234k (net of withdrawals) to the ISIA (2019-2020: £5,208k net withdrawal).

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

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