

# Insolvency Services and the Insolvency Services Investment Accounts 2021-22

HC 1110



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

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HC 1110



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## 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 two financial statements are shown in separate sections of this report.

## 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 ISIA”)

This account is kept by CRND at the Bank of England. 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.

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.

# Insolvency Services Account 2021-22

## Foreword

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 Insolvency Service Account (The ISA).

Insolvency Practitioners 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.

## 1 Review of activities

### Transactions

#### **The Insolvency Services Account**

Receipts into the ISA decreased in 2021-22 by £366 million to £624 million (2019-20 £990 million). Payments increased by £56 million to £497 million (2019-20 £441 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 2021-22, Payments included £49m returned to HM Government for funding received in prior year receipts as part of the Official Receiver's costs as liquidator of British Steel.

The deficit in receipts over payments is due to the continued work being carried out to distribute Payment Protection Insurance (PPI) monies. 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.

#### **Banking**

The Government Banking Service (GBS), part of HM 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 have changed during the reporting period, 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.

- 0.1% 25th March 2020 – 29th December 2021
- 0.25% 30th December 2021 – 14th February 2022
- 0.5% 15th February – 27th March 2022
- 0.75% from 28th March 2022



## The Insolvency Services Account

### 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 the separately prepared Insolvency Service Annual Report and Accounts.

Fee recovery increased in 2021-22 by £159.8 million to £223.7 million from £63.9 million in 2020-21. This increase has been caused by recoveries relating to the collection of PPI funds and realisation on National Interest Cases. These PPI recoveries are being allocated to insolvent estates and, as a result, fees due to the Insolvency Service can now be recognised.

### Key Performance Indicator

The key performance indicator of EAS is to ensure 98.0% (2020-21: 98.0%) of ISA payments are made within 2 working days. In 2021-22, 98.0% of ISA payments were processed within 2 working days (2020-21: 99.2%).

## 2 Forward look

EAS has achieved its payment timeliness targets this year and will seek to maintain this high standard of delivery throughout 2022-23.

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 2022-23.

EAS will be working closely with the Future Case Management and Capabilities project to ensure the successful delivery of the new case management system in 2024.

## 3 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 £23,000 for the audit of the ISA for 2021-22 is included within the £176,000 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**  
Chief Executive

17 November 2022

## Governance Statement

### Framework

The Insolvency Act 1986 (the Act) requires the preparation of a statement of sums received and paid out through the Insolvency Service Account (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 2021-22.

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

The Official Receiver's PPI claim exercise has been unprecedented in volume and is both complex and time-consuming. Prior to the Financial Conduct Authority's PPI complaint submission deadline in August 2019, the OR submitted complaints to a number of financial institutions. Work is ongoing to conclude the remaining complaints.

The OR has begun paying dividends to affected creditors. This is a high priority for the OR given the volumes involved, and a team of around 100 colleagues are focused on making distributions. The high volumes have also resulted in multiple challenges, including the payment of associated tax liabilities, IT system constraints and resourcing levels that deliver speed and accuracy, whilst remaining cost-effective. The OR has also faced legal challenges from the industry regarding the OR's ability to receive PPI redress.

## 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 BSD 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; and
- assurance gained from internal and external 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 2021-22 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 in-house internal audit/management check functions.

To mitigate the risk of reconciliation errors, the Agency has completed a full review of the current reconciliations to investigate the reasons for any variances and rectify the discrepancies. This review enabled the Agency to prevent any other unexplained reconciling items from arising as well as identifying: key versus non-key reconciliations, establish tolerances, and escalation routes.

The review was completed in January 2022 and was endorsed by senior management. The NAO provided input between February and March, and the new reconciliation procedure is now in place.

### Risk assessment and issues

The Risk Register for 2021-22 records the main area of risk to the work of EAS as our ability to manage stakeholder expectation in times of increased absence due to Covid 19. A risk was also identified in relation to the HM Treasury requirement to deliver monthly cash forecasts with penalties being applied for inaccurate forecasting from 2022-23. These risks continued to be addressed during the year and the actions taken to mitigate the risks included:

- Comprehensive cross team training plan to ensure we had flexibility in the workforce to support any unexpected absence.
- Regular meetings with other business areas within the Agency to assist with cash management and meetings with BEIS and UKSBS to identify ways to improve the accuracy of the monthly cash forecast.

The grace period for the Agency's inclusion into the HM Treasury Management scheme has been extended to the 31 March 2023. This extension will give the Agency additional time to mitigate this risk.

### Significant issues

There have been no significant issues to report.

**Dean Beale**  
Chief Executive

17 November 2022

# 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 2022 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. The financial reporting framework that has been applied in the preparation of the financial statements 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 2022; and
- 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 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (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 Services 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.

## Other Information

The other information comprises information included in the Foreword, Statement of Chief Executive's responsibilities and the Governance Statement, but does not include the financial statements nor my auditor's certificate and report. The Accounting Officer 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 information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements and is 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 Services Account and its environment obtained in the course of the audit, I have not identified any material misstatements in the Foreword, Statement of Chief Executive'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 required for my audit have not been received from third parties; 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 Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- maintaining proper accounting records;
- preparing the financial statements on a receipts and payments basis to properly present of the state of affairs of the Insolvency Services Account, its Receipts and Payments and Statement of Balances for the financial year;

- ensuring that the Insolvency Services Account as a whole is fair, balanced and understandable; and
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement 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.

### **Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud**

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

### **Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud**

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the Insolvency Service's accounting policies;
- 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'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 Service's compliance with 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 a result of these procedures, I considered the opportunities and incentives that may exist within the Insolvency Service for fraud and identified the greatest potential for fraud in the following areas: posting of unusual journals. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the Insolvency Service's framework of authority as well as other legal and regulatory frameworks in which the Insolvency Service operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in 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.

#### **Audit response to identified risk**

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- reading and reviewing 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 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my certificate.

#### **Other auditor's responsibilities**

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

24 November 2022

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

## The Insolvency Services Account Receipts and Payments for the Year ended 31 March 2022

	Note	2021-22 £'000	2020-21 Restated £'000
<b>Receipts</b>			
Estates funds received in relation to compulsory insolvencies and voluntary liquidations		<b>624,398</b>	990,103*
Frequent Petitioners	11	<b>209</b>	497
From the Investment Account	2	<b>430,500</b>	259,300
Unclaimed dividends	6	<b>13,962</b>	13,703
Interest received	3	<b>590</b>	1,094
		<b>1,069,659</b>	1,264,697
<b>Payments</b>			
Payments requested by liquidators and trustees of estates in compulsory insolvency and voluntary liquidation and reissued dividends	5	<b>497,283</b>	441,078*
To the Investment Account			
Excess cash balances on the ISA	2	<b>852,000</b>	530,500
Interest on ISA working balances	3	<b>60</b>	34
To the Consolidated Fund	7	<b>0</b>	21,664
To the Insolvency Service	4	<b>54,000</b>	84,380
		<b>1,403,343</b>	1,077,656
<b>Excess of payments over receipts</b>	9	<b>333,684</b>	
<b>Excess of receipts over payments</b>	9		187,041

\*Prior period balances have been restated, see note 12 for details.

The notes on pages 17 to 23 form part of these accounts.

## The Insolvency Services Account Statement of Balances as at 31 March 2022

		<b>2021-22</b>	2020-21
	Note	<b>£'000</b>	Restated £'000
<b>Balances:</b>			
The Investment Account	2	<b>1,347,200</b>	925,700
Cash at Bank	9	<b>20,150</b>	353,834
		<b><u>1,367,350</u></b>	<u>1,279,534</u>
<b>Representing:</b>			
Insolvency Estates	10	<b>1,039,830</b>	*1,159,370
Frequent Petitioners	11	<b>50</b>	(52)
Fees due to the Insolvency Service	4	<b>216,444</b>	*19,121
Unclaimed Dividends	6	<b>111,016</b>	90,028
Amount due to the Consolidated Fund	7	<b>0</b>	10,990
Amounts due to the Treasury Solicitor	8	<b>10</b>	77
		<b><u>1,367,350</u></b>	<u>1,279,534</u>

\*Prior period balances have been restated, see note 12 for details.

The notes on pages 17 to 23 form part of these accounts.

**Dean Beale**  
Chief Executive

17 November 2022

## Notes to the accounts

### 1 Accounting Policies

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

### 2 The Investment Account

	<b>2021-22</b>	2020-21
	<b>£'000</b>	£'000
<b>Balance at 1 April</b>	<b>925,700</b>	654,500
Cash deposited with CRND	<b>852,000</b>	530,500
	<b>1,777,700</b>	1,185,000
Cash withdrawn from CRND	<b>(430,500)</b>	(259,300)
<b>Balance at 31 March</b>	<b>1,347,200</b>	925,700

The Insolvency Act 1986, S.403 (2), 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

		<b>2021-22</b>	2020-21
	Note	<b>£'000</b>	£'000
On cash deposited with CRND	10	<b>530</b>	1,060
On working Balances at the bank		<b>60</b>	34
On Government Securities		<b>0</b>	0
<b>Balance at 31 March</b>		<b>590</b>	1,094

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

	2021-22 £'000	2020-21 £'000
<b>Balance at 1 April</b>	<b>0</b>	0
Interest earned during the year	<b>60</b>	34
Amount paid over during the year	<b>(60)</b>	(34)
<b>Balance at 31 March</b>	<b>0</b>	0

### 4 Due to the Insolvency Service

	2021-22 £'000	2020-21 Restated £'000
<b>Balance at 1 April</b>	<b>19,121</b>	80,081
Fees and VAT charged to estates in insolvency <sup>1</sup>	<b>10 223,690</b>	63,902
Net disbursements recovered / (unrecovered) <sup>2</sup>	<b>10 27,607</b>	(40,497)
Fees on unclaimed dividends	<b>6 26</b>	15
Net payments made to the Insolvency Service	<b>(54,000)</b>	(84,380)
<b>Balance at 31 March</b>	<b>216,444</b>	19,121

<sup>1</sup> The increase in Fees and VAT charged to insolvent estates is due to recoveries relating to the collection of PPI funds being allocated to estates, resulting in recognition of fees.

<sup>2</sup> Net disbursements recovered / (unrecovered) figure excludes indemnified funding from other government agencies with respect to National Interest Cases (NIC). 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**

	<b>2021-22</b>	2020-21
	<b>£'000</b>	Restated £'000
Balance held on behalf of the Agency including the benefit of specific indemnities and other funding mechanisms	<b>271,237</b>	101,638
Cumulative net disbursements funded by the OR indemnified by government departments (National Interest Cases)	<b>(32,643)</b>	(56,120)
Other Cumulative net disbursements funded by the OR	<b>(22,150)</b>	(26,397)
	<u>216,444</u>	<u>19,121</u>
<b>Net balance held on behalf of the Agency</b>	<b>216,444</b>	19,121

The Agency holds a £271m 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:

- i) specific indemnities for National Interest Cases from government departments, and
- ii) 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 during 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

	2021-22 £'000	2020-21 £'000
<b>Balance at 1 April</b>	<b>90,028</b>	100,013
Dividends recognised as unclaimed in the year	<b>13,962</b>	13,703
Dividends paid out previously categorised as unclaimed	<b>(3,719)</b>	(2,637)
Fees claimed on payments made	<b>4</b>	(15)
Transfers from estates	<b>3,082</b>	2,254
Transfers to estates	<b>(3,301)</b>	(1,193)
Surrenderable to the Consolidated Fund	<b>7</b>	(22,097)
Historical Balance Reclassification	<b>7</b>	0
	<hr/>	<hr/>
<b>Balance at 31 March</b>	<b>111,016</b>	90,028

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

## 7 Surrenders to the Consolidated Fund

	2021-22 £'000	2020-21 £'000
<b>Balance at 1 April</b>	<b>10,990</b>	10,557
Dividends not claimed	<b>0</b>	22,097
Historical Balance Reclassification	<b>(10,990)</b>	0
Payments made to the Consolidated Fund	<b>6</b>	(21,664)
	<hr/>	<hr/>
<b>Balance at 31 March</b>	<b>0</b>	10,990

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 usually paid to HM Treasury after 7 years. During this reporting period the historical balance held for consolidated funds has been reclassified as unclaimed dividends and no payment raised to maintain sufficient funds to cover unclaimed liabilities. Consequently, the Surrenders to the Consolidated Fund balance at year end is £nil (2020-21 £21,664).



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

	<b>2021-22</b>	2020-21
	<b>£'000</b>	£'000
<b>Balance at 1 April</b>	<b>77</b>	3
Funds received from dissolved companies	<b>320</b>	995
Payments to Treasury Solicitor	<b>(387)</b>	(921)
<b>Balance at 31 March</b>	<b>10</b>	77

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 into the Estate Account. The funds are then paid to HM Treasury Solicitor.

**9 Cash at Bank**

	<b>2021-22</b>	2020-21
	<b>£'000</b>	£'000
<b>Balance at 1 April</b>	<b>353,834</b>	166,793
Excess of Receipts over Payments	<b>0</b>	187,041
Excess of Payments over Receipts	<b>(333,684)</b>	0
<b>Balance at 31 March</b>	<b>20,150</b>	353,834

Cash is held in sterling with the Government Banking Service

**10 Insolvency Estates**

	<b>2021-22</b>	2020-21
	<b>£'000</b>	Restated £'000
<b>Balance at 1 April</b>	<b>1,159,370</b>	630,877
Fees and VAT charged	<b>4 (223,690)</b>	(63,902)
Net realisations / (payments)	<b>131,438</b>	552,894
Net Interest paid to funds lodged with the Estate Account	<b>530</b>	1,060
Net disbursements (recovered) / unrecovered	<b>4 (27,607)</b>	40,497
Other payments or adjustments	<b>(211)</b>	(2,056)
<b>Balance at 31 March</b>	<b>1,039,830</b>	1,159,370

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

## 11 Frequent Petitioner

	2021-22 £'000	2020-21 £'000
<b>Balance at 1 April</b>	<b>(52)</b>	(238)
Funds received from HMRC	<b>209</b>	497
Deposits applied to petitions from HMRC	<b>(107)</b>	(311)
<b>Balance at 31 March</b>	<b>50</b>	(52)

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.

## 12 Prior Period Restatements

### 12(a) Receipts and Payments

Extracts of Receipts and Payments	2020-21		2020-21 Restated £'000
	Published £'000	Movement £'000	
<b>Receipts</b>			
Estates funds received in relation to compulsory insolvencies and voluntary liquidations	<b>1,111,927</b>	<b>(121,824)</b>	990,103
<b>Payments</b>			
Payments requested by liquidators and trustees of estates in compulsory insolvency and voluntary liquidation and reissued dividends	<b>562,902</b>	<b>(121,824)</b>	441,078
<b>Net of Receipts and Payments above</b>	<b>549,025</b>		<b>549,025</b>

The Service operates two bank accounts; in the 2020-21 accounts the receipts and payment figures included internal movements between those bank accounts overstating the figures. Realisation of assets of estates in compulsory insolvencies and voluntary liquidations were disclosed in 2020-21 at £1,111,927 and have been restated to £990,103. We have also renamed this line in the accounts, for clarity, to "Estates funds received in relation to compulsory insolvencies and voluntary liquidations". Payments requested by liquidators and

trustees of estates in compulsory insolvency and voluntary liquidation and reissued were previously disclosed at £562,902 and have been restated as £441,078. The net difference as a result of the above changes is £nil, they have been restated to reflect the aggregated position in the receipts and payments.

### 12(b) Disbursements under/over recovered

The Insolvency Service funds Official Receiver disbursements when there are insufficient funds in the Estates to cover these. The in-year and cumulative differences between the disbursements paid and those recovered from the Estates impacts the cash balance due to the Insolvency Service for fees, and the cash balance due to the Estates.

In 2016 and 2017 an adjustment was applied to the net position of disbursements paid and recovered relating to a movement on a National Interest Case which is indemnified by central government.

In retrospect the Agency takes the view that this adjustment should not have been made; the prior period adjustment therefore reflects the Agency's revised workings which increases the amount due to the Estates, and decreases the amount due to the Insolvency Service in fees. Whilst the adjustments relate to years before the earliest prior period presented, they impact the cumulative total and so the 2020 Statement of Balances has been adjusted to improve comparability as shown below.

<b>Statement Of Balances</b>	<b>2020-21</b>	<b>Movement</b>	2020-21
	<b>Published</b>		Restated
	<b>£'000</b>	<b>£'000</b>	£'000
Insolvency Estates	<b>1,135,442</b>	<b>23,928</b>	1,159,370
Due to the Insolvency Service	<b>43,049</b>	<b>(23,928)</b>	19,121

The restatement above is caused by under/over recoveries in prior years. A breakdown of the years driving the restatement can be seen below:

<b>Opening Balances</b>	<b>2020-21</b>	2015-16	2016-17	2020-21
	<b>Published</b>			Restated
	<b>£'000</b>	£'000		£'000
Due to the Insolvency Service	<b>104,009</b>	(17,999)	(5,929)	80,081
Insolvency Estates	<b>606,949</b>	17,999	5,929	630,877
<b>Net Position</b>	<b>710,958</b>	0	0	710,958

**Dean Beale**  
Chief Executive

17 November 2022

## 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 2022

## 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 (gilts) 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 2021-2022.

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 2021-2022. The cost of managing the ISIA is recharged to the Insolvency Service; in 2021-2022, this amounted to £67,000 (2020-2021: £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 2021-2022. 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 £629k (2020-2021: £202k). Interest income of £2,256k (2020-2021: £936k) was higher than the prior year due to a rise in average interest rates on the ISIA's investments with the Debt Management Account, which correspond to the official Bank Rate, and a higher average balance of funds available for investment in the ISIA during the year. Interest payable to liquidators of £1,627k (2020-2021: £734k) was higher than the prior year primarily as a result of a rise in the average interest rate offered to liquidators.

As at 31 March 2022, the total value of investments held by the ISIA was £1,371 million (31 March 2021: £948 million). This increase was due to a net advance of funds by the ISA during the year.

**Jo Whelan**

16 November 2022

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 2021-2022, 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 2021-2022.

**Jo Whelan**

16 November 2022

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 CRND has not applied principle six which covers departmental governance arrangements with ALBs.

### Managing Board

In June 2021, HMT published a Tailored Review of the DMO. Tailored Reviews aim to assess, amongst other things, an organisation's form and function, its control and governance arrangements, and its relationship with its sponsoring department and other relevant organisations. Overall the review concluded that the DMO is a highly successful and effective organisation.

The review made a series of recommendations regarding the DMO's governance arrangements. In particular, the review recommended that, in terms of its status, the DMO should be regarded as a 'Model 2' Executive Agency as defined in the Cabinet Office guidance.

A Model 2 Executive Agency is one which is deemed by the sponsor department to require a greater level of independence from its home department in order to carry out its functions effectively, or one that is considered by its home department to be of sufficient size and importance to require independent assurance. On this basis, the review recommended that the DMO's governance arrangements should be amended accordingly, including the creation of an Advisory Board to replace the current Managing Board and, as a consequence of this, to introduce a Non-Executive Chair (NEC) to the Board membership. The process to recruit a NEC was undertaken in the second half of the year and successfully completed as announced on 4 May 2022.

The Secretary and Comptroller General was supported during 2021-2022 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 formal 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. For 2021-2022, in line with good practice, the Board’s effectiveness was reviewed through the Tailored Review. The Terms of Reference last underwent a review by the Board in 2020. The Terms of Reference will be supplanted by a new Terms of Reference for the Advisory Board next year.

### 2021-2022 Managing Board activities

Board meetings were held throughout 2021-2022 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		
Sir Robert Stheeman	8	8		
Jo Whelan	8	8		
Jim Juffs	8	8		
Jessica Pulay	8	8		
Tom Josephs	8	7	Possible	Actual
Paul Fisher	8	8	4	4
Paul Richards	8	8	4	4
Rodney Norman	n/a	n/a	4	4

## **Audit Committee**

The Secretary and Comptroller General was supported during 2021-2022 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 2021-2022 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, the National Audit Office and this year KPMG.

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 audits.

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

- Hybrid working arrangements;
- Governance over project management;
- Recruitment files;

- Data legislation and governance;
- DMO accommodation and data centres relocation;
- IT security;
- Telecom supplier and cloud services risks;
- Key supplier risk programme;
- Risk appetite statements;
- Principal risks and uncertainties;
- Whistleblowing policy; and
- CRND activities.

The Audit Committee covers a regular programme of agenda items, together with other current topics, and met four 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 2021-2022.

#### *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 initiatives monitored by the BDC during the year were the continuation of remote working arrangements due to COVID-19, and the accommodation relocation project.

The Business Delivery Committee met regularly (typically weekly) throughout 2021-2022.

#### *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 in the Managing Public Money document.

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 reporting 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 nine times during 2021-2022.

### *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 for considering whether planned mitigating actions are 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 and cyber security, hybrid working arrangements, attestation of policies, business continuity planning and key supplier risks. The ORC met six times during 2021-2022.

### *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 actions 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 when the impact of COVID-19 subsided. Other topics reviewed included key reconciliation documentation and digital signature solutions.

### *Risk Management Unit*

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

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

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

#### *Third line of defence:*

The DMO's Internal Audit function provides the DMO Accounting Officer with independent and objective assurance on the overall effectiveness of the Agency's system of internal control. It does this through a risk based work programme which is presented to the Audit Committee at the start of each year and approved by the Audit Committee at the start of each quarter. All audits make a series of findings relating to control weaknesses. Progress against agreed management actions is monitored on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines. The function is independent of the DMO's trading activities and operations and has a direct reporting line to the DMO Accounting Officer. The work of Internal Audit includes assessing the effectiveness of both control design and control performance. With its independence and overall remit, Internal Audit provides a third line of defence against the risks that might prevent the DMO delivering its objectives.

#### *Risk policies and procedures*

The DMO's risk policies reflect the high standards and robust requirements which determine the way 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 2021-2022, this included policies relating to health and safety, procurement, physical security, IT acceptable use, 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, anti-money laundering and information security. 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 2021-2022 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 developed. 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 had been working remotely.

The risk assessment and risk mitigation plans were reviewed regularly to ensure the office premises remained COVID-19 secure and compliant with guidelines. A continuation in working arrangements whereby the majority of staff were working from home is a principal risk under the Risk Profile section.

### *Ukrainian conflict*

Further to the Russian invasion of Ukraine, the DMO closely monitored actual and potential effects on activities, markets, counterparties and suppliers.

The DMO continued to work with partners across government to ensure all necessary steps were taken to maintain cyber security defences and also assurances were received from some strategic partners regarding their own arrangements, with details of the assurances put in place to mitigate against any disruption or impact. Internal assessments considered potential accounting or disclosure impacts and any effects through legal and regularity changes.

## 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:

<b>Principal risks and uncertainties</b>	<b>Mitigation and management</b>
<b>IT systems and infrastructure</b>	
<i>CRND relies on a number of IT and communications systems to conduct its operations effectively and efficiently.</i>	<p>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 following an IT health check.</p> <p>The DMO has in place structured business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business operations.</p>

	<p>Arrangements to support CRND activities were in place throughout the year with the majority of staff working from home.</p> <p>During the year, the most significant initiative was the migration of infrastructure from a DMO hosted and managed service to a cloud service, in line with the approach taken by other government departments. In addition, there was a review of the backup strategy of DMO's data for flexibility in a data recovery situation and improved resilience. All data centres are physically separate from the main office location which increases resilience.</p>
<p><b>IT and data security</b></p>	
<p>The DMO could be the subject of an external attack on its IT systems and infrastructure. Through its activities the DMO gathers, disseminates and maintains sensitive information including market sensitive information and personal data about staff and market participants. The DMO seeks to ensure the highest standards of data protection and information management.</p>	<p>The DMO, 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 2021-2022 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 continuous remote working.</p> <p>Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. The DMO has a Senior Information Risk Owner (SIRO) who is responsible for the information risk policy and the assessment of information risks. The SIRO is a member of the Board and provides advice to Board members on the management of information risks.</p>

	<p>The DMO has put in place several layers to defend against external and internal attacks. During 2021-22 penetration testing and independent assessments of critical systems were carried out by a third party and identified the overall security posture was of a good standard. Lower rated enhancements were implemented to further improve the overall security posture of the environment.</p> <p>The DMO has demonstrated compliance with Government security standards through security health-check assessments.</p>
<p><b>Reliance on third parties</b></p>	
<p>A number of the operational systems and services on which CRND relies are provided or supported by third party suppliers.</p>	<p>To mitigate the risk of failure of a key third party supplier the DMO undertakes regular corporate risk assessments of each key supplier to assess a range of factors including its financial strength and operational capacity, including the reliance on sub-contractors. The DMO has dedicated contract owners 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 DMO has introduced enhanced monitoring for critical suppliers (i.e. strategic partners) that focuses on risk and strategic aspects. Scrutinised areas include inherent risks, scenario analysis, assessment of supply chain risks including fourth parties, monitoring and assessing residual risks, and mitigation planning. External consultancy work assisted with the approach.</p> <p>During the year, monitoring continued for any potential supply chain challenges from COVID-19, including the economic impact to suppliers' business and industry.</p>

<b>Transaction processing</b>	
<p>CRND relies on its operational processes to successfully execute a significant number of high value transactions on a daily basis. Reliance on the accurate execution of processes exposes CRND to operational risk arising from process breakdowns and human error.</p>	<p>A key component of CRND’s control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities.</p> <p>All teams, including CRND, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.</p> <p>The RMU conduct regular control and compliance testing of CRND activities, providing the executive sub-committee of the Board with assurance on the effectiveness of operational controls and compliance with relevant Financial Conduct Authority and Prudential Regulation Authority rules in the dealing and settlement areas.</p> <p>The DMO also maintains a strong audit and control environment which includes a well embedded incident reporting procedure which extends to cover CRND. This promotes the early identification and resolution of risk incidents and provides visibility to the DMO Accounting Officer and Board.</p> <p>The continued focus has been on enhanced compliance monitoring over transaction processing, to provide assurance over controls standards during remote working.</p> <p>This year saw the first upgrade of the core trading system since implementation. A robust control framework was adhered to for testing and release management. When critical third party suppliers encountered system issues, contingency processes worked successfully.</p> <p>During the year controlled contingency processes were successfully invoked to overcome short-term disruption to our standard settlement processes at external organisations.</p>

<p><b>Hybrid working</b></p>	
<p>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.</p>	<p>During the previous 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 continued to be conducted via secure conference and video calls to ensure governance and communication was maintained. Whilst office based attendance grew, the same monitoring regime for hybrid working arrangements was maintained. Strategic planning continued for hybrid working to develop a long-term view of working practices and associated controls.</p> <p>An independent external review confirmed the existing control framework as robust.</p>

<b>People risk</b>	
<p>The DMO, including CRND, relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, ensuring delivery of its strategic objectives.</p> <p>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.</p>	<p>DMO recruitment policies help ensure that individuals with the appropriate level of skill and experience are appointed at all levels within the organisation. This helps mitigate the level of human error which could result in process failures.</p> <p>The DMO's Training and Development policy is designed to help ensure that staff have the right skills to meet its objectives.</p> <p>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.</p> <p>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.</p> <p>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 continuation with remote working. Challenges with recruitment and retention were identified this year and were reviewed by the Managing Board. 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 Performance Review Team.</p>



	<p>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.</p> <p>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.</p> <p>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 DMO Accounting Officer and the Board.</p> <p>The DMO is a disability confident employer.</p>
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**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 2021-2022. 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 2021-2022, 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

16 November 2022

## 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

16 November 2022

# 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 2022 under the Insolvency Act 1986.

The financial statements comprise the Insolvency Services Investment Account's:

- Statement of financial position as at 31 March 2022;
- Statement of comprehensive income, Statement of cash flows and Statement of changes in client funds for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted International Accounting Standards.

In my opinion, the financial statements:

- give a true and fair view of the state of the Insolvency Services Investment Account's affairs as at 31 March 2022 and its total comprehensive income for the year then ended; and
- 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 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (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 Services 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 Services 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 Services 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 Services Investment Account is adopted in consideration of the requirements set out in 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 is 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 financial statements nor my auditor's certificate and report. The Commissioners and Secretary and Comptroller General are 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 subject to audit have been properly prepared in accordance with HM Treasury directions made under the Insolvency Act 1986; 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 and is 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 Services Investment Account and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance Report and Accountability Report.

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

- I have not received all of the information and explanations I require for my audit; or
- adequate accounting records have not been kept by the Insolvency Services Investment Account 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 subject to audit are not in agreement with the accounting records and returns; 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:

- maintaining proper accounting records;
- the preparation of the financial statements and Annual Report in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- ensuring that the Annual Report and accounts as a whole is fair, balanced and understandable;
- internal controls as the Commissioners and the Secretary and Comptroller General determine are necessary to enable the preparation of the financial statements to be free from material misstatement, whether due to fraud or error; and

- assessing the Insolvency Services Investment Account's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Commissioners and the Secretary and Comptroller General anticipate that the services provided by the Insolvency Services 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.

### **Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud**

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

### **Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud**

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the Insolvency Services Investment Account's accounting policies.
- inquiring of management, the Insolvency Services Investment Account'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 Services Investment Account's controls relating to the Insolvency Services Investment Account's compliance with 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 a result of these procedures, I considered the opportunities and incentives that may exist within the Insolvency Services Investment Account for fraud and identified the greatest potential for fraud in the following areas: revenue recognition and posting of unusual journals. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the Insolvency Services Investment Account's framework of authority as well as other legal and regulatory frameworks in which the Insolvency Services Investment Account operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Insolvency Services Investment Account's. The key laws and regulations I considered in this context included the Insolvency Act 1986 and Managing Public Money.

#### **Audit response to identified risk**

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having a direct effect on the financial statements;
- enquiring of management and the Audit Committee concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my certificate.

### **Other auditor's responsibilities**

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

18 November 2022

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



## Statement of Comprehensive Income for the year ended 31 March 2022

	<b>2022</b>	2021
	<b>£000</b>	£000
Interest income	<b>2,256</b>	936
Gross interest payable to liquidators	<b>(1,627)</b>	(734)
<b>Total comprehensive income</b>	<b>629</b>	<b>202</b>

*The notes on pages 57 to 59 form part of these accounts.*

## Statement of Financial Position as at 31 March 2022

	<b>2022</b>	2021
	<b>£000</b>	£000
<b>Assets</b>		
Demand deposits with the Debt Management Account	<b>1,370,936</b>	947,782
<b>Total assets</b>	<b><u>1,370,936</u></b>	<b><u>947,782</u></b>
<b>Liabilities and client funds</b>		
<b>Liabilities</b>		
Net interest payable to liquidators	<b>1,244</b>	472
Tax on interest payable to HMRC	<b>311</b>	118
	<b><u>1,555</u></b>	<b><u>590</u></b>
<b>Client funds</b>		
ISA funds	<b>1,347,200</b>	925,700
Accumulated net profits on disposal of gilts	<b>12,924</b>	12,924
Surplus less interest payable to liquidators	<b>9,257</b>	8,568
	<b><u>1,369,381</u></b>	<b><u>947,192</u></b>
<b>Total liabilities and client funds</b>	<b><u>1,370,936</u></b>	<b><u>947,782</u></b>

*The notes on pages 57 to 59 form part of these accounts.*

**Jo Whelan**

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

16 November 2022

## Statement of Cash Flows for the year ended 31 March 2022

	<b>2022</b>	2021
	<b>£000</b>	£000
<b>Operating activities</b>		
Interest received	<b>1,637</b>	1,073
Interest paid to the Insolvency Services Account	<b>(530)</b>	(1,060)
Tax on interest paid to HMRC	<b>(132)</b>	(340)
Increase in demand deposits with the Debt Management Account	<b>(422,535)</b>	(270,907)
<b>Net cash used in operating activities</b>	<b>(421,560)</b>	<b>(271,234)</b>
<b>Financing activities</b>		
Funds received from the Insolvency Services Account	<b>852,060</b>	530,534
Funds paid to the Insolvency Services Account	<b>(430,500)</b>	(259,300)
<b>Net cash from financing activities</b>	<b>421,560</b>	<b>271,234</b>
<b>Increase in cash</b>	—	—
Cash at the beginning of the year	—	—
Cash at the end of the year	—	—

*The notes on pages 57 to 59 form part of these accounts.*

## Statement of Changes in Client Funds for the year ended 31 March 2022

	ISA funds £000	Accumulated net profits on disposal of gilts £000	Surplus less interest payable to liquidators £000	Total ISA funds £000
<b>At 31 March 2020</b>	<b>654,500</b>	<b>12,924</b>	<b>8,332</b>	<b>675,756</b>
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)
<b>At 31 March 2021</b>	<b><u>925,700</u></b>	<b><u>12,924</u></b>	<b><u>8,568</u></b>	<b><u>947,192</u></b>
Total comprehensive income	-	-	629	629
Transferred from client money employed account	(60)	-	60	-
Funds received from ISA	852,060	-	-	852,060
Funds paid to ISA	(430,500)	-	-	(430,500)
<b>At 31 March 2022</b>	<b><u>1,347,200</u></b>	<b><u>12,924</u></b>	<b><u>9,257</u></b>	<b><u>1,369,381</u></b>

*The notes on pages 57 to 59 form part of these accounts.*

# Notes to the accounts for the year ended 31 March 2022

## 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 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 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 2021-2022 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 2022 (31 March 2021: 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. The amount held by the Debt Management Account is shown in the statement of financial position, and the interest received and movement in amounts deposited are shown in the statement of cash flows.

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 £421,560k (net of withdrawals) to the ISIA (2020-2021: £271,234k net advance).

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

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the Secretary and Comptroller General authorises the accounts for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General (page 52).

## 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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