

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

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# Insolvency Services Account 2009-2010



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# Insolvency Services Account 2009-2010

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# Insolvency Act 1986

## Foreword

### Statutory background

The Insolvency Act 1986 (the Act) requires the preparation of two financial statements

- i 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); and
- ii 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 Services Investment Account (the Investment Account) for each year ending 31 March, in such form and manner as the Treasury may direct (Section 409(1) of the Act).

### **The Insolvency Services Account (the ISA)**

The Insolvency Regulations 1994, as amended, (the Regulations) require Official Receivers and insolvency practitioners to pay into the ISA at the Bank of England money received by them in the course of their administration of bankruptcies and compulsory liquidations. Voluntary liquidators may deposit funds into the ISA. The Regulations also provide for payments from the ISA of disbursements, expenses and distributions to creditors and to contributories in company liquidations (Regulations 7, 8, 22 and 23). Estate monies deposited in the ISA are generally transferred to the Investment Account (Section 403(2) of the Act) although the Regulations provide that trustees and liquidators may request investment in Government Securities of estate monies not required for immediate purposes (Regulation 9(1) & 23A).

### **The Insolvency Services Investment Account (the Investment Account)**

This account is kept by CRND at the Bank of England. CRND may invest any money standing to the credit of the Investment Account in accordance with the Trustee Investments Act 1961 and Treasury directions.

Income earned on these investments is used to pay interest and tax under the Regulations to individual estates. Investments are realised to make repayments to the ISA to meet the demands in respect of bankrupts' or companies' estates.

### General background

The Official Receiver deals with the administration and investigation of all personal and corporate (including partnership) insolvencies arising through orders made by the court (compulsory insolvencies). Creditors, or the Secretary of State, may appoint an insolvency practitioner to take over the insolvency from the Official Receiver to act as trustee in bankruptcy (personal insolvency) or liquidator (corporate insolvency). In either case, the Official Receiver or insolvency practitioner must pay any receipts arising in the insolvency into the ISA.

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

The ISA is administered by the Estate Accounts Services of The Insolvency Service.

## Aims and objectives

The Estate Accounts Services seeks to be a centre of excellence in providing estate accounting and investment services for bankruptcy and liquidation estate funds by

- delivering a high standard of service to all users of the ISA;
- listening to the views of users about the administration of the ISA;
- making use of new technology to improve efficiency and extend the range of services provided;
- minimising the regulatory burden on users of the ISA, within the statutory framework;
- ensuring the correct application and recovery of insolvency fees;

The aims and objectives of CRND for the Investment Account 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 securities that mature within one month and;
- income earned must, over time, be sufficient to cover the interest due to trustees and liquidators on money deposited with the ISA.

## Review of activities

### Level of insolvencies

The total number of new insolvencies – bankruptcies and compulsory and voluntary liquidations – decreased from 93,170 in 2008-2009 to 89,713 in 2009-2010. New voluntary liquidation cases decreased by 13 per cent to 13,145; bankruptcy cases increased by 1 per cent to 72,480; and compulsory cases decreased by 32 per cent to 4,088.

Estate accounts maintained for insolvency practitioners decreased in 2009-2010 to 30,008 (2008-2009 31,636), for bankruptcies and compulsory liquidations, while estate accounts maintained for official receivers increased in 2009-2010 to 96,722 (2008-2009 90,282). Voluntary estate accounts maintained for insolvency practitioners decreased in 2009-2010 to 3,398 (2008-2009 4,319).

The value of bankruptcies and compulsory liquidations estate accounts decreased to £162 million (2008-2009 £206 million), whilst the value of voluntary liquidation estate accounts has decreased to £620 million during 2009-2010 (2008-2009 £981 million).

### Transactions

#### *The Insolvency Services Account*

Receipts into the ISA decreased in 2009-2010 by £323 million to £1,282 million.

Payments decreased by £314 million to £1,282 million.

During the year aggregate receipt and payment volumes increased when compared to 2008-2009: receipts volumes were up to 133,000 in 2009-2010 (2008-2009 128,000) and payment requests were up to 234,000 in 2009-2010 (2008-2009 226,000). Written balance statements requested by IPs decreased by 28 per cent due to the increasing number of insolvency practitioners using the on-line internet access facility to view account details.

### *The Insolvency Services Investment Account*

Funds invested by CRND at 31 March 2010 were £991 million, a decrease of £392 million. Interest earned on these funds together with interest earned on the ISA working balances is paid to insolvency estates (after meeting interest under Regulation 9 (6) of the Regulations 1994 and associated income tax). A total of £24.4 million was paid to estates. During the year there was a further decrease of £0.1 million increasing the net deficit on interest to £3.5 million. This leaves a capital surplus on the funds of £42.5 million.

### **Banking**

From March 2010 the Government Banking Service (GBS), part of Her Majesty's Revenue and Customs (HMRC), has begun processing retail banking transactions for the ISA taking over from the Office of the Paymaster General. GBS and its supplier banks are commercially bound by a memorandum of understanding concerning the obligations it will meet. During the year the payable order system for paper-based payments has continued to deliver a high level of security. BACS payments are used for payments when sufficient payee information is provided.

### **Interest Paid to Estates**

The rate of interest paid on sums deposited in the ISA has decreased as follows during 2009-2010:

Interest rate at 1 April 2009	1.25%
Since 13 May 2009	0.50%

The interest rate amendment followed a notice published in the London Gazette pursuant to Regulation 9 (6B). The rate of interest is subject to regular review by Estate Accounts Services and the CRND.

### **Fees**

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

Banking Fees for the year have remained unchanged at £18 per quarter for bankruptcies and compulsory liquidations and £23 per quarter for voluntary liquidations where an account is maintained in the ISA. Banking fees charged to estates during 2009-2010 totalled £2.3m (2008-2009 £2.2m).

During the year the cheque issue fee remained unchanged at £1.00 per cheque, the BACS transaction fee remains unchanged at £0.15 and the CHAPS issue fee remains unchanged at £10. Cheque, BACS and CHAPS fees totalling £138,000 (2008-2009 £121,000) were charged to estates during the year.

Case administration fees decreased slightly to £136 million (2008-2009 £137 million).

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

### **Key Performance Indicators**

All of the key performance indicators were achieved or exceeded, in particular 99.0 per cent (2008-2009 99.2 per cent) of Insolvency Services Account payments were actioned within 4 days of receipt.

### **On-line Services**

During the year, an additional 42 insolvency practitioners signed up to use the on-line facility, enabling them to view estate accounts via the internet and print off account statements, bringing the total number of IPs registered for this service to 1,366 at 31 March 2010 (1,324 at 31 March 2009).



## Forward look

The development and testing of a new financial system for Estate Accounts Services to replace the existing legacy systems is expected to be finalised in the first quarter of 2010-11 with deployment following soon after. A range of benefits and efficiency gains have been identified from the move to a single financial system that is also integrated with a new case management system. It is expected that these benefits and efficiencies will begin to be realised during the year.

Fee changes introduced from 6 April 2010 have amended the structure of the Secretary of State (SoS) fee for compulsory cases with insolvency orders on or after this date. The change is designed to bring forward the recovery of the SoS fee in cases rather than increase the overall amount of SoS fee collected across all cases where it is charged.

## Preparation and audit

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

The financial statements are audited by the Comptroller and Auditor General. His notional fee of £11,500 for the audit of the ISA for 2009-2010 is recorded in the financial statements of the Insolvency Service.

As far as we are aware, there is no relevant audit information of which the auditors are unaware and we have taken all steps that we ought to have taken to make ourselves aware of any relevant audit information and to establish that the Agency's and CRND's auditors are aware of that information.

*Stephen Speed*  
The Insolvency Service  
13 July 2010

*Jo Whelan*  
Commissioners for the Reduction of the National Debt  
13 July 2010

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

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

# Statement on Internal Control

## Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control in respect of the administration of the Insolvency Services Account. I am advised and supported by:

- the Agency Steering Board whose role is to advise the Secretary of State, generally through the Director General Fair Markets Group (BIS), on the governance of the Agency, its corporate plan, targets and performance. The Steering Board meets at least five times a year to review plans, strategic direction and performance of the Agency. The Board comprises senior officials from the Agency and BIS, as well as up to five independent members;
- the Directing Board which meets twice-monthly and during the year reviews management accounts prepared by the Estate Accounts Services which has day to day responsibility for the management and administration of the Insolvency Services Account;
- an Audit Committee chaired by an independent member of the Steering Board. The Audit Committee meets four times a year and receives reports from both internal and external auditors on risk and other audit issues; and
- the Risk Management Committee which considers the overall risks to the Agency's objectives, the management and control of those risks, including those in relation to the Insolvency Services Account, and reviews and monitors the Agency's risk register. The Risk Management Committee reports to the Directing Board and the Audit Committee.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to the achievement of Agency policies, aims and objectives rather than to eliminate risk completely. It can therefore only provide reasonable, and not absolute assurance of effectiveness. The system of internal control is based on a set of continuous processes designed to identify and prioritise the risks in relation to the administration of the Insolvency Services Account; evaluate the likelihood of those risks being realised; assess their impact should they be realised; and manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2010 and up to the date of approval of the annual account, and accords with guidance from HM Treasury.

## Capacity to handle risk

The Directing Board sets the policies on risk management and internal control and also promotes and supports the development of risk management and internal control activity.

Training has been provided to key managers and staff in risk identification, evaluation and management. Written guidance on risk management and evaluation is published on the Agency's intranet to which all staff have access.

Systems are in place to identify and escalate any significant risk or control weaknesses to ensure that appropriate action is taken to manage the risk and implement improvements to internal controls to reduce the likelihood of reoccurrence. Procedures are in place for the planning, monitoring and reporting on all major projects. Furthermore, all key projects in the Agency are subject to Gateway Review, which includes an assessment of the key risks they face.

Internal Audit and the Corporate Governance Section operate to Government Internal Audit Standards. They review the adequacy and effectiveness of the Estate Accounts Services systems of internal control on a risk based audit programme. The work of the Corporate Governance Section and Internal Audit is informed by the analysis of the risks to which the Agency is exposed. The analysis of risk and joint plans of Internal audit and Corporate Governance Section are endorsed by the Agency's Audit Committee and approved by me.

## The risk and control framework

A risk appetite matrix has been issued against which risk at all levels is assessed. An Agency-wide risk register is aligned to the main business objectives of the Agency. That ensures the risks are evaluated by type (financial, reputational, operational) and by level of exposure (likelihood and impact).

All main risks have been evaluated and allocated to appropriate managers and include those relating to the Insolvency Services Account. Risk registers are maintained for Estate Account Services and have been reviewed, as a minimum, four times a year and updated as necessary during 2009-2010.

Risk Management is tied to the business planning process at all levels and ensures that top-down and bottom-up risks are communicated and managed at the appropriate level.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the joint work programme of Internal Audit and the Corporate Governance Section together with executive managers of the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been assisted in my review of the effectiveness of internal control by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the system of internal control is reviewed by my Directors who each provide me with a Statement on Risk Management, Internal Control and Corporate Governance for their directorate.

The Risk Management Committee advises me, the Directing Board and the Audit Committee on embedding risk management within the organisation. The Audit Committee advises on the internal audit work programme and the chairman also sits as an independent board member on the Steering Board.

Internal Audit and Corporate Governance Section's audit programme is focussed around the Agency's main risks. They submit regular reports on the adequacy and effectiveness of internal control together with recommendations for improvement. The Director of Internal Audit provides me with an Annual Report, which contains an independent opinion on the adequacy and effectiveness of internal control.

The 2008-2009 review of the effectiveness of internal control highlighted internal control issues in relation to the project delivering the financial modules of the Insolvency Service Case Information System (ISCIS) required to replace the estate accounts legacy systems (LOLA and BANCS). Progress was made during the year to address project weaknesses and the system is now nearing the completion of user acceptance testing. However, the complexities of the financial modules and the migration from current legacy systems have resulted in a delay to implementation. Migration risks are being effectively managed and deployment is now due during the summer of 2010.

*Stephen Speed*  
The Insolvency Service Accounting Officer

13 July 2010

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

I certify that I have audited the financial statements of the Insolvency Services Account for the year ended 31 March 2010 under the Insolvency Act 1986. These comprise the Receipts and Payments Account, the Statement of Balances and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Agency, the Chief Executive and Auditor

As set out in the Statement of Chief Executive's and Comptroller General's Responsibilities, the Chief Executive is responsible for the preparation of the financial statements in accordance with the Insolvency Act 1986 and HM Treasury directions made thereunder. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the Audit of the Financial Statements

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

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

## Opinion on regularity

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

## Opinion on Financial Statements

In my opinion

- the financial statements properly present the receipts and payments of the Insolvency Services Account for the year ended 31 March 2010; and
- the financial statements have been properly prepared in accordance with sections 409 (2) and (3) of the Insolvency Act 1986 and HM Treasury directions made thereunder.

## Opinion on other matters

In my opinion

- the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements,

### Matters for which I report by exception

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

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

### Report

I have no observations to make on these financial statements.

*Amyas C E Morse*  
Comptroller and Auditor General

14 July 2010

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London SW1W 9SP

## Receipts and payments for the year ended 31 March 2010

	Notes	2009-2010 £000	2008-2009 £000
<b>Receipts</b>			
Realisation of assets of estates in compulsory insolvencies and voluntary liquidations		<b>651,489</b>	1,010,345
Frequent Petitioners	12	<b>2,894</b>	3,636
From the Investment Account	2	<b>591,000</b>	503,000
Realisation of Government Securities at the request of liquidators and trustees	3	<b>349</b>	0
Unclaimed dividends	7	<b>11,782</b>	14,210
Interest received	4	<b>24,403</b>	73,327
Gain on Exchange	11	<b>0</b>	671
		<b><u>1,281,917</u></b>	<u>1,605,189</u>
<b>Payments</b>			
Payments requested by liquidators and trustees of estates in compulsory insolvency and voluntary liquidation and reissued dividends	6	<b>991,505</b>	1,114,058
To the Investment Account:			
Excess cash balances on the ISA	2	<b>196,000</b>	388,000
Interest on ISA working balances	4	<b>21</b>	413
Investments in Government Securities at the request of liquidators and trustees	3	<b>0</b>	350
To the Consolidated Fund	8	<b>6,919</b>	0
To The Insolvency Service	5	<b>87,196</b>	93,661
Loss on Exchange	11	<b>471</b>	0
		<b><u>1,282,112</u></b>	<u>1,596,482</u>
<b>Excess of payments over receipts</b>	10	<b>(195)</b>	
<b>Excess of receipts over payments</b>	10		8,707

*The notes on pages 13 to 16 form part of these accounts*

## Statement of Balances as at 31 March 2010

	Notes	2010 £000	2009 £000
<b>Balances</b>			
The Investment Account	2	<b>991,000</b>	1,382,648
Government Securities	3	<b>24</b>	374
Cash at Bank	10	<b>(11,646)</b>	(11,451)
		<b>979,378</b>	<b>1,371,571</b>
<b>Representing</b>			
Insolvency Estates	11	<b>917,677</b>	1,315,324
Frequent Petitioners	12	<b>223</b>	410
Fees due to The Insolvency Service	5	<b>11,150</b>	8,727
Amounts due to the Investment Account	2	<b>0</b>	1
Unclaimed Dividends	7	<b>45,573</b>	46,742
Amount due to the Consolidated Fund	8	<b>4,334</b>	0
Amounts due to the Treasury Solicitor (BV)	9	<b>421</b>	367
		<b>979,378</b>	<b>1,371,571</b>

*Stephen Speed*  
The Insolvency Service  
Accounting Officer

13 July 2010

*The notes on pages 13 to 16 form part of these accounts*



## Notes to the Accounts

### 1 Accounting policies

- i The accounts have been prepared on a cash basis as directed by HM Treasury.
- ii US dollar transactions are accounted for as follows
  - receipts and payments are translated at the exchange rate at the date of the transaction; and
  - balances are translated using the year end exchange rate.

The resulting notional gain/loss on exchange is credited/charged to the account in the appropriate period.

### 2 The Investment Account

The Act requires excess cash balances on the ISA to be transferred for investment to the Investment Account and for the Investment Account to realise investments and transfer appropriate funds to meet the needs of the ISA. The balance on the Investment Account, excluding interest, represents the liability of the Investment Account to the ISA.

	<b>2009-2010</b>	2008-2009
	<b>£000</b>	£000
Balance at 1 April	<b>1,382,648</b>	1,501,000
Excess cash balances transferred to the Investment Account	<b>196,000</b>	388,000
Reversal of Consolidated Fund Payment (Note 8)	<b>3,352</b>	0
	<b>1,582,000</b>	1,889,000
<i>Less Transfers to the ISA</i>	<b>(591,000)</b>	(503,000)
<i>Less Payment to Consolidated Fund (Note 8)</i>	<b>0</b>	(3,352)
Balance at 31 March	<b>991,000</b>	1,382,648

There are no outstanding amounts due to the Investment Account in relation to interest earned on foreign currency deposits.

The payment to the Consolidated Fund in 2008-2009 was incorrectly made from the Investment Account rather than the ISA. This was rectified in 2009-2010.

### 3 Government securities

The Regulations allow the investment of surplus balances, from liquidations and bankruptcies, in Government Securities (Treasury Bills or Government Stocks) for the benefit of the individual estates. These securities are realised at the request of liquidators and trustees.

	<b>2009-2010</b>	2008-2009
	<b>£000</b>	£000
Balance at 1 April at cost	<b>374</b>	24
Amounts invested in the period	<b>0</b>	350
Amounts realised in the period	<b>(349)</b>	0
Net loss on Government Securities	<b>(1)</b>	0
Balance at 31 March at cost	<b>24</b>	374

#### 4 Interest received

Interest is received on Government Securities, working cash balances held at the Bank of England and foreign currency deposits as follows

	<b>2009-2010</b>	2008-2009
	<b>£000</b>	£000
On Government Securities	<b>12</b>	22
On deposits in the ISIA	<b>24,370</b>	72,866
On working balances*	<b>21</b>	413
On foreign currency deposits**	<b>0</b>	26
	<b><u>24,403</u></b>	<u>73,327</u>

\*The £20,824 interest earned on working balances was paid to the Investment Account during the period.

\*\* Interest is earned on estate monies held in the US Dollar Account during the period. The balance of accrued interest on foreign currency deposits at the year-end was £15.

#### 5 Fees

Fees charged to insolvent estates (including VAT) are required to be paid to The Insolvency Service to fund the administration of insolvency estates and to discharge the costs of providing estate accounting and investment services. BIS continues to fund disbursements charged to estates where there are insufficient funds.

	<b>2009-2010</b>	2008-2009
	<b>£000</b>	£000
Balance at 1 April	<b>8,727</b>	16,291
Fees on unclaimed dividends	<b>16</b>	5
Recovered disbursements*	<b>266</b>	665
Fees and VAT recovered from estates	<b>89,337</b>	85,427
Net fees and VAT paid from the ISA	<b>(87,196)</b>	(93,661)
Balance at 31 March	<b><u>11,150</u></b>	<u>8,727</u>

\* Recovered disbursements of £265,949 represents funds due from the ISA to the Insolvency Service at 31 March 2010.

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

The Act provides for

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

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

## 7 Unclaimed dividends

After a period determined by the Treasury (currently seven years) creditors' unclaimed dividends are required to be surrendered to the Consolidated Fund.

	<b>2009-2010</b>	2008-2009
	<b>£000</b>	£000
Balance at 1 April	<b>46,742</b>	42,044
Receipts	<b>11,782</b>	14,210
Payments to creditors	<b>(4,624)</b>	(6,279)
Fees	<b>(16)</b>	(5)
Transfers from estates	<b>494</b>	91
Transfers to estates	<b>(1,652)</b>	(595)
Transfer to the Consolidated Fund (Note 8)	<b>(7,153)</b>	(2,724)
Balance at 31 March	<b>45,573</b>	46,742

From 6 April 2008 receipts into the unclaimed dividends account includes unclaimed dividends in company administrations and administrative receivership cases.

## 8 Surrenders to the Consolidated Fund

The Act requires unclaimed monies and amounts which are too small to be divided among the persons entitled to them to be surrendered to the Consolidated Fund;

	<b>2009-2010</b>	2008-2009
	<b>£000</b>	£000
Balance at 1 April	<b>0</b>	14
Unclaimed dividends (Note 7)	<b>7,153</b>	2,724
Undistributed balances	<b>748</b>	614
	<b>7,901</b>	3,352
Consolidated Fund payment from the ISA	<b>(6,919)</b>	0
Consolidated Fund Payment from the ISIA (Note 2)		(3,352)
Consolidated Fund Reversal (Note 2)	<b>3,352</b>	
Balance at 31 March	<b>4,334</b>	0

## 9 Amounts due to the Treasury Solicitor (Bona Vacantia (BV))

Regulation 18 of the Regulations requires liquidators (or former liquidators) of dissolved companies to pay into the ISA any unclaimed or undistributed company money in their hands. S1012 of the Companies Act 2006 provides that, on the dissolution of a company, such money is deemed to be bona vacantia and accordingly accrues to the Crown.

The Treasury Solicitor (BV) receives bona vacantia money on behalf of the Crown and amounts held in the ISA are remitted periodically to the Treasury Solicitor (BV) by arrangement with Estate Accounts Services.

	<b>2009-2010</b>	2008-2009
	<b>£000</b>	£000
Balance at 1 April	<b>367</b>	403
Money from dissolved companies	<b>119</b>	57
Payments to Treasury Solicitor	<b>(65)</b>	(93)
Balance at 31 March	<b>421</b>	367

## 10 Cash at Bank

The ISA balance is held at the Bank of England.

	<b>2009-2010</b>	2008-2009
	<b>£000</b>	£000
Balance at 1 April	<b>(11,451)</b>	(20,158)
Excess of receipts over payments	<b>0</b>	8,707
Excess of payments over receipts	<b>(195)</b>	0
Balance at 31 March	<b><u>(11,646)</u></b>	<u>(11,451)</u>

The balance at 31 March 2010 represents a timing difference and does not reflect the account being overdrawn.

## 11 Insolvency Estates

Insolvency estates are the funds held "in trust" in respect of companies and individuals undergoing liquidation or bankruptcy proceedings.

	<b>2009-2010</b>	2008-2009
	<b>£000</b>	£000
Balance at 1 April	<b>1,315,324</b>	1,421,529
Net realisations	<b>(332,247)</b>	(93,717)
Net Interest	<b>24,382</b>	73,100
Other payments/adjustments	<b>292</b>	(167)
(Loss)/Gain on exchange*	<b>(471)</b>	671
Recovered disbursements	<b>(266)</b>	(665)
Fees and VAT recovered	<b>(89,337)</b>	(85,427)
Balance at 31 March	<b><u>917,677</u></b>	<u>1,315,324</u>

\* The total loss on exchange was £471,378, which was the notional loss on estates held in foreign currencies at the year-end.

## 12 Frequent Petitioner Accounts

Frequent Petitioner accounts assist those creditors who issue large volumes of petitions that are subsequently dismissed or withdrawn. Under current legislation a deposit must be paid to the court before a petition can be filed, unless the court has written notice from the Secretary of State that a suitable alternative method of payment has been arranged. If a petitioner sets up an approved account with The Insolvency Service they are only required to fund the account to a level sufficient to pay a deposit on any petition where a bankruptcy or winding-up order is subsequently made.

	<b>2009-2010</b>	2008-2009
	<b>£000</b>	£000
Balance at 1 April	<b>410</b>	397
Funds received from Frequent Petitioners	<b>2,894</b>	3,636
Deposits credited to Insolvency Estates	<b>(3,081)</b>	(3,623)
Balance at 31 March	<b><u>223</u></b>	<u>410</u>

Stephen Speed  
The Insolvency Service  
Accounting Officer

13 July 2010

# Commissioners for the Reduction of the National Debt

## Insolvency Services Investment Account

### Foreword

#### Introduction

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

#### Background to the Insolvency Services Investment Account

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

By virtue of section 403 of the Act, when the Secretary of State has excess cash in the Insolvency Service Account (the ISA) the excess amount is remitted to CRND for investment in the ISIA; when the balance in the ISA is insufficient to meet demands, CRND make good the shortfall from the ISA. Under paragraph 16 of Schedule 8 to the Act, income earned by this investment account is used by the client to pay its liabilities of interest and tax to insolvency estates.

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

Section 408(1) of the Act enables HM Treasury to make payments from the Consolidated Fund to the ISIA to meet any further shortfalls in the investment account.

Sections 271 and 272 of The Enterprise Act 2002 amended the Insolvency Services 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. In parallel, the legislation established that, for a given year, a surplus of interest received from investments over interest payable to liquidators would not routinely be paid to the Consolidated Fund as it had been previously. Instead, the surplus would be retained in the ISIA and would be available to be paid over to the insolvent estates in future years.

Historically the investments made by CRND included gilt-edged securities with periods to maturity of up to 10 years. However, under a new regime introduced by the Enterprise Act 2002, voluntary liquidators were, from 1 April 2004, able to invest and divest from the ISIA at will and this fundamentally changed the outlook for the Fund'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 was modified, so that the interest rate earned by the ISIA is more closely related to current short-term interest rate levels. ISIA's gilt holdings were disposed of in 2004 and the proceeds were placed as short-term deposits with the Debt Management Account Deposit Facility (DMADF). This arrangement has remained in place throughout 2009-2010.

CRND expects to continue the current investment strategy throughout 2010-2011 and beyond. Investment in deposits with the DMA Deposit Facility enables the Fund to earn a rate of interest very closely correlated with prevalent short-term sterling interest rates, whilst protecting its capital position and access to liquidity at all times.

The amendment to the Act by the Enterprise Act 2002 has led to generally declining investing surpluses, partly as rates payable to liquidators have been revised more frequently so that they correspond more closely to interest rates achieved on investments, and partly as rates payable have been set so as to gradually reduce the surplus. This trend continued in 2009-2010.

The resources used to deliver CRND's objectives are accounted for within the United Kingdom Debt Management Office's (DMO) agency vote and Report and Accounts 2009-2010. The cost of managing the ISIA is recharged to the Insolvency Service; in 2009-2010, this amounted to £85,000 (2008-2009: £85,000).

## Commissioners for the Reduction of the National Debt

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

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

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

## Audit arrangements

Section 409 (1) of the Act requires the Commissioners to send accounts prepared by them to the Comptroller and Auditor General.

Under section 409 (4) of the Act, the Comptroller and Auditor General examines, certifies and reports on the accounts and lays copies of them with this report before each House of Parliament.

The Secretary and Comptroller General has taken the necessary steps to make herself aware of any relevant audit information and to establish that ISIA's auditors are aware of that information. So far as she is aware, there is no relevant audit information of which the ISIA's auditors are unaware.

# Management Commentary

## Results for 2009-2010

Total comprehensive loss for 2009-2010 was £0.1 million (2008-2009: £22.6 million loss). Interest income of £6.2 million was lower than prior year (£56.0 million) mainly due to short-term sterling interest rates remaining at historically low levels throughout the financial year. Interest payable to liquidators was £6.3 million (2008-2009: £78.6 million) leaving a net deficit of £0.1 million (2008-2009: £22.6 million).

The Insolvency Service withdrew £391.6 million (net of advances) from ISIA over the course of the year (2008-2009: net withdrawal of £117.9 million). Assets held by ISIA decreased to £1,035.8 million at the year-end (2008-2009: £1,451.5 million) largely due to net withdrawals.

## Date of authorisation for issue

The accounts were authorised for issue on 8 June 2010.

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

4 June 2010

## Statement of Secretary and Comptroller General's responsibilities

Section 409(1) of the Insolvency Act 1986 requires CRND to prepare accounts for each financial year in the form and on the basis directed by HM Treasury.

The annual accounts of the ISIA are prepared on an accruals basis and must give a true and fair view of the financial position of the ISIA at the year end and of the surplus or deficit and the 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 and for transmitting these to the Comptroller and Auditor General.

In preparing the accounts an Accounting Officer is required to observe the applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Account, and apply suitable accounting policies on a consistent basis.

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 the keeping of proper accounting records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in 'Managing Public Money'.



# Statement on Internal Control

## Scope of responsibility

The Commissioners for the Reduction of the National Debt (CRND) are responsible for preparing the accounts. They have appointed me as Secretary and Comptroller General of CRND to discharge their responsibilities in this regard. As Secretary and Comptroller General, I also have responsibility 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 Statement on Internal Control 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.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to an acceptable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Relevant elements of the DMO system of internal control have been implemented for CRND. The system of internal control has been in place for the year ended 31 March 2010 and up to the date of approval of this account, and accords with HM Treasury guidance.

## Capacity to handle risk

During the year, the DMO has produced a formal risk management framework document agreed by the Managing Board that summarises at a high level the principles which govern the DMO's approach to risk management, the different types of risk that the DMO manages, including CRND activities, and the various mechanisms that the DMO employs to ensure that risks are identified, assessed, and managed at all levels within the organisation. The DMO also has more detailed risk management policies and has documented the risk management processes. Elements of these policies have been reviewed and adjusted during the year and have proved effective during a period of continued uncertainty in the financial markets.

The DMO's Managing Board is responsible for setting strategic direction and considering high-level operational issues. An executive sub-committee of the Managing Board (Sub MB) generally meets weekly. The terms of reference of this management committee and those of the Fund Management, Operational Risk and Business Delivery Committees clearly set out their roles and responsibilities for providing the organisational capacity to consider issues and make relevant decisions at the appropriate level.

The Business Delivery Committee, established in September 2009, includes the executive members of the Managing Board and key business managers. The committee exists to progress and review the status of the delivery of DMO's business and work plan as a collective cross-functional body, resolving emerging issues together to ensure the business and work plan is delivered in a timely and cost effective manner.

Staff are required to signify that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the Use of Information Systems and Technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies with respect to whistle blowing, fraud and anti-money laundering. The DMO ensures that the exercise is undertaken on an annual basis in order 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.

## The risk and control framework

The DMO's formal risk management framework document sets out the various mechanisms for managing its risks that are incorporated into its approach to both regular operations and new business initiatives. There are processes in place to ensure regular measurement and monitoring of key business risks including market, credit, operational and liquidity risk. A statement of the risk appetite for these risks is included within the risk management framework document.

The DMO's Risk Management Unit (RMU) provides control advice on risks throughout the DMO. In the DMO's management reporting structure the RMU is separate 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 risks are facilitated by the RMU, via consultation with heads of business units and functional teams. Regular meetings are held with heads of business units and functional teams to assess whether risks to their operations are being managed effectively. Significant risk issues are assessed by likelihood and materiality of occurrence. New risks and risks with an increased risk profile 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. RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Progress against treatment actions is obtained 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 RMU communicates key risk issues to management on a regular basis within a number of forums, to enable management to take informed decisions on risk issues. Key forums are as follows:

- The Operational Risk Committee meets regularly to monitor operational risks and to review significant risk issues, risk incidents and exceptions and progress against treatment actions. This review is supported by regular operational risk reporting produced by the RMU. The Operational Risk Committee replaced the Sub MB & Senior Risk Owners Committee from December 2009. The scope of this meeting has been widened to cover issues relating to Information Risk, IT Security, Business Continuity, Anti Fraud issues and key supplier risks more fully.
- More frequent reporting of progress against treatment actions and reporting of risk incidents has been implemented during the year, and is provided to Senior Risk Owners, Senior Management and Internal Audit.
- A Controls Group meets periodically to review issues affecting the DMO's system of internal control (including CRND) and to analyse material changes to the control environment. The group recommends actions to management to implement changes where appropriate. The Controls Group is comprised of representatives of the DMO teams responsible for finance, risk, control, compliance and internal audit.
- A high level strategic risk report is published to promote awareness of all high level issues and risks that the DMO faces at an organisational level. The report is based on a High Level Risk Register maintained by RMU, and is presented to the Managing Board on a regular basis.

The DMO has policies on anti-fraud measures, money laundering and whistle blowing. The DMO has its own anti-money laundering handbook for staff.

Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. There is a Senior Information Risk Owner (SIRO) for the DMO, responsible for the information risk policy and risk assessment relating to information, who provides assurance over information risks to the Managing Board.

The DMO has designated IT Security Officers (ITSOs) who are responsible for the DMO's electronic network, including access to information and GSI accreditation. During 2009-2010, the DMO has continued a defined programme of work to deliver IT security improvements.

The DMO continues to work to meet the mandates of the Security Policy Framework, including work on meeting objectives in order to retain the CESG information assurance accreditation it has been granted, and on work towards implementing the Business Classification Scheme project. During 2009-2010, the DMO has also continued to implement the requirements of the Cabinet Office-led cross-Government Data Handling review, in particular by ensuring all DMO staff completed the computer based training – 'Protecting Government Information'. The actions stemming from the review are predominantly complete with the remainder planned for 2010.

A key component of the CRND's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities. All teams have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.

The DMO's Business Continuity Plan (BCP) including Disaster Recovery (DR) site and other arrangements is subject to continual review and update with the DMO taking an active role during the year in progressing BCP improvements. The DMO ensured a program of DR testing was carried out. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives.

An up-to-date memorandum of understanding is in place with each client, outlining the respective responsibilities of CRND and the client. CRND has adopted a passive style of fund management for each client. CRND has established effective communication channels with each of its clients.

During the year, audit committee arrangements for the HM Treasury group were revised, with the intention of creating greater focus on activities within the DMO, including those of CRND.

Responsibility for supporting me as Secretary and Comptroller General in matters relating to governance, internal control and risk management processes lay with the Exchequer Funds Audit Committee until 31 December 2009 and with the DMO Audit Committee from 1 January 2010.

The membership of the Exchequer Funds Audit Committee during the period to 31 December 2009 was

- Colin Price, Committee Chair, non-executive Director of the DMO's Managing Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;
- Brian Larkman, non-executive Director of the DMO's Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland plc; and
- Mark Clarke, formerly Director General (Finance and Strategy) at the Department for Business, Enterprise and Regulatory Reform.

The Exchequer Funds Audit Committee met three times between 1 April and 31 December 2009.

The DMO Audit Committee was established with effect from 1 January 2010 and supports the Accounting Officers of the DMO and the Debt Management Account, the Secretary of the Public Works Loan Board and the Secretary and Comptroller of the CRND. Members of the Committee are appointed for periods of up to three years, extendable by no more than two additional three-year periods. There were two Members of the Committee. The Members were

- Brian Larkman, Committee Chair; and
- Brian Duffin, non-executive Director of the DMO's Managing Board and formerly Chief Executive of Scottish Life and executive director of Royal London Mutual.

The DMO Audit Committee met once between 1 January and 31 March 2010.

## Review of effectiveness

As Secretary and Comptroller General, my review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers in the DMO who have been delegated responsibility for the development and maintenance of the internal control framework, and by the reports and comments made by the external auditors. I have been supported by the Audit Committees and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place.

- The Fund Management Committee, comprising CRND managers, other senior managers and DMO specialist staff, meets regularly to review CRND operational issues. In particular it monitors and advises on development of CRND governance mechanisms. The Fund Management Committee met three times during the year.
- The DMO's Risk Management Unit conducts regular controls and compliance testing providing the executive sub-committee of Managing Board with assurance on the effectiveness of operational controls and compliance with relevant FSA rules in the dealing and settlements areas.
- The Operational Risk Committee and Senior Risk Owners have advised me during the year on significant operational risk concerns, significant risk issues and trends, as well as actions to mitigate such risks. The Operational Risk Committee (or previously the Sub MB and Senior Risk Owners Committee) met five times during the year.
- The Controls Group has advised me on any significant risk concerns relating to the introduction of new business activities into the DMO as well as risks relating to other change management activities, and has made me aware of actions taken to mitigate identified risks. In particular, the Controls Group has advised me on the implications of a control incident which occurred on another CRND fund whereby an incorrect transfer between client accounts was not prevented by the expected controls although it was quickly detected and put right by back up control mechanisms. Action has been taken to reduce the risk of such an incident recurring that might affect this fund.
- The DMO Audit Committee considered the 2009-2010 accounts in draft and provided me with its views before I formally signed the accounts.
- During the period of this Statement on Internal Control, Internal Audit has provided reports on the effectiveness of the risk management, control and governance processes for the DMO, including aspects relevant to CRND, to the Audit Committees throughout the period. The audits make a series of recommendations that are addressed as part of our focus on continuous improvement in this area. The audits identified no serious breaches of risk or control systems. The Internal Audit work programme is approved by the Audit Committee at the start of the year.
- Internal Audit attended each meeting of the Audit Committees to report the results of audit work and the results of follow-up work to confirm that appropriate management action had been taken to address audit recommendations.
- On the basis of Internal Audit work during the year, the Head of Internal Audit has provided assurance to me on the adequacy and effectiveness of the risk management, control and governance arrangements relevant to the accounts, and has confirmed that there were no matters arising from the work of Internal Audit in the period that would give rise to separate comment in the Statement of Internal Control.

In my opinion, the overall system of internal control relating to CRND was effective throughout the financial year 2009-2010 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

4 June 2010

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

I certify that I have audited the financial statements of the Insolvency Services Investment Account for the year ended 31 March 2010 under the Insolvency Act 1986. These comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Client Funds and the related notes. These financial statements have been prepared in accordance with the Insolvency Act 1986 and the HM Treasury directions issued thereunder.

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

As explained more fully in the Statement of Comptroller General's Responsibilities, the Commissioners have a statutory duty to prepare accounts in respect of their transactions. They have appointed the Secretary and Comptroller General to discharge their responsibilities for the preparation of financial statements in accordance with the Insolvency Services Act 1986 and HM Treasury directions issued thereunder and for being satisfied that they give a true and fair view.

My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the Audit of the Financial Statements

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

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income 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 report to you my opinion as to whether the financial statements give a true and fair view and whether they have been properly prepared in accordance with the Insolvency Services Act 1986 and HM Treasury directions issued thereunder. I report to you whether, in my opinion, the Foreword and Management Commentary is consistent with the financial statements. I also report whether in all material respects the financial transactions of the Insolvency Services Investment Account conform to the authorities which govern them.

I also report to you if, in my opinion, proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities is not disclosed.

I review whether the Statement on Internal Control reflects the Commissioners for the Reduction of the National Debt's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls or form an opinion on the effectiveness of the Commissioners for the Reduction of the National Debt's corporate governance procedures or its risk and control procedures.

## Opinion on regularity

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

## Opinion on Financial Statements

In my opinion

- the financial statements give a true and fair view, of the state of Insolvency Services Investment Account affairs as at 31 March 2010 and of its total comprehensive income, changes in client funds and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Insolvency Services Act 1986 and HM Treasury directions issued thereunder.

## Opinion on other matters

In my opinion, the information given in the Foreword and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements

## Matters on which I report by exception

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

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

## Report

I have no observations to make on these financial statements.

*Amyas C E Morse*  
Comptroller and Auditor General

8 June 2010

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

## Statement of Comprehensive Income for the year ended 31 March 2010

	<b>Notes</b>	<b>2010</b>	2009
		<b>£000</b>	£000
Interest income		<b>6,176</b>	56,039
Interest payable to liquidators	2	<b>(6,294)</b>	(78,606)
Total comprehensive loss for the year		<b>(118)</b>	<b>(22,567)</b>

*The notes on pages 31 to 32 form part of these accounts*

## Statement of Financial Position as at 31 March 2010

	Notes	2010 £000	2009 £000	2008 £000
<b>Assets</b>				
Deposits with the Debt Management Account & the National Loans Fund (NLF)		<b>1,035,776</b>	<b>1,451,526</b>	1,604,089
<b>Total</b>		<b><u>1,035,776</u></b>	<b><u>1,451,526</u></b>	<u>1,604,089</u>
<b>Insolvency Services Account funds and liabilities</b>				
<b>Client Funds</b>				
Net funds transferred to ISIA		<b>991,000</b>	<b>1,382,648</b>	1,501,000
Accumulated net profits on disposals		<b>45,990</b>	<b>45,990</b>	45,990
Surplus less interest payable to liquidators		<b>(3,486)</b>	<b>(3,389)</b>	18,765
		<b><u>1,033,504</u></b>	<b><u>1,425,249</u></b>	<u>1,565,755</u>
<b>Liabilities</b>				
Interest payable to liquidators	2	<b>2,272</b>	<b>26,277</b>	38,334
<b>Total</b>		<b><u>1,035,776</u></b>	<b><u>1,451,526</u></b>	<u>1,604,089</u>

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

4 June 2010

*The notes on pages 31 to 32 form part of these accounts.*



## Statement of Cash Flows for the year ended 31 March 2010

	<b>2010</b>	2009
	<b>£000</b>	£000
<b>Operating activities</b>		
Total comprehensive loss	<b>(118)</b>	(22,567)
Decrease in deposits with the Debt Management Account & the NLF	<b>415,750</b>	152,563
Decrease in other liabilities	<b>(24,005)</b>	(12,057)
<b>Net cash flow from operating activities</b>	<b><u>391,627</u></b>	<u>117,939</u>
<b>Financing activities</b>		
Advanced by the client	<b>199,373</b>	388,413
Withdrawn by the client	<b>(591,000)</b>	(506,352)
<b>Net cash flow from financing activities</b>	<b><u>(391,627)</u></b>	<u>(117,939)</u>
<b>Increase/(decrease) in cash</b>	<b><u>0</u></b>	<u>0</u>

*The notes on pages 31 to 32 form part of these accounts.*

## Statement of changes in Client Funds for the year ended 31 March 2010

	ISIA Funds £000	(Deficit)/ Surplus less interest payable to liquidators £000	Accumulated net profits on disposals £000	Total ISIA Funds £000
At 1 April 2008	1,501,000	18,765	45,990	1,565,755
Total comprehensive income/(loss)	0	(22,567)	0	(22,567)
Transferred from Client money employed account	(413)	413	0	0
Funds received from ISIA	388,413	0	0	388,413
Funds paid to ISIA	(506,352)	0	0	(506,352)
At 31 March 2009	<u>1,382,648</u>	<u>(3,389)</u>	<u>45,990</u>	<u>1,425,249</u>
Total comprehensive income/(loss)	0	(118)	0	(118)
Transferred from Client money employed account	(21)	21	0	0
Funds received from ISIA	199,373	0	0	199,373
Funds paid to ISIA	(591,000)	0	0	(591,000)
<b>At 31 March 2010</b>	<b><u>991,000</u></b>	<b><u>(3,486)</u></b>	<b><u>45,990</u></b>	<b><u>1,033,504</u></b>

*The notes on pages 31 to 32 form part of these accounts.*

# Notes to the Accounts for the year ended 31 March 2010

## 1 Accounting policies

### 1.1 Basis of preparation

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

- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 7 Statements of cash flows (revised 2007)
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Reporting Period
- IAS 18 Revenue
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement

For the year ended 31 March 2009, the accounts were prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP). In particular, the following standards were applied:

- FRS 25 (IAS 32) Financial Instruments: Presentation
- FRS 26 (IAS 39) Financial Instruments: Recognition and Measurement
- FRS 29 (IFRS 7) Financial Instruments: Disclosures

Adoption of IFRS has not resulted in any prior period adjustments, so no comparative balances have been restated.

### 1.2 Assets

Deposits with the DMA & NLF are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are therefore treated as loans and receivables measured at amortised cost.

### 1.3 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.

### 1.4 Administrative expenditure

Administrative costs are accounted for in the DMO Resource Account and a recovery is made from Insolvency Services.

**2 Interest payable to liquidators**

	<b>2010</b>	2009
	<b>£000</b>	£000
Gross interest paid to the Insolvency Services Account for the half year to 30 September	<b>(4,022)</b>	(52,329)
Gross interest due to be paid to the Insolvency Services Account for the half year to 31 March	<b>(2,272)</b>	(26,277)
	<b><u>(6,294)</u></b>	<u>(78,606)</u>

**3 Risk***3.1 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 Insolvency Services Investment Account.

The investments of the Insolvency Services Investment Account comprise deposits with the DMA and the NLF. Deposits with these accounts are considered to have no credit risk because they are obligations of HM Government.

*3.2 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 Insolvency Services Investment Account is considered to comprise interest rate risk.

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

CRND monitors interest rate movements to help inform the Insolvency Services Investment Account client of potential issues and events. The fund is not subject to active management and thus no formal market risk parameters are in place.

*3.3 Liquidity risk*

Liquidity risk is the risk that the Insolvency Services Investment Account will encounter difficulty in meeting obligations associated with client withdrawal requests.

Assets held by the Insolvency Services Investment Account are highly liquid to enable all client obligations to be met as they fall due.

**4 Related parties**

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

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

## Appendix

### 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 2010 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 statement on internal control.
- 7 This accounts direction shall be reproduced as an appendix to the accounts.

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

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

30 March 2010

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