



Information Commissioner's Office

Internal Audit Report: Core Financial Controls
November 2021

mazars

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Disclaimer

This report ("Report") was prepared by Mazars LLP at the request of the Information Commissioners Office (ICO) and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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01 Introduction

As part of the agreed Internal Audit Plan for 2021/22, we have undertaken a review of the Information Commissioner's Office (ICO) Core Financial Controls. It is vital that financial controls are reviewed on a regular basis, with our last review taking place in September 2019 that provided the ICO with adequate assurance.

We have reviewed key controls to assess whether the ICO's framework and processes are designed and operating effectively. This included the following risk areas:

- Financial regulations;
- Purchases;
- Control Account Reconciliations;
- Trade receivables;
- Suspense accounts;
- Journals;
- Dent write offs; and
- Monitoring and reporting;

Full details of the risks covered are included in **Appendix A1**.

We are grateful to the Interim Director of Finance, Head of Finance, Group Finance Manager, Management Accountant, and other staff for their assistance during the audit.

The fieldwork for this audit was completed remotely. We have been able to obtain all relevant documentation and/or review evidence via screen sharing functionality to enable us to complete the work.

This report summarises the results of the internal audit work and, therefore, does not include all matters that came to our attention during the audit. Any such matters have been discussed with the relevant staff.

02 Background

Due to continued growth at the ICO, and increased demand in relation to operational delivery, it is essential that key financial controls operate effectively and that key internal controls and processes are not overlooked. There have been changes within the finance function in 2021, with a new Director of Finance and Head of Finance recently joining the

team. The finance system used is Microsoft Dynamics, however the ICO are currently in the process of procuring a new finance system.

There is a Finance Manual in place, most recently updated in June 2020, which governs key financial processes including (but not limited to): bank account payments and reconciliations, purchasing, fixed assets, payroll, and financial reporting. The Finance Manual is stored on the staff intranet and is accessible to all staff.

Bank and control account reconciliations are performed on a monthly basis by various members within the Finance Team. Each staff member is required to evidence completion of the reconciliation, with any variances to be investigated, with an explanation provided by the second week of the month-end. The reconciliations are then reviewed by the Group Finance Manager and initialled as reviewed within the month-end checklist.

Purchases are authorised in line with the limits set out in the Scheme of Delegations, which was most recently updated in October 2021. The maximum authority to sign off purchase orders and invoices is contingent on staff level, with authorisation limits ranging from to £5,000 to £1,000,000 for Directors and Heads of Department, with an unlimited amount for the most senior staff, the Head of Finance and Director of Finance. In addition to this, there are a small number of staff who are set up on the purchasing system to approve purchase orders or invoices, with higher limits where their duties require this.

All staff within the Finance Team can raise manual journals. Once a journal is posted, supporting documentation is either attached to the journal within Microsoft Dynamics or saved on the management accounts folder. It is not possible for journal authorisation to be evidenced on Microsoft Dynamics. Only journals over £10k that are end of month recodes are authorised. Authorisation is confirmed via email, which is saved attached and saved to the journal entry posted. The Group Finance Manager performs a monthly review of journal posted and initials this to confirm it has been reviewed.

The ICO has a Bad Debt Policy, which was most recently updated in July 2020. The Bad Debt Policy details high level procedures to be followed when writing off or impairing irrecoverable debts relating to general invoices to suppliers, loans made to staff, recovered legal fees, Registration Fees confirmed as due and civil and monetary penalties. The policy details delegated authority limits for write-off of debts for different

types of debts, detailing the nominated sign-off officer and area of impact on the financial statements. All documentation is required to be retained in respect of the current financial year and previous 6 years, with documentation retained within finance records when written off.

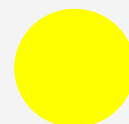
As part of the month-end process, ICO produce monthly management accounts, which are published on their website. Per ICO's corporate governance structure, financial information is reported to:

- Management Board, who per the terms of reference, meet at least four times annually. This body consists of Executive and Non-Executive members. At this body, monthly management accounts are presented, as well as other financial information where required such as pay data or annual accounts. This body has responsibility for ensuring sound financial management and scrutinising the allocation of financial resources to ensure strategic objectives are achieved.
- The Senior Leadership Team (SLT), who meet on a quarterly basis. This body consists of senior staff and directors. The Senior Leadership team may refer matters to the Executive Team where escalation or approval is required and minutes of SLT meetings are presented to Management Board for information. This Executive Team has responsibility for ensuring sound financial management and scrutinising the allocation of financial resources to ensure strategic objectives are achieved. Financial information is reported on a quarterly basis, where information such as the position against budget is discussed and scrutinised. This is presented by the Director or Resources.
- The Audit and Risk Committee are required to meet at least quarterly per the terms of reference. The Audit and Risk Committee supports the Management Board in its role in respect of in respect of the effectiveness of the ICO's risk management system and procedures and its internal controls. The most recent monthly management accounts are presented to this committee, as well as other relevant financial information.

The Executive team meets on a monthly basis. Whilst there is no specific financial information reported to this body per the terms of reference, relevant financial matters are considered and scrutinised to ensure strategic objectives are achieved.

03 Key Findings

Assurance on effectiveness of internal controls



Moderate Assurance

Rationale

The internal audit work carried out has provided **Moderate Assurance**. Please see Appendix A1 for the detailed scope and definitions of the assurance ratings.

Our audit has concluded that there is a generally sound control framework in place, however our work has identified one significant recommendation and six housekeeping recommendation at **Section 04**.

Number of recommendations

Priority 1	Priority 2	Priority 3	Total
-	1	4	5

3.1 Examples of areas where controls are operating reliably

- We reviewed Bank Account Reconciliations for the three bank accounts for April, July, and September 2021 and found these had been completed appropriately, including investigation and documentation of any reconciling items. Through testing, we confirmed that there had been segregation of duties as these were prepared and authorised by a separate individual. The Group Finance Manager performed the review of the bank reconciliations.
- We tested two Control Account reconciliations across three months, April, July and September 2021. We confirmed that variances had been investigated with appropriate explanations provided. Through

testing, we confirmed that there had been segregation of duties as these were prepared and authorised by a separate individual. The Group Finance Manager performed the review of the control account reconciliations.

- We tested a sample of 25 purchases from the financial year 2021/22 with a range of values selected from a listing of purchases, with PO and Non-PO expenditure selected for testing. From this we verified that invoices had been recorded on the finance system accurately by agreeing these through to an invoice and that purchases had been approved appropriately. We did this by confirming values for PO and invoice authorisation were in line with the ICO's Scheme of Delegations for individual staff or in line with limits set up on the purchasing system. We confirmed that values were appropriate for individual staff by obtaining a HR report which detailed staff grades and compared this to the Scheme of Delegations and a list of approvers from the purchasing system.
- We reviewed the Suspense Account reconciliation for the ICO and confirmed that this is monitored and reviewed. The balance as of September 2021 was around £4k. We did note a minor point that the review was noted dated to determine timeliness and have made a recommendation in relation to this (recommendation 4.1).
- We reviewed the policy for Debt Write-Offs and confirmed that this has been updated within the past 18 months, per the recommendation raised in the Core Financial Controls review in 2019/20. The policy includes roles and responsibilities with regards to write-offs, authority to write-off debts and retention periods for relevant financial records.
- We sample tested three months of management accounts (April, July and August 2021) to ensure that information was complete and accurate. We confirmed this by reconciling the income and expenditure figures reported to a trial balance report obtained from the finance system. However, we noted that on ICO's website for August 2021, the published figures in the management accounts were incorrect as the report contained July's figures. We have raised a recommendation around this matter (See Recommendation 4.1).

- We confirmed that financial reports were presented to the Audit and Risk Committee in June and October 2021, to Management Board in May, July and October 2021 and to SLT in July 2021. We are satisfied that financial reporting is accurate as a result of testing.

3.2 Risk Management

Our review of the ICO's Risk and Opportunity Register reported to Audit and Risk Committee in October 2021 acknowledged that the ICO has established the following strategic risk of relevance to this audit:

Risk 3 (R46) – Financial Resilience: “Risk that sensitivities in the income growth forecast and new territories of expenditure create inaccurate financial forecasting and planning assumptions leading to insufficient funding and financial stress impeding the ICO's ability to meet its statutory requirements, and full delivery of all its intended IRSP goals and outcomes.

As a result of strained public finances and the uncertain economic outlook resulting from the covid-19 pandemic, there is an increased emphasis in the sector on financial management, including accurate and timely reporting around forecast and budgets.

The following mitigating control for this risk has been identified which relate to the scope of this review; Monthly accounts to track income and expenditure.

Based on the findings of our review, we were able to confirm that financial reports are prepared on a regular basis for senior staff and Board members and that the information within the reports is complete and accurate.

3.3 Value for Money

Value for Money ('VfM') is a key priority within governmental organisations, as significant scrutiny is placed on the spending of public sector organisations.

Effective and efficient financial management in relation to an organisations Core Financial Controls is important in ensuring that there is a robust framework of financial controls, but also to meet external reporting and regulatory requirements, as well as responsibilities to a range of stakeholders.

VfM implications can arise in the area of core financial controls through inefficient processes and working practices. For example, significant reliance on manual processes require additional resources to produce routine financial information.

We understand that ICO is currently in the process of procuring a new finance system. ICO should ensure that this has key functionalities, particularly around producing routine financial reports without requiring significant manual intervention outside of the finance system. This will ensure that staff time can be allocated efficiently to enable value to be added to other areas.

3.4 Sector Comparison

Core financial controls is an area that is typically effective across public sector organisations, as this area is subject to regular scrutiny and review by internal and external auditors.

Our review identified that in relation to raising and posting journals, there are no segregation of duties in place on the current finance system and users do not have limits on the value of journals that can be posted nor is there a policy which outlines the approval process within the Finance Manual.

Organisations of a similar profile would typically have a Finance Policy or set of financial regulations which would govern this process. We note that whilst ICO has a Finance Manual in place, this does not include key processes around posting journals. We have raised a recommendation around this matter, please see Recommendation 4.1.

04 Areas for Further Improvement and Action Plan

Definitions for the levels of assurance and recommendations used within our reports are included in **Appendix A1**.

We identified areas where there is scope for improvement in the control environment. The matters arising have been discussed with management, to whom we have made recommendations. The recommendations are detailed in the management action plan below.

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
4.1	<p>Accuracy and Completeness of Information Reported</p> <p><i>Observation:</i> We reviewed the income and expenditure reported in the monthly management accounts on the ICO website and compared this to information in the trial balance to confirm information reported is accurate and complete.</p> <p>We noted that the actual financial values reported in the August 2021 management accounts were incorrect. The values included within the report had not been updated from July 2021, whereas the narrative to support the values and variances had been updated for August 2021.</p> <p>We noted that the internally reported August 2021 management accounts were correct. These were reported to the Audit & Risk Committee in October 2021.</p> <p><i>Risk:</i> If information is reported is inaccurate or incomplete, this could have an adverse impact on decision making.</p>	ICO should ensure that management accounts published on their website are reviewed for accuracy prior to upload.	2	<p>Recommendation accepted.</p> <p>The August 2021 management accounts report has been removed from the ICO website and a new version with the correct data has been uploaded.</p> <p>A new monthly process has been put in place to include approval by Resource Board with checks from the Head of Finance and approval by the Director of Finance prior to publishing. These reports include:</p> <ul style="list-style-type: none"> - Expenditure transparency report > £25k - Corporate credit card transaction report > £500 - Executive team expenses - Monthly management account report 	Q3 2021.22 - Head of Finance

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
4.2	<p>Review of Key Account reconciliations and End of Month Checklist</p> <p><i>Observation:</i> We noted from reviewing bank reconciliations, key accounts reconciliations, the suspense account reconciliation and the end of month checklist that whilst it was possible to demonstrate that reviews had taken place, these are not prepared in a manner that segregation of duties has occurred.</p> <p>For example, we noted that:</p> <ul style="list-style-type: none"> • Of the three 'end of month' finance checklists we reviewed (April, July, and September 2021), it was not possible to ascertain when reviews by the Group Finance Manager had taken place as these were only initialled. • For the month of September 2021, which was obtained in October 2021, some sections of the review checklist were incomplete. This may indicate that not all aspects of review are completed within a timely manner (within two weeks of the beginning of the following month). • The end of month checklist had evidence of review by the Group Finance Manager, however only one month had been signed off by the Head of Finance. Whilst we have been made aware that there have been periods where there has not been a permanent Head of Finance or Director of Finance in post within the past 12 months, interim arrangements should have been made to ensure this was 	<p>ICO should:</p> <ul style="list-style-type: none"> • Ensure that it can demonstrate that all month end reviews are completed within an appropriate timeframe. • Ensure that the date of all reviews is recorded alongside the individual who has performed the review on both the reconciliations and the end of month checklist. • Establish a list of appropriate individuals to review reconciliations or the end of month checklist in instances where the required individual is absent or unavailable. 	3	<p>Recommendation accepted.</p> <p>The new Head of Finance and Director of Finance commenced over October and November and are carrying out a review of roles, responsibilities and processes to ensure that these are strengthened and will ensure that these recommendations are picked up as part of this work.</p> <p>The target operating model is being developed by the Head of Finance and the Director of Finance and will be presented to Resources Board in Q4 2021/22, with implementation of the changes to Finance across Q1 + Q2 of 2022-23. This will likely make changes to the structure and capacity and capability of the team, some of which may be a dependency on implementing these audit recommendations.</p>	Q2 2022.23 – Head of Finance

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<p>signed off by an appropriately senior individual.</p> <p><i>Risk: Errors within control accounts are not identified and corrected, which may lead to financial irregularities.</i></p>				
4.3	<p>Authorisation of Journals</p> <p><i>Observation:</i> Through audit testing, review of documents and discussions with staff, we noted that the current finance system does not have the functionality for journals to be approved within it, therefore journals are required to be reviewed manually. The only journals that are reviewed are manual journals, and of these, only end of month recodes above £10,000 are reviewed.</p> <p>We also noted that journals are reviewed on a monthly basis by the Group Finance Manager. A spreadsheet is produced and the Group Finance Manager dates and initials the spreadsheet to demonstrate that this has been reviewed. However, there is no further documentation of the review on the spreadsheet.</p> <p>We note that this method is not consistent with the Finance Procedure Manual. The Manual states that any journal above an individuals user limit should be approved prior to posting.</p> <p><i>Risk: Errors within manual journals are not identified and corrected, which may lead to financial irregularities.</i></p>	<p>ICO should:</p> <ul style="list-style-type: none"> • Agree user limits for posting manual journals and ensure that manual journals are appropriately approved • Ensure the methodology for the approval of manual journals is practical to the ICO and update the Finance Procedure Manual to reflect this. 	3	<p>Recommendation accepted.</p> <p>A further check will continue to take place and the process of this check will be documented.</p> <p>The financial procedure manual will also be updated to reflect the new ways of working.</p>	Q2 2022.23 – Head of Finance

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
4.4	<p>Proactive review of Access Rights</p> <p><i>Observation:</i> Through discussions with management we understand that a regular review of finance system access rights is not performed. A regular review would provide assurance that current access rights to finance systems are appropriate to individuals job roles.</p> <p><i>Risk: Individuals access rights may not be aligned to their job role creating either inefficiencies or inappropriate access.</i></p>	<p>ICO should:</p> <ul style="list-style-type: none"> Ensure that a review of access rights to the finance system occurs on a sufficiently regular basis, in line with best practice recognised at other organisations of a similar profile. 	3	<p>Recommendation accepted.</p> <p>The Head of Finance will carry out a full review of access rights for the various financial systems. A regular review will be conducted on a quarterly basis to give assurance the appropriate access rights are maintained.</p>	Q2 2022 – Head of Finance
4.5	<p>Review of Aged Debtor balances</p> <p><i>Observation:</i> We reviewed debtor balances as of September 2021. Disregarding the fine debtors (covered as part of the Fines Recovery audit), the balance included approximately:</p> <ul style="list-style-type: none"> £40k of legal fees; and £8k of other receivables. <p>Our review identified that the majority of the balances were over 6 months old, with one legal fee balance dating back to 2013.</p> <p>Given the low value and age of some of the items on the debtors balance and debt collection trends, it would appear that some of these debts are unlikely to be recoverable.</p> <p><i>Risk: If receivables remain in the sales ledger when they are unlikely to be recovered, this creates the risk the sales ledger may not accurately reflect the current financial position.</i></p>	<p>ICO should:</p> <ul style="list-style-type: none"> Perform a housekeeping exercise and review the balances for other debtors and legal fees on the sales ledger and consider whether these amounts are recoverable or need to be written off. 	3	<p>Recommendation accepted.</p> <p>A review will be undertaken to identify debtor balances not included in the Financial Recovery remit.</p> <p>These balances are reviewed on an annual basis. We will strengthen our documentation around these reviews to create a more robust audit trail.</p>	Q2 2022 – Head of Finance

A1 Audit Information

Audit Control Schedule	
Client contacts:	Chris Braithwaite, Senior Corporate Governance Manager Caroline Robinson, Corporate Governance Officer Louise Byers, Interim Director of Finance Gurj Kang, Interim Head of Finance Ian Greateorex, Group Group Finance Manager Diane Rutkowski, Management Accountant
Internal Audit Team:	Peter Cudlip, Partner Darren Jones, Manager Stuart Richardson, Senior Auditor
Finish on site/ Exit meeting:	8 November 2021
Last information received:	16 November 2021
Draft report issued:	22 November 2021
Management responses received:	29 November 2021
Final report issued:	9 December 2021

Scope and Objectives

Audit objective: To provide assurance that ICO has effective key financial controls. Our review considered the following risks:

- **Financial Regulations** – The ICO do not have a set of financial regulations in place that provides appropriate controls of ICO finances. These are not reviewed at an appropriate level
- **Purchases** – Procurement of goods and services are not managed in line with the Financial Regulations that includes a scheme of delegation for the authorisation of expenditure Goods are services are procured without the necessary authorisation and oversight
- **Control account reconciliations** – Key control accounts are not adequately reconciled and reviewed on a timely basis
- **Trade receivables** – Debtors are not invoiced correctly or on a timely basis. Aged debts are not proactively followed up and recovered correctly or written off. (Note: this will exclude fines recovery as we have carried out a separate audit on this area in 2021/22).
- **Suspense accounts** – Suspense accounts are not identified, monitored, and cleared on a timely basis
- **Journals**- Manual Journals are processed without appropriate authorisation or inappropriate/inaccurate journals are posted.
- **Debt write offs** – Debt is written off without the appropriate authorisation. (Note: this will exclude fines recovery as we have carried out a separate audit on this area in 2021/22).
- **Monitoring and reporting** – Financial reports are not prepared on a regular basis for senior staff and board members. The information within the reports is not accurate and complete.

The scope for the audit is concerned with assessing whether the ICO has in place adequate and appropriate policies, procedures and controls to manage the above risks. We will review the design of controls in place and, where appropriate, undertake audit testing of these to confirm compliance with controls, with a view to forming an opinion on the design, compliance with and effectiveness of controls.

Testing will be performed on a sample basis, and as a result our work does not provide absolute assurance that material error, loss or fraud does not exist.

Definitions of Assurance Levels	
Level	Description
Substantial Assurance:	The framework of governance, risk management and control is adequate and effective.
Moderate Assurance:	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited Assurance:	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
Unsatisfactory Assurance:	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Definitions of Recommendations		
Priority	Description	
Priority 1 (Fundamental)	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.

Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Priority 3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.	Remedial action should be prioritised and undertaken within an agreed timescale.

Statement of Responsibility

We take responsibility to the Information Commissioner’s Office (ICO) for this report which is prepared based on the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal

control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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