Audit and Risk Committee – for assurance

Meeting agenda title: Annual Report and Financial Statements 2021/22 - Lessons Learned

Meeting date: 10 October 2022

Time required: 15 minutes

Presenter: Louise Byers/Angela Donaldson

Approved by: Paul Arnold

1. Objective and recommendation

1.1. The objective of this report is to give the Audit and Risk Committee (ARC) assurance of the lessons learned from the production of the 2021/22 Annual Report and Financial Statements (ARA) and identify the improvements to the process for future years.

2. Developing a common understanding

2.1. Following completion of the Annual Report and Financial Statements for 2021/22, we held lessons learned meetings during August and September 2022, to capture any improvements that we can identify to the process for future years. These meetings were both internal (between Corporate Governance, Finance and Communications) and external (with the National Audit Office (NAO) and Deloitte).

3. Matters to consider to achieve objective

3.1. The following lessons learned were identified, along with actions to implement the lessons:

Lessons learned between the ICO and NAO/Deloitte

Lesson 1: Although an audit plan was agreed prior to the audit starting, it would have benefitted from being at a more granular level, ensuring agreed review dates with NAO ahead of ARC. This would also have allowed more transparent monitoring and active management of the audit progress.

Action 1: Develop a more granular and robust audit plan, ensuring alignment with NAO, Deloitte and ICO key dates and deliverables to facilitate sign off of the Annual Report and Accounts at the June ARC meeting. The plan should include key milestones, with clear responsibilities and deliverables for all parties. The plan should also include more detail on testing, including what's being tested and when, and the timing of both quality reviews.

Action 2: Planning to be complete by end of December 2022. Detailed plan to be presented to ARC in January 2023 to provide assurance on key milestones and deliverability of the outcomes needed for ARC in June.

Action 3: Deloitte to keep the same audit leadership team but use a field team of staff from the Manchester office (resources as yet to be confirmed by Deloitte). This will allow for more time on-site and facilitate more effective and efficient testing. Deloitte to aim for at least 50% of testing time on-site. ICO will schedule resources on site to align to the area of expertise needed according to the audit plan and audit attendance on site.

Action 4: Whilst a weekly audit review meeting, and regular stands ups took place to check on audit progress, the audit progress reporting wasn't granular enough to facilitate sufficiently detailed monitoring of progress. Having a more detailed plan will facilitate improved visibility of audit status and allow more proactive management of the schedule. This will ensure leadership can take corrective action to prioritise resources to meet the milestone deliverables, providing ongoing assurance of being able to meet the June ARC meeting deadline for sign off.

Lesson 2: On occasion, such as with income testing, queries from the audit team were received considerably later than the ICO expected them after testing. This meant the ICO needed to dedicate more time than necessary to return to review the original information in order to answer the query.

Action 5: Deloitte to review the audit schedule for next year to block-book ICO audit, rather than the audit team working on two audits at once, as this created conflicting priorities for the audit team at times and created delays between testing and general audit queries. Lesson 3: Late audit query resulted in a financial adjustment after ARC. Quality assurance testing at both ICO and Deloitte should have prevented this occurring.

Action 6: ICO Finance staff relied on a write off and provisions report from the business, reviewing this and providing financial assurance on the content to determine the civil monetary penalties (CMP) write offs. However, a reconciliation to the source CMP data did not take place meaning items that were not included in the report were not reviewed and considered for consistency. Full data reconciliations will take place to source data in future audits.

Action 7: CMP status can change quickly and ICO Finance need to improve their post balance sheet reviews in this area to ensure that movements in status can be checked against audit materiality and dealt with proactively.

Action 8: Deloitte to ensure audit team consider the audit quality review comments as soon as possible after receipt, ensuring no queries are omitted prior to the NAO review. This will avoid delays in bringing quality review queries to the ICO and prevent the later NAO review uncovering outstanding queries.

Action 9: Next year, critical quality review queries that could result in an adjustment, will be shared with the ICO in the scheduled regular stand ups to ensure earlier visibility and transparency, facilitating earlier resolution.

Lesson 4: Several areas where the approach to reporting and disclosure had previously been agreed with NAO were re-examined by Deloitte as part of their audit. While it is recognised that it is important to challenge the status quo, significant time was spent re-explaining the approach, which had been previously agreed with NAO. This is particularly relevant to income recognition and to deferred income.

Action 10: Where an approach has previously been agreed, NAO and Deloitte should reach a shared, common understanding prior to the audit.

Lesson 5: Changes in the Financial Reporting Manual (FReM) should be highlighted as early as possible in the process to ensure that all changes to reporting and accounting standards are captured in early drafts of the ARA, reducing the need for rework later.

Action 11: A meeting between NAO/Deloitte, and relevant internal ICO teams (HR and Finance, for example) should take place before the interim audit, to identify any changes that need to be incorporated into the ARA.

Lesson 6: There were a number of areas of focus of the audit that were not identified in the initial scope of the audit. For example, there was a focus on monetary penalties in the audit which was not an area identified in the initial scope as high risk.

Action 12: Ensuring all areas of high risk are identified in the scoping document will ensure that adequate preparations are able to be undertaken prior to, and during, the audit to ensure information is made available.

Lessons learned internally

Lesson 1: We can do more to produce the Performance section of the Annual Report ahead of the year end. This year, we outsourced the first draft of the report to a copywriting company. Although this meant we were able to utilise external expertise and capacity to produce a strong first draft, it did need reviewing to ensure the content and style were consistent with the rest of the ARA. Starting earlier in the year would either allow us to produce the first draft internally, reducing reviewing time, or allow more time to review an externally produced first draft.

Action 1: Commissioning the production of the Performance section earlier in the process and establishing early on a preferred approach to delivery will ensure there is time for a strong draft to be produced for the May Management Board.

Lesson 2: Regarding monetary penalties, additional checks are required post year end to ensure the completeness and accuracy of the information within the accounts. Changes relating to the recoverability of certain debts need to be taken in to account and, as with other accruals, they need to reviewed in light of events between the year end and the date of signing.

Action 2: Additional processes will be put in place to review recoverability of monetary penalties post year end and to ensure the completeness and accuracy of the position in the accounts prior to being signed.

Lesson 3: Increasing the resilience in the delivery team. This year we continued to use a weekly internal meeting and detailed project plans to ensure delivery of the ARA. This is effective, and brings together the key personnel responsible for the delivery of the report. All the team also recognised the importance of having a clear lead on the production of the report, and thanked Chris Braithwaite in particular for ‘holding the pen’ and taking overall responsibility for delivery.

However, unexpected absences and delays in the process resulted in key individuals being unavailable at times, in particular towards the end of the process. Although this was managed, it highlighted a reliance on the knowledge and expertise of key staff.

Action 3: Ensuring there is clear project plan with detailed steps enables others to step in if necessary. We will have two people from the Corporate Governance team and additional finance team members involved in the process in future years to ensure resilience and continuity of service.

Lesson 4: Regarding the reporting to Audit and Risk Committee, the flexible and pragmatic approach taken by the Committee to recommending the accounts meant that late changes were able to be accommodated. In particular, the Finance team found the process of challenge and review from the independent ARC member, Jayne Scott, to be invaluable and to help ensure the accounts were accessible and understandable to the 'casual reader'.

In order to share the outcomes of the review processes undertaken by NAO, Jayne and others, it is proposed to provide the June ARC meeting with additional detail on significant judgements, estimates and valuations within the accounts. This will enable the Committee to better understand areas which may benefit from additional assurance or discussion in the meeting.

Action 4: The finance team will prepare a list of significant areas for consideration by the Committee for future June ARC meetings.

3.2. Consideration needs to be given also to the change in leadership at ICO Finance as well as a change in Audit provider and therefore both teams were learning throughout the audit process with no consistency of leadership across both teams. This will not be a factor in the 2022/23 audit, due to the experiences and lessons learned from 2021/22 audit on both teams. In addition, some of the audit testing, such as treatment of income re IFRS15 Revenue, was in relation to one off year 1 Deloitte audit testing and therefore there will be some natural year 2 efficiencies in the audit plan.

3.3. Considering the audit next year, it will be important to ensure that a full planning exercise is undertaken as early as possible to ensure that significant changes, risks and updates to accounting standards are considered. In particular, we will need to plan for the impact of the implementation of Workday, the ERP system that will used for the production of the 2022/3 financial statements, as well as the introduction of the fine income retention approach for certain legal costs. A systems audit will need to be scheduled to provide assurance on the ERP implementation ahead of final audit. For this reason the system implementation cannot go live any later than early January, during 2022/23 financial year, in order to facilitate the system audit and interim audit ahead of financial yearend and final audit Assuming Workday is implemented this financial year, next year's audit will take place across two systems which will be considered during the planning process.

3.4. We would welcome an early audit of the implementation of Workday to ensure that the data migration and opening balances are assured as early as possible. This would be in addition to the traditional interim and final audits.

Author: Louise Byers

Consultees: Angela Donaldson, ICO Finance, Corporate Governance and Communications teams, Deloitte and National Audit Office.

List of Annexes: None

Publication decision: Report can be published internally and externally without redaction.