

Audit and Risk Committee – for assurance

Meeting date: 23 January 2025

Time required: 5 minutes

Presenter: Angela Donaldson

1. Topic

- 1.1. Implementation of the 2023/24 external audit recommendations.

2. Objective of this report

- 2.1. To provide the Committee with an update on the implementation of the recommendations made in the NAO's Audit Completion report on the 2023/24 financial statements audit which was presented to the June meeting.
- 2.2. The report outlines progress to the end of December.

3. Recommendation

- 3.1. That the Audit and Risk Committee notes the report.

4. Summary

- 4.1. 11 actions were identified in the report for implementation by the ICO, divided into three areas:
 - One internal control issue related to management override of controls.
 - Two internal control issues related to validity of capital additions.
 - Three internal control issues related to the transition to the new finance system Workday
 - Four internal control issues relating to the preparation of the financial statements
 - One internal control issue relating to 2022/23 (not covered in the new 2023/24 actions) regarding accounting policies
- 4.2. Further details of the audit finding, recommendation, management response and current status are included in Annex 1.
- 4.3. Two actions have been completed: journal postings and effective dates, and monthly cut-off testing.

- 4.4. Seven actions are currently in progress, with two not yet started (due to Workday Product Owner resource gaps – now recruited in early January 2025) but on schedule to be completed this financial year.

5. Publication decision

- 5.1. This report can be published internally and externally without redactions.

Author: Sean Clayton

Consultees: Fiona Willock, Irina Walls, Rob Tomlinson, Ian Greateorex and Angela Donaldson

Task Name	Description	Progress	Priority	Assigned To	Completed Date
C1: Journal posting and effective dates	<p>Finding: From our review of the general ledger download containing all journals and transactions relating to the 2023/24 financial year, we identified that the report did not contain both the journal posting date and the effective date. It would be expected that the general ledger download contains both the journal posting date and effective date.</p> <p>Our recommendation: It is recommended that general ledger reports contain all the required fields, including the journal posting and effective date. When reviewing journal entries, management should ensure that the back-posting field is available, as there is the risk that individuals within the business could undertake fraud and hide it through the use of backdated items.</p> <p>Management response: Accepted. We will review the fields for the general ledger download within the new Workday finance system to determine what fields are available with the aim of resolving this.</p>	Completed - Deloitte confirmed via email on 11.7.24 that the 'created moment' in the find journal lines report is what was required and nothing is missing here.	Medium	Kate Cupello; Tony Uttley; Joanna Drinkwater	12/07/2024
C2: Capital versus revenue expenditure	<p>Finding: We have tested the design and implementation of controls over the capitalisation of expenditure. We identified that Workday has embedded segregation of duties and preventative review controls, however there isn't a documented retrospective review of transactions posted to capital and revenue expenditure accounts to ensure correct classification.</p> <p>Our recommendation: It is recommended that a monthly control is implemented to help identify revenue expenditure transactions incorrectly capitalised and capital expenditure incorrectly expensed.</p> <p>Management response: Accepted. ICO will implement a new monthly control to review capital and revenue transactions posted in the month to ensure that they are correctly classified and capitalised or expensed accordingly.</p>	<p>In progress - A permanent Financial Accountant joined the Finance team in early September.</p> <p>She is already reviewing all capitalised expenditure on a monthly basis, and is in the process of reviewing key areas of revenue expenditure with stakeholders (Projects, Estates, IT) to capture potential capitalisation omissions by financial year-end.</p>	Medium	Sean Clayton	
C3: Fixed Asset Register	<p>Finding: We were provided with a Fixed Asset Register after receiving the first version of the annual report and financial statements.</p> <p>Our recommendation: It is recommended that a Fixed Asset Register is maintained throughout the year and that timely reconciliations to the general ledger and financial statements are conducted and reviewed.</p> <p>Management response: Accepted. We will ensure that a Fixed Asset Register is maintained throughout the year in the new finance system Workday, and that it is reconciled and reviewed regularly.</p>	<p>In progress - The Financial Accountant has reconciled the Fixed Asset Register to the published 2023-24 accounts. The register is being updated for 2024-25 transactions (in conjunction with the implementation of recommendation C2) and will be complete by financial year-end</p>	Medium	Sean Clayton	

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C4: Deficiencies in internal control: user access management <1>	<p>Finding: We identified that whilst approvals are obtained for role change requests, forms used for the requests do not specify detailed information on Workday roles. As a result, it is not possible to verify the approval of the roles granted due to the lack of supporting evidence and detailed information provided.</p> <p>Our recommendation: It is recommended that a documented preventative and detective control is implemented to verify and monitor Kainos activity within Workday.</p> <p>Management response: Accepted. We will design and implement a new preventative and detective control to identify and monitor Kainos third party activity within the new finance system, Workday.</p>	<p>Not started -</p> <p>Mitigation for C4 and C5 to be combined into a single control mechanism. Completed output for this requirement has been delayed by time taken to recruit a senior product manager resource. That resource has now started (Jan 2025) and is expected to be completed by year-end.</p>	Medium	Rob Tomlinson; Mike Fitzgerald	
C5: Deficiencies in internal control: user access management <2>	<p>Finding: Kainos (a third party providing Workday support to the ICO) holds unrestricted access to the Workday Implementer role, granting them the ability to make changes to Workday configuration and user management. While Kainos users only log in to the ICO Workday instance, when necessary, there are no preventive or detective controls in place to verify or monitor this access.</p> <p>Our recommendation: It is recommended that a documented preventative and detective control is implemented to verify and monitor Kainos activity within Workday.</p> <p>Management response: Accepted. We will design and implement a new preventative and detective control to identify and monitor Kainos third party activity within the new finance system, Workday.</p>	<p>Not started - As above for C4</p>	Medium	Rob Tomlinson; Mike Fitzgerald	
C6: Deficiencies in internal control: user access management <3>	<p>Finding: We identified that whilst there is a review of 3rd party service provider Kainos, it was confirmed that a formal access rights review for ICO end users had not been conducted for Workday application since the implementation. Performing UAR at least annually will ensure management identify users who have access privileges beyond necessary to perform their assigned duties.</p> <p>Our recommendation: It is recommended that a formal access rights review is conducted and documented on a timely basis with sufficient review elements.</p> <p>Management response: Accepted. A formal access rights review of the new finance system Workday will be conducted and reviewed and documented on a timely basis.</p>	<p>In progress - Completed output for this requirement has been delayed by time taken to recruit a senior product manager resource. That resource has now started (Jan 2025) and is expected to be completed by year-end.</p> <p>Informal / ad-hoc access reviews are already being undertaken by the Head of Finance and Workday Engineer, but this does not replace the need for a structured, formal review.</p>	Medium	Rob Tomlinson; Mike Fitzgerald	

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R1. Cut-off accounting of expenditure and liabilities	<p>Finding: we noted several instances whereby expenditure was recognised in the incorrect period, giving rise to misstatements in accruals, prepayments and expenditure.</p> <p>Our recommendation: It is recommended that a control is implemented to ensure expenditure is recognised in the period to which it relates, and a detailed review of accruals and prepayments is conducted throughout the financial year to ensure that they are complete and accurate.</p> <p>Management response: Accepted. The Management accounting processes are being strengthened to ensure more thorough and complete accruals and prepayments.</p>	<p>Completed - in line with the Finance Target Operating Model, we have strengthened the Finance function with the creation of new Finance Business Partner function.</p> <p>A targeted monthly review of expenditure by FBPs and Assistant FBPs is now in place to review accruals and prepayments, and to capture and rectify potential omissions.</p>	High	Sean Clayton	20/12/24
R2. Bank mandate review	<p>Finding: We identified from our review of the bank mandate that the former Head of Finance was still listed as a signatory to the Commissioner's bank accounts.</p> <p>Our recommendation: It is recommended that the bank mandate is reviewed on a regular basis to ensure it is accurate and a true reflection of the ICO's current requirements.</p> <p>Management response: Accepted. The bank mandate will be updated in line with personnel or other changes as and when they occur ensuring it is an accurate and true reflection of the ICO's requirements.</p>	<p>In Progress – Finance have requested the bank mandate be updated now that permanent Finance staff have been appointed as part of the Target Operation Model. They are actively chasing the bank to ensure this is completed.</p>	Medium	Ian Greatorex	
R3. Financial Statements provided to audit	<p>Finding: It was noted during the audit that the trial balance and financial statements provided to audit did not include all adjustments e.g. Right of Use Asset and several versions of the ECL model were provided before being finalised.</p> <p>Our recommendation: It is recommended that the close-down process implemented at month-end and year-end contains all adjustments.</p> <p>Management response: Accepted. RoU assets – Workday has the capability to process the IFRS16 adjustments and we are in the process of ensuring that this works as needed.</p> <p>ECL – This was impacted by a change in personnel and loss of corporate knowledge. The Finance Director has good oversight of this and will ensure knowledge transfer to key individuals during 2024/25 to ensure this is completed correctly and ahead of interim audit in future.</p>	<p>In progress – RoU assets and IFRS assets have now been posted to the general ledger (by December 2024) and the ECL model is due to be passed to the Head of Finance for update in January 2025, prior to the interim audit.</p>	Medium	Sean Clayton	

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R4. Accounting for IFRS16	<p>Finding: As detailed on page 20, we noted that a lease was incorrectly accounted for under IFRS16 whereby a rent-free period was not considered in the calculations. In addition to this, we noted that the IFRS16 workings were provided late in the audit process and posted as an adjustment to the TB.</p> <p>Our recommendation: It is recommended that a review of all contracts is conducted to ensure that anything within the scope of IFRS16 is reflected in the TB throughout the year. There should also be a reconciliation between the TB and the IFRS16 working papers maintained by the ICO, with a documented review process. It is also recommended that leases with a rent free period are reviewed and are correctly reflected within the financial statements.</p> <p>Management response: Accepted. The Workday system is capable of producing the IFRS16 accounting entries, and the team are working to ensure that all contracts in scope of IFRS16 are properly recorded n the Workday system to ensure that this can be generated automatically. We will also ensure that there is a documented IFRS16 process in place for 2024/25</p>	<p>In progress - Our new Financial Accountant is has reviewed Workday functionality and 2024/25 positions as part of her first priorities in role. All leases have been reviewed and the majority of the rent-free periods have been processed on Workday. One final period remains to be input on Workday once the underlying documentation is obtained.</p>	Medium	Sean Clayton	

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22/23: Issues noted on accounting for intangible assets	<p>Finding: From our review of additions made to intangible asset relating to INV202930, We noted that the Invoice date was 16 February 2023 but the asset was capitalized on 1 March 2023. Useful life of the asset: we also noted that the useful life of this intangible asset (5years) is not in line with the amortisation policy as stated in the financial statements which is four years or the length of the contract whichever of the shorter term. Clearly trivial errors have resulted. These are not included as they are below the reporting threshold.</p> <p>Our recommendation: Management is to ensure consistent adherence to the approved accounting policies.</p> <p>Management response: Accepted. Regular reviews are scheduled to take place on asset identification now the financial accountant is in place.</p> <p>Status 23/24: We have identified an intangible asset that has been amortised over a seven year period. This is inconsistent with the accounting policy in the financial statements which states an amortisation period of the shorter of four years or the length of the contract.</p> <p>Recommendation open.</p>	In progress – all intangible assets are in the process of being reviewed by the new Financial Accountant prior to the end of the 2024-25 financial year. This review will include capture and rectification of inappropriate economic life and amortisation periods for intangible assets.	Medium	Sean Clayton	