National Audit Office

Information Commissioner’s Office Audit planning report on the 2020-21 FINANCIAL STATEMENT AUDIT

Report to those charged with governance
January 2021

BDO

This report presents details of our proposed approach for the audit of 2020-21 financial statements

We plan our audit of the financial statements to respond to the risks of material misstatement and material irregularity. This reports sets out how we have built our assessment of risk, what we base materiality on, those risks we expect to be significant and how we will respond to those risks. We also set out in this report details of the team carrying out the audit, the expected timing of the audit and our fees.

Actions for the Audit Committee

Members of the Audit Committee are invited to discuss:

- Whether our assessment of the risks of material misstatement to the financial statements is complete including any matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken;
- Whether management's response to these risks are adequate;
- Our proposed audit plan to address these risks;
- Whether the financial statements could be materially misstated due to fraud, and communicate any areas of concern to management and the audit team

Sid Sidhu, NAO Engagement Director

David Eagles, BDO Engagement Partner

We would also like to take this opportunity to enquire of those charged with governance about the following areas:

- Other matters those charged with governance consider may influence the audit of the financial statements
- The entity's objectives and strategies, and the related business risks that may result in material misstatements
- Possibility, knowledge of and process for identifying and responding to the risks of fraud
- Oversight of the effectiveness of internal control
- Whether any non-compliance with any laws or regulations (including regularity) have been reported to those charged with governance (e.g. from staff, service organisations or other sources)
- Policies, procedures and systems for recording non-compliance with laws, regulations and internal policies.

Contents

Audit Risks (pages 7 to 8)

We plan our audit of the financial statements to respond to the risks of material misstatement to transactions and balances and irregular transactions.

We have identified the following risks which have the most significant impact on our audit:

- **Presumed risk of management override of controls**
- **Revenue Recognition**

We have identified the following areas of audit focus:

- **Post BREXIT activity**
- **Going Concern**

Materiality (page 10)

- When setting materiality, we consider both qualitative and quantitative aspects that would reasonably influence the decisions of users of the financial statements.
- Planning materiality has been set based on projected gross expenditure, pending review on receipt of draft financial statements

Overall account materiality (2%))	£1,130,000
Error reporting threshold	**£25,000**

Audit team, fee and timetable

- Sid Sidhu (NAO Director) will be responsible for the overall audit. The full engagement team is presented on page 15.
- Our audit fee for this year will increase to £33,000. The fee reflects the increased work due to changes in auditing standards (see also pages 18 and 19), increased quality review requirements and a continuing increase in the level of work required in respect of revenue recognition, which is now reflected as a significant audit risk.
- We are planning to complete the audit in advance of the summer 2021 Parliamentary recess.

Changes to our assessment of risk since 2019-20

The risk profile for 2020-21 reflects the significance and judgemental nature of penalties now reflected as a significant audit risk, and IFRS 16 implementation having been actioned in 2019-20.
Areas of audit focus reflect new requirements for entities in assessing Going Concern introduced by updated International Standard on Auditing 570, and the current consideration about whether or not to prepare a Trust Statement for 2020-21.

Risks and areas of focus diminishing or superseded since 2019-20	Risks and areas of audit focus identified in 2019-20 that remain relevant for 2020-2021		New risks and areas of focus for 2020-21
	Risks that are broadly consistent with last year	Risks that have evolved and developed since last year	
Significant risks	Significant Risks	Significant Risks	Significant Risks
Disclosures in relation to implementation of IFRS 16 Leases in 2019-20	Presumed risk of management override of controls		Revenue Recognition
Areas of Audit Focus	Areas of Audit Focus	Areas of Audit Focus	Areas of Audit Focus
		Post BREXIT activity	Going Concern

Building our assessment of risk

We are well placed to develop an understanding of the risks to the Information Commissioner's Office drawing on your own assessment, the historic assessment of risk and the broader context.

Information Commissioner's Office (ICO) assessment of risk

The ICO strategic risk register sets out a number of risks. We have engaged with management to understand the background to these risks, movement in impact and likelihood and have considered how these inform our assessment of audit risks.

- Capacity and capability
- Financial resilience
- Compliance culture
- Major incident
- Expectations gap

Past assessment of audit risk

The 2019-20 audit highlighted a number of areas of audit risk and focus, we have built on this historical assessment to consider whether these remain risks for the year.

- Presumed risk of management override of controls
- Disclosures in relation to implementation of IFRS 16 Leases in 2019-20

Broader context

Our risk assessment draws on the understanding of the broader environment in which the ICO operates.

- Post BREXIT developments

Our response to the significant risks*

Presumed risk of management override of controls

Why we have identified this as a risk

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by using its position to override controls that otherwise appear to be operating effectively.

Under International Standards on Auditing (UK) there is a presumed risk of management override for all audited bodies.

Our audit is designed to provide reasonable assurance that the 2019-20 accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption.

Work we plan to undertake in response

We will review the design and implementation of controls over journals, accounting estimates and significant unusual transactions.

Using BDO Advantage, we will test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the annual accounts.

We will review accounting estimates for evidence of bias, and where such bias is identified, evaluate the circumstances producing the bias to assess whether there is a risk of material misstatement to the accounts.

We will review financial performance and achievement of performance targets, and their disclosure in the Annual Report and Accounts, for evidence of manipulation of data and presentation of results.

We will evaluate any significant transactions that are outside the normal course of business or that otherwise appear to be unusual.

Each year we incorporate an element of unpredictability into the nature, timing and extent of our audit procedures in accordance with auditing standards.

*The auditor shall identify and assess the risks of material misstatement at:
(a) the financial statement level;
(a) the assertion level for classes of transactions, account balances, and disclosures
to provide a basis for designing and performing further audit procedures.

Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole and potentially affect many assertions.

Our response to the significant risks*

Revenue Recognition

Why we have identified this as a risk

Under International Standard on Auditing 240 “The auditor’s responsibility to consider fraud in an audit of financial statements” there is an assumption that revenue recognition is a fraud risk. We are therefore required to target it as part of our planned audit response unless we can rebut that risk.

For civil monetary penalties, there is a risk around cut-off to ensure that income is recognised in the correct period and also of the recoverability of debt. Following clarifications relating to both the point of recognition of penalties and also the need to reflect within the ICO’s financial statements as assessment of recoverability of that income, the status of this risk has been increased to a significant audit risk.

For Data Protection notification fees , we consider that the risk of material misstatement through fraud and error remains remote and therefore we have rebutted the presumption of significant risk on the basis that all income received is as per the set amount and therefore there is very little scope for manipulation of revenue without posting extra transactions that have gone through the bank As bank reconciliations are performed, these would identify any additional transactions that should not have been posted and therefore the risk of revenue recognition can be rebutted.

We also consider the risk of manipulating the results by wrongly splitting the cost between freedom of information and data protection to cover the potential revenue shortfall on data protection fees. However, we concluded that the risk of material misstatement due to apportionment of cost is minimal based on our testing of apportionment model in prior years.

Work we plan to undertake in response

We will review a sample of determinations made in respect of penalties up to the year end and assess whether they meet the criteria necessary to be recognised.

We will review Management’s assessment of recovery (the expected credit loss assessment) for debts due at the year end.

*The auditor shall identify and assess the risks of material misstatement at:
(a) the financial statement level;
(a) the assertion level for classes of transactions, account balances, and disclosures
to provide a basis for designing and performing further audit procedures.

Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole and potentially affect many assertions.

Areas of audit focus

The following are matters which we consider have a direct impact on the financial statements but do not represent significant risks of material misstatement as defined by ISA (UK) 315.

Title	Audit Area Affected	Audit Response
Post BREXIT activity	• Income – fees • Expenditure – staffing and other costs, including legal costs • Going concern	We will review disclosures made in respect of the developments during the year in the Annual Report. We will consider the impact on expected income levels and on costs. Please see below for going concern.
Going Concern	• Disclosures	The revised ISA570 requires the auditor to make a request to management that they perform an assessment of the entity's ability to continue as a going concern. Flagging this issue as an area of audit focus is to ensure that this request is noted and included on the Audit Committee's agenda.

Materiality

Basis for overall materiality calculation	£56.5m	Projected 2020-21 expenditure
Overall account materiality (2%)	£1,130,000	
Error reporting threshold	£25,000	We report to you all misstatements, whether adjusted or unadjusted, above £25,000

In line with generally accepted practice, we have set our quantitative materiality threshold for the ICO as approximately 2% of expenditure, which equates to £1.13 million.

These levels remain comparable to those used in the prior year.

Our overall account materiality is based on projected gross expenditure.
A matter is material if its omission or misstatement would reasonably influence the decisions of users of the financial statements. The assessment of what is material is a matter of the auditor's professional judgement and includes consideration of both the amount and the nature of the misstatement.

The concept of materiality recognises that absolute accuracy in financial statements is rarely possible. An audit is therefore designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. We apply this concept in planning and performing our audit, and in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements, if any, on the financial statements and in forming the audit opinion. This includes the statistical evaluation of errors found in samples which are individually below the materiality threshold but, when extrapolated, suggest material error in an overall population. As the audit progresses our assessment of both quantitative and qualitative materiality may change.

We also consider materiality qualitatively. In areas where users are particularly sensitive to inaccuracy or omission, we may treat misstatements as material even below the principal threshold(s).

These areas include:
- the remuneration report;
- disclosures about losses and special payments;
- our audit fee; and
- irregular income and expenditure.

Timing of the audit and audit fee

The timetable comprises an interim visit commencing March 2021 for 1 week and a final visit commencing April 2021 with certification planned for July 2021.

Fees

The fee for the audit is £33,000.

The principle agreed with Parliament is that our fee is set to recover the full costs of the audit, rather than make a profit from or subsidise an audit. The NAO determines its fees with reference to standard hourly rates for our staff, which are reviewed annually, and updated when costs change. Completion of our audit in line with the timetable and fee is dependent upon ICO:

- delivering a complete Annual Report and Accounts of sufficient quality, subject to appropriate internal review, on the date agreed;
- delivering good quality supporting evidence and explanations within the agreed timetable;
- and making staff available during the audit.

If significant issues arise and we are required to perform additional work this may result in a change in our fee. We will discuss this with you before carrying out additional work.

Initial planning meetings and risk assessment

Audit Planning Report presented to the audit committee

Interim audit

Receipt of first draft of the accounts

Audit Completion Report (ACR) issued

Jan 2021 | Feb 2021 | March 2021 | April 2021 | May 2021 | June 2021 | July 2021

Planning

In consultation with Management, Audit Committee, Internal Audit and other Key stakeholders, review ICO's operations, assess risk for our audit and evaluate the control framework.

Determine audit strategy.

Interim fieldwork

Test expenditure and income.

Final fieldwork

Test expenditure and income and significant balances and disclosures

Completion

ACR: present our findings and recommendations.

Seek management representations.

C&AG issues opinion.

Management Letter: provide final recommendations on control matters identified.

Debrief

Meeting to discuss lessons learned and improvements for the following year.

Our audit approach – Other Matters

Other Matters

Audit scope and strategy

This audit plan covers the work we plan to perform to express an opinion on whether the financial statements are free from material misstatement and are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The plan is also designed to ensure the audit is performed in an effective and efficient manner

Our audit approach is a risk based approach, ensuring that audit work is focussed on significant risks of material misstatement and irregularity.

In areas where users are particularly sensitive to inaccuracy or omission, a lower level of materiality is applied, e.g. for the audit of senior management remuneration disclosures and related party transactions.

When undertaking our risk assessment we take into account several factors including:

- Inquiries of management
- Analytical procedures
- Observation and inspection of control systems and operations
- Examining business plans and strategies

Our risk assessment will be continually updated throughout the audit.

Independence

We are independent of ICO in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities/public interest entities. We have fulfilled our ethical responsibilities in accordance with these requirements and have developed important safeguards and procedures in order to ensure our independence and objectivity.

Information on NAO quality standards and independence can be found on the NAO website: https://www.nao.org.uk/about-us/our-work/governance-of-the-nao/transparency/.

We will reconfirm our independence and objectivity to the Audit Committee following the completion of the audit.

Other Matters

Management of personal data	During the course of our audit we have access to personal data to support our audit testing. We have established processes to hold this data securely within encrypted files and to destroy it where relevant at the conclusion of our audit. We confirm that we have discharged those responsibilities communicated to you in the NAO's Statement on Management of Personal Data at the NAO. The statement on the Management of Personal Data is available on the NAO website: http://www.nao.org.uk/freedom-of-information/publication-scheme/how-we-make-decisions/our-policies-and-procedures/policies-and-procedures-for-conducting-our-business/
Use of framework partners	The NAO has appointed BDO LLP to undertake the detailed work to support the C&AG's opinion. On a day-to-day basis the audit will be managed and the work carried out by BDO LLP staff, under the direction of the NAO. The responsibility for recommending the form of audit opinion to the C&AG shall be retained by the NAO.
Using the work of internal audit	We liaise closely with internal audit through the audit process and seek to take assurance from their work where their objectives cover areas of joint interest. Following our review of internal audit's plans we are not aiming to take assurance from their audit assignments.
Communication with the NAO	Organisations we audit tell us they find it helpful to know about our new publications, cross-government insight and good practice. Our website holds a wealth of information from latest publications which can be searched, to pages sharing our insights on important cross-cutting issues. We also publish blogs and send email notifications to subscribers about our work on particular sectors or topics. If you would like to receive these alerts, please sign up at: http://bit.ly/NAOoptin. You will always have the option to amend your preferences or unsubscribe from these emails at any time.

Appendix 1: The audit team

The NAO has appointed BDO to undertake the detailed work to support the C&AG's opinion. On a day-to-day basis the audit will be managed and the work carried out by BDO staff, under the direction of the NAO. The responsibility for recommending the form of audit opinion to the C&AG shall be retained by the NAO.

Engagement team

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Appendix 2: Scope and responsibilities

In line with ISAs (UK) we are required to agree the respective responsibilities of the C&AG/NAO and the Accounting Officer/Client, making clear that the audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
These responsibilities are set out in the Letter of Understanding of 24 May 2017, and are summarised here.

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
Scope of the audit	• Prepare financial statements in accordance with Data Protection Act 1998 and HM Treasury guidance and that give a true and fair view. • Process all relevant general ledger transactions and make these, and the trial balance, available for audit. • Support any amendments made to the trial balance after the close of books (discussing with us). • Agree adjustments required as a result of our audit. • Provide access to documentation supporting the figures and disclosures within the financial statements. • Subject the draft account to appropriate management review prior to presentation for audit	• Conduct our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)). • Report if the financial statements do not, in any material respect, give a true and fair view. • Review the information published with the financial statements (e.g. annual report) to confirm it is consistent with the accounts and information obtained during the course of our audit.

Appendix 2: Scope and responsibilities (cont'd)

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
Regularity	• Ensure the regularity of financial transactions. • Obtain assurance that transactions are in accordance with appropriate authorities, including the organisation's statutory framework and other requirements of Parliament and HM Treasury.	• Conduct our audit of regularity in accordance with Practice Note 10, 'Audit of financial statements of public sector bodies in the United Kingdom (2016)', issued by the Financial Reporting Council. • Confirm the assurances obtained by the ICO that transactions are in accordance with authorities. • Have regard to the concept of propriety, i.e. Parliament's intentions as to how public business should be conducted.
Fraud	• Primary responsibility for the prevention and detection of fraud. • Establish a sound system of internal control designed to manage the risks facing the organisation; including the risk of fraud.	• Provide reasonable assurance that the financial statements (as a whole) are free from material misstatement, whether caused by fraud or error. • Make inquiries of those charged with governance in respect of your oversight responsibility.
Governance statement	• Review the approach to the organisation's governance reporting. • Assemble the governance statement from assurances about the organisation's performance and risk profile, its responses to risks and its success in tackling them. • Board members, with the support of the Audit Committee, evaluate the quality of internal control and governance, and advise on any significant omissions from the statement.	• Confirm whether the governance statement is consistent with our knowledge of the organisation, including its internal control. • Consider whether the statement has been prepared in accordance with HM Treasury guidance, including Managing Public Money.
Accounting estimates and related parties	• Identify when an accounting estimate, e.g. provisions, should be made. • Appropriately value and account for estimates using the best available information and without bias. • Identify related parties. • Appropriately account for and disclose related party transactions.	• Consider the risk of material misstatement in respect of accounting estimates made by management. • Perform audit procedures to identify, assess and respond to the material risks of not accounting for or disclosing related party relationships appropriately. • The revenue recognition risk includes consideration of recoverability of penalties and fines.

Appendix 3: Future accounting standards

IFRS 17: Insurance Contracts

Effective from 2023-24

HM Treasury are consulting on the public sector interpretation of this Standard for FReM bodies. It expects public sector implementation to be from 2023-24, and to develop application guidance in due course.

IFRS 17: *Insurance Contracts* replaces IFRS 4 of the same name. The new standard will apply more standardised and rigorous requirements on accounting for insurance contracts. The new standard sets clearer expectations on the recognition, classification and measurement of assets and liabilities in relation to insurance contracts.

Scope

The scope of the standard covers insurance contracts issued and re-insurance contracts issued or held. An insurance contract is defined as:

"*A contract under which one party (the issuer) accepts significant **insurance risk** from another party (the **policyholder**) by agreeing to compensate the **policyholder** if a specified uncertain future event (the **insured event**) adversely affects the **policyholder**.*"

Indications that there is an insurance contract present include:

- Does the agreement create enforceable rights and obligations between an entity and one or more third parties OR two or more entities whose accounts are consolidated into the same group?
- Is one party required to make a payment to a second party depending on the outcome of a future event?
- Is the future event that would trigger payments uncertain?
- Does the specified uncertain future event adversely affect the second party to the contract?
- Does the payments required by the agreement amount to a transfer of risk from the second party (the policy holder) to the first party (the issuer)?
- Is the risk transferred insurance risk? (a risk other than a financial risk)

Implementation

Although the implementation of IFRS 17 is not planned until 2023, the standard should not be underestimated and preparations will be required where appropriate. Preparations will be required for the different actuarial, risk and accounting processes and could extend to different data, system and processes.

HMT are considering the application of IFRS 17 to the public sector. The standard reflects appropriate practice for the commercial insurance industry and implementation without adaptation may not be suitable for the public sector. HMT have already identified the practice of self-insurance across the public sector as an area that may adapted for government bodies. They are seeking feedback on where such self-insurance arrangements might exist, so the extent of this undertaking can be considered when the standard is adapted for the FReM.

Action for audit committees

Audit committees are asked to consider whether, through contractual arrangements or custom and practice, their enterprises insure other bodies against specific risks. Where arrangements are identified, entities should engage with HMT on the application of the standard within the public sector. Audit committees are requested to continue to monitor new transaction streams or arrangements against the criteria of IFRS 17 to ensure all liabilities are appropriately recognised across the government estate.

Appendix 4: Impact of changes in auditing standards

Changes in auditing standards: ISA 540 (Accounting Estimates)

ISA 540 (Revised) - *Auditing Accounting Estimates and Related Disclosures* applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradicts them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior years.

Appendix 4: Changes to auditing standards

ISA (UK) 570: Going Concern

Effective from 2020-21

The FRC has issued significant revisions to ISA (UK) 570 - *Going Concern*. This follows several well-publicised cases of perceived audit failure, such as Carillion and BHS. In these cases, the auditors failed to raise concerns in the auditor's report about the viability of the companies, despite them collapsing shortly after.

The changes increase the work required by auditors on going concern. As a result, we will be requesting greater evidence on going concern to meet these requirements, including, in all cases, management's assessment of the entity's ability to continue as a going concern for a period of at least one year from certification as required by IAS 1.

Public sector adaptation

In the public sector, management's use of the going concern basis of accounting may be driven by the requirements of the financial reporting framework rather than the financial sustainability of the reporting entity. The Financial Reporting Manual (FReM) provides that anticipated continuation of the provision of a service in the future will be presumed to provide sufficient evidence to prepare the financial statements on a going concern basis.

Recognising these differences from a private sector situation, Practice Note 10 interprets the requirements of the new ISA 570. This allows for auditors to take the "continued provision of service approach". For bodies reporting under the FReM, this allows auditors to conduct proportionate risk assessment procedures over going concern where the activities are expected to continue in the future. There are still additional new requirements such as requirements to perform specific risk assessment procedures on going concern.

Going concern issues can still arise but these largely occur when Parliament has an intention to abolish, transfer or privatise the activities of an entity. Only in the case of dissolution without any continuation of operations would the going concern basis cease clearly to be appropriate. In the other cases the auditor considers the basis on which the activities are transferred from the viewpoint of the entity that is relinquishing the assets and liabilities at the accounting date.

Therefore, an unqualified opinion on going concern does not provide assurance over the entity's financial sustainability nor that the operations will not be transferred to another entity. There will be changes to the audit certificate including further explanations of the work done on going concern as required by the changes to ISA 570.

Action for audit committees

Audit committees are encouraged to review management's going concern assessment on an annual basis and consider whether it is appropriate for the entity's circumstances and the financial reporting framework. For entities where Parliament has an intention to abolish, transfer or privatise the activities, audit committees should scrutinise whether the accounts have been prepared on the correct basis and whether the financial statements include appropriate disclosures of material uncertainties over going concern.

Appendix 5: Guidance for governance

Support to Audit Committees

We have developed a range of guidance and tools to help public sector Audit Committees achieve good corporate governance. This includes specific guidance on financial reporting and management during Covid-19

https://www.nao.org.uk/search/pi_area/support-for-audit-committees/

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/

Cyber security and information risk guidance for Audit Committees

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/

Guidance for governance

Sustainability reporting

This guidance is to assist with the completion of sustainability reports in the public sector. It sets out the minimum requirements, some best practice guidance and the underlying principles to be adopted in preparing the information.

https://www.gov.uk/government/publications/public-sector-annual-reports-sustainability-reporting-guidance-2020-to-2021

Corporate Governance Code for central government departments

The document was released in July 2018 and lays out the model for departmental boards, chaired by Secretaries of State and involving ministers, civil servants and non-executive board members. The principles outlined in the code will also prove useful for other parts of central government and they are encouraged to apply arrangements suitably adapted for their organisation.

https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017

Disclosure Guides

Our disclosure guides for clients help audited bodies prepare an account in the appropriate form and that has complied with all relevant disclosure requirements.

http://www.nao.org.uk/report/nao-disclosure-guides-for- entities-who-prepare-financial-statements-in-accordance-with-the-government-financial-reporting-manual-frem/

Good practice in annual reports

The Building Public Trust Awards recognise outstanding corporate reporting that builds trust and transparency. The interactive PDF below illustrates a range of good practice examples across annual reports in both the public and private sector.

https://www.nao.org.uk/report/building-public-trust-awards-good-practice-in-annual-reports-february-2020/

Appendix 6: Fraud matters

ISA (UK) 240 'The auditor's responsibility to consider fraud in an audit of financial statements' requires us, as your auditors, to make inquiries and obtain an understanding of the oversight exercised by those charged with governance.

What can constitute fraud?

Fraudulent Financial Reporting: Intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Internal misappropriation of assets: Theft of an entity's assets perpetrated by management or other employees.

External misappropriation of assets: Theft of an entity's assets perpetrated by individuals or groups outside of the entity, for example grant or benefit recipients.

Fraud risk factors

Rationalisation/attitude: Culture of environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act.

Incentive/Pressure: Management or other employees have an incentive or are under pressure.

Opportunity: Circumstances exist – ineffective or absent control, or management ability to override controls – that provide opportunity

ISA inquiries

Our inquiries relate to your oversight responsibility for

- Management's assessment of the risk that the financial statements may be materially misstated owing to fraud, including the nature, extent and frequency of such assessments;
- Management's process for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that has been brought to its attention;
- Management's communication to the Audit Committee (and others charged with governance) on its processes for identifying and responding to the risks of fraud; and
- Management's communication, if any, to its employees on its views about business practices and ethical behavior.

We are also required to ask whether you have any knowledge of any actual, suspected or alleged fraud.

Audit approach

We have planned our audit of the financial statements so that we have a reasonable expectation of identifying material misstatements and irregularity (including those resulting from fraud). Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

We will incorporate an element of unpredictability as part of our approach to address fraud risk. This could include, for example, completing procedures at locations which have not previously been subject to audit or adjusting the timing of some procedures.

We will report to the Audit Committee where we have identified fraud, obtained any information that indicates a fraud may exist or where we consider there to be any other matters related to fraud that should be discussed with those charged with governance.