Scottish Government Management report 2019/20

Audit findings

Introduction

1. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the statements. We also review and report on arrangements within the audited body to manage its performance, regularity and use of resources. To support our work on the financial statements, we test key controls within the main financial systems to see if we can place reliance on the systems and processes used to produce data for the financial statements.

2. This report contains a summary of the key issues identified during the interim audit work on the main financial systems of the Scottish Government. Given the size and nature of the Scottish Government's operations, a number of large and relatively complex systems are used. It is therefore important that good controls are in place to ensure the accurate processing of information.

3. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that the Scottish Government:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements

- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption

- complies with established policies, procedures, laws and regulations.

4. Our work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We also report on our findings from the testing of expenditure and journals across Scottish Government portfolios. Our expenditure and journal testing help to provide assurance that the financial statements are free from material misstatement and we will use the results of this testing to finalise our approach for the 2019/20 financial statements audit.

5. The Scottish Government provides services such as Payroll, HR and the Scottish Executive Accounting System (SEAS) to a number of public bodies including executive agencies such as Transport Scotland and other bodies such as the Care Inspectorate. The results of our testing are also considered by the auditors of these public bodies to help in planning and performing their local audit work.

6. The contents of this report have been discussed with the Scottish Government to confirm factual accuracy. The co-operation and assistance we received during our audit is gratefully acknowledged.

Summary conclusion

7. Our overall conclusion is that, other than Payroll, the Scottish Government's main systems of internal control operate effectively covering SEAS (General ledger); Payables; Receivables and Banking. Our testing identified cases where controls did not operate as expected, including several within the payroll system.

8. Details of the key findings are summarised in Exhibit 1 and include actions identified from previous years' audits where management action remains outstanding. It is essential that management take action to address these weaknesses to ensure that risks to the systems are minimised and the integrity of the systems is maintained. Control weaknesses identified in previous years which are not addressed by planned management actions increase the risk of fraud and error remaining undetected.

9. For SEAS, Payables, Receivables and Banking, our work enables us to take planned assurance for these systems for our audit of the 2019/20 consolidated accounts. It also enables us to provide assurance to auditors of public bodies that use the same systems. Taking planned assurance from our work on internal controls means that the amount of substantive testing needed to confirm that transactions and balances in the financial statements represent a true and fair view remains as proposed in our audit approach.

10. For Payroll, given the control weaknesses identified from our testing as outlined in Exhibit 1, we increased the level of substantive testing to help us obtain the assurances we need to give an opinion on the financial statements. The results of this work are also set out in Exhibit 1. We will reflect on these results for our audit approach.

Testing of key controls

11. Our 2019/20 testing covered key controls in areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, our testing covered budget monitoring and control, and feeder system reconciliations.

| **Bank reconciliations** | **Payroll controls** | **IT access** | **Budgets** |

12. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk-based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where we have established that controls remain unchanged and no significant weaknesses had been identified.

13. Our 2019/20 testing of payroll controls found similar weakness to prior years. We saw an improvement in the level of checking of new starts by the payroll audit team and other checks by Team Leaders, however, the level of checking is not compliant with targets set, which affects the strength and effectiveness of this control. We also found errors that had not been identified in the absence of these checks. Further details are outlined in Exhibit 1.

14. In February 2020 the Scottish Government's Directorate of Internal Audit and Assurance issued an advisory report on 'Business as Usual' which covered EASEbuy processes and procedures. The report provided a 'Limited Assurance' opinion. The results of Internal Audit's work reflect our own findings over IT access controls in the accounts payable system such as:

- Lack of control over deactivation of leavers and staff moving to different roles on EASEbuy

- Amendments authorised by inappropriate grade of staff

- Lack of checks over identification of users that have not accessed EASEbuy for some time.

15. We have not repeated the details of these findings within this report. We will review the Scottish Government's progress with actions agreed and taken in response to the Internal Audit report and consider any significant issues in our 2019/20 Annual Audit Report.

16. One of the key controls for any system is the control over who is authorised to access the system and the appropriateness of that access to their role and responsibilities. We have reported previously that, while there are established controls in place, the application of these controls across various systems remains inconsistent. The risk of error or fraud is increased where system users have been given access without appropriate authorisation and proper training. The Scottish Government needs to continue to ensure that the established IT access controls across the various systems are consistently applied.

Testing of payroll expenditure

17. Our testing of payroll transactions in 2019/20 included a sample of starters, leavers and payroll changes across the financial year. Our sample was drawn from the core Scottish Government and other public bodies that use the Scottish Government payroll system. Our findings are set out in Exhibit 1. We'll reflect on the overall results for our audit approach on the financial statements.

Testing of expenditure

18. We tested a sample of expenditure items across Scottish Government portfolios. We focused on core portfolio expenditure, excluding grant-in-aid funding to public bodies as this is audited by their local auditors. A sample of high value transactions were tested covering April 2019 to March 2020. No significant issues were identified from the expenditure items we tested.

Testing of journals

19. ISA 240 requires that our audit work is planned to consider the risk of fraud, including consideration of the risk of management override of controls to change the position disclosed in the financial statements. To help address this requirement we carried out testing on a sample of journal entries. We selected a sample of journal entries relating to the financial year based on potential risk factors, for example journals created on a weekend or bank holiday, or those without a description. No significant issues were identified from the journals we tested. We will test a further sample of journal entries as part of our final accounts testing.

Risks identified

20. Any weaknesses identified represent those that have come to our attention during the audit work and therefore are not necessarily all the weaknesses that may exist within the systems tested. It remains the responsibility of management to decide on the extent of the internal control system appropriate to the Scottish Government.

21. Due to Covid-19 related restrictions which were in place during our testing of controls, expenditure and journals, paper-based information could not be accessed. This occurred in the following areas:

- Our sample testing of inter-entity journals could not be completed as paper copies of the request forms could not be accessed

- A number of the payroll sample could not be completed as the information required was in paper form and are in Scottish Government offices.

Exhibit 1
Key findings and action plan 2019/20

Issue identified	Management response (including Responsible Officer and target date)

Audit findings

1. Payroll reconciliations

There are fifteen payroll suspense accounts that require reconciling to the general ledger each month by the Treasury and Banking team. At the time of our audit (March 2020), it was confirmed by the Treasury & Banking team that the reconciliations were not completed this year due to staff shortages within the team. Only one month, April 2019, was fully completed for all 15 accounts.

Monthly reconciliations are a key part of the control environment that helps ensure that the amounts recorded in the accounts are complete and accurate.

There is a risk that where reconciliations are not carried out in a timely manner, any error or irregularity which has occurred will not be identified and resolved promptly.

The Treasury and Banking team suffered some significant staff resourcing challenges over the course of the year but in spite of this all Payroll reconciliations (including Period 13) were brought up to date by the year end.

Whilst individual monthly reconciliations may not have been fully completed on time, the payment elements of the payroll were checked as part of the main bank reconciliation. All payments that leave the SG NatWest bank account were reconciled monthly and because this was done, this part of the payroll reconciliations (Net Pay, PAYE, pensions, 3rd party, etc) was not an issue. Most payroll reconciling items tend to be miscoding, or timing differences.

As always there was ongoing dialogue and engagement with colleagues in Payroll about issues uncovered during the reconciliation process.

The Division maintains an overall report of the state of monthly reconciliations and this is completed and returned to the head of Division on a monthly basis.

Target date: ongoing

Responsible Officer: Head of Treasury and Banking Branch

2. Exception reporting

As part of the monthly payroll process, variance reports are produced which identify instances where net or gross pay is 15% higher or lower than the previous pay period. This is a key detection control to highlight any errors or irregularities. These cases must be investigated before the payroll is run. We have reported in previous years that this process is not consistently carried out.

For 2019/20, checking was not carried out on all cases where variances of net or gross pay was 15% higher or lower than the previous pay period. Our sample identified that 16% of the variances were not checked. This compared to 34% in the prior year.

There is a risk that errors may be present if variances are not fully investigated. The review of variances should provide a full audit trail which evidences the resolution of any issues before the payroll is run.

A review of the process for checking the variance report will be carried out to ensure a full audit trail is provided. This review will ensure that all variances 15% higher or lower are checked each month. Work and testing is already underway with our system provider to provide an updated report.

Target date: 31 December 2020

Responsible Officer: Head of Pay Services and Head of Quality, Compliance and Support

Issue identified	Management response (including Responsible Officer and target date)
3. Payroll validation and employee verification Reports are issued to budget holders' listing the employees within their cost centre for review. However, as the BCLOs only report back to payroll if an error is identified, this doesn't provide explicit assurance that all the reports issued have been reviewed. Payroll validation and employee verification are important checks that help identify error or fraud. **There is a risk to the integrity of the payroll system if responses are not received from BCLOs which help to provide assurance over payroll and employee information.**	There are currently 795 BCLOs who receive monthly emails requesting they review payroll expenditure. Each business area is responsible for checking and reporting any changes or inaccuracies to minimise any overpayments. Overpayment numbers and values are low in comparison to overall staff budgets. Action will be taken to provide a covering statement in the email detailing the BCLO's responsibilities **Target date:** 31 March 2021 **Responsible Officer:** Head of Pay Services and Head of Quality, Compliance and Support
4. Payroll system segregation of duties We have reported previously that there is a lack of segregation of duties in the payroll system. An integrated system which administers various HR and payroll functions requires a robust control framework to ensure the segregation of roles and responsibilities. For 2019/20, staff still have write access to payroll and can make pay affecting changes without review or authorisation. **While there are mitigating controls in place (Team Leader checks, variance reporting etc) the weaknesses we have identified in these controls means that the risk of fraud or error remains high.**	HR Systems team provide a monthly report detailing system access for the HRSS team. Those with write access will be reviewed. This review will include providing write access to required payrolls. Along with the changes proposed to variance report checking this should minimise any risk of fraud or error. **Target date:** 31 December 2020 **Responsible Officer:** Head of Pay Services and Head of Quality, Compliance and Support
5. eHR access – granting access To grant eHR access to an employee, a request form must be received from the employee's line manager. There were two cases where the form was not signed and there was no email evidence to confirm that this had been received from the line manager. In addition, there were two cases where no confirmation could be obtained which showed the request was signed off by the line manager. **There is a risk that inappropriate access has been granted to the eHR system which leads to an increase in the risk of fraud or error occurring within the payroll system.**	To ensure there is a full audit trail, the HR Systems team will develop a process for recording these requests via our HR Online system. **Target Date:** 30 November 2020 **Responsible Officer:** HR Systems Manager
6. Payroll audit team checks The payroll audit team is required to carry out checks on all new starters added to the payroll system. We found that during 2019/20, checks on all starters or leavers were not carried out. Evidence of these checks should be a signed action sheet and a completed action log. We found some	An updated action sheet is now live detailing what documentation should be included which will ensure there is a full audit trail – Better utilisation of system reports as a cross check to ensure no checks are missed

Issue identified	Management response (including Responsible Officer and target date)
improvements since last year, however, from a sample of 30 starters cases the following points were noted: • six did not have a completed action log • eight did not have a signed action sheet. Of these, • three had no audit trail or documentation on file. • one employee received an overpayment of £960. From a sample of 10 leavers, the following were identified: • five did not have a completed action log • three did not have a signed action sheet • three did not have any audit trail or documentation on file. These issues would be identified if 100 per cent of starters and leavers were checked. A pay services audit issues log is kept which has a record of changes to the payroll system that have been checked by the payroll audit team. This shows that in the period to February 2020, there were 2,120 entries with 1,192 errors found. Out of these errors, 221 were pay affecting. **Without appropriate checks on input to the payroll system there is a risk that instances of error and fraud are not identified.**	– Documents of Records - a review will be carried out alongside further communication and training to be provided to all staff on the importance of keeping accurate and up to date records for audit and GDPR purposes – All overpayments are pursued as part of our robust overpayment process – 221 pay affecting errors were identified and corrected before any payments made, minimising any overpayments. **Target date:** 30 January 2021 **Responsible Officer:** Head of Pay Services and Head of Quality, Compliance and Support

7. Team leader checks

For changes to grade, hours, TRS, family pay and sickness absence there is a target of 10% of cases to be checked by team leaders. Our testing indicated that these targets were not met. A discussion was held with payroll to gain an understanding of how they ensure the 10% checks are being met and how these are carried out. Payroll is unable to evidence that 10% of payroll changes (excluding starters and leavers) are being carried out. **Without appropriate checks on input to the payroll system there is a risk that instances of error and fraud are not identified.**	Changes relating to grade and hours are currently checked by the Audit Team and are evidenced. It is accepted that the required Team Leader checks could not be evidenced. A risk based approach along with appropriate methodology and cross checking system reports will be developed. This will review the responsibilities of the Audit Team and Team Leader checks. **Target date:** 28 February 2020 **Responsible Officer:** Head of Pay Services and Head of Quality, Compliance and Support

8. Payroll Standing Data

The updating of the payroll system for the Annual Pay award is a complex process with set procedures and a timetable in place. A similar process is applied to the Senior Civil Service Pay Award which is much smaller and dealt with through manual amendments. There is no implementation plan in place for the 2019/20 Senior Civil Service Pay Award. This is important to ensure that payroll records are updated correctly and to ensure that all steps are carried out and appropriately documented.	HR Policy Team to define SCS Pay Award business rules. HR Systems Team will work with colleagues to design, build, test and implement new process. **Target date:** 1 April 2021 **Responsible Officer:** Employee Relations, Reward & HR Policy Manager and HR Systems Manager

Issue identified	Management response (including Responsible Officer and target date)
There is a risk that payroll records are not updated correctly if not all steps are carried out and appropriately documented.	

9. Payroll substantive sampling

We sampled payroll items from across the 2019/20 financial year. Our sample included starters, leavers, TRS, change in grade and hours, family leave and sick pay.

We identified a number of common issues across our sample areas which included files with no paperwork, files with missing checklists or contracts, files that lacked evidence of authorisation, sick leave letters issued late resulting in employees being paid at full pay, unsigned contracts and contracts issued after the date of change. Our work identified two overpayments totalling £342.49.

There should be a full audit trail within the payroll system to evidence changes made.

There is a risk that where payroll records are not updated in a timely manner and all evidence of changes are documented correctly that instances of error and fraud will not be identified.

The issues raised are due to prioritisation of work and managing resources within the team.

The resulting actions shown in point 6 above should resolve issues identified from substantive testing.

The numbers and values of overpayments have reduced year on year and any overpayments are recovered through our overpayments recovery process. They form a small percentage of the overall staffing budget.

Target date: 28 February 2021

Responsible Officer: Head of Pay Services and Head of Quality, Compliance and Support

10. Bank signatories

The list of bank signatories provided by Treasury & Banking had not been updated to reflect all staff changes that had taken place during the year.

There is a risk that users have access to the banking system that is not appropriate to their roles. Therefore there is scope for error, irregularities or manipulation when the list of bank signatories is not regularly updated.

The Bank signatories list has now been brought up to date to remove the staff that retired or moved to another area within the SG. Because two signatures are always required the risk associated with this issue was always judged to be low. To note that resilience in the form of back-up signatories includes members of staff who work elsewhere in the SG.

Target date: ongoing

Responsible officer: Head of Treasury and Banking Branch

11. Timing of completion of main corporate cash reconciliation and corresponding sub-reconciliations

The Treasury and Banking team did not complete the Main Corporate Cash reconciliation and the corresponding sub-reconciliations this year in a timely manner. The reconciliations are now up to date, but the majority of this work was done in January 2020.

The reason for the delay was reported to be staff shortages within the Treasury and Banking branch, following the departure of staff who were responsible for the completion of these reconciliations in previous years.

Treasury and banking branch confirmed that a new Banking Manager started on 1 June 2020 however,

Throughout the year, the component parts of the Corporate Cash reconciliation were completed regularly and in a timeous manner. A number of small value reconciling items were identified in the early months, which prevented the final sign-off of the overall reconciliation. It was only when we brought in an interim manager that these reconciling items could be fully investigated and corrected. This was completed in January 2020 and since then, the full reconciliation has been completed to the expected timescale.

Target date: ongoing

Issue identified	Management response (including Responsible Officer and target date)
at the time of clearing this report, another vacant post in the team had not been filled. **There is a risk that where reconciliations are not carried out in a timely manner, any error or irregularity which has occurred will not be identified and resolved promptly.**	**Responsible officer:** Head of Treasury and Banking Branch

12. Inter Entity journals

The Financial Services Division is required to post inter-entity journals. At the time of our review, this responsibility was held by 18 users. We performed a reasonableness test by confirming the job title and branch of these users to determine if this level of access was appropriate for their roles. Three users have changed roles since they were granted the responsibility, but no amendment or deactivation request was found for two of them, The level of responsibility still active for these users is not appropriate for their new roles. An amendment or deactivation request should have been submitted to remove the responsibility from their profiles. The Financial Services Division user management policy states that 'requests for amendments must be submitted using the correct user form ... from the B3 or higher grade. The reasons for changes to a user account may be ... changes to users' business area, where a user has moved department'. **There is a risk that users access levels are not appropriate to their roles and are able to approve expenditure when they are not authorised to do so. There is therefore scope for error, irregularities or manipulation.**	FSD has reviewed this list of users and updated and removed responsibilities where appropriate. Business areas have been reminded that it is their responsibility to inform FSD of any staffing changes. On a more general point regarding SEAS access FSD has obtained a link to the monthly movers and leavers spreadsheet. This will be reviewed every month and any leavers will have their access end dated. This will help to capture changes in staff where a business area has not informed FSD accordingly. For staff moves the intention is to create a template email to send to business areas asking if the member of staff still requires the same level of access to SEAS in their new role? This should provide another level of assurance that FSD is maintaining appropriate user access to SEAS. **Target date:** ongoing **Responsible officer:** Digital Delivery Services, Communications and Data Security Team Leader

13. Budget monitoring

From a sample of 12 directorate budget monitoring workbooks, we found that nine had no evidence of review by either the Deputy Director or Director. Senior review of budget monitoring reports is an essential part of sound financial management to ensure that any significant variances or cost pressures are identified, and appropriate action is taken. **The inclusion of evidence that the Director or Deputy Director has reviewed directorate budgets provides additional assurance that issues identified have been reported to and considered at senior levels.**	The returns to be made by business areas to Financial Management Directorate do request sign off to evidence senior review. For the 2020-21 budget monitoring process, we have taken action to include a specific reminder to evidence authorisation. "A recent audit finding from Audit Scotland's work on our approach to budget management highlighted the need for more robust evidence of appropriate authorisation of completed returns. Please ensure you obtain sign off from the relevant Deputy Director or equivalent staff member for your business area before you submit your returns back to Finance and the appropriate cell confirming this is filled in. If you are unsure as to who should be signing off your return contact your Finance DG mailbox in the first instance." It is worth noting that the annual Certificates of Assurance exercise requires Deputy Directors

Issue identified	Management response (including Responsible Officer and target date)
	and Directors to provide assurances about their financial management responsibilities.
	Target date: effective for FY20-21 budget monitoring, July 2020
	Responsible Officer: Senior Finance Manager, Corporate Reporting Division

Source: Audit Scotland

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