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Directorate for Internal Audit and Assurance
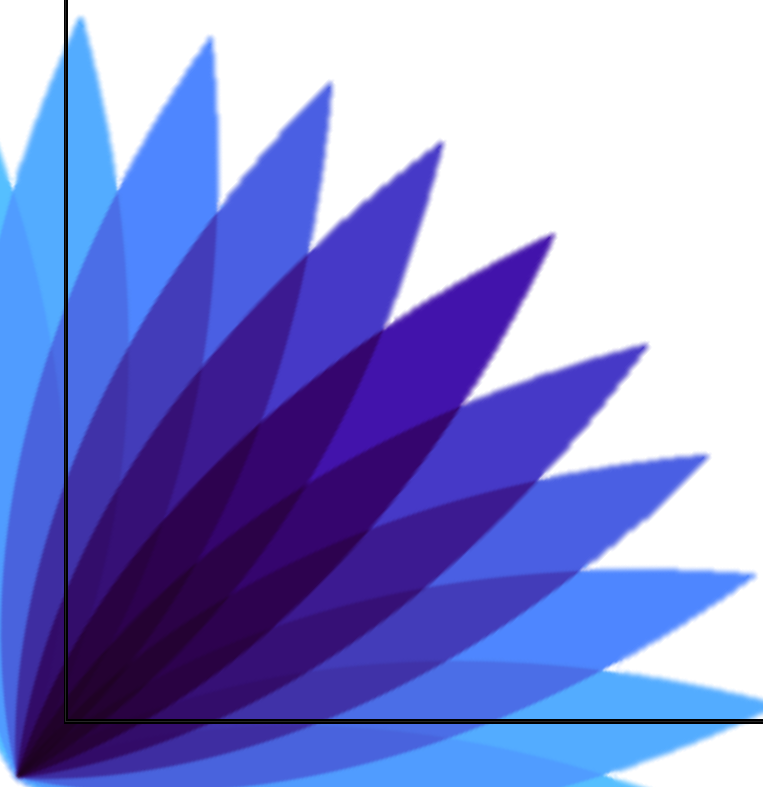
Annual Assurance Report

Scottish Government Corporate Systems 2022/23

Directorate for Internal Audit and Assurance

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1. Introduction

1.1. The purpose of Scottish Government's (SG) Directorate of Internal Audit and Assurance (DIAA) is to provide independent, objective assurance and consulting services designed to add value and improve its clients' operations. The DIAA's clients consist of the Scottish Government and a range of public sector bodies including Executive Agencies and Non-Ministerial Bodies**.**

1.2. Internal Audit provides an annual assurance opinion on the arrangements for risk management, control and governance over the SG Corporate Systems, to the Permanent Secretary (as Principal Accountable Officer) and the Accountable Officers of the public bodies that use the SG systems via shared services arrangements.

1.3. Our assurance opinion focuses on effectiveness of controls over the underlying corporate systems, processes and procedures. Our opinion is not intended to provide an assessment of service associated with these systems.

2. Assurance and Opinion

2.1. Our opinion has been compiled using evidence from a range of sources, as set out below. We also consider and rely on the DIAA's knowledge of the wider control framework within the SG. The internal audit framework for assessing individual assignments and overall assurance opinions is set out at Annex A below.

2.2. We can provide **Reasonable** Assurance on the arrangements for risk management, control and governance over the SG's Key Corporate Systems. This is a composite opinion, encompassing all of the systems. The definition of Reasonable Assurance is that some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place but not of a significant nature.

2.3. Our Assurance Reports in 2021-22 and 2020-21 referred to limitations in core systems. As in the previous years, we have not identified errors. However, we have again noted areas where systems limitations, coupled with resourcing issues, have impacted performance of intended controls, which required additional manual intervention and / or a risk based approach to mitigate key risks.

2.4. Action is being taken to address systems limitations in the shorter and longer-term. SG's Shared Services Programme – Phase 1 (HR & Finance) (SSP) includes plans to implement new Finance and HR Systems in 2023/24. Implementation of effective systems is critical to maintaining robust control over key finance and HR processes and to enable the facilities and tools required for effective management and delivery

of key SG functions.

2.5. Although we are providing Reasonable Assurance, concerns about resilience remain until longer-term improvement through the new finance and HR systems. The planned upgrade to the SEAS financial management system was not taken forward although we have received assurance on alternative mitigating actions that are now either in place or planned. Both the SSP and SEAS Patching/Market Support feature in DIAA plans for 2023-24. We also continue to note concerns regarding effectiveness of current resource prioritisation processes, which have impacted performance of controls over corporate systems and processes reviewed in the period.

2.6. While this assurance is based primarily on the results of the work carried out on the main reviews and our programme of follow-up activities, the key criteria used are:

- the outcome of formal internal audit reviews;

- the client's approach to implementing audit recommendations, and the outcome of follow-up reviews;

- the outcome of cross-cutting reviews and there materiality to the organisation;

- the risk maturity of the organisation;

- outcomes from other external assurance reviews (including Audit Scotland reports), and management's approach to implementing their recommendations;

- corporate system owners' approach to, participation in, and results from other forms of assurance e.g. Gateway Reviews or IT Health Checks;

- the effectiveness of the Scottish Government Audit and Assurance Committee (SGAAC) and the DG Assurance meetings;

- the attitude and engagement of corporate system owners/senior management in control and risk related issues; and

- the level of reported fraud, theft or data incidents within the organisation and the organisation's response.

2.7. The Internal Audit Plan for 2022-23 included targeted reviews of Key Corporate Systems/Business as Usual processes; Corporate Systems Transformation; and follow-up review of previous corporate systems assurance and advisory work. The plan also included provision of ad hoc advice to teams responsible for key corporate systems areas.

2.8. During the year, we have had ongoing engagement with HR, Procurement, SSP and Finance Management to identify risk areas and critical corporate systems for focus. Our assurance reviews and advisory work included:

- A series of Portfolio, Programme and Project Assurance independent Project Assessment Reviews of SG's SSP;

- Follow up of HR Payroll Improvements in response to Audit Scotland's recommendations;

- Review of HR Recruitment;

- Review of HR Shared Services procedural guide on key controls;

- Review of Finance- SEAS system upgrade alternative;

- Procurement- Review of Financial Transactions;

- Review of Settlement Agreements;

- Reviews of SG Core Freedom of Information Systems;

- Thematic Capacity and Capability findings;

- Certificates of Assurance Internal Controls Continuous Improvement Programme; and

- Head of Counter Fraud Profession engagement with DG areas as part of ongoing work to deliver fraud risk assessments

3. Key Findings and Themes

3.1. The following are some of the key themes and findings emerging from our 2022-23 work.

Good Practice – General

- The positive approach to continuous improvement referred to in our previous report was noted again this year. Management continue to seek opportunities for efficiency and improved control through automation and replacing manual processes where possible.

- We noted a positive approach to assurance activity with teams approaching DIAA for advice and / or additional assurance over risk areas and proposed process changes.

- Patching regime being put in place to allow extension to the supplier support services for SEAS until the Shared Services Programme delivers the cloud-hosted successor.

- Action taken and progress made by HR Shared Services to improve the checking regimes in place for Payroll.

- Further improved financial reporting allowing enhanced variance analysis helping understanding of SG's financial position and improve budget management.

- Further improvement around the Applicant Tracking System including strategic governance arrangements being strengthened, as has the ability to produce meaningful management information (MI). Internal guidance and processes have been updated to reflect current processes and are shared for awareness.

- The need for improved corporate systems continues to be recognised and considered at senior level with focus on key deliverables including delivery of the SSP (including consideration at DG Corporate Assurance meetings).

Areas for Improvement

- we have offered further improvement opportunities for the applicant tracking system relating to the governance, risk management and monitoring of performance that will help to strengthen current processes, as well as feed into work being undertaken on the system replacement.

- Our Procurement review noted monitoring and reporting functions, available through SEAS, do not produce manageable/robust data to allow for effective assessment/monitoring of expenditure for Procurement Division purposes.

- Although we saw some cases where manual processes had been replaced, our work continued to note reliance on manual processes and spreadsheets including in key areas such as payroll and financial management.

- Across a number of areas assessed we noted a lack of effective 2nd line compliance function resulting in poor implementation of key business processes. Moving forward consideration should be given to investment in a centralised compliance function across key business functions to support transformational change and continuous improvement.

4. Future Audit Work

4.1. DIAA's Integrated Assurance Plan 2023-24 includes assignments and themes in the following areas:

- Corporate systems assurance reviews to ensure the foundations remain robust (includes providing subsequent assurance to arm's length client users of corporate systems). Planned audits for inclusion include:
  - ➢ Finance- SEAS patching and support;
  - ➢ HR- Payroll Data Analytics;
  - ➢ HR- Annual review of settlement agreement arrangements;
  - ➢ Procurement- sample based transaction compliance checks
  - ➢ Further Finance, HR and Digital reviews to be identified as part of rolling plan.

- Support the corporate transformation programme to ensure that the SG maximise the potential to enhance and automate internal controls and drive efficiency.

- Support counter fraud assurance work across the SG.

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Annex A – Definition of Assurance Categories

Substantial Assurance Controls are robust and well managed	Risk, governance and control procedures are effective in supporting the delivery of any related objectives. Any exposure to potential weakness is low and the materiality of any consequent risk is negligible.
Reasonable Assurance Controls are adequate but require improvement	Some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place but not of a significant nature
Limited Assurance Controls are developing but weak	There are weaknesses in the current risk, governance and/or control procedures that either do, or could, affect the delivery of any related objectives. Exposure to the weaknesses identified is moderate and being mitigated.
Insufficient Assurance Controls are not acceptable and have notable weaknesses	There are significant weaknesses in the current risk, governance and/or control procedures, to the extent that the delivery of objectives is at risk. Exposure to the weaknesses identified is sizeable and requires urgent mitigating action.