A REPORT BY THE AUDITOR GENERAL FOR SCOTLAND UNDER SECTION 22(3) OF THE PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) ACT 2000

THE 2001/2002 AUDIT OF THE SCOTTISH EXECUTIVE CORE DEPARTMENTS' RESOURCE ACCOUNTS

1. The Scottish Executive core departments' resource accounts incorporate the activities of the seven core departments supported by the Scottish Executive Administration. I have qualified the core departments' resource accounts of the Scottish Executive for the year ended 31 March 2002 on the regularity of expenditure because the use of resources by the Scottish Executive Enterprise and Lifelong Learning Department exceeds limits authorised by the Budget (Scotland) Act 2001/02. During the course of the audit, my attention was also drawn to disruption to the Scottish Executive's business arising from its introduction of a new computerised financial and management information system during the year. However, I was able to establish that the underlying financial data provided a sufficiently robust basis for preparing the 2001-02 consolidated accounts and that they give a true and fair view.

2. I submit these accounts and my report as auditor in terms of sub-section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report which I have prepared under section 22(3) of the Act.

Qualified opinion on the regularity of expenditure

3. The Scottish Executive Enterprise and Lifelong Learning Department provides student loans via the Student Awards Agency for Scotland. At the time of compiling the Budget (Scotland) Bill for 2001-02, the Scottish Executive considered that it should provide for the expected non-recovery of student loans and the interest rate subsidy as a use of resources by the Scottish Executive Enterprise and Lifelong Learning Department but not the net new lending which was separately identified within the total cash allocation for the Scottish Administration. The Scottish Executive considered that including net new lending within both the Departmental resource allocation and the Scottish Administration's cash allocation would represent double counting. The Budget (Scotland) Act 2001 therefore provides cash for net new lending on student loans but does not provide for it to be regarded as a use of resources. The Budget (Scotland) Act 2001, however, provides for the repayment of loans, including student loans, as an accrued resource.

4. The Scottish Executive considers other lending it makes to be a use of resources and this is reflected in the Budget (Scotland) Act 2001. In my view, while the Scottish Executive acted in good faith, for reasons of consistency with other loans made and because the repayment of loans is regarded as an accrued resource, lending on student loans should also represent a use of resources. On this basis, the Scottish Executive Enterprise and Lifelong Learning Department's use of resources for 2001-02 amounted to £2,334 million against a total provision contained in the Budget (Scotland) Act 2001 and subsequent amendments of £2,250 million. As a result, the Scottish Executive Enterprise and Lifelong Learning Department did not have Parliamentary approval for £84 million of expenditure on a use of resources basis. This expenditure must, therefore, be deemed irregular. The Scottish Executive has written, with Ministerial approval, to the Scottish Parliament's Finance Committee to seek its views on the appropriate way of reflecting net lending in subsequent Budget Acts.

SCOTTISH PARLIAMENT
23 DEC 2002
CHAMBER OFFICE

Introduction of the Scottish Executive Accounting System (SEAS)

5. During 2001-02 the Scottish Executive introduced a new computerised financial and management information system to replace the previous system introduced in 1996. However, the Scottish Executive experienced considerable disruption to its business when the new accounting system was introduced.

SE/2002/351

Project management and implementation

6. Following an appropriate procurement exercise, the Scottish Executive appointed Oracle Corporation UK Ltd in April 2001 to provide the new Scottish Executive Accounting System (SEAS) and to work with the Scottish Executive in its development and implementation. Because the initial procurement phase took longer than originally anticipated, there was reduced contingency time over the implementation phase. The introduction of late changes to the system to accommodate over 1,000 users also contributed to the operational introduction of SEAS being postponed from 5 November to 24 December 2001.

7. In order to comply with its revised timetable, the Scottish Executive also decided to scale back user acceptance testing. This decision contributed to some of the problems which were subsequently encountered when the system went live. In particular, it meant that in some cases those who should have been initiating payment transactions were not validated and set up to do so, and those who should have been authorising them were either not set up as authorisers or the appropriate links within the system had not been established to direct the transaction to them for approval. In addition, user training was insufficiently tailored to the Scottish Executive's business processes.

Problems arising when the system went live

8. When SEAS was introduced many Scottish Executive payments were delayed. By the end of January 2002 a backlog of 10,000 invoices with a value of £20 million had built up. The Scottish Executive's responded to these backlogs by introducing paper-based authorisation procedures and by recruiting temporary staff to assist with supplier set-up, and to help input and process payments centrally. The effectiveness of some of the internal controls in these ad hoc payment arrangements was limited. In my view the procedures introduced increased the risk of payment errors.

9. The problems encountered with the introduction of SEAS led to the Scottish Executive making a number of duplicate payments and overpayments. These were often because transactions were being processed twice, once through the new system procedures and, after encountering problems with the new system, once through the arrangements for central processing. However, the payment put through the new system was not cancelled after submission for central processing so that when systems problems were resolved, duplicate payments were made. In addition, some payments were made to the wrong suppliers through the use of supplier codes which related to the predecessor accounting system.

10. The Scottish Executive undertook a post-payment validation exercise to follow up potential duplicate payments and other known errors and to recover overpayments. The Scottish Executive has identified overpayments totalling £11.8 million up to 31 March 2002 plus further overpayments of £0.9 million since. The Scottish Executive has now recovered £12.4 million of the overpayments and anticipates that there is only some £20,000 where recovery is unlikely.

Lessons to be learned

11. The Scottish Executive is consulting with four UK government departments using Oracle-based accounting systems to determine how best to maximise the benefits of SEAS. It has also initiated a post-implementation review of its project management procedures to ensure that lessons are learned. The post-implementation review is expected to report in the spring/summer of 2003.

12. I have concluded that despite the difficulties with SEAS, the underlying financial data provided a sufficiently robust basis for preparing the 2001-02 Scottish Executive core departments' resource accounts. Nevertheless, a key factor in the problems encountered was the introduction of SEAS without adequate user acceptance testing being conducted. In my view, full user acceptance testing would have enabled the Scottish Executive to assess more fully the risks of introducing SEAS when it did and to make appropriate contingency arrangements. I am also

concerned about the serious control weaknesses which existed when the ad hoc arrangements for making payments were introduced. The Scottish Executive must ensure that all payment systems, even ad hoc arrangements, have proper safeguards to minimise the risk of payment error or potential fraud.

ROBERT W BLACK
Auditor General for Scotland
18 December 2002