

The internal control of personnel and financial administration processes performed by the Shared Services Centre

The audit report is based on a project that was carried out in 2010 and 2011, consisting of a compliance audit, system audits and an audit that was conducted in connection with the financial audit of the Government Shared Services Centre for Finance and HR accounting unit.

The audit was conducted according to the National Audit Office's 2010 and 2011 audit plans and compliance audit manual. Compliance audit is conducted by the National Audit Office in accordance with the ISSAI 4100 standard endorsed by the International Organisation of Supreme Audit Institutions (INTOSAI).

The objective of compliance audit is to examine whether legislation, lower-level regulation and guidelines issued by authorities have been complied with in an area that falls within the National Audit Office's mandate. Compliance audit also strives to determine whether activities have been arranged in accordance with the budget, the principles of good administration, policies (objectives) and financial or agreement conditions. The objective is to produce information for decision-makers regarding whether legislation and other regulations have been complied with and whether the desired results have been achieved with regulation.

The audit concerned the internal control and functioning of the personnel and financial administration processes performed by the Government Shared Services Centre for Finance and HR as well as related information systems. The audit was conducted both at the Shared Services Centre and at customer agencies. In addition to the Shared Services Centre, key parties from the viewpoint of the audit task have been the accounting units that are its customers as well as the Ministry of Finance, which is responsible for steering the Shared Services Centre.

The objective of the audit was to give an opinion based on reasonable assurance as to whether

1. legislation, lower-level regulation and guidelines issued by authorities have been complied with in managing and arranging personnel and financial administration tasks that have been transferred to the Shared Services Centre
2. the internal control of key systems used by customer agencies and the Shared Services Centre in managing personnel and financial administration processes and tasks have been arranged properly and
3. the information security of the systems used in managing tasks and the Shared Services Centre's general information security arrangements have been arranged properly.

With regard to the internal control of processes the legality and propriety of procedures was evaluated particularly on the basis of the State Budget Act (423/1988) and the State Budget Decree (1243/1992). In audits concerning information systems the legality and propriety of procedures was also evaluated on the basis of the Act on the Openness of Government Activities (621/1999), the Decree on the Openness of Government Activities and on Good Practice in Information Management (1030/1999) and the Personal Data Act (523/1999). To meet the audit's objectives, audit criteria were derived from the provisions in the State Budget Act and the State Budget Decree regarding the state's payment traffic, accounting and the monitoring of authorisations as well as internal control. Attention was also paid to legislation regarding information security together with key regulations and guidelines supplementing it.

The National Audit Office issues as its statement that in managing and arranging personnel and financial administration tasks that have been transferred to the Shared Services Centre and in arranging the internal control of key information systems used in managing processes and tasks, activities have not been in compliance in all respects. Attention should also be paid to the information security of the systems used in managing tasks and to the Shared Services Centre's general information security arrangements.

The State Budget Act and the State Budget Decree should more clearly recognise the Shared Services Centre as a key actor in arranging the internal control of the state's personnel and financial

administration processes. Confusion in the propriety and adequacy of internal control and responsibility for arranging internal control have resulted from viewing the responsibility prescribed in section 24 b of the State Budget Act and section 69 of the State Budget Decree as agency-specific and ultimately up to the management of a customer agency alone.

The provisions in the State Budget Act and the State Budget Decree regarding the arranging of internal control should be developed so that different ways of arranging personnel and financial administration tasks are taken into consideration. At the same time the position of a service agreement in delegating responsibility for internal control and arranging related tasks should also be strengthened.

In the Act on the Openness of Government Activities the obligation to implement good information management practice is prescribed as an authority's task. On the basis of the Act it is not clear how responsibility for information security and implementing good information management practice should be determined between the Shared Services Centre and a customer. Nor does determining responsibility based on the agency structure support requirements regarding process-based activities in the most efficient way.

The Shared Services Centre and customer agencies have not made an adequate commitment to the responsibilities delegated to them in the service agreement. Gaps and overlap have been observed in the arranging of internal control, since risks regarding the internal control of personnel and financial administration processes have not been adequately identified and the internal control of functions has not been arranged taking into consideration processes as a whole.

Central government finances and state administration subordinate to the Government ultimately for a whole, and risks, risk management and internal control procedures should be examined from the viewpoint of the objectives and interests of this whole. Internal control and risk management are most efficient when they are an integral part of normal management and operational processes and built into an agency's functions. Internal control has been arranged properly only if all parties act according to agreed responsibilities. On the basis of the audit, the National Audit Office recommends the adequate documentation of personnel and financial administration

functions as well as related risk management elements and internal control measures in service agreements, process descriptions and work guidelines.

The centralisation of personnel and financial administration services in the Shared Services Centre and lengthy function chains underline the importance of the reliability of the information systems used in service production and automatic controls steering functions' propriety. From the viewpoint of internal control and the efficiency of functions the information systems used by the Shared Services Centre in service production and the automatic controls specified for them do not support the centralisation of personnel and financial administration functions in the Shared Services Centre in all respects.

In arranging tasks in personnel and financial administration processes special attention should be paid to the adequate separation of tasks and restricting user rights according to job descriptions. The adequate separation of tasks is a precondition for the proper arranging of internal control. The significance of user rights is underlined by the changing of processes into the electronic handling of invoices and spending decisions as well as other documents. Proper procedures also require that only authorised persons should have access to confidential information. User rights should also be documented and should be regularly controlled based on delegated responsibilities.

The internal control of personnel and payroll administration has not been adequate in all respects, considering the risks involved in the whole process, nor has it been arranged according to the principles in the State Budget Act and the State Budget Decree. If tasks cannot be separated or efficiently controlled using information systems, managers in charge of functions should develop and introduce alternative internal controls.

The implementation of the Information Security Decree with regard to the classification of information should be speeded up, although the Decree allows classification to be postponed. The Shared Services Centre should regularly inform customer agencies of the implementation of the Information Security Decree. The Shared Services Centre's information security documentation and the delegation of information security responsibilities should be supplemented, and documentation should comply with guidelines.

Uniformity regarding information security has not been achieved in all processes between the Shared Services Centre's different offices and in different customer environments. Processes should be uniform so that information security can also be implemented uniformly in all cases and in all customer agencies. Customer agencies' access to information is a prerequisite for the internal control performed by them.

System audits also observed shortcomings in logical protection, system documents and data verification procedures.

Managing the operating environment formed by the Shared Services Centre, customer agencies and service suppliers has not succeeded in all respects from the viewpoint of internal control and information security. Furthermore the operating model is not efficient and its administration requires a lot of resources and steering. Attention should be paid to this in developing the Shared Services Centre's activities.