



Scottish Government  
Riaghaltas na h-Alba  
gov.scot

# **Directorate for Internal Audit and Assurance**

## **Audit and Assurance Committee Progress Report**

### **Social Security Scotland 2021-22**

**21 September 2021**

**Directorate for Internal Audit and Assurance**

**Issue Date: 8-09-2021**

---

## Contents

---

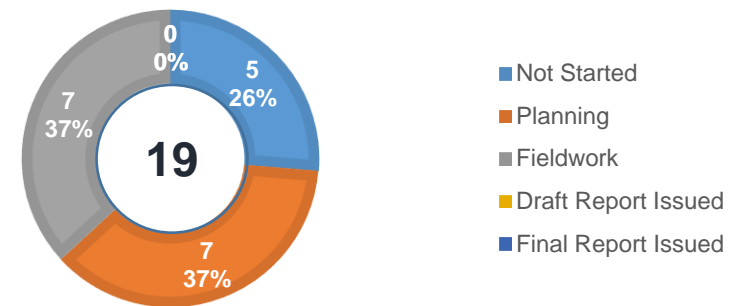
1. Progress Highlights.....	3
1.1. Key Messages .....	3
2. Directorate for Internal Audit and Assurance Strategic Update.....	4
2.1. Internal Audit Strategic Matters .....	4
2.2. Integrated Assurance Update.....	<b>Error! Bookmark not defined.</b>
2.3. Strategic Best Practice.....	5
Annex A Internal Audit Plan and Progress 2021-22 .....	6
Table 1 – Assurance Work .....	6
Table 2 – Advisory Work .....	8
Table 3 – Follow Up.....	9

## 1. Progress Highlights

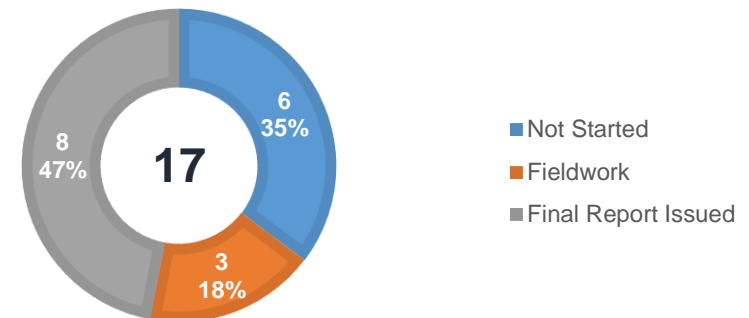
### 1.1. Key Messages

- Work on the 2021/22 Plan is progressing, as summarised in the diagrams opposite.
- Further details of Assurance work are provided in [Table 1](#) in [Annex A](#).
- Details of ongoing Advisory work is provided in [Table 2](#) in [Annex A](#).
- Progress on the implementation of recommendations is provided in [Table 3](#) in [Annex A](#).
- The latest Internal Audit Strategic Matters, Integrated Assurance and Strategic Best Practice / insight sharing is provided in Section 2.

### 2021/22 AUDIT PLAN



### FOLLOW UPS



---

## 2. Directorate for Internal Audit and Assurance Strategic Update

---

### 2.1. Internal Audit Strategic Matters

- 2.1.1.** A Head of Counter Fraud Profession is now in post within the Directorate for Internal Audit and Assurance. The principle role of the post is to provide strategic direction on counter fraud across the Scottish Government.
- 2.1.2.** Members may like to note that we have recently completed a recruitment exercise and have made offers to two candidates. While this will not impact directly on Social Security Scotland, it does provide capacity in the Directorate to mitigate any unforeseen events and ensure that these do not adversely impact on our clients.
- 2.1.3.** Internal Audit is required to adhere to Public Sector Internal Audit Standards (PSIAS). One requirement of PSIAS is that an Internal Quality Assessment of compliance with the standards should be undertaken periodically, with an external evaluation undertaken at least every five years. We have recently completed an Internal Quality Assessment review, based on the Assessment Framework and have maintained our Generally Conforms rating.
- 2.1.4.** Since the previous Audit and Assurance Committee there have been a number of Corporate and Directorate reports issued. Also the Internal Audit Charter and Strategy have been refreshed. These are provided for information as annexes to this paper, with links provided in the table below.

IA Annual Assurance Report for SG Corporate Systems	<a href="#">Annex B</a>
DIAA Annual Report	<a href="#">Annex C</a>
IA Charter	<a href="#">Annex D</a>
IA Strategy	<a href="#">Annex E</a>

## 2.2. Integrated Assurance Update

- 2.2.1.** The Volume Recruitment project is the only Social Security Scotland entry on the Digital Assurance Office Project Register at this time.
- 2.2.2.** The project will put in place a suite of technologies to provide recruitment administration and assessment and has a target launch date in mid-September 2021. Given the scope of the delivery the Digital Standard Assessment process applies and the team are working with the Digital Assurance Office to complete the required activity. The assessment will consider the alignment of the project's delivery practices to the principles of the Digital Scotland Service Standard at the Test and Go Live Stage.

## 2.3. Strategic Best Practice

- 2.3.1.** New thematically based SG Risk Management guidance has been issued. This is a defined framework which outlines good practice on how to clarify your objectives and identify, assess, address, review and report your risks. There are also helpful quick guides on understanding your risk appetite, understanding risk escalation routes and tools for recording risk information.
- 2.3.2.** To ensure that all Board members have access to appropriate training which should facilitate effective execution of their role we attach a link to the Onboard training ([Training \(onboard-training.co.uk\)](https://onboard-training.co.uk)) which provides a range of courses throughout the year.
- 2.3.3.** The Public Procurement Group is responsible for setting strategic direction and leading public procurement in Scotland. Following consultation across the public sector and with representatives from business and the third sector, they have published a set of [seven priorities](#) for all public procurement leaders.

## Annex A Internal Audit Plan and Progress 2021-22

The plan will continue to be reviewed each new quarter and presented to the following Audit and Risk Committee with any updates highlighted.

**Table 1 – Assurance Work**

Audit Title	Planned Quarter	Progress to Date	Comments
Operations Compliance	All Year	Fieldwork Ongoing	Sample testing of both Operations and Client Experience has been undertaken. Regular updates have been provided to management and a report will be provided at the end of the year to summarise all work undertaken as part of this review.
Disability and Carer's Benefits Readiness	All Year	Fieldwork Ongoing	The first stage of our fieldwork is underway, assessing the guidance and training for forthcoming benefits. Management letters will be produced throughout the year, with a final report issued at the end of the year.
Internal Control	All Year	Planning Ongoing	Planning for this is ongoing, with a draft terms of reference issued for discussion and agreement. Fieldwork will then proceed once agreed.
Social Security Scotland Transition to Director General Communities	1	Cancelled	As reported to the previous meeting, this review will not be undertaken and the days will be used on alternative work.
Chief Digital Office (CDO) Transition into Social Security Scotland	1	Fieldwork Ongoing	The first stage of the review has been completed and a draft Management Letter issued. A second phase will be undertaken in Quarter 3 with a final report provided once complete.
Residency	1	Fieldwork Ongoing	Fieldwork for this review is almost complete with one area of information still outstanding but being progressed. This will be reported to the next Audit and Assurance Committee.

# Internal Audit – Audit and Assurance Committee Progress Report

Covid-19	2	Exit Meeting Held and Draft Report being prepared	Final report will be shared at the next Audit and Assurance Committee meeting.
Equalities and Diversity	2	Exit Meeting Held and Draft Report being prepared	Final report will be shared at the next Audit and Assurance Committee meeting.
Client Experience	2	Fieldwork Ongoing	The fieldwork and exit meeting for this review will be completed by the end of September, with the final report shared at the next Audit and Assurance Committee meeting.
Scottish Child Payment In-depth Review	2	Fieldwork Ongoing	Fieldwork started on 13 <sup>th</sup> September and will be completed by the end of the month and draft report issued thereafter.
Agency Agreements	3	Planning Underway	Planning meeting was held on the 23 <sup>rd</sup> August and the Terms of Reference is in the process of being drafted. Fieldwork is scheduled to be undertaken in November 2021.
Budget Setting	3	Planning Underway	Planning meeting was held on the 26 <sup>th</sup> August and the Terms of Reference is in the process of being drafted. Fieldwork is scheduled to start at the end of November 2021.
Learning and Development	3	Planning Underway	Planning meeting was held on the 25 <sup>th</sup> August and the Terms of Reference is in the process of being drafted.
SPM / Technical Debt	3	Planning Underway	Planning meeting was held on the 31 <sup>st</sup> August and the Terms of Reference is in the process of being drafted. Fieldwork is scheduled to start next month.
Counter Fraud/Error	3	Planning Underway	An initial planning meeting was held on 26 <sup>th</sup> August 2021, a further planning meeting is due to be held on 8 <sup>th</sup> September. The Terms of Reference will then be drafted following this meeting.
Recruitment	4	Not yet started	
Productivity and Efficiency	4	Not yet started	
Workforce Planning	4	Not yet started	
Child Disability Payment In-depth review	4	Not yet started	

**Table 2 – Advisory Work**

Advisory Title	Planned Quarter	Progress to Date
Culture	Ongoing	We share output from our focus groups and analysis of the People Survey results with Agency Leadership Team colleagues. A questionnaire was issued to members. Once closed we plan to review output from the questionnaire and identify areas for improvement and share this with senior management in order to assist with the development of an Action Plan.
Governance	Ongoing	We plan to undertake a post implementation assessment of the governance structure reforms to determine how the implementation has progressed and whether desired outcomes have been achieved.
Decision Support Team Processes	Ongoing	Providing advice to colleagues as methodologies and processes for the Decision Support Team are developed.
Clinical Division	Ongoing	Discussions regarding lessons learned following their recruitment campaign.
Quality Assurance Framework	Ongoing	Work is ongoing in both Social Security Scotland and Programme in relation to Quality Assurance Framework. Internal Audit will provide advisory support as and when requested.
Corporate Assurance Team	Ongoing	Provision of support and information to new members of the Social Security Scotland Corporate Assurance Team
Audit is your friend sessions	Q3	As with previous years, we are participating in sessions with colleagues to advise on the role of internal audit and the processes we undertaken in order to raise awareness and enable the continuation of good working relations with colleagues involved in Internal Audits during the year.



**Table 3 – Follow Up**

The following table is an overview of the Internal Audit follow up activity progress since the last Audit and Assurance Committee in May 2021.

Report Title	Recommendations	Progress to Date
Resilience: Business Continuity Planning	3 High 5 Medium	<b>Complete</b> Four fully implemented Four partially implemented
Operations: Policies, Procedures and Controls	5 High 1 Medium	<b>Complete</b> Two fully implemented Two partially implemented Two not implemented
Programme Links	1 High 2 Medium 3 Low	Fieldwork Ongoing
Change Management	2 Medium 2 Low	Fieldwork Ongoing
Reporting and Assurance Functions Roles and Responsibilities	4 High	Fieldwork Ongoing
In-depth Review - Young Carers Grant (YCG)	1 High 1 Medium 1 Low	<b>Complete</b> Two fully implemented One partially implemented
In-depth Review - Funeral Support Payment (FSP)	2 Medium 2 Low	<b>Complete</b> Two fully implemented One partially implemented One superseded
In-depth Review - Best Start Grant (BSG)	3 High 3 Medium 1 Low	<b>Complete</b> Six fully implemented One partially implemented
In-depth Review - Job Start Payment	1 High 1 Medium (4 Low – not included in follow up)	<b>Complete</b> One fully implemented One partially implemented



# **Directorate for Internal Audit and Assurance**

## **Annual Assurance Report**

### **Scottish Government Corporate Areas**

---

## Contents

---

1. Introduction .....	12
2. Assurance and Opinion .....	12
3. Key Findings and Themes.....	14
4. Future Audit Work .....	16
<b>Definition of Assurance Categories.....</b>	<b>17</b>

---

## 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.

---

## 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 assignment 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. 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 Report 2019-20 referred to limitations in core systems. As noted in our previous report, while we have not identified errors, investment in core systems is essential to mitigate the identified risks of ageing systems and the increasing complexity and pressure on SG's finances. SG's Transformation Programme with plans for longer-term investment in core finance and HR systems has commenced. Although we are providing Reasonable Assurance, concerns about resilience remain until longer-term improvement advances further.

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 their 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 owner 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.

**2.4.** The Internal Audit Plan for 2020- 21 was refocussed in response to Covid-19 to provide Accountable Officers (AO) with support in relation to good governance, risk assessment/ management and corporate systems in the current situation. The refocused plan included:

- Corporate Systems – targeted assurance activity to provide comfort that the corporate systems are remaining strong and that the key controls are being safeguarded and support the Covid-19 Response.
- Risk assessment – we developed a high-level internal controls checklist to identify key areas that could be at risk if strong controls are not maintained. As part of this exercise, we worked with the Digital Directorate to ensure that risks around data protection and digital security were covered.
- Ongoing advice – provision of immediate ad-hoc advice to support the rapid development of new practices and frameworks (e.g. procurement authorisations, financial accountability frameworks).

**2.5.** During the year we have had ongoing engagement with HR and Finance Management to identify risk areas and critical corporate systems for focus. Our series of advisory work and assurance reviews included:

- Portfolio, Programme and Project Assurance independent Project Assessment Review of SG's Shared Services Transformation Programme. Review of Payroll Business Continuity Processes;

- Review of HR Shared Services Quality Assurance Process;
- Advisory meetings with Procurement teams to obtain updates on action to improve EASEbuy purchasing system and electronic Payment Card (ePC) processes and procedures;
- We took part in testing of the new automated process for EASEbuy user access requests;
- We provided training to the EASEbuy, and ePC and Purchase to Pay teams to increase understanding of the importance of financial controls and to help the team members identify further areas for improvement in controls and efficiency of the service provided;
- Our engagement with HR management included discussion of the series of process improvement projects, including new applicant tracking and case-management systems;
- Our engagement with Finance included consideration of finance business continuity arrangements during early stages of remote working;
- Engagement with the Change and Operations Team regarding processes to share updates on Corporate Transformation activities; and
- We undertook reviews of the Covid-19 Finance Accountability Framework, SG Risk Management Practices, Covid-19 Response Governance Structures, Non-Competitive Actions Procurement Process, Property Corporate Running Cost Budget Management and Settlements Agreements.

**2.6.** In addition to DIAA reviews, we have also taken into account:

- Results of the SG Governance and Risk team Housekeeping Exercise to assess risk maturity which included Finance and People Directorates with responsibilities for key corporate systems;
- DG Corporate's consideration of cyber security risks in relation to the SG and the public sector bodies; and
- Results and recommendations from DG Corporate's Review of Information Management.

---

## 3. Key Findings and Themes

---

**3.1.** The following are some of the key themes and findings emerging from our 2020-21 work.

### Good Practice – General

- Business continuity plans in place enabled continuity of key corporate systems and services such as payroll and financial management. Both the processing teams and support teams (such as iTECS) were able to ensure service continuity in the new remote working environment, and to implement improvements at pace to maintain and enhance the service where required.
- The positive approach to continuous improvement highlighted in our previous report was noted again this year. This included management focus on areas for improvement noted previously in our work and continuing to seek efficiencies and control improvements through automation where possible.
- Management recognition of the importance of embedding a risk and control culture (e.g. request for controls training and requests for advisory input in risk areas such as the controls quality assurance).
- Our Governance review noted that we were impressed with the pace of delivery and how the need for robust controls and best practice have not been compromised.
- The need for improved corporate systems and the importance of appropriate improvement action going forward is recognised and considered at senior level (e.g. appointment of Director of Corporate Transformation and Workplace, and regular consideration at DG Corporate Assurance Meetings).

### Areas for Improvement

- In order to support the Covid-19 response, available resources were prioritised to address service requests on a risk and/or business critical basis. This resulted in delays in filling some vacancies. We also noted some areas where on-boarding processes were not fully effective to enable new staff members to commence their role as promptly as planned. As a result, some activities and planned improvements have not progressed promptly according to planned timescales.
- We have noted well-designed policies and procedures. However, we have also found that stated policy or procedure was not followed consistently in all cases resulting in policy non-compliance or processing inaccuracies. Continued action is required to embed the appropriate culture to ensure consistent application of policies and to maintain processing accuracy.

- Our work continued to note reliance on manual processes and spreadsheets including in budget management processes and identification of key data used in decision-making.
- We noted some cases where controls were not fully effective to ensure appropriate segregation of duties.

---

## 4. Future Audit Work

---

**4.1.** The Internal Audit Plan for 2021-22 includes targeted reviews of Key Corporate Systems/Business as Usual processes; Corporate Systems Transformation; and a series of follow-up reviews from previous corporate systems assurance and advisory work. The plan also contains provision of ad hoc advice to teams responsible for key corporate systems areas. We are currently performing a follow-up review to provide assurance over EASEbuy controls.

<b>Iain Burns</b>
<b>Lead Senior Internal Audit Manager</b>



## Definition of Assurance Categories

<b>Substantial Assurance</b>  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.
<b>Reasonable Assurance</b>  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
<b>Limited Assurance</b>  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.
<b>Insufficient Assurance</b>  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.



# **Directorate for Internal Audit and Assurance**

## **Annual Report**

### **2020-2021**

**Directorate for Internal Audit and Assurance**

**Issue Date:** 9-06-2021

---

## Contents

---

1. Executive Summary .....	20
2. Introduction .....	20
3. Internal Audit.....	21
4. Co-Source Partnership.....	23
5. Digital Assurance Office .....	24
6. Portfolio, Programme and Project Assurance.....	25
7. Data Protection Officer .....	26
8. Conclusion .....	27
Compliance with Standards and the Code of Ethics .....	28
Annex B – Key Performance Indicators and Customer Satisfaction .....	30
Annex C – Capacity and Capability .....	34

---

## 1. Executive Summary

---

**1.1.** The Directorate for Internal Audit and Assurance (DIAA) has now been established since 2019 and we have continued to develop our processes towards a more integrated approach to assurance.

**1.2.** Key highlights from the year include;

- Internal Audit “generally conforms” to Public Sector Internal Audit Standards (PSIAS), and complies with the Code of Ethics;
- Key performance indicators show that the range of assurance services are valued by customers;
- A newly established Head of Counter Fraud Profession role has been filled from April 2021, to help develop comprehensive counter fraud capacity and capability, to minimise the financial, statutory and reputational fraud risks to the Scottish Government; and
- New approaches to the delivery of services including the development of the assessment framework for the Digital Scotland Service Standard.

**1.3.** The concept of continuous quality improvement is now well embedded across all of the divisions, and key areas of focus for 2021-22 will be around developing a service catalogue further enhancing the integrated assurance approach; disseminating lessons learned, strategic matters and best practice across all client areas; and developing the use of data analytics.

---

## 2. Introduction

---

### Purpose

**2.1.** The purpose of this document is to set out the overall performance of the DIAA over the last year, and the actions taken to continue to improve the quality of the services it provides.

### Background

**2.2.** The Directorate’s vision is to be acknowledged as a public sector leading independent assurance and advisory service that is trusted and valued by clients, partners and staff. This is to be achieved in parallel with delivering its mission to improve public services and protect public resources by providing risk based and objective assurance advice and insight.

### 3. Internal Audit

#### Conformance to the Standards and Compliance with the Code of Ethics

- 3.1.** Internal Audit Division (IAD) is required to perform its services in accordance with Public Sector Internal Audit Standards (PSIAS) and Internal Auditors must conform to the Code of Ethics.
- 3.2.** The overall conclusion from the latest Internal Quality Assessment is that IAD Generally Conforms to standards. The Division can also confirm that they conform to the Code of Ethics. Further details is set out in [Annex A](#).
- 3.3.** At the start of 2020-21, a number of staff from across the Internal Audit Division (IAD) were released to support the wider response to Covid for a temporary period of time. All returned to Internal Audit during the year, but the Division has subsequently lost a number of staff as promotion opportunities have opened up elsewhere in SG. At the time of writing a number of recruitment campaigns are underway across a range of roles.
- 3.4.** Due to the impact of Covid-19, IAD adapted 2020-21 audit plans across client areas to align with emerging risks and organisational priorities. IAD adapted well to home working, making use of eRDM Connect to share information and audit remotely. In order to respond to the move to home working, new approaches to delivering the work were developed. This, and the significant reduction in travel time when working with clients, has resulted in increased efficiencies which have helped offset some of the impact of reduced capacity. The intention is to embed these efficiencies in ways of working for the long term benefit.
- 3.5.** The impact of Covid-19 on IAD resource totalled a loss of 198 potential audit days. This was largely due to staff caring responsibilities. In total IAD delivered 2834 audit days across core Scottish Government and Public Body client areas. Of this, 1400 days is attributed to assurance work, 357 days to targeted advisory work, an additional 221 days is directly linked to Covid-19 advisory work, and 856 days on engagement, audit committee and assurance meeting attendance and follow up work.

#### Key Performance Indicators and Customer Satisfaction

- 3.6.** IAD track a range of key performance indicators, which are set out in [Annex B](#). In general these show that IAD is delivering a service that is valued by its customers. Some of the metrics have been impacted by Covid-19 this year, with audit plans being delayed in Quarter 1, but with an increased uptake in our Advisory service.

**3.7.** IAD are keen to review the range of key performance indicators to ensure that they remain relevant, and discussions will therefore be taken forward initially with the Chair and Deputy Chair of the Scottish Government Audit and Assurance Committee to seek their views.

### Quality Improvement Programme

**3.8.** The table below shows the detail of the Quality Improvement Programme for Internal Audit for 2020-21, which was completed throughout the year.

Table 1: Quality Improvement Plan for Internal Audit 2020-21

Quality Improvement Programme	Indicative Timescale
<b>Internal Audit</b>	
New Working Methods Evaluating and developing opportunities for new ways of working from Covid response approach	May 2020
Review of internal report formats A review of the current reporting suite to ensure that these are fit for purpose.	February 2021
Data Analytics Continue development of Data Analytics in IAD in line with strategy.	ongoing
<b>Capacity and Capability</b>	
Deliver the learning and development plan for 2020-21	March 2021
Strategic Workforce Planning	March 2021 (ongoing)
<b>Key Performance Indicators and Customer Satisfaction</b>	
Enhance the regular monthly reporting of KPIs to Senior Management Team to improve the delivery of audits to budgeted resource and within the audit year.	October 2020
Undertake the programme of Assessment of Service Quality reviews for 2020-21	March 2021
<b>Compliance with Standards and Code of Ethics</b>	
Implement recommendations arising from the Internal Quality Review and External Quality Assessment	March 2021
Ensure all staff receive or undertake two hours of ethics training each year.	March 2021
Complete the next Internal Quality Assessment	March 2021

**3.9.** To keep pace with the rapid pace of technology and continuous changes in the business environment there is a need for IAD to challenge and innovate their Internal Audit focus, approach and use of tools and technology on a regular basis.

**3.10.** There were two bulletins published in 2020-21, the topics covered were:

- October 2020 – Covid-19 Support for Audit Committees and Remote Working
- April 2021 – Annual Assurance Opinion

---

## 4. Co-Source Partnership

---

**4.1.** Our co-sourced contract with EY has been in place since September 2019.

**4.2.** During 2020-21 they delivered the following services;

- Common Agricultural Programme (CAP) - the CAP audit year runs from October to October. EY took over the full delivery of the service from October 2019, covering all aspects including audit planning, delivery, annual assurance opinion, and quality assurance processes. The EY audit team is now well established with the client, who graded their delivery at 10/10 in their recent service quality assessment.
- Provision of additional temporary resource to both the Audit Authority (DIAA) and the Managing Authority for European Structural and Investment Funds.
- Pilot project with two Local Authorities on Small Business Support Grants
- Social Security Scotland – Risk Management- what the future state risk management framework must do to support the organisation's future and growing needs.
- Revenue Scotland – Assurances on Decision Making in relation to Covid-19, provided specialist support in conjunction with IAD auditors.

**4.3.** The cost of the EY resources is funded through a variety of routes. The CAP team is funded by the Rural Payments and Inspections Directorate, with budgets agreed at the start of the CAP audit year and regularly monitored; the work supporting the European Structural and Investment Funds is crossed-charged to the Managing Authority; and the work undertaken across the domestic clients is funded directly by the clients, with budgets agreed prior to work commencement based on the rates included within the co-source partnership contract.

**4.4.** To date, the DIAA has incurred minimal direct spend on the EY partnership, however it has received a considerable amount of added value in return for the overall spend in the contract. This has included sessions on the following to aid the continuing development of best practice in IAD;

- Data Analytics and Data Visualisation
- Annual Assurance Opinions
- Grants Analysis
- Counter Fraud
- Managing Audits to Budgeted Days
- Programme Assurance

In addition, considerable ad-hoc and 1:1 advice and support has been provided to a number of individuals (including the Director of Internal Audit and Assurance) covering a range of topics.

## 5. Digital Assurance Office

- 5.1.** The DAO was able to maintain core business during the year and adapted well to home working.
- 5.2.** The DAO is in the best resourcing position to date albeit it has never operated at full complement. There are currently 2 x C1 Senior Engagement Manager (DDaT) vacancies and a B2 vacancy. The planned external recruitment of the C1 posts was delayed due to the Covid-19 recruitment constraints during 2020 but progressed in early 2021 resulting in only 1 job offer being made (which has yet to be concluded). A B3 Communications Manager had been recruited in early 2020 but almost immediately moved to Internal Communications to support Covid priorities, which turned into a permanent managed move a year later. An external recruitment exercise has recently been held to identify a replacement Communications Manager with the successful candidate currently undergoing pre-employment checks.
- 5.3.** The DAO has been in a growth state since the introduction of the mandatory assurance arrangements for major projects and new digital public services in 2017. The volume of projects registered with the DAO has steadily increased, with 200 new projects registered in each of the last 2 years. There are currently 31 major projects on the register, with this expected to increase. As a result the volume of major project reviews and assessments for compliance with the Digital Standards has more than doubled in the last 3 years, averaging 70 in each of the last two years. The pace of digital transformation - in line with Scotland's Digital Strategy - and the increased dependency on digital solutions as a result of the pandemic have contributed to the general increase in volume.
- 5.4.** The DAO capacity is therefore very stretched, and effort is focussed on the assurance of major projects and new digital public services. There is currently insufficient capacity to progress other key aspects of the work including lessons learned and continuous improvement, a key recommendation from both Audit Scotland and the Public Audit and Post-Legislative Scrutiny Committee.
- 5.5.** Following the retirement of the SG's Chief Information Officer in April 2019, interim arrangements have been in place with the Head of the DAO absorbing the assurance elements of the role on a TRS basis. This position has now been established on a permanent basis which has created the opportunity to create a more flexible delivery structure with the introduction of 2 x C 2 Portfolio Engagement Manager posts which are currently being considered for grading and DDaT approval. These posts will provide



assurance on 3 or 4 Director General portfolios, leading on the more complex, higher risk projects and managing a team of C1 Senior Engagement Managers.

- 5.6.** Access to major project reviewers was unaffected by the Covid-19 pandemic with independent reviewers continuing to be sourced via an existing Framework.
- 5.7.** The assessor pool for Digital First Service Standard assessments has historically been drawn from Digital, Data and Technology professionals from within Digital Directorate. Digital Directorate's work to support Covid-19 related priorities resulted in this assessor pool becoming unavailable for the entire year. The DAO therefore adjusted its approach and introduced an alternative approach whereby service teams provided a submission and supporting evidence to demonstrate how they met the Standard. This submission was reviewed by the Digital Assurance Office. The lessons learned from this have been incorporated into the new assessment approach for the Digital Scotland Service Standard (Digital Directorate refreshed and renamed the Digital First Service Standard.) The new approach applies the appropriate level of assessment based on the risk and cost ratio of the service.
- 5.8.** Discussions are also underway to secure funding to enable provision of Digital Standard assessor resource within the DAO. This would provide dedicated assessor resource and reduce the dependency on Digital Directorate and others to provide assessor resource to meet the demand of projects.
- 5.9.** More detail on the Digital Assurance Office (DAO) surveys are in [Annex B](#).

---

## 6. Portfolio, Programme and Project Assurance

---

- 6.1.** The Portfolio, Programme and Project Assurance team (PPPA - which consists of two staff) is an accredited Hub of Cabinet Office - the team can offer the range of products and services provided by the Infrastructure Projects Authority (IPA) (Gateway Review, Project Assessment Reviews, Assurance of Action Plan Reviews, Critical Friend Reviews) and access to the IPA. The team co-ordinates and manages the programme of Assurance Reviews for all major projects and programmes across a wide range of public sector bodies, utilising accredited reviewers.
- 6.2.** The team were able to continue to offer the full range of services during 2020-21 and the following reviews were delivered:

[Table 2: PPPA Reviews 2020-21](#)

Review	Number
Gateway 0 - Strategic Assessment (programmes)	9
Gateway 1 - Business Justification	0
Gateway 2 - Delivery Strategy	2
Gateway 3 - Investment Decision	3
Gateway 4 - Readiness for Service	4
Gateway 5 - Operations Review and Benefits Realisation	2
Health-check	4
Project Assessment Reviews	2
<b>Total</b>	<b>26</b>

- 6.3.** Feedback forms are completed by the Senior Responsible Owner, Review Team Leaders and Review Team Members for all reviews managed by the PPPA. Processes are currently being developed to enable analysis of the responses

## 7. Data Protection Officer

- 7.1.** The Data Protection Officer (DPO) role became mandatory for public bodies in May 2018 with the introduction of the General Data Protection Regulation (GDPR) and its adoption into the Data Protection Act 2018. The role should act without direction and reports directly to the highest management level of the controller organisation.
- 7.2.** Within Scottish Government, this has been met by positioning the role in the Directorate of Internal Audit and Assurance with a link to the Senior Information Risk Officer. The role focusses on compliance and assurance and is the organisation's link to the Information Commissioner's Office (ICO) and the public. The DPO works closely with the Data Protection Team in Digital Directorate that is responsible for data protection policy and advice to staff.
- 7.3.** The Covid-19 response over the past year has required rapid and innovative measures from Scottish Government, working together with other public bodies and private sector organisations. These activities have considered privacy and engaged appropriately with the DPO and ICO throughout.
- 7.4.** A total of 145 data protection incidents were reported internally in 2020/21 and, of these, two were reported to the ICO with no regulatory action being taken. This compares to the previous year of 106 reported incidents with 5 being referred to the regulator. Reported incidents are investigated and most have a low impact on privacy and are mostly caused by manual handling mistakes (such as wrongly addressed e-mails or redaction omissions). Incidents are from across the organisation and there does not appear to be a systemic issue although operational areas report more incidents.

- 7.5.** The Scottish Government has appropriate technical and organisational processes in place to meet its obligations as a data controller and has engaged with citizens and the ICO during the year to demonstrate and explain this.

---

## 8. Conclusion

---

- 8.1.** Significant progress has been made in the year across a range of areas, against a backdrop of limited resource and a challenging audit and assurance agenda. This demonstrates the commitment of the whole Directorate to the change programme, and they deserve a lot of credit for the achievements to date.
- 8.2.** The culture of continuous improvement is now well established, and will be harnessed to take forward the work to provide an enhanced integrated assurance offering to further strengthen the governance, risk management and control environments of the bodies the Directorate serves.

---

## Annex A – Compliance with Standards and the Code of Ethics

---

### Internal Quality Assessment

IAD is required to perform its services in accordance with PSIAS which encompasses mandatory Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing and the Definition of Internal Auditing.

As part of those standards, IAD is required to undertake an Internal Quality Assessment (IQA) every year and commission an independent External Quality Assessment (EQA) every five years. The most recent EQA was completed in 2018-19 audit year.

The self-assessment was undertaken using the Internal Audit Quality Assessment Framework which was developed by HM Treasury and is intended to apply to all government internal audit services where compliance with the PSIAS is required.

The overall conclusion from the Internal Quality Assessment was that Internal Audit **Generally Conforms** to standards, whilst identifying a number of recommendations for further improvement.

These recommendations related to areas such as reviewing the arrangements for undertaking, documenting and reporting internal audit advisory work; considering the Covid-19 reporting arrangements and capturing any which are to be taken forward more permanently in the Audit Manual; reviewing the processes for ensuring that QIP recommendations are implemented in a timely manner and that Quality Improvement Programme progress is monitored regularly during the year; and considering how Internal Audit can better identify and capture the impact of Internal Audit recommendations.

A copy of the full assessment is available on request.

### Audit Scotland Review of Internal Audit

As the external auditors for the Scottish Government, in line with International Standard on Auditing (ISA) 610, Audit Scotland is required to undertake a review of Internal Audit to assess whether its work can be used for the purpose of external audit.

Their assessment is undertaken on a different basis from an Internal Quality Assessment and does not equate to an assessment against the full set of PSIAS, nor does it assess whether Internal Audit are adding value to the Scottish Government or the bodies that they serve. Their assessment takes the form of a desk-top review of a sample of documents and audits, looking at the processes that we follow.

The outcomes of the Audit Scotland review of Internal Audit are being tabled at June 2021 SGAAC.

### Conformance with the Code of Ethics

Internal Auditors must conform to, and report on conformance to, the Code of Ethics, which are based around four principles. These principles are supported by rules of conduct that describe the behavioural norms expected of staff.

The four principles are:

- **Integrity** - the integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement;
- **Objectivity** – internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. They make a balanced assessment of all relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements;
- **Confidentiality** – internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so; and
- **Competency** – internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

No concerns have been identified in the year, either within the IAD review or by Audit Scotland or others, and therefore **IAD can confirm that they conform to the Code of Ethics.**

The Institute of Internal Auditors require that all professionally qualified staff undertake two hours of training on conformance with ethics each year as part of their continuing professional training obligations. This requirement was met through ethics training sessions provided via Institute for Internal Audit online webinars.

## Annex B – Key Performance Indicators and Customer Satisfaction

### Internal Audit - Key Performance Indicators (KPI's)

Internal Audit had 9 KPI's and associated targets for 2020-21. The actual year end performance is shown below.

Table 3: Internal Audit - Key Performance Indicators (KPI's)

Key Performance Indicator		Target	Actual
1	The level of conformance with Public Sector Internal Audit Standards (PSIAS) following an internal quality assessment	At least general conformation following internal assessment	Generally Conforms
2	% of audit recommendations accepted by management	90%	100
3	% of "high" and "medium" recommendations implemented by follow up.	All clients: >50% implemented by follow up	62% implemented by follow-up
4	% of "very satisfied" or "satisfied" responses in customer satisfaction surveys following each assignment	90%	<b>100%</b> (35 responses received from 84 reviews)
5	% of satisfied responses from the Assessment of Service Quality Reviews undertaken	90%	<b>100%</b> (3 reviews)
6	% of audit programmes completed within the year	SG Core – 90% Other Clients – 90% Overall Internal Audit plan – 90%	SG Core – 85% Other Clients – 85% Audit Plan – 85% (see Note 1 below)
7	% of audits completed within resource-day budget	>80% of audits completed within resource days	<b>81%</b>
8	Performance against Budget	Outturn within 5% of budget	6% underspend (see Note 2 below)
9	% of audit staff with appropriate qualifications	50% with qualifications 90% qualified or undergoing training	Qualified: 70% Qualified or in training: 97%

\* These KPIs do not include EU related work. The audit plan and timetable for European Structural and Investment Funds is primarily dictated by the pattern and timing of Management Authority activity and declarations and is monitored by the European Commission. The Common Agricultural Programme (CAP) runs to an October to October audit year and the service is now delivered by our co-source partner EY.

**Note 1** – Due to Covid-19 significantly impacting the first quarter, most clients paused their planned audits and utilised advisory offerings. This impacted our year-end position. At 31st March 2021, 100% of the SG Core and Public Body planned reports were issued in draft form. For SG Core, 85% were issued in final and 85% of Public Body clients were issued in final, giving an overall position of 85% at final report stage. In total 13 reports were reported in final over April 2021 to complete the 2020-2021 audit plan.

**Note 2** – Due to the way the budgets are now managed across the wider Directorate, this figure is for the whole Directorate, not just the Internal Audit Division. The audit activity relating to European Funds – Structural and Investment, Marine and CAP - is funded from programme budgets or Europe. In addition a number of domestic clients – including all new clients - pay for their internal audit service directly, and therefore the budget stated here relates to the core SG, a number of other long-standing domestic clients, and the DPO, PPPA and DAO teams.) The main contributing factor to the underspend was the receipt of (unexpected) additional budget late in the financial year.

## Internal Audit - Customer Satisfaction

### Assessment of Service Quality (ASQ)

ASQ visits were carried out with three Internal Audit clients over 2020-21 (National Records of Scotland, Office of the Scottish Charity Regulator and Registers of Scotland.)

Feedback from the visits completed to date has been positive, and the key messages have been that clients have:

- been appreciative of the service that they have received, but also supportive of the continuing improvements they have seen or are proposed;
- keen to continue to receive the Quarterly Bulletin;
- supportive of the proposed development of integrated assurance and keen to see this progressed; and
- that they would like to see more visible dissemination of best practice between clients.

### Customer Satisfaction Questionnaire

Customer feedback is sought after every review is completed. During 2020-21 Internal Audit undertook 84 assurance reviews and received completed returns for 35 reviews.

The results are summarised below.

Table 4a: Customer Satisfaction Feedback

Question	Very Satisfied	Satisfied	Dissatisfied	Very Dissatisfied
How satisfied were you that you received sufficient notice of the audit start date?	27	8	0	0
How satisfied were you that you were able to input into the planning process?	28	7	0	0
How satisfied were you that you were able to indicate particular areas which you felt may benefit from being reviewed?	29	6	0	0
How satisfied were you that the audit team fully understood the area(s) being reviewed?	24	11	0	0
How satisfied were you that the initial findings from the audit were fully discussed with you?	29	6	0	0

How satisfied were you that the recommendations made were realistic?	21	14	0	0
How satisfied were you that the recommendations addressed the issues/risks that had been identified?	23	12	0	0
How satisfied were you that you had sufficient opportunity to comment on the content of the draft report?	30	4	1	0
How satisfied were you with the factual accuracy of the final report?	26	9	0	0
Overall, how satisfied were you with the audit service during the review?	29	6	0	0
Overall, how satisfied are you that the review has added value to your business area?	22	13	0	0

[Table 4b: Customer Satisfaction Survey Feedback](#)

Question	Excellent	Good	Satisfactory	Poor
How would you rate communication with the audit team during the course of the review?	2	6	0	0

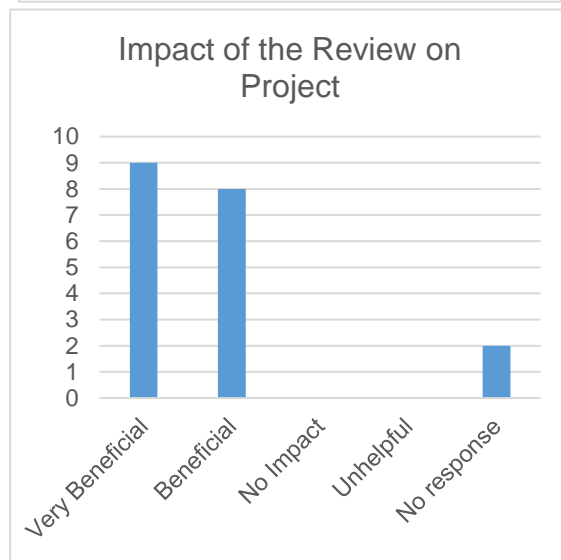
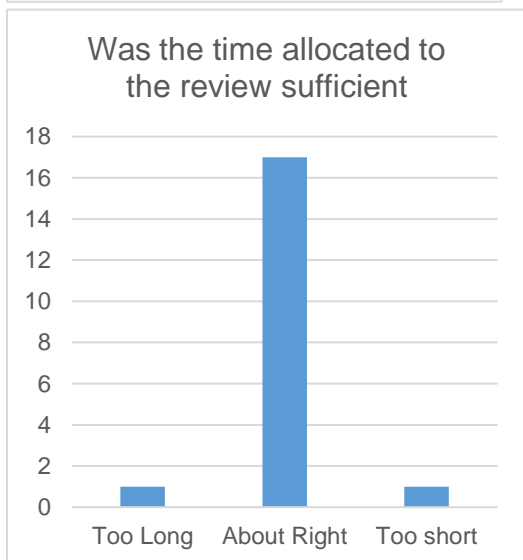
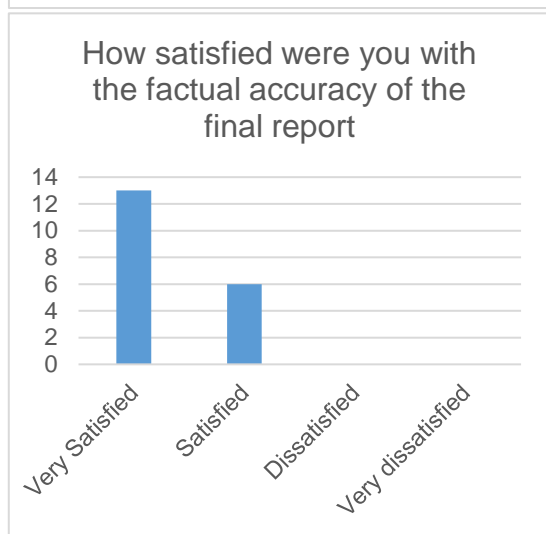
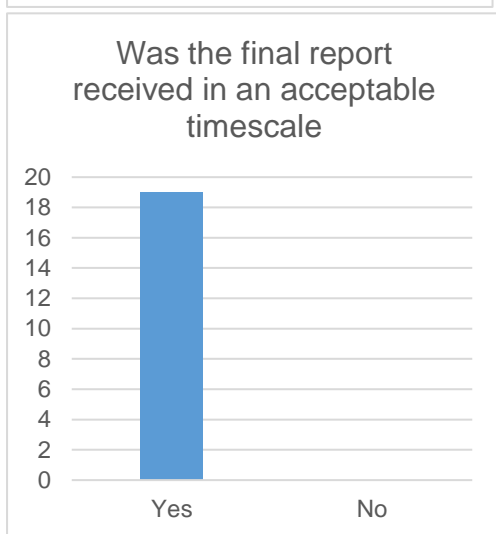
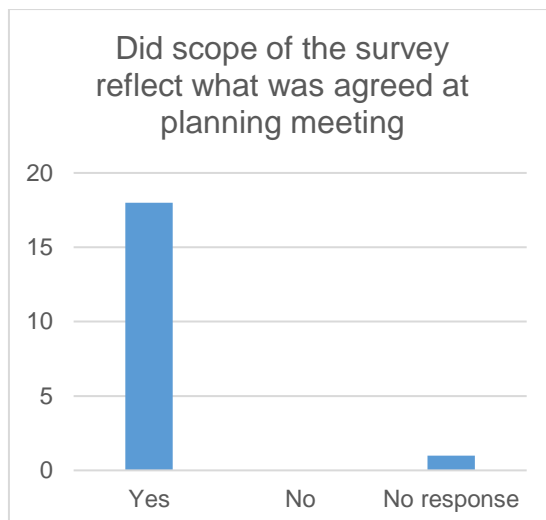
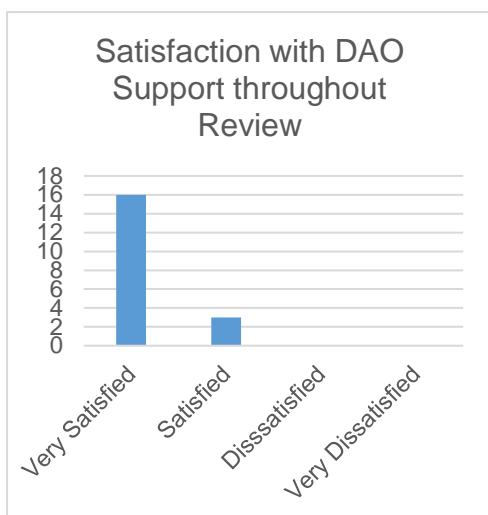
[Table 4c: Customer Satisfaction Survey Feedback](#)

Question	Yes	No
Did the scope of the audit reflect what was agreed during planning discussions?	35	0
Was the final report received within an acceptable timescale?	34	1

#### DAO – Customer Feedback

The Digital Assurance Office issued 27 post-review surveys to Senior Responsible Owners following major project reviews and healthchecks. In total, 19 survey returns were received and the following graphs set out an overview of the survey results:





## Annex C – Capacity and Capability

### Overview of current staffing

The Directorate of Internal Audit and Assurance's current establishment comprises 52.2 FTE staff, broken down as follows (as at 8 June 2020):

Table 5: DIAA Staff by Division / Team

Division	F.T.E
Director / Deputy-Director	1.8
Business Support Hub	2.0
Data Protection Officer	1.0
Portfolio, Programme and Project Assurance	2.0
Digital Assurance Office	11.4
Head of Counter Fraud	1.0
Internal Audit – SG core	9.5
Internal Audit – other public bodies (22)	15.5
Internal Audit – European	8.00
<b>Total</b>	<b>52.2</b>

IAD has been impacted by internal staff moves during the year and is currently actively recruiting for six vacancies (2 x B3 Internal Audit Managers, 2 x B2 Internal Auditors and 2 x B1 Internal Audit Technicians to support European work)

Two vacancies in the Business Support Hub are being filled in June 2021.

In DAO, a Communications Manager has been successfully recruited with start date to be confirmed and there are currently 2 x C1 Senior Engagement Manager (DDaT) vacancies and a B2 vacancy.

### Qualifications

The following table sets out the current position on qualifications held within Internal Audit (staff in post at 8 June):

Table 6 : Internal Audit Qualifications by Grade

Grade	Qualification	Number
SCS	CMIIA and ACA	1
	CMIIA	1
Senior Internal Audit Managers	CMIIA	4
	ACCA	1
	CIA	1
Internal Audit Managers	CMIIA	9
	CIA	2
	ACCA	1
	CIPFA	2
Internal Auditors / Trainees	CIA	2
	Student	8

	Technician	1
<b>Total</b>		<b>33</b>

### Skill Sets

IAD recognise that they need to keep their skill set requirements under regular review. Their resourcing strategy recognises that there will be a continuing need to bring in specialist expertise in certain areas, such as cyber, through the co-source partnership.

Whilst there are some staff in the directorate with more enhanced qualifications (e.g. finance, procurement and IT) there is also a need to ensure that through on-going training and development, all staff maintain a degree of awareness and understanding of issues such as general IT controls and counter-fraud red flags.

### Training and Development

In line with the Internal Audit Learning and Development Strategy the 2020-21 training and development plan covered professional qualifications, continual professional development, management skills, and mandatory Scottish Government courses, and was substantially delivered in the year.

### Digital Assurance Office

The Head of the Digital Assurance Office and the permanent Senior Engagement Managers are all members of the Digital, Data and Technology (DDaT) profession and are aligned to approved job roles under the Skills for the Information Age (SFIA) framework. The Scottish Government's professional development requirements for DDaT professionals in receipt of the DDaT pay supplement are observed by the Digital Assurance Office DDaT members. The non-DDaT members of the team observe the Scottish Government's standard guidance for personal development.

### Portfolio, Programme and Project Assurance

The Head of the PPPA is a full member of the Association for Project Management (APM) and the Assurance Manager is an associate member. All team members complete the requisite number of CPD hours.

### Data Protection Officer

The DPO is a qualified Data Protection Practitioner.

### Staff Engagement

The staff engagement index is calculated as part of the Scottish Government-wide People Survey. The results are shown below. The results for the Internal Audit Division have been shown separately from the Assurance Division. This is because the Internal Audit results can be compared to previous years, whereas the Assurance Division is a new division (comprising the Digital Assurance Office, Portfolio, Programme and Project Assurance, and Data Protection Officer) and therefore comparators are not available.

[Table 7: People Survey Results – Directorate for Internal Audit and Assurance](#)



# **Directorate for Internal Audit and Assurance**

## **Internal Audit Charter**

**2021-22**

**Directorate for Internal Audit and Assurance**

**Issue Date:** 11-03-2021

---

## Contents

---

1. Purpose and Mission.....	38
2. Standards for the Professional Practice of Internal Audit.....	38
3. Authority.....	39
4. Independence and Objectivity .....	40
5. Scope of internal audit activities .....	41
6. Responsibility.....	43
7. Quality assurance and improvement programme .....	44
8. Signatures.....	45

---

## 1. Purpose and Mission

---

- 1.1.** The Scottish Government's (SG) Internal Audit Division forms part of the Directorate for Internal Audit and Assurance (DIAA), established in 2019, comprising of Internal Audit (IA), Digital Assurance Office (DAO), Portfolio, Programme and Project Assurance (PPPA), the Data Protection Officer (DAO) and the Head of Counter Fraud Profession. The work of IA remains segregated from the wider Directorate with recourses, budget and operational control being ring fenced.
- 1.2.** The purpose of IA is to provide independent, objective assurance and consulting services designed to add value and improve clients' operations. IA clients consist of the SG and a range of public sector bodies including Executive Agencies and Non-Ministerial Bodies. The mission of IA is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. IA helps its clients' accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

---

## 2. Standards for the Professional Practice of Internal Audit

---

- 2.1.** IA will govern itself by adherence to the Public Sector Internal Audit Standards (PSIAS), which includes the mandatory Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. As Civil Servants, internal auditors are also governed by the Seven Principles of Public Life (Nolan Principles).
- 2.2.** IA also works to the International Professional Practices Framework (IPPF). This is a framework of principles and standards, which support IA in delivering the purpose and mission. The IPPF provides a number of core principles that articulate internal audit effectiveness. This is further supported by a Code of Ethics, which all internal auditors are required to work within.
- 2.3.** The Director of Internal Audit and Assurance will report periodically to senior management and relevant Audit and Assurance Committees, including the Scottish Government Audit and Assurance Committee (SGAAC) regarding conformance to the PSIAS. The Chair of SGAAC will also contribute to the Head of Internal Audit's appraisal report.

---

### 3. Authority

---

- 3.1.** The Director of Internal Audit and Assurance will report functionally to the Principal Accountable Officer of the Scottish Government, and Accountable Officers of the other relevant public bodies, and administratively (i.e. day-to-day operations) to the Director General Scottish Exchequer.
- 3.2.** To establish, maintain, and ensure that IA has sufficient authority to fulfil its duties, SGAAC will approve the Internal Audit Charter on behalf of all clients and approve decisions regarding the appointment and removal of the Director of Internal Audit and Assurance. The Accountable Officers of individual clients, with appropriate challenge and support from their Audit and Assurance Committees, will:
- a.** Approve the risk-based internal audit plan for their organisation.
  - b.** Approve the associated internal audit budget and resource plan.
  - c.** Receive communications from the Director of Internal Audit and Assurance on Internal Audit's performance relative to its plan and other matters.
  - d.** Make appropriate inquiries of management and the Director of Internal Audit and Assurance to determine whether there is inappropriate scope or resource limitations.
- 3.3.** The Director of Internal Audit and Assurance will have unrestricted access to, and communicate and interact directly with the Accountable Officers and Audit and Assurance Committees of its clients (including the Permanent Secretary and SGAAC), including in private meetings without management present.
- 3.4.** The SGAAC and client Audit and Assurance Committees authorise IA to:
- a.** have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
  - b.** allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
  - c.** obtain assistance from the necessary personnel, as well as other specialised services from within or outside IA, in order to complete the engagement.

---

## 4. Independence and Objectivity

---

- 4.1.** The Director of Internal Audit and Assurance will ensure that IA remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Director of Internal Audit and Assurance determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.
- 4.2.** Where the Director of Internal Audit and Assurance has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards have been established to limit impairments to independence or objectivity. In regards to the wider assurance work of the Directorate, safeguards are in place to ensure that the technical oversight of other functions does not impair the impartiality or independence of the Internal Audit team. These include:
- a.** The ring fencing of internal audit resources (budgets and staff).
  - b.** The retention of the Internal Audit practices for planning through to reporting as set out within the audit manual.
  - c.** The Director of Internal Audit and Assurance will not direct or control the development of the work plans for the Assurance teams.
  - d.** The Director of Internal Audit and Assurance will seek periodic agreement with SGAAC that the structure and safeguards are effective.
  - e.** An independent line of review via the co sourcing partner on the work and procedures for the assurance functions.
- 4.3.** Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.
- 4.4.** Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:
- a.** Assessing specific operations for which they had responsibility within the previous year.



- b.** Performing any operational duties for SG or clients.
- c.** Initiating or approving transactions external to IA.
- d.** Directing the activities of any SG or client employee not employed by IA, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

**4.5.** Management have responsibility for the prevention and detection of fraud. Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. IA are members of the SG Integrity Group.

**4.6.** Internal auditors are also required to highlight where they have a role or an issue that may impact upon the independence of the internal audit team. Internal auditors will:

- a.** Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- b.** Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- c.** Make balanced assessments of all available and relevant facts and circumstances.
- d.** Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

**4.7.** The Director of Internal Audit and Assurance will confirm to the Audit and Assurance Committees, at least annually, the organisational independence of IA.

**4.8.** The Director of Internal Audit and Assurance will disclose to the relevant Audit and Assurance Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

---

## 5. Scope of internal audit activities

---

**5.1.** The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit and Assurance Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for its client. Internal audit assessments include evaluating whether:

- a.** Risks relating to the achievement of its client's strategic objectives are appropriately identified and managed.
- b.** The actions of its client's officers, directors, employees, and contractors are in compliance with the client's policies, procedures, and applicable laws, regulations, and governance standards.
- c.** The results of operations or programmes are consistent with established goals and objectives.
- d.** Operations or programmes are being carried out effectively and efficiently.
- e.** Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the client.
- f.** Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- g.** Resources and assets are acquired economically, used efficiently, and protected adequately.

**5.2.** The Director of Internal Audit and Assurance will report periodically to senior management and the relevant Audit and Assurance Committee regarding:

- a.** IA's purpose, authority, and responsibility.
- b.** IA's plan and performance relative to its plan.
- c.** IA's conformance with The Institute of Internal Auditors' Code of Ethics and Standards, and action plans to address any significant conformance issues.
- d.** Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- e.** Results of audit engagements or other activities.
- f.** Resource requirements.
- g.** Any response to risk by management that may be unacceptable to the client.

**5.3.** The Director of Internal Audit and Assurance also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. IA may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided IA does not assume management responsibility.

- 5.4.** Alongside providing assurance to the Accountable Officer and Audit and Assurance Committee of non-core clients, internal audit assurance will also be provided on those corporate systems that the client utilises through the core Scottish Government. The cost of the assurance over the corporate systems is covered in whole, by the Scottish Government.
- 5.5.** Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

---

## 6. Responsibility

---

- 6.1.** The Director of Internal Audit and Assurance has the responsibility to:
- a.** Submit, at least annually, to senior management and the relevant Audit and Assurance Committee a risk-based internal audit plan for review and approval.
  - b.** Communicate to senior management and the Audit and Assurance Committee the impact of resource limitations on the internal audit plan.
  - c.** Review and adjust the internal audit plan, as necessary, in response to changes in the client's business, risks, operations, programmes, systems, and controls.
  - d.** Communicate to senior management and Audit and Assurance Committees any significant interim changes to the internal audit plan.
  - e.** Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programmes and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
  - f.** Follow up on engagement findings and corrective actions, and report periodically to senior management and Audit and Assurance Committees any corrective actions not effectively implemented.
  - g.** Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
  - h.** Ensure IA collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.

- i. Ensure trends and emerging issues that could impact clients are considered and communicated to senior management and Audit and Assurance Committees as appropriate.
- j. Ensure emerging trends and successful practices in internal auditing are considered.
- k. Establish and ensure adherence to policies and procedures designed to guide IA.
- l. Ensure adherence to clients' relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the relevant Audit and Assurance Committee.
- m. Ensure conformance of IA with the PSIAS, with the following qualification that if IA is prohibited by law or regulation from conformance with certain parts of the PSIAS, the Director of Internal Audit and Assurance will ensure appropriate disclosures and will ensure conformance with all other parts of the PSIAS.

**6.2.** In order to deliver an effective audit service, there is a need to ensure that IA is appropriately staffed in terms of numbers, grades, qualifications, training and experience. Details of staffing are contained in the overarching strategy approved by SGAAC. IA's recruitment processes aim to ensure that new staff possess the appropriate personal skills and attributes and relevant qualifications (or the perceived ability to undertake professional training). Staff are also required, after qualification, to undertake continuing professional development, normally as part of the SG's staff development arrangements.

**6.3.** Where appropriate, and as required, the Director of Internal Audit and Assurance may, within budget and subject to concurrent SG resourcing policies arrange to obtain specialist resources to supplement the range of skills available within IA, e.g. IT skills. IA will consult with managers and the relevant Audit and Assurance Committee about any such resources that it considers will be required. The Director may also, subject to the above conditions, arrange for the employment of temporary contract staff to cover resource shortfalls or specialised requirements as appropriate, within the function's budget.

---

## 7. Quality assurance and improvement programme

---

**7.1.** IA will maintain a quality assurance and improvement programme that covers all aspects of IA. The programme will include an evaluation of IA's conformance with the PSIAS. The programme will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

- 7.2.** The Director of Internal Audit and Assurance will communicate to senior management and Audit and Assurance Committees on the IA quality assurance and improvement programme, including results of internal assessments (both on-going and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside SG.

---

## 8. Signatures

---

Director of Internal Audit and Assurance | Date: 19 May 2021



**SHARON FAIRWEATHER**

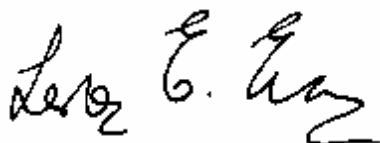
SGAAC Chair | Date: 19 April 2021

**RONNIE HINDS**

Scottish Government Audit and Assurance Committee Chair



Principal Accountable Officer | Date: 14 April 2021



**LESLIE EVANS**

Permanent Secretary to the Scottish Government



# **Directorate for Internal Audit and Assurance**

## **Internal Audit Strategy**

**2021-22**

**Directorate for Internal Audit and Assurance**

**Issue Date: 11-03-2021**

---

## Contents

---

1. Introduction .....	48
2. The IA Vision.....	48
3. Purpose and Mandate.....	49
4. People.....	49
5. Audit Approach .....	50
6. Integrated Assurance .....	51
7. Wider Stakeholder Engagement.....	51
8. Quality Assurance .....	52
9. Revisions to the IA Strategy .....	52

---

## 1. Introduction

---

- 1.1.** The Scottish Government's (SG) continues to face significant changes in outlook and delivery requirements, as do many of Internal Audit's (IA) clients. In 2020-21, IA carried out a number of strategic reviews to provide assurance over governance and risk controls in the SG Covid-19 response. It also carried out targeted advisory work relating to processes and/or controls which had been developed at pace, or had been revised to accommodate the organisational response to Covid-19.
- 1.2.** IA continues to develop capability and raise its profile to be more prominent and be adequately resourced to respond confidently to these challenges. IA is one of the cornerstones of good corporate governance and the SG needs to ensure that IA remains fit for purpose and provides a valued and respected service to the organisation and a wider community of public bodies in Scotland. This strategy sets out the approach that IA intends to adopt to meet these challenges.

---

## 2. The IA Vision

---

- 2.1.** In line with the wider SG, IA faces a significant increase in its responsibilities, and a shift in the way it discharges those responsibilities. As the SG progresses towards recovery and renewal, IA's assurance offerings will re-focus on supporting priorities work that is longer term and more strategic in nature, following the reactive work that has had to be taken forward in response to the pandemic. Through recent external and internal reviews of the function, IA has identified where clients have perceived added value, and where current ways of working have been a constraint. This has enabled IA to identify what to keep and what to leave behind.

- 2.2.** To meet the challenges IA needs to be:

**2.3.** Open

- Accessible, trusted and an engaged and credible partner.
- Clear about its role and its expectation of others.

**2.4.** Capable

- A sector leading, independent assurance and advisory service that is trusted and valued by clients, partners and staff.
- Accountable, efficient and effective in its performance and approach.
- Competent, professional, inclusive, skilled and knowledgeable: proud of its role as internal auditors, an exemplar of fair work and an employer of choice.



- Well-led with consistently good management of people and change

### 2.5. Responsive

- Ambitious and confident that it can improve outcome for clients and stakeholders.
- Focussed on priorities, flexible and effective in how it matches resources and capabilities.
- Employing processes that are enabling and dynamic that make what IA does simple and better connected.

---

## 3. Purpose and Mandate

---

**3.1.** IA, in line with the Public Sector Internal Audit Standards (PSIAS), provides independent, objective assurance and is designed to add value and improve its clients' efficiency and effectiveness. It helps them accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

**3.2.** Whilst IA delivery of compliance and assurance reviews is valued, stakeholders are looking for IA to help drive improvement in performance. IA needs to be engaging at the right level and delivering stakeholder needs. It needs to be providing value added assurance with business and commercial insights to drive improvements in performance and to continue to develop innovative and efficient methods for sharing messages and areas for improvement and good practice across the SG and wider public sector.

---

## 4. People

---

**4.1.** In order to deliver this strategy, IA recognises the need to be sufficiently resourced, with staff possessing appropriate knowledge, skills and competencies. This includes the current ring fencing of the European Social and Investment Funds team, and a co-sourcing partnership with EY. This is also supported by the restructure of the Directorate to incorporate the Digital Assurance Office (DAO), the Portfolio, Programme and Project Assurance (PPPA) team, the Data Protection Officer (DPO) and the newly appointed Head of Counter Fraud Profession. IA continues to assess the current skills available to ensure that it has sufficient experience to meet client needs now and in the future and that it responds appropriately.

**4.2.** IA maintains a Resourcing Strategy and Succession Plan, which is reviewed and updated on a three-yearly basis. The Plan was last updated in February 2018 and sets out an assessment of the anticipated IA client base in the short to medium term; the assumption that can be made with regards to resource requirement; the areas of uncertainty; the skill sets required and the proposed approach to securing the necessary resources. Due to pressures arising from the Covid-19 response, it has been agreed that the review and refresh of the Plan will be undertaken in quarter one of 2021-22. As part of the development of 2021-22, IA Plans for the SG and public body clients, the capability and capacity of IA to deliver those plans were taken into account.

**4.3.** The forward look at IQ requirements over the next three years has shown that there is a minor level of uncertainty as to the provision required, primarily as a result of constitutional change and the impacts of EU Exit. The recently confirmed co-sourcing arrangements (see below) will address any short term capacity issues, and IA can continue to supplement this with specialist expertise as required.

**4.4.** The current position for 2021-22 is as follows;

- IA's client base will likely remain the same in 2021-22, giving a total of 21 public bodies alongside work on EU funding and the core SG Plan.
- IA is currently running four vacancies (8% of audit staff)
- IA completed the procurement of a co-sourcing partner in August 2019 and they are now in place providing support for known resourcing issues while IA seeks to grow partnership and gain benefits from additional development opportunities and shared best practice.

**4.5.** IA has created a combined Learning and Development Strategy and Plan. The Strategy and Plan are underpinned by a Continuing Professional Development (CPD) Programme that is reviewed and updated regularly. The majority of IA staff are expected to hold an appropriate professional qualification, or be working towards one, as reflected in Divisional objectives. IA will review progress made by the cohort of professional trainees and consider options to support more through to full qualification. IA will also reflect on implications for future recruitment policies.

---

## 5. Audit Approach

---

**5.1.** IA has developed an audit manual, setting out clear roles and responsibilities for team members. It includes detailed procedures and quality assurance processes that promote

conformance with the PSIAS. Supplementary guidance was created in 2020-21 to allow a more agile approach during the pandemic organisational disruption. Elements of this approach are being assessed for longer term adoption and will be incorporated into the full manual as required during 2021-22. In addition to consistent application of the audit manual, IA will enhance quality and value through the following activities:

- a Quality Improvement Programme (QIP) updated annually that supports continuous improvement of the service in line with the International Professional Practices Framework;
- incorporation of the recommendations resulting from the 2019 External Quality Assessment (EQA) as action points in IA's QIP;
- best practice use of an audit management system (Galileo) through a process of annual review and adherence to a bespoke Galileo user manual;
- the data analytics strategy will continue to be driven to improve efficiency and effectiveness of the tools available; and
- utilising the co-source partner to provide access to additional capacity and specialist skills along with support to drive forward the development of IA.

---

## 6. Integrated Assurance

---

**6.1.** As noted in paragraph 4.1, the formation of the Directorate for Internal Audit and Assurance (DIAA) now allows for a more integrated approach to assurance within the SG. In order to safeguard its independence, the work of IA remains segregated from the wider Directorate with resources, budget and operational control being ring fenced.

**6.2.** The ambition is that the integration of IA, DAO, PPPA and DPO will provide stronger, more integrated assurance, where the teams can place reliance on the others work, enabling wider assurance to be provided across the SG. This will include the development of combined integrated assurance reporting to the Scottish Government Audit and Assurance Committee (SGAAC) and DG Assurance meetings; inputs to the SG corporate risk registers risk landscape assessment; development of communications across our clients' bases; and the identification of further steps to develop a more integrated approach. This is reflected in the development of the DIAA Integrated Assurance Plan for 2021-22.

---

## 7. Wider Stakeholder Engagement

---

**7.1.** In order to ensure that IA is keeping abreast of wider strategic and operational risks and emerging best practice in the profession, it will be important that it develops and maintains an outward facing focus as well as an internal one. To do that IA will:

- actively participate in the UK Government Internal Audit Leadership Group, working to continuously improve the delivery of IA services across central government departments;
- pro-actively fulfil its role as the Responsible Internal Audit Standard Setter for the public sector in Scotland by engaging with the profession more widely, positioning it as the lead IA team in the public sector in Scotland; and
- ensure that its senior team networks regularly with other Heads of Internal Audit across both the public and private sector, through for example, conferences, Institute events, breakfast seminars and one to one contacts.

---

## 8. Quality Assurance

---

**8.1.** In order to assess progress against this strategy and to ensure the continuous drive for quality improvement, IA will:

- undertake an Internal Quality Assessment in 2021-22;
- develop a process for reviewing and implementing the lessons learned feedback from audits which has been established as part of the new audit manual;
- build on the feedback received from the post-audit client satisfaction questionnaires and the annual satisfaction surveys;
- continue the Assessment of Service Quality approach with all clients, which is now in its fourth year; and
- continue to build on the improved management information reporting to support the monitoring and reporting of Key Performance Indicators.

---

## 9. Revisions to the IA Strategy

---

**9.1.** This strategy will be reviewed, updated and presented to SGAAC annually.

Sharon Fairweather

Director of Internal Audit and Assurance

March 2021