

# Directorate of Internal Audit and Assurance

## QUARTERLY BULLETIN

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### ANNUAL INTERNAL AUDIT ASSURANCE OPINIONS

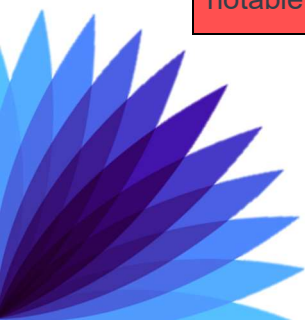
With the 2022-23 annual reporting season now complete, we offer some reflections and lessons for consideration.

During 2022-23, we emerged from the Covid-19 pandemic, the biggest disruptor in decades to our health, our economy and to the way we live our lives. A 'perfect storm' of high-impact, interlocking risks followed, presenting a permanent state of crisis for government, businesses and citizens. The war in Ukraine intensified supply chain failures, fuelling inflation and interest rate rises. Risks and issues relating to cyber security, the labour market and climate change were also in the mix. All in all, an unprecedented, concurrent set of risks and pressures for the Scottish Government and its public bodies. Not least of was the need to reach a balanced budget position and secure medium to long term fiscal sustainability. This was the context for our Annual Assurance Opinions.

### Framework, Principles and Criteria

Here's a reminder of our framework of Internal Audit assurance opinions

<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.



The overall, annual opinion is macro-assurance over a defined period of time. This requires us to bring disparate assurance threads together, using themes, trends, evidence and professional judgement to provide holistic, strategic insight into our client organisations

Our principles for determining overall opinions are:

### 1 Authentic

Opinions are fair, reliable and honest

### 2 Transparent

Opinions are qualified with evidence and professional judgement

### 3 Strategic

Macro-level information without undue detail

### 4 Insightful

Information is engaging and generates discussion

### 5 Resolute

Opinion is delivered with courage and conviction

Here's a reminder of the key criteria that inform our overall opinion:

### Leadership / Tone at the top / Organisational Culture

Do the Board, Audit and Risk Assurance Committee and senior managers live and breathe the espoused values and ethics of the organisation? How do leadership behaviours translate into the organisational culture?

### Governance

How effective is the system for directing and controlling the organisation? Is there a clear and compelling vision? How effective are the systems of performance management and scrutiny?

### Main Internal Audit Reviews (Assurance and Advisory)

What were the outcomes from the assurance reviews? How did the organisation respond to advisory reviews?

### Follow-Up Reviews

What was the organisation's track record in implementing recommendations from previous

assurance and advisory reviews? Is there appropriate scrutiny by the Audit and Risk Committee of implementation of recommendations, not just from Internal Audit, but from other independent assurance providers?

### Effectiveness of the Audit and Risk Assurance Committee

How effective is the committee in its role of challenging and supporting the Accountable Officer? Does it have the right competency and skill set? Does it have the right general approach in line with the SG Audit and Assurance Handbook? As Internal Auditors, we are able to test this through observation at each meeting we attend.

### Risk Maturity of Organisation

How well is risk management embedded across the organisation? Do risk registers chime with the current risk environment?

### Approach to Internal Audit

How do the Accountable Officer, senior managers and the Board

engage with Internal Audit and respond to our recommendations? How effectively and timeously are internal audit recommendations implemented?

### Assurance Mapping

Has the organisation developed an assurance map to show planned assurances from first, second and third line defences? Do Certificates of Assurance align with the issues and risks environment?

### Outcomes from other assurance reviews

What were the outcomes from reviews by external audit, Portfolio, Programme & Project Assurance and Digital Assurance Office? What was the organisation's approach to implementing recommendations from these reviews?

### Fraud, theft and data incidents

What incidences of fraud, theft and data security have taken place during the year? How has the organisation responded?

In summary, our overall opinions were derived from our cumulative audit knowledge and experience of our clients. Based on evidence and informed by our professional judgement. Also, there should be no surprises when we are delivering our annual opinion. As our regular engagement throughout the year with our clients allows us to reflect on the status of the above criteria and manage their expectations.

## Reflections and Lessons Learned

For 2022-23, we again provided a “reasonable” overall assurance opinion over the Scottish Government’s governance, risk management and control arrangements. This is a solid opinion, which reflects well on the organisation overall, given the operating landscape during 2022-23. The overall opinion has remained at “reasonable” for eight years.

Within that overall opinion, we also provided a separate “reasonable” opinion on the SG’s “Corporate Systems”. We highlighted that current HR and finance systems are not sustainable, as well as the importance of delivery of the Shared Services Programme for maintenance of operational activities to achieve the specified longer term efficiency benefits. HR and Finance systems were a strategic priority within Corporate Transformation and were the main focus of DIAA assurance activity. Our integrated assurance activity on the Shared Services Programme highlighted a number of areas for improvement which needed to be addressed to support successful delivery.

Of the **25 public bodies** to whom we provided a service during 2022-23:

- **9** (36%) received a “substantial” assurance opinion
- **14** (56%) received a “reasonable” opinion

- **2** (8%) received a “limited” opinion

Most, but not all, of those receiving a substantial assurance opinion are smaller bodies (in terms of budget and staffing). A possible explanation for this may be that as organisations grow and become more complex, it becomes more challenging to maintain high standards of governance, risk management and control.

In our experience, strong, values-based leadership and a positive tone at the top are the overarching enablers of sustained organisational effectiveness. That’s why we’ve ranked it first in our criteria for Annual Assurance Opinions, why we often test it directly in specific assurance engagements, and why we encourage our clients to continue to invest in leadership programmes.

Capacity and capability to deliver objectives was a recurring theme across SG and public bodies. Workforce planning and financial pressures in 2022-23 drove greater organisational focus on the need for better alignment between finance, delivery and people. Our work highlighted that effective business planning and change management capacity are key to aligning people, finance and delivery.

A further reflection: delivery often falls short of target, not necessarily because of poor productivity, but because the targets do not align with available resources and have not been appropriately prioritised against other demands. Having the courage to “speak truth to power” is a critical leadership characteristic that can help to manage expectations when negotiating delivery objectives and prioritising work. Setting a tone from the top in leading out capability in core organisational functions is critical too.



## Compassionate Leadership

One of our reflections on Annual Assurance Opinions is the critical importance of values-based leadership and a positive tone at the top. A [recent ACCA Magazine article](#) chimes with the Scottish Government value of “we are kind” and contains some helpful hints and tips for developing a culture of compassionate leadership.

## NCSC issues new advice on managing supply chain shocks

The UK National Cyber Security Centre has produced guidance entitled: “[Managing your supply chain](#)”. Its aim is to help organisations understand their network of suppliers so they can manage cyber risks effectively and carry out due diligence.

