

# SHARED RESOURCE SERVICE Annual Internal Audit Report 2019/20

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## Executive Summary

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### Introduction

This report outlines the internal audit work we have carried out for the year ended 31 March 2020.

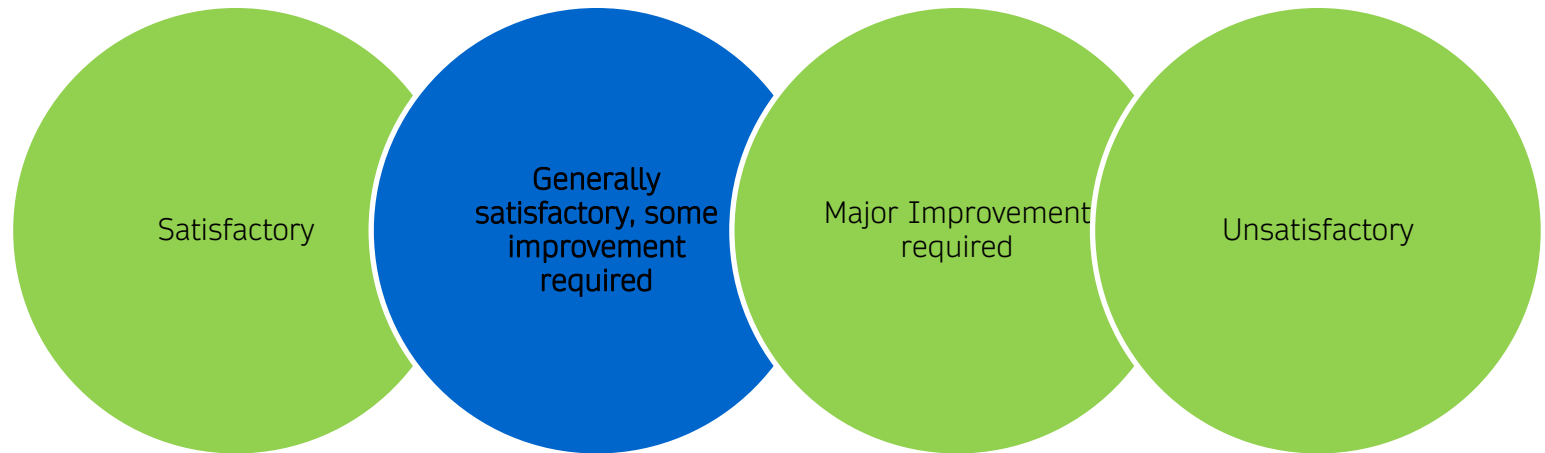
The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1.

The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

### Head of Internal Audit Overall Opinion

We are satisfied that sufficient internal audit work has been undertaken to allow an overall opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

Our opinion is as follows:



Defined as:

- Medium risk rated weaknesses identified in individual assignments that are not significant in aggregate to the system of internal control; and/or
- High risk rated weaknesses identified in individual assignments that are isolated to specific systems or processes; and
- None of the individual assignment reports have an overall classification of critical risk.

### Implications:

Governance and control in relation to the 11 areas reviewed continues to show a varied but improving position. **5 substantial** (more than 70% of expected controls in place), **3 moderate** (50- 69% of expected controls in place) and **2 limited** (between 10 and 49% of controls in place) opinions were given. The overall opinion is one of recognising improvement with the existence of some areas weaker than others. On balance it is 'generally satisfactory' although a number of areas still need addressing. Whilst the expectation is that all agreed recommendations will be implemented and the aim is to ensure all opinions are at least moderate if not substantial. I stated last year that where systems were showing as limited they could be easily elevated to moderate or above and it is pleasing to note instances of this based on the work performed.

Improvement (see Pages 06 - 08) is required in those areas identified to enhance the adequacy and effectiveness of the internal control framework.

An explanation of all the types of opinion can be found in Appendix 2.

### Basis of opinion

Our opinion is based on:

- All audits undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.
- Any significant recommendations not accepted by management and the resulting risks.
- The effects of any significant changes in the organisation's objectives or systems.

- Any limitations which may have been placed on the scope or resources of internal audit.
- Any reliance that is placed upon third party assurances.

### **Acknowledgement**

We would like to take this opportunity to thank the Shared Resource Service staff for their co-operation and assistance provided during the year. The year has seen a further real positive approach embedded into the way the audits are carried out with Senior management involved throughout the process. This approach has proved successful and will continue to be utilised in future audits.

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## Summary of Findings

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The table starting on page 06 records a summary of the key findings from our programme of internal audit work for the year.

### Overview

We completed **11** internal audit reviews (5 systems, 5 follow ups, 1 advisory). This resulted in the identification of **55** findings (1 high, 39 medium, and 15 low) to improve weaknesses in the design of controls and/or operating effectiveness (see Page 06). All final reports have agreed action plans, dates and responsible officers for improving the internal control environment.



## Internal Audit Work Conducted

### Introduction

The table below sets out the results of our internal audit work and the system opinion for each individual audit assignment plus any implications for next year's plan. We also include a comparison between planned internal audit activity and actual activity.

### Results of individual assignments

Ref	Review	Opinion	Completed	Controls Tested	%age in place	No of Findings		
						H	M	L
SRS - 19001	<b>IT Disposals (System)</b> Key Dates: Fieldwork Completed 30 Apr 19 Draft Issued 07 May 19 Draft Response 11 Jun 19 Final Issued 11 Jun 19	LIMITED Last audit opinion was MODERATE  A signed service level agreement has existed since Jan 20, 2020 with Computer Recyclers UK.	13 Jun 19	10	20	1	7	
SRS - 19002	<b>Firewall (System)</b> Key Dates: Fieldwork Completed 01 Oct 19 Draft Issued 04 Oct 19 Draft Response 22 Oct 19 Final Issued 25 Oct 19	SUBSTANTIAL Last audit opinion was MODERATE	11 Nov 19	26	73		1	6

Ref	Review	Opinion	Completed	Controls Tested	%age in place	No of Findings		
						H	M	L
SRS - 19003	<b>Enterprise Architecture Management</b> (System) Key Dates: Fieldwork Completed 08 Nov 19 Draft Issued 14 Nov 19 Draft Response 04 Dec 19 Final Issued 05 Dec 19	LIMITED	17 Dec 19	10	30		6	1
SRS - 19004	<b>Software Asset Management</b> (System) Key Dates: Fieldwork Completed 03 May 20 Draft Issued 05 May 20 Draft Response 11 May 20 Final Issued 11 May 20	MODERATE	13 May 20	22	59		9	
SRS - 19006	<b>Identity and Access Management</b> (Follow Up) Key Dates: Fieldwork Completed 26 Mar 20 Draft Issued 27 Mar 20 Draft Response 31 Mar 20 Final Issued 01 Apr 20	SUBSTANTIAL Original system audit opinion was MODERATE with 19 recommendations. 6 of the 19 remain at the follow up, lifting the opinion level.	01 Apr 20	12 (target date reached)	70		3	3
SRS - 19007	<b>Mobile Computing</b> (Follow Up) Key Dates: Fieldwork Completed 11 Dec 19 Draft Issued 13 Dec 19 Draft Response 19 Dec 19 Final Issued 19 Dec 19	SUBSTANTIAL Original system audit opinion was LIMITED with 6 recommendations. 2 of the 6 remain at the follow up, lifting the opinion level.	20 Dec 19	6	81		2	
SRS - 19008	<b>Supplier Management</b> (Follow Up) Key Dates: Fieldwork Completed 11 Dec 19 Draft Issued 13 Dec 19 Draft Response 23 Dec 19 Final Issued 24 Dec 19	MODERATE Original system audit opinion was LIMITED with 9 recommendations. 5 of the 9 remain at the follow up, lifting the opinion level.	24 Dec 19	9	64		4	

Ref	Review	Opinion	Completed	Controls Tested	%age in place	No of Findings		
						H	M	L
SRS - 19010	<b>CCTV (System)</b> Key Dates: Fieldwork Completed 02 Mar 20 Draft Issued 06 Mar 20 Draft Response 25 Mar 20 Final Issued 26 Mar 20	MODERATE Last audit opinion was LIMITED	26 Mar 20	19	58		6	2
SRS - 19012	<b>Performance Management (Follow Up)</b> Key Dates: Fieldwork Completed 04 Mar 20 Draft Issued 06 Mar 20 Draft Response 25 Mar 20 Final Issued 26 Mar 20	SUBSTANTIAL Original system audit opinion was LIMITED with 7 recommendations. 2 of the 5 accepted remain at the follow up, lifting the opinion level.	26 Mar 20	5	73			2
SRS - 19013	<b>Virtualisation (Follow Up)</b> Key Dates: Fieldwork Completed 19 Mar 20 Draft Issued 26 Mar 20 Draft Response 31 Mar 20 Final Issued 01 Apr 20	SUBSTANTIAL Original system audit opinion was MODERATE with 7 recommendations. 2 of the 7 remain at the follow up, lifting the opinion level.	01 Apr 20	7	86		1	1
<b>Totals</b>				<b>126</b>		<b>1</b>	<b>39</b>	<b>15</b>

UNABLE TO START - MOVED TO 2020-21

SRS - 19005	Cybersecurity	Follow Up						
SRS - 19009	Back Office	Systems						

The Head of Audit was involved in a focus group comprising the SRS and Torfaen Finance team colleagues to review the Memorandum of Understanding (MOU) and refresh/update the current set of SRS Contract procedure Rules (CPR's). A significant amount of progress has been made but the work is not yet finalised due to the Covid-19 situation.

#### Implications for the 2020 – 21 audit plan

An internal audit plan has been agreed with management and the Finance & Governance Board but this will need to be fluid and its delivery regularly assessed as a result of the COVID-19 situation.

#### Individual audit opinion ratings:

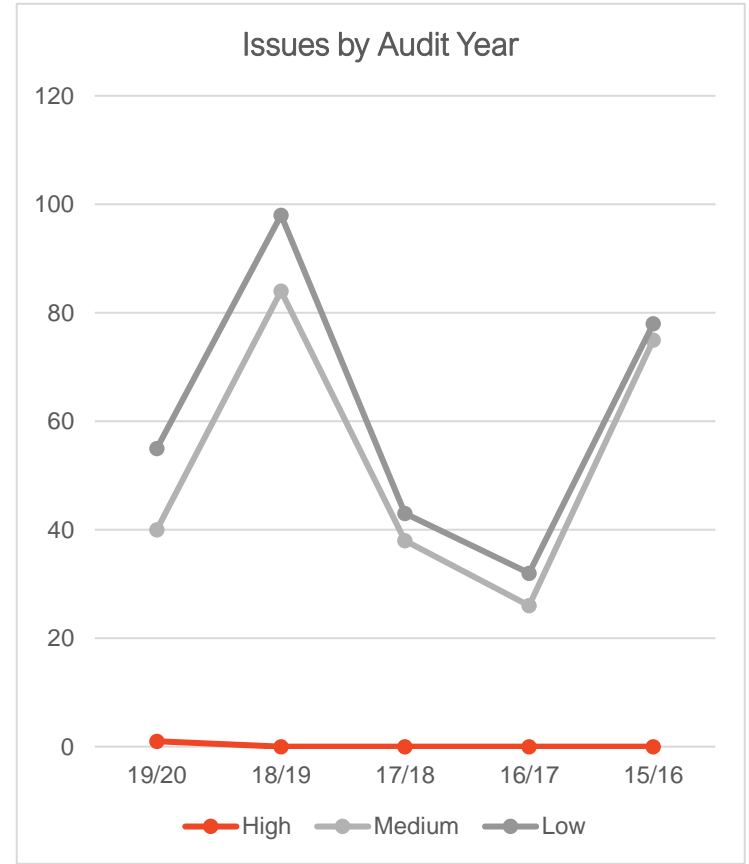
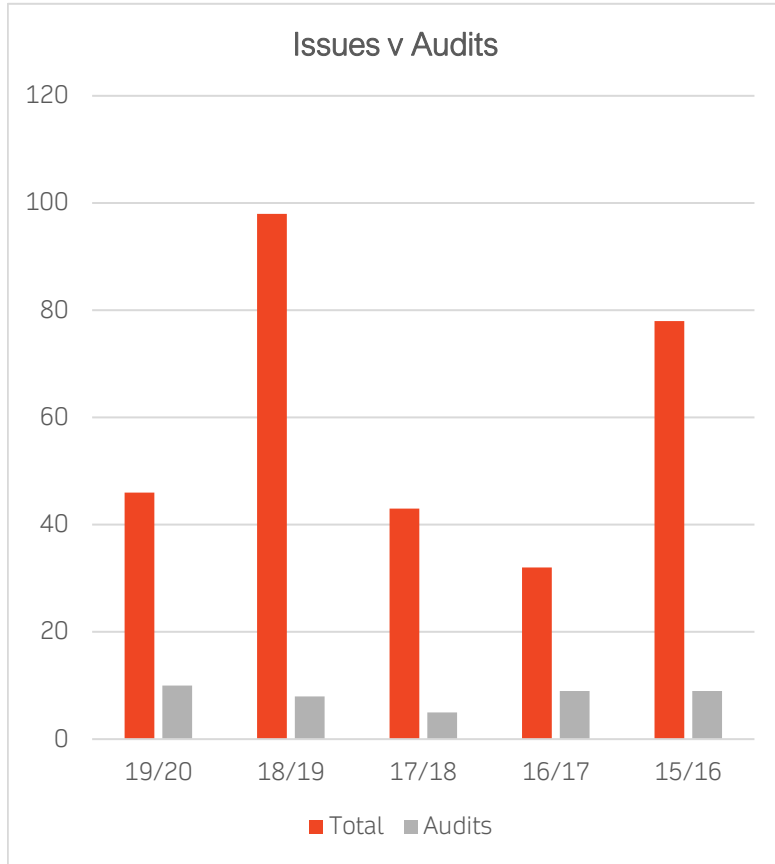
The ratings below are now used for both systems and follow up audit reviews, confirmation of at least the existing review control environment for a follow up.

<i>Rating</i>	<i>% controls tested deemed operating</i>
<i>NIL</i>	<i>0 – 10%</i>
<i>LIMITED</i>	<i>11 – 49%</i>
<i>MODERATE</i>	<i>50 – 69%</i>
<i>SUBSTANTIAL</i>	<i>70 – 89%</i>
<i>FULL</i>	<i>90 – 100%</i>

#### Direction of Control Travel

Metric	19/20	18/19	17/18	16/17	15/16	Metric	19/20	18/19	17/18	16/17	15/16
Total	55	98	43	32	78	High	1	0	0	0	0

Audits	11	8	5	9	9	Medium	39	84	38	26	75
						Low	15	14	5	6	3



### Implications for Management

The mix and focus of our internal audit plans differs between years so the above results are indicative and not directly comparable. The overall message is still one of findings being primarily medium risk in nature, with a decreasing level of total audit findings from 2018/19 to 2019/20 whilst the number of audits performed was greater in 2019/20.

### Comparison of planned and actual activity

Ref	Stage	Type	Title	Quarter	
				Planned	Complete
SRS - 19001	COM	SYS	IT Disposals (all partners)	1	1
SRS - 19002	COM	SYS	Firewall (all partners)	1	3
SRS - 19003	COM	SYS	Enterprise Architecture Management (all partners)	1	3
SRS - 19004	ISS	SYS	Software Asset Management (all partners)	2	1*
SRS - 19005	NID	FUP	Cybersecurity <sup>3</sup>	3	
SRS - 19006	COM	FUP	Identity and Access Management (all partners)	3	4
SRS - 19007	COM	FUP	Mobile Computing (all partners)	4	3
SRS - 19008	COM	FUP	Supplier Management (all partners)	3	3
SRS - 19009	NID	SYS	Back Office <sup>2</sup>	3	
SRS - 19010	COM	SYS	CCTV / Control Centre ( <b>NOT</b> GPA, NCC)	4	4
SRS - 19011	COM	SPL	Memorandum of Understanding <sup>1</sup> (all partners)	3	4
SRS - 19012	COM	FUP	Performance Management (all partners)	4	4
SRS - 19013	COM	FUP	Virtualisation (all partners)	4	4

\* Completed May 11, 2020

<sup>2</sup> Delays in the preceding plan audits has meant that this audit cannot be conducted in Qtr. 4 due to year end and will be undertaken in Qtr. 1 of 2020-21.

<sup>3</sup> Rescheduled to 2020-21 due to the change in the dates of the IT Service Continuity Management audit (agreed August 2019 Finance and Governance Board) and the SIEM solution (ISLB) which impact significantly on the original actions.

## Appendix 1: Limitations and responsibilities

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### Limitations inherent to the internal auditor's work

Our work has been performed subject to the limitations outlined below.

### Overall Opinion based on all work carried out

The overall opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our agreed annual programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence, management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

### Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.



### Future periods

Our assessment of controls relating to the Shared Resource Service is for the period 1 April 2019 to 31 March 2020. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that the:

- design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- degree of compliance with policies and procedures may deteriorate.

### Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

## Appendix 2: Overall Opinion Types

### Limitations inherent to the internal auditor's work

The table below sets out the five types of overall opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.

Opinion	Factors contributing to this opinion
<i>Satisfactory</i>	<ul style="list-style-type: none"> <li>▪ A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and</li> <li>▪ None of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<i>Generally satisfactory with some improvements required</i>	<ul style="list-style-type: none"> <li>▪ Medium risk rated weaknesses identified in individual assignments that are not significant in aggregate to the system of internal control; and/or</li> <li>▪ High risk rated weaknesses identified in individual assignments that are isolated to specific systems or processes; and</li> <li>▪ None of the individual assignment reports have an overall classification of critical risk.</li> </ul>
<i>Major improvement required</i>	<ul style="list-style-type: none"> <li>▪ Medium risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or</li> <li>▪ High risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or</li> <li>▪ Critical risk rated weaknesses identified in individual assignments that are not pervasive to the system of internal control; and</li> </ul>

	<ul style="list-style-type: none"><li>▪ A minority of the individual assignment reports may have an overall report classification of either high or critical risk.</li></ul>
<i>Unsatisfactory</i>	<ul style="list-style-type: none"><li>▪ High risk rated weaknesses identified in individual assignments that in aggregate are pervasive to the system of internal control; and/or</li><li>▪ Critical risk rated weaknesses identified in individual assignments that are pervasive to the system of internal control; and/or</li><li>▪ More than a minority of the individual assignment reports have an overall report classification of either high or critical risk.</li></ul>
<i>None</i>	<ul style="list-style-type: none"><li>▪ An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either:<ul style="list-style-type: none"><li>□ Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or</li><li>□ We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.</li></ul></li></ul>

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## Contact Information

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