

**SHARED RESOURCE SERVICE**  
**Annual Internal Audit Report**  
**2017/18**

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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 2018.

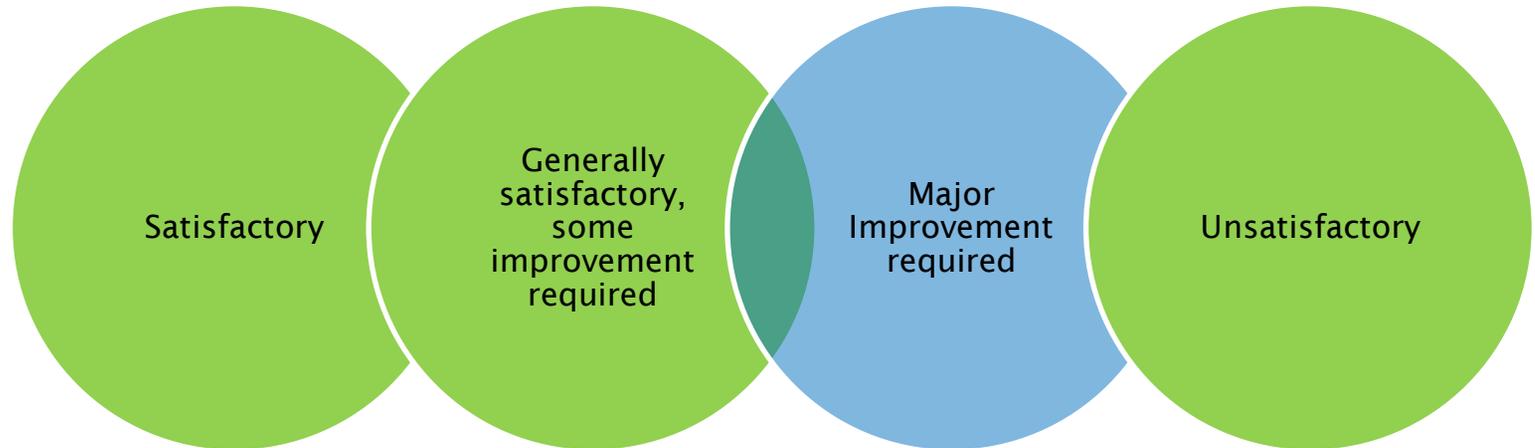
The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system 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 Opinion**

We are satisfied that sufficient internal audit work has been undertaken to allow an 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 significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or
- 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
- Critical risk rated weaknesses identified in individual assignments that are not pervasive to the system of internal control; and
- A minority of the individual assignment reports may have an overall report classification of either high or critical risk.

Implications:

Governance and control in relation to the areas reviewed areas is not satisfactory. There are areas of weakness and non-compliance in the internal control framework which place the achievement of objectives at risk.

Some improvements (see page 5) are required in those areas 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.

## Summary of Findings

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The table on page 05 records a summary of the key findings from our programme of internal audit work for the year.

### Overview

We completed **5** internal audit reviews. This resulted in the identification of **43** findings to improve weaknesses in the design of controls and/or operating effectiveness (see page 6). 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 any implication's for next year's plan. We also include a comparison between planned internal audit activity and actual activity.

### Results of individual assignments

AUDREF	TYPE	REVIEW	OPINION	REPORT	Number of Findings		
					High	Med	Low
<b>COMPLETED</b>							
SRS-16009	SYS	IT Governance	MODERATE	08 DEC 17	0	9	0
<b>FINAL (awaiting response)</b>							
SRS-16001	SYS	Application Support & Maintenance	MODERATE	27 MAR 18	0	6	3
SRS-BC-BM-7802	FUP	Back Office <i>Original opinion was moderate, follow up identified only 2 of the 4 agreed recommendations had been implemented.</i>	UNSATISFACTORY	21 MAR 18	0	0	2
SRS-EA-IE-7801	FUP	Email <i>Original opinion was substantial, follow up identified 4 of the agreed 5 recommendations had been implemented.</i>	SATISFACTORY	23 MAR 18	0	1	0
<b>DRAFT (awaiting response)</b>							
SRS-EA-7801	SYS	IT Service Continuity Management	LIMITED	27 MAR 18	0	22	0

**IN PROGRESS**

SRS-CC-7801	SYS	Cybersecurity
SRS-SM-7801	SYS	Performance Management

**UNABLE TO START MOVED TO 2018-19**

SRS-CC-7802	SPL	ISO:27001
SRS-EA-AS-7801	FUP	Application Support & Maintenance
SRS-EA-IE-7802	SYS	Architecture Management

<b>Totals</b>	<b>0</b>	<b>38</b>	<b>5</b>
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**Implications for next year's plan**

We have worked with management and the Finance and Governance Board to agree and approve next year's internal audit plan.

**Direction of Control Travel**

Finding Rating	Current / Prior year Trend	Number of Findings		
		17/18	16/17	15/16
High		0	0	0
Medium		38	26	75
Low		5	6	3
<b>Total</b>		<b>43</b>	<b>32</b>	<b>78</b>
<b>Number of Audits</b>		<b>5</b>	<b>9</b>	<b>9</b>

### 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 one of findings being primarily medium risk in nature, with an increasing level of total audit findings from 2016/17 to 2017/18.

Management needs to focus on delivering improvement given that a number of weaknesses have been identified in the internal control environment.

### Comparison of planned and actual activity

AUDREF	REVIEW	PLANNED	DELIVERED	G P	M C C	T C B C	B G C B C	N C C	S R S
SRS-16009	Information Technology Governance *	Yes	Yes	✓	✓	✓	✓	✓	✓
SRS-BC-BM-7801	CCTV / Control Room **	Yes	No						
SRS-BC-BM-7802	Back Office	Yes	Yes	✓	✓	✓	✓		✓
SRS-CC-7801	Cybersecurity ***	Yes	No						
SRS-CC-7802	ISO27001 **	Yes	No						
SRS-EA-7801	IT Service Continuity Management	Yes	Yes	✓	✓	✓	✓	✓	✓
SRS-EA-AS-7801	Application Development / Management **	Yes	No						
SRS-EA-IE-7801	Email	Yes	Yes	✓	✓	✓	✓	✓	✓
SRS-EA-IE-7802	Architecture Management **	Yes	No						
SRS-SM-7801	Performance Management ***	Yes	No						

\* Audit rescheduled from 2016-17 to 2017-18.

\*\* Audit could not be started so flexed to 2018-19

\*\*\* Audit is in progress and will be completed when the requested information / responses have been provided by the client where still required.

## **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.

### **Opinion**

The 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 judgment 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 2017 to 31 March 2018. 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: Opinion Types

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

The table below sets out the four types of 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.

Type of Opinion	Factors contributing to this opinion
Satisfactory	<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>
Generally satisfactory with some improvements required	<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>
Major improvement required	<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>
Unsatisfactory	<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>
None	<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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