

SHARED RESOURCE SERVICE Annual Internal Audit Report

2018/19

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Executive Summary

Introduction

This report outlines the internal audit work we have carried out for the year ended 31 March 2019.

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.

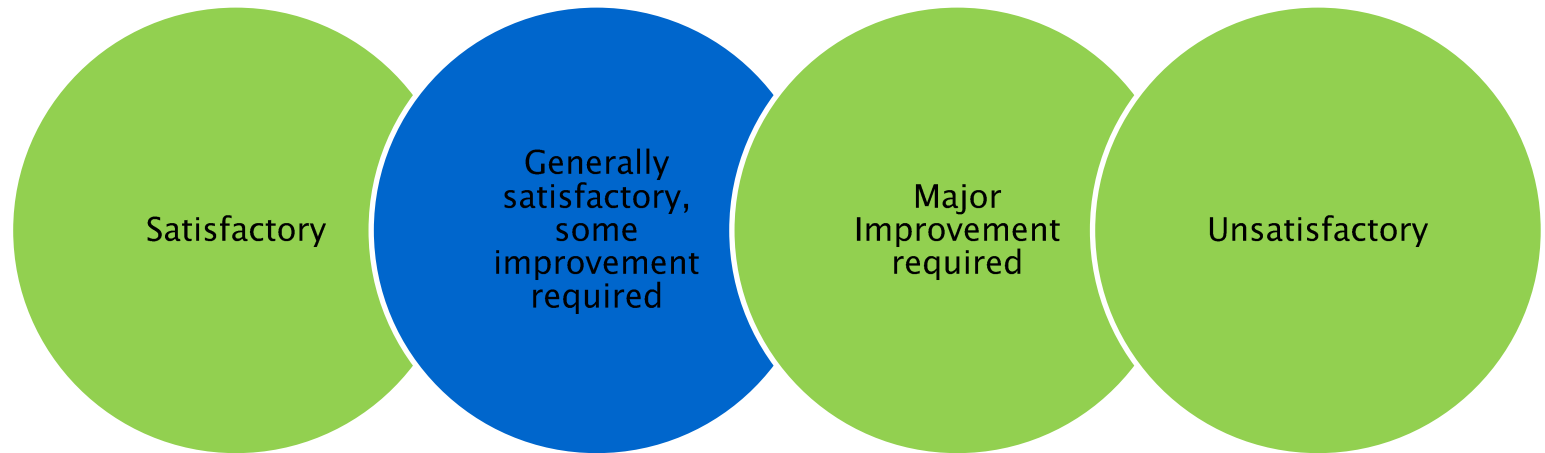
Head of Internal Audit Overall Opinion

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.

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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.

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Implications:

Governance and control in relation to the areas reviewed is showing the position is improving. There were a mixture of opinions provided on the specific areas reviewed in the year. The opinions ranged from some areas providing substantial assurance (more than 70% of expected controls in place), some areas were moderate (50- 69% of expected controls in place) and some only limited assurance (between 10 and 49% of controls in place). Therefore, the overall conclusion opinion is that recognising the improvement that has occurred but given there are still some areas which are weaker than others on balance it is 'generally satisfactory' but there are still a number of areas that 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 where systems are showing as limited there is not a great deal of effort required to elevate them from the limited category.

Improvement (see Page 06) 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.

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- 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.

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Summary of Findings

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 **9** internal audit reviews (6 systems and 3 follow ups). This resulted in the identification of **105** findings (91 medium, 14 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.

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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

AUDREF	TYPE	REVIEW	SYSTEM OPINION	REPORT	No. of controls tested	%age of controls in place	Number of Findings		
							H	M	L
COMPLETED									
SRS-CC-7801	SYS	Cybersecurity	MODERATE	02 JAN 19	97	57%	40	2	
SRS-BC-BM-8901	FUP	CCTV / Control Room	LIMITED <i>Original audit opinion was LIMITED with 9 recommendations. 2 of the 9 had been implemented at the follow up so LIMITED opinion remains</i>	16 AUG 18	12	42%	5	2	
SRS-SM-7801	SYS	Performance Management	LIMITED	22 NOV 2018	12	42%	7		
SRS-SM-8902	SYS	Identity and Access Management	MODERATE	15 FEB 19	44	57%	14	5	
SRS-CC-8903	SYS	Mobile Computing	LIMITED	20 FEB 19	11	45%	4	2	

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AUDREF	TYPE	REVIEW	SYSTEM OPINION	REPORT	No. of controls tested	%age of controls in place	Number of Findings			
							H	M	L	
SRS-EA-IE-8901	FUP	Application Support / Maintenance	SUBSTANTIAL <i>Original audit opinion was MODERATE with 9 recommendations. 4 of the 9 had been implemented at the follow up giving a revised SUBSTANTIAL opinion</i>	20 FEB 19	21	76%		5	0	
SRS-BC-BM-8902	SYS	Supplier Management	LIMITED	07 MAY 19	14	36%		9	0	
SRS-EA-IE-8903	SYS	Virtualisation	MODERATE	27 MAY 19	15	53%		5	2	
SRS-CC-8902	FUP	IT Governance	SUBSTANTIAL. <i>Original audit opinion was MODERATE with 9 recommendations. 6 of the 9 had been implemented at the follow up giving a revised SUBSTANTIAL opinion.</i>	10 MAY 19	18	83%		2	1	
UNABLE TO START - MOVED TO 2019-20										
SRS-CC-8901	FUP	Cybersecurity								
SRS-EA-IE-7802	SYS	Architecture Management								
SRS-EA-8901	FUP	IT Service Continuity Management								
Totals								0	91	14

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

Individual audit opinion system ratings

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

Follow up audit opinion ratings:

<i>Rating</i>	<i>%age recommendations implemented</i>	
Excellent	81%-100%	ineffective controls are not HIGH priority.
Satisfactory	51%-80%	ineffective controls are not HIGH priority.
Unsatisfactory	1%-50%	
Unacceptable	0%	





Direction of Control Travel

Finding Rating

Current / Prior year

Number of Findings

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	Trend	18/19	17/18	16/17	15/16
High		0	0	0	0
Medium		91	38	26	75
Low		14	5	6	3
Total		105	43	32	78
Number of Audits		9	5	9	9

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 an increasing level of total audit findings from 2017/18 to 2018/19. To put this into context, more audits were completed in the year and one of the audits Cybersecurity was a comprehensive audit where we tested approximately 100 controls with 42 recommendations for improvement made.

Management needs to focus on effective monitoring to ensure delivering the necessary improvement occurs given the number of weaknesses identified in the internal control environment.

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Comparison of planned and actual activity

AUDREF	REVIEW	PLANNED	DELIVERED	G P A	M C C	T C B C	B G C B C	N C C	S R S
SRS-BC-BM-8901	CCTV/Control Room *	Yes	Yes		✓	✓	✓		✓
SRS-CC-7801	Cybersecurity *	Yes	Yes	✓	✓	✓	✓		✓
SRS-SM-7801	Performance Management *	Yes	Yes	✓	✓	✓	✓	✓	✓
SRS-SM-8902	Identity and Access Management	Yes	Yes	✓	✓	✓	✓	✓	✓
SRS-EA-IE-8901	Application Support/Maintenance	Yes	Yes	✓	✓	✓	✓	✓	✓
SRS-CC-8903	Mobile Computing	Yes	Yes	✓	✓	✓	✓	✓	✓
SRS-BC-BM-8902	Supplier Management	Yes	Yes	✓	✓	✓	✓	✓	✓
SRS-CC-8902	IT Governance	Yes	Yes	✓	✓	✓	✓	✓	✓
SRS-EA-IE-8903	Virtualisation	Yes	Yes	✓	✓	✓	✓	✓	✓
SRS-CC-8904	PSN Compliance (Cancelled)	Yes	No	✓	✓	✓	✓	✓	✓
SRS-EA-IE-7802	Architecture Management **	Yes	No	✓	✓	✓	✓	✓	✓
SRS-CC-8901	Cybersecurity **	Yes	No	✓	✓	✓	✓		✓
SRS-EA-8901	IT Service Continuity Management **	Yes	No	✓	✓	✓	✓	✓	✓

* Audit rescheduled/overran from 2017-18 to 2018-19.

** Audit could not be started so flexed to 2019-20.

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Appendix 1: Limitations and responsibilities

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.

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Our assessment of controls relating to the Shared Resource Service is for the period 1 April 2018 to 31 March 2019. 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.

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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.

Type of Opinion	Factors contributing to this opinion
<i>Satisfactory</i>	<ul style="list-style-type: none"> ▪ 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 ▪ None of the individual assignment reports have an overall report classification of either high or critical risk.
<i>Generally satisfactory with some improvements required</i>	<ul style="list-style-type: none"> ▪ 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.

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<i>Major improvement required</i>	<ul style="list-style-type: none"> ▪ 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.
<i>Unsatisfactory</i>	<ul style="list-style-type: none"> ▪ High risk rated weaknesses identified in individual assignments that in aggregate are pervasive to the system of internal control; and/or ▪ Critical risk rated weaknesses identified in individual assignments that are pervasive to the system of internal control; and/or ▪ More than a minority of the individual assignment reports have an overall report classification of either high or critical risk.
<i>None</i>	<ul style="list-style-type: none"> ▪ 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"> □ 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 □ 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.

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