

# **SHARED RESOURCE SERVICE Annual Internal Audit Report 2016/17**

## **Contents**

Executive Summary .....	1
Summary of Findings .....	4
Internal Audit Work Conducted .....	5
Appendix 1: Limitations and responsibilities .....	8
Appendix 2: Opinion Types .....	10
Contact Information .....	12

## **Executive Summary**

---

### **Introduction**

This report outlines the internal audit work we have carried out for the year ended 31 March 2017.

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).

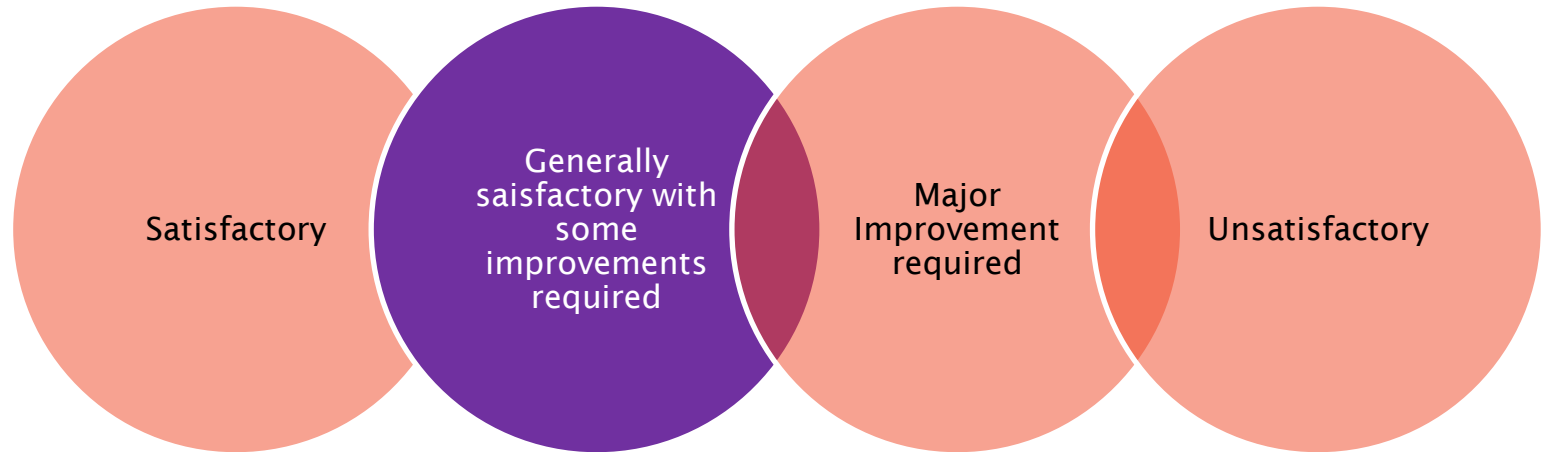
This is achieved through a risk-based plan of work, agreed with management which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1.

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:

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

Implications:

Governance, risk management and control in relation to business critical areas is generally satisfactory. However, there are some areas of weakness and non-compliance in the framework of governance, risk management and control which potentially put the achievement of objectives at risk.

Some improvements (see Section 2) are required in those areas to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

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

---

Our annual internal audit report should be used to inform the partner Annual Governance Statements. The table below records a summary of the key findings from our programme of internal audit work for the year.

### Overview

We completed 9 internal audit reviews. This resulted in the identification of 32 findings to improve weaknesses in the design of controls and/or operating effectiveness (see Section 3).

### Internal Control Issues

During the course of our work we did not identify any pervasive high or critical risk weaknesses that we consider should be reported in the partner Annual Governance Statements.

## 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	FINAL REPORT	Number of Findings		
					High	Medium	Low
<b>COMPLETED</b>							
SRS-16002	SYS	Back Office	MODERATE	10 Mar 17	0	3	1
SRS-16003	SYS	CCTV / Control Centre	LIMITED	15 Mar 17	0	7	2
SRS-16004	FUP	Change Management	EXCELLENT	28 Apr 17	0	1	1
SRS-16005	SYS	Email	SUBSTANTIAL	05 May 17	0	3	2
SRS-16006	FUP	Firewall	FULL	08 Mar 17	0	0	0
SRS-16007	SPL	ISO27001:2013	SUBSTANTIAL	15 May 17	0	2	0
SRS-16008	FUP	IT Disposals	SATISFACTORY	28 Oct 16	0	4	0
SRS-16010	FUP	ServicePoint	EXCELLENT	14 Mar 17	0	0	0
SRS-16011	SYS	Virtualisation	MODERATE	21 Sep 16	0	6	0
<b>IN PROGRESS</b>							
SRS-16001	SYS	Application Development / Management					
SRS-16009	SYS	IT Governance (Best Practice, MOU)					
<b>Totals</b>					<b>0</b>	<b>26</b>	<b>6</b>

**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			
		2016/17	2015/16	2014/15	2013/14
High		0	0	0	0
Medium		26	75	43	27
Low		6	3	11	3
<b>Total</b>		<b>32</b>	<b>78</b>	<b>54</b>	<b>30</b>
<b>Number of Audits</b>		<b>9</b>	<b>9</b>	<b>13</b>	<b>15</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 a decreasing level of total audit findings from 2015/16 to 2016/17. Management should not be complacent but continue to focus on continuous improvement given its ambitious planned changes, the wider public services context and the continued funding pressures it will face.



## 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	S R S
SRS-16002	Back Office	YES	YES		✓	✓		✓
SRS-16003	CCTV / Control Centre	YES	YES		✓	✓		✓
SRS-16004	Change Management	YES	YES	✓	✓	✓		✓
SRS-16005	Email	YES	YES	✓	✓	✓	✓	✓
SRS-16006	Firewall	YES	YES		✓	✓		✓
SRS-16007	ISO27001:2013	YES	YES	✓	✓	✓	✓	✓
SRS-16008	IT Disposals	YES	YES		✓	✓		✓
SRS-16010	ServicePoint	YES	YES	✓	✓	✓	✓	✓
SRS-16011	Virtualisation	YES	YES	✓	✓	✓		✓
SRS-16001	Application Development / Management *	YES	<b>NO</b>					
SRS-16009	IT Governance (Best Practice, MOU) **	YES	<b>NO</b>					

\* The audit is currently awaiting evidence to complete the testing but will be delivered promptly after it is received.

\*\* The audit was delayed until December 2016 and an audit scoping document was agreed. In January 2017 a request was made for key information in order to progress the audit and this has not been provided, despite subsequent requests with the last dated 28<sup>th</sup> April 2017.

## **Appendix 1: Limitations and responsibilities**

---

### **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 2016 to 31 March 2017. 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
- the 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</li> </ul>

	<p>pervasive to the system of internal control; and</p> <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>

---

## Contact Information

---

**Peter Williams**

Head of Audit

Tel 01495 742278

[peter.williams@torfaen.gov.uk](mailto:peter.williams@torfaen.gov.uk)

**Michael Corcoran**

Group Auditor

Tel 01495 742270

[michael.corcoran@torfaen.gov.uk](mailto:michael.corcoran@torfaen.gov.uk)

**Civic Centre**

**Pontypool**

**NP4 6YB**