



Committee and Date

West Mercia Energy Joint
Committee
29th February 2016

Item

Public

**WEST MERICA ENERGY (WME)
INTERNAL AUDIT PERFORMANCE REPORT
TO FEBRUARY 2016**

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1. Summary

- 1.1 This report provides members with an update on the work completed by Internal Audit against the approved Internal Audit Plan 2015/16, presented on 16th February 2015.
- 1.2 Work has continued on the 2015/16 Audit Plan with a timetable in place to fully deliver the required audits within the financial year. Four reports have been completed since the last report, these are Payroll, Creditors, Risk Management and IT Audit Follow Up. Work is currently planned in respect of the Governance audit. The report on Governance will be presented to the Committee for its consideration once management have considered any recommendations proposed and approved the final report issued.
- 1.3 There have been minor adjustments to the time allotted to audits within the agreed plan following a reduction in the IT audit requirements for the current financial year. The overall plan remains at 26 Days as agreed in February 2015.

2. Recommendations

- 2.1 The Committee consider and endorse, with appropriate comment, the performance to date against the 2015/16 Audit Plan as set out in this report.

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3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.
- 3.2 Provision of the Internal Audit Annual Plan satisfies both the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015, part 2 which sets out the requirements on all relevant authorities in relation to internal control, including requirements in respect of accounting records, internal audit and review of the system of internal control. Specifically:

‘A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

4. Financial Implications

- 4.1 The proposed plan will be met from within the approved Internal Audit budget.

5. Background

- 5.1 Audit assurance opinions are delivered on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Company to high risks that should have been managed.

- 5.2 Audit recommendations are an indicator of the effectiveness of the Company's internal control environment and are rated according to their priority:

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
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Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

5.3 Recommendations are rated in relation to the audit area rather than the Company's control environment: for example, a control weakness deemed serious in one audit area which results in a significant or fundamental recommendation may not necessarily affect the Company's overall control environment. Similarly, a number of significant recommendations in a small number of areas would not result in a limited opinion if the majority of areas examined were sound. Consequently, the number of significant recommendations in the table below will not necessarily correlate directly with the number of limited assurance opinions issued. Any fundamental recommendations resulting from a control weakness in the Company's control environment would be reported in detail to the Joint Committee.

5.4 A total of seven recommendations have been made in the four final audit reports issued since the last report. A breakdown by area of the four recommendations issued in this period is shown in the table below.

5.5 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. Management are asked for an update of progress made on recommendations 12 months after issue. To date this year no recommendations have been rejected by management.

5.6 Audit assurance opinions and recommendations delivered 2015/16

Audit Area	Assurance level	No. of Recommendations made				
		Best Practice	Requires Attention	Significant	Fundamental	Total
Payroll System	Reasonable	0	1	1	0	2
Creditors System	Good	0	2	0	0	2
Risk Management	Good	0	1	0	0	1
IT Audit Follow Up	Reasonable	0	2	0	0	2
Total for the period		0	6	1	0	7
Total to date						
• numbers		1	10	1	0	12
• percentage		8%	84%	8%	0%	100%

5.7 Two good and two reasonable assurance levels have been made, there are no unsatisfactory or limited opinions to report. One significant issue was identified by the Audits undertaken since the last report leading to the following recommendation:

Payroll System	<p>The Service Level Agreement should be agreed and signed by WME and Shropshire Council.</p> <p>Note: Management have confirmed that the Service Level Agreement has</p>
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	now been agreed and signed.
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5.8 Copies of the Audit Reports are attached as appendices to this report.

6. Additional Information

6.1 Performance against the plan

The internal audit plan was presented to the Joint Committee in February 2015. There have been minor variations to the plan agreed in February as shown below:

Audit	Original Plan	Variation	Revised Plan
Payroll	2	0	2
Procurement	1	0	1
Creditors	2	0	2
Debtors	3	+ 1	4
Finance	3	+ 2	5
IT	5	- 3	2
Risk Management	2	0	2
Governance	2	0	2
Engagement Management	5	0	5
Contingency	1	0	1
Total	26	0	26

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Public Sector Internal Audit Standards.
Accounts and Audit Regulations 2015

Member

Councillor P Price of Herefordshire Council (vice-chair of the Joint Committee)

Appendices

Appendix A – Payroll Report 2015/16

Appendix B – Creditors Report 2015/16

Appendix C – Risk Management Report 2015/16

Appendix D – IT Recommendation Follow Up Report 2015/16