



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	9
26 <sup>th</sup> September 2016	<u>Public</u>

## WEST MERCIA ENERGY

### INTERNAL AUDIT QUALITY ASSURANCE IMPROVEMENT PROGRAMME

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#### 1. Summary

- 1.1 Shropshire Council Internal Audit Service complies with the Public Sector Internal Audit Standards (PSIAS). As part of this process the service must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspect of the internal audit activity.
- 1.2 This programme is designed to enable an evaluation of the service's conformance with the PSAIS; definition of internal auditing, the standards and whether auditors apply the code of ethics. The programme assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 1.3 This quality assurance and improvement programme includes both internal and external assessments.
- 1.4 This report provides members with an update on the External Assessment review planned in November 2016.

#### 2. Recommendations:

- 2.1 The Committee are asked to consider and endorse, with appropriate comment, the information set out in this report.

### REPORT

#### 3. Risk Assessment and Opportunities Appraisal

- 3.1 This report sets out how Shropshire Council Internal Audit Service develop and maintain a Quality Assurance and Improvement Programme (QAIP). The report is to provide members with an update on the External assessment of this programme which will be undertaken by CIPFA in November 2016.

- 3.2 The recommendation contained in this report is compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

#### **4. Financial Implications**

- 4.1 There are no financial implications arising from this report.

#### **5. Background**

- 5.1 This quality assurance and improvement programme includes both internal and external assessments.

##### **Internal Assessment**

- 5.2 The internal assessment involves ongoing monitoring of the performance of internal audit activity against the PSIAS, which have been incorporated into the routine policies and practices used to manage the service. These arrangements are as follows:
- Internal audit procedures (manual)
  - Ongoing supervision and review of audit work
  - Performance management information
  - Feedback from auditees following specific audit work/ reports
  - Results of quality assurance reviews, internal and external
  - A self-assessment against the requirements of the PSIAS
  - Any feedback from External Audit on the effectiveness of the function
  - Completion of the actions within the Quality Assurance Improvement Programme Action Plan.
- 5.3 The following processes also help to inform and assess the performance of Internal Audit throughout the year:
- Regular meetings of the Head of Internal Audit and senior Audit staff with the Treasurer
  - Access for the Head of Internal Audit to the Chair, Director and External Auditor as required
  - Consideration of the Risk Management process as reported to West Mercia Energy Joint Committee on a regular basis and through discussions with key officers and members
  - The Audit Plan is approved by the West Mercia Energy Joint Committee
  - Audit plan performance is reported on and any significant changes are signed off by the Director and reported to West Mercia Energy Joint Committee
  - At least annually the Head of Internal Audit meets with the Director to consider and discuss the key risks facing the Company and impact on the internal control environment. The annual plan is drafted as a result of these discussions. More frequent meetings are held in areas of high risk
  - Assurances are available annually on the public agenda for Shropshire Council's Audit Committee in terms of an approved Audit Charter; self-assessment against the PSIAS and performance of the Internal Audit service

- 5.4 Annually a full review against the PSIAS is conducted by the Head of Internal Audit. The review is shared and commented upon by Senior Auditors and discussed at team meetings, along with the associated action plan for improvement. The Head of Internal Audit then presents the assessment to the Council's Section 151 Officer who has an understanding of the PSIAS requirements and provides a challenge to the assessment. Following this the results of the self-assessment are reported to the June Audit Committee at Shropshire Council along with details of any areas of non-conformance with the PSIAS. External clients are sign posted to the Shropshire Council website Audit Committee report for their assurances. All clients can provide challenge on the process at any time.
- 5.5 This self-assessment review is provided in conjunction with the Annual Internal Audit report, found on Shropshire Council's Audit Committee June agenda too. When read together the two reports demonstrate the effectiveness of the Internal Audit service and compliance against the PSIAS.
- 5.6 The internal assessment concludes that there are no areas where the Internal Audit function is not complying with the Code and whilst there are areas of partial compliance, these are not considered significant and do not compromise compliance with the code.

### **External Assessment**

- 5.7 An external assessment of the team's compliance with the PSIAS must be completed once every five years by a qualified, independent assessor or assessment team. The Head of Internal Audit has discussed this assessment with Shropshire's Audit Committee and the Section 151 Officer and agreed that the self-assessment conducted annually will be validated by external assessors. The alternative option is for a full external assessment.
- 5.8 Following a tendering process with other councils, coordinated by Staffordshire County Council, The Chartered Institute of Public Finance and Accountancy (CIPFA) have been awarded the contract and engaged by Shropshire Council to conduct the fieldwork for the assessment week beginning the 21st November 2016. CIPFA are well qualified to conduct such a review as the internal audit standard setter within local government and as such has a deep knowledge of the impact of the PSIAS on the public sector as a whole. CIPFA also have responsibility for setting accounting standards for a significant part of the economy and can therefore use this experience to provide pertinent feedback to the service and its clients. CIPFA is independent of the Council and Ray Gard, FCCA, CFIIA, CPFA, DMS who will be conducting the review has no conflict of interest with Shropshire Council or WME. Being the professional accountancy body for public sector finance, CIPFA ensures that all consultancy, including PSIAS External Quality Assurance reviews, is delivered completely independently of any other organisation.
- 5.9 Results of the external assessment will be reported publically to Shropshire Council's Audit Committee and shared with West Mercia Energy.

**List of Background Papers (This MUST be completed for all reports, but does**

**not include items containing exempt or confidential information)**

Internal audit strategic plan 2012/13 to 2015/16 – February 2013

Internal audit strategic plan 2013/14 - June 2013

Internal audit strategic plan 2014/15 – February 2014

Internal audit strategic plan 2015/16 – February 2015

Internal audit strategic plan 2016/17 – February 2016

**Member**

Councillor P Price of Herefordshire Council (Chair of the Joint Committee)

**Appendices**

**Appendix A** - Internal audit strategic plan 2016/17

**APPENDIX A****WEST MERCIA ENERGY - AUDIT AREAS**

<b>AUDIT</b>	<b>Including review of:</b>	<b>2016/17 DAYS</b>
<b>PAYROLL</b>	Starters and leavers, overtime, travel, subsistence and performance related pay.	2
<b>CREDITORS</b>	Orders, payments, credit notes, purchase cards	2
<b>DEBTORS</b>	Billing, collection, refunds, write-offs, rebates (to cover gas, electricity and oil on a rolling three year basis)	3
<b>FINANCE</b>	Budgetary control, journals and control accounts reconciliation, bank control and reconciliation, exception reporting and reconciliation, VAT	3
<b>IT</b>	Follow-up of the recommendations made in the 2015/16 general IT controls review and to undertake additional in depth work on those areas identified arising from the work	5
<b>CORPORATE GOVERNANCE AND RISK MANAGEMENT</b>	Corporate governance	2
	Risk management	2
<b>ENGAGEMENT MANAGEMENT</b>	Previous recommendation follow up, audit management, audit planning, servicing Audit Committee, advisory	5
	Contingency	2
<b>TOTAL</b>		<b>26</b>