

WEST MERICA ENERGY (WME) INTERNAL AUDIT PERFORMANCE REPORT TO FEBRUARY 2017

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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 2016/17, presented on 29th February 2016.
- 1.2 Work has continued on the 2016/17 Audit Plan with a timetable in place to fully deliver the required audits within the financial year. All seven reports have been completed since the last report, these are Payroll, Creditors, Debtors, Finance, Risk Management, Governance and IT. In addition, consultancy support has been provided in respect of IT connectivity within budget.
- 1.3 The overall plan remains at 26 Days as agreed in February 2016.

2. Recommendations

- 2.1 The Committee consider and endorse, with appropriate comment, the performance to date against the 2016/17 Audit Plan as set out in this report.

REPORT

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. |
| 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 fifteen recommendations have been made in the seven final audit reports issued since the last report. A breakdown by area of the fifteen 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 2016/17**

| Audit Area | Assurance level | No. of Recommendations made | | | | |
|-----------------------------|-----------------|-----------------------------|--------------------|-------------|-------------|-------------|
| | | Best Practice | Requires Attention | Significant | Fundamental | Total |
| Creditors System | Good | 0 | 1 | 0 | 0 | 1 |
| Debtors System | Good | 0 | 4 | 0 | 0 | 4 |
| Finance System | Good | 0 | 1 | 0 | 0 | 1 |
| Governance | Good | 0 | 1 | 0 | 0 | 1 |
| IT General | Reasonable | 0 | 4 | 0 | 0 | 4 |
| Payroll System | Good | 1 | 2 | 0 | 0 | 3 |
| Risk Management | Good | 0 | 1 | 0 | 0 | 1 |
| Total for the period | | 1 | 14 | 0 | 0 | 15 |
| Total to date | | | | | | |
| • numbers | | 1 | 14 | 0 | 0 | 15 |
| • percentage | | 7% | 93% | 0% | 0% | 100% |

- 5.7 Six good and one reasonable assurance levels have been made, there are no unsatisfactory or limited opinions to report. There are no significant or fundamental recommendations to report from the seven audits completed to date. This reflects a strong internal control environment.

- 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 2016. There have been minor variations to the plan agreed in February as shown below:

| Audit | Original Plan | Variation | Revised Plan |
|------------|---------------|-----------|--------------|
| Creditors | 2 | 0 | 2 |
| Debtors | 3 | +1 | 4 |
| Finance | 3 | +1 | 4 |
| Governance | 2 | 0 | 2 |

| Audit | Original Plan | Variation | Revised Plan |
|---|----------------------|------------------|---------------------|
| IT General (including connectivity consultancy) | 5 | 0 | 5 |
| Payroll | 2 | 0 | 2 |
| Risk Management | 2 | 0 | 2 |
| Engagement Management | 5 | 0 | 5 |
| Contingency | 2 | -2 | 0 |
| 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 (Chair of the Joint Committee)

Appendices

Appendix A – Creditors Report 2016/17

Appendix B – Debtors Report 2016/17

Appendix C – Finance Report 2016/17

Appendix D – Governance Report 2016/17

Appendix E – IT Report 2016/17

Appendix F – Payroll Report 2016/17

Appendix G – Risk Management 2016/17