

**WEST MERCIA ENERGY (WME)
INTERNAL AUDIT STRATEGIC PLAN 2019/20**

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1. Summary

- 1.1 This report details the proposed programme of audit work for the year 2019/20 and recommends that members approve the programme, as set out in the report.
- 1.2 Internal Audit Services to West Mercia Energy have continued to be provided by Shropshire Council and a Service Level Agreement is currently being renewed.

2. Recommendations

- 2.1 The Committee are asked to consider and endorse, with appropriate comment, the proposed programme of audits for 2019/20.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Under the Joint Committee's terms of reference, reviewing the risk based audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any other work upon which reliance is placed, is an important responsibility. In considering this plan Members should be assured that it is linked to the West Mercia Energy's key risks and provides sufficient coverage to ensure a reasonable opportunity to identify any weaknesses in the internal control environment. When critical to the business operations these will be reported and rectified where possible and viable.
- 3.2 Areas to be audited within the plan have been considered with the knowledge of risk register information both operational and strategic.
- 3.3 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.

- 3.4 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 sees a reduction from the 26 days previously delivered to 22 days in 2019/20 and will be met from within the approved Internal Audit budget.

5. Background

- 5.1 The S151 Officer is legally required to maintain sound and proper financial management on behalf of the West Mercia Energy (WME). This includes a responsibility for maintaining internal audit. Internal audit, provided by Shropshire Council, is based on a programme of audits over a rolling four-year period.
- 5.2 Audit priorities and known risks have been examined and a detailed audit plan has been produced for the provision of audit services in the next financial year, for consideration by the Committee.
- 5.3 Each potential audit area has been reviewed with the Director and considered in relation to the strategic risks of the business. Some areas are required to be audited every year, as they are fundamental to sound financial management. Days in respect of fundamental systems have been reduced to reflect the strong control environment, to reflect the stable nature of these areas and to allow additional time to look at the operational and IT issues in respect of the development of the new billing system.
- 5.4 The business is currently undergoing a major restructure in modular format of its bespoke billing system with some modules due to go live in March 2019 and further modules continuing to be developed over the next 12/18 months. This is a major development for the business and under normal circumstances, once the core infrastructure is in place ready for future modular development, a full IT application review would be recommended of eight days to be carried out in 2019/20. The size of the audit is based on industry professional standards and the testing required to provide full independent assurance. The position has been discussed in detail with the Director who has requested that the audit be undertaken over a two-year period to reduce the impact of time upon the small number of staff involved in development of the project. The proposed plan is therefore based on an application review delivered over a two year period, however this means that

in terms of independent assurance that there is an increased risk that any changes to areas reviewed in year one may increase the requirements in year two to ensure all areas are covered and would also require the Head of Audit's year end opinion on IT to be caveated to explain that only part of the application had been reviewed in year one so full assurance cannot be provided to the Committee.

- 5.5 The Director has a full understanding of the three lines of assurance model and has confirmed that he is currently receiving operational assurance from his staff involved in the testing of the system and coding assurance in respect of the development of the system from Telford and Wrekin Council's IT department. Supporting his view that the business would therefore prefer to spread the audit over the life of the project.
- 5.6 The audit programme is shown at **Appendix A**. The proposed plan is presented to Committee for approval to reflect current issues and risks. This will ensure that the audits are timely, appropriate and add value, subject to the comments raised above. It takes account of issues identified by the West Mercia Energy risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the business audited. The proposed plan considers the requirement to produce an annual internal audit opinion and assurance framework. Some minor adjustments may be needed to the plan before it is finalised; if significant, these will be agreed by the Director and reported to the next Joint Committee.

6. Resources and Delivery

WME has provided a budget in 2019/20 to deliver 22 days of audit.

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 2016/17 – February 2016

Internal audit strategic plan 2017/18 – February 2017

Internal audit strategic plan 2018/19 – February 2018

Member

Councillor A Hardman of Worcestershire Council (Chair of the Joint Committee)

Appendices

Appendix A: West Mercia Energy – Proposed Internal Audit Plan 2019/20

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

| AUDIT | Including review of: | 2019/20 DAYS |
|---|--|---------------------|
| PROCUREMENT | Review of changes to contracts as required and undertake review of framework approach to new delivery contract | 3 |
| DEBTORS | Review the impact of the new system on the operational aspects of billing | 4 |
| FINANCE | A combined audit reviewing the areas of Finance general controls, Payroll general controls and Creditors general controls. | 5 |
| IT | Year one of a two-year programme to provide assurance in respect of the application changes to the billing system | 4 |
| CORPORATE GOVERNANCE AND RISK MANAGEMENT | Corporate Governance & Risk Management Combined review | 2 |
| ENGAGEMENT MANAGEMENT | Previous recommendation follow up, audit management, audit planning, servicing Audit Committee, advisory | 4 |
| | Contingency | 0 |
| TOTAL | | 22 |