



Committee and Date

West Mercia Energy Joint
Committee

29th September 2020

Item

8

Public

**WEST MERCIA ENERGY
INTERNAL AUDIT ANNUAL REPORT 2019/20**

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1. Summary

- 1.1 This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2020. It reports on progress against the annual audit plan and provides the Head of Audit's opinion on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes when considering the Public Sector Internal Audit Standards or Guidance, as required by the Accounts and Audit Regulations 2015.
- 1.2 Final performance has been good with 100% of the plan being delivered.
- 1.3 Four good assurance opinions were given in 2019/20 for the finance, debtors, procurement, corporate governance and risk management systems and one limited assurance on the IT system. A total of 21 recommendations have been made over the five audit areas reviewed in the year. There are no fundamental recommendations and the five significant recommendations, identified in the IT audit review, covered improved controls for compliance with data protection policies; continuity processes to ensure system availability; procedures for the authorisation of changes and the security, efficiency and effectiveness of interfaces with the system. A management action plan is in place to address these issues within an agreed timeframe.
- 1.4 ***Based on the work undertaken and management responses received; the company's governance, risk management and internal control processes are sound and working effectively and the Head of Audit can deliver a reasonable year end opinion on West Mercia Energy's internal control environment for 2019/20.***

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

- a) Performance against the Audit Plan for the year ended 31 March 2020.
- b) That the system of governance, risk management and internal control is operating effectively and can be relied upon when considering the Annual Governance Statement for 2019/20.
- c) The Head of Audit's reasonable year end opinion on West Mercia Energy's governance, risk management and internal control environment for 2019/20 based on the work undertaken and management responses received.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Company's financial, governance and risk management systems and procedures and is closely aligned to the Company's risk register. The Plan is delivered in an effective manner; where Internal Audit independently and objectively examines, evaluates and reports on the adequacy of its customers control environments as a contribution to the proper, economic, efficient and effective use of resources. Failure to maintain robust internal controls create an environment where poor performance, fraud, irregularity and inefficiency can go undetected leading to financial loss and reputational damage.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015.
- 3.3 There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.4 Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be positive.

4. Financial Implications

The Internal Audit plan is delivered within approved budgets; the work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the Company.

5 Background

This report is the culmination of the work of the Internal Audit team during 2019/20 and seeks to:

- 5.1 Provide an opinion on the adequacy of the risk management, control and governance arrangements;
- 5.2 Inform the annual review of the effectiveness of its system of internal control that informs the Annual Governance Statement by commenting on the nature and extent of significant risks; and
- 5.3 Inform the review of an effective Internal Audit by providing performance data against the plan.
- 5.4 Confirm to the Joint Committee that the Audit service has been delivered free from interference throughout the year.
- 5.5 The requirement for Internal Audit derives from local government legislation, including section 151 of the Local Government Act 1972 which requires the Authority to plan for the proper administration of its financial affairs. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2015, in that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, and taking into account public sector internal auditing standards or guidance”.
- 5.6 The Public Sector Internal Audit Standards (PSIAS) define the scope of the annual report on internal audit activity. The annual report must incorporate an annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and internal control. This annual report provides information to support that assessment and that an effective Internal Audit is established for West Mercia Energy, in accordance with the requirements of the 2015 Accounts and Audit Regulations. The Internal Audit Service is provided by Shropshire Council. In June 2020, a paper is to be presented to Shropshire Council’s Audit Committee which provides assurance on the effectiveness of the Internal Audit service against the PSIAS, West Mercia Energy can take their assurance from this report.
- 5.7 Internal Audit operates a strategic risk based plan. The plan is reviewed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk, this results in a comprehensive range of audits undertaken in the year, to support the overall opinion on the control environment. The plan contains a small contingency provision for any unforeseen work demands that may arise and any special investigations, are delivered in addition to the planned work in agreement with the Director.

Annual Internal Audit Opinion from Internal Audit Work undertaken during 2019/20

- 5.8 It is the responsibility of West Mercia Energy to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under the Public Sector Internal Audit Standards to deliver an annual internal audit opinion and report. This opinion plays a key part in informing West Mercia Energy’s Annual Governance Statement.
- 5.9 The results of individual audits, when combined, form the basis for the overall

opinion on the adequacy of the Company's internal control systems.

- 5.10 No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that absolute assurance. The work of Internal Audit is intended only to provide reasonable assurance on controls based on the work undertaken. In assessing the level of assurance to be given, I have considered:
- 5.11 The work undertaken on the fundamental financial systems. Whilst revealing a small number of areas of weakness and areas identified for improvement, there are no weaknesses that could result in a material misstatement in the Company's accounts and reliance can be placed upon them. Plans have been adopted to manage outstanding concerns.
- 5.12 From IT audit work undertaken during the year, there have been significant issues identified; improved controls for compliance with data protection policies; continuity processes to ensure system availability; procedures for the authorisation of changes and the security, efficiency and effectiveness of interfaces with the system have been agreed. A management action plan is in place to address these issues within an agreed timeframe. Overall, the Company's financial systems, internal control environment and risk management procedures are reasonably sound and working effectively.
- 5.13 These assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.

Based on the work undertaken and management responses received; the company's governance, risk management and internal control processes are sound and working effectively and the Head of Audit can deliver a reasonable year end opinion on West Mercia Energy's internal control environment for 2019/20.

Whilst there was no reduction in planned Internal Audit work in 2019/20, as the Coronavirus situation evolves conversations with the Director of WME will be ongoing and if there are any significant changes to the control environment before finalisation of the financial reporting, these will be considered and reported on.

Key Assurances provided during 2019/20

- 5.14 Audit assurance opinions are awarded 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.
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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
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 organisation to high risks that

5.9 Audit recommendations are also 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

5.10 Recommendations are rated in relation to the audit area rather than the organisation's control environment, for example, a control weakness deemed serious in one area which results in a significant or fundamental recommendation may not affect the overall control environment. Similarly, a few significant recommendations in a small number of areas would not result in a limited opinion if most of the areas examined were sound.

Audit assurance opinions and recommendations delivered in 2019/20

Audit Area	Assurance level	No. of Recommendations made				Total
		Best Practice	Requires Attention	Significant	Fundamental	
Debtors System	Good	0	4	0	0	4
Finance System	Good	0	2	0	0	2
Corporate Governance and Risk Management	Good	0	1	0	0	1
Procurement	Good	0	1	0	0	1
IT	Limited	0	8	5	0	13
Total for the period		0	16	5	0	21
Total to date						
• numbers		0	16	0	0	21
• percentage		0%	76%	24%	0%	100%

- 5.11 The Internal Audit team has achieved 100% of the plan which is in line with its target. Four good assurance levels were issued during the financial year and one limited opinion. The IT review also attracted five significant recommendations; These cover improved controls for compliance with data protection policies; continuity processes to ensure system availability; procedures for the authorisation of changes and the security, efficiency and effectiveness of interfaces with the system. An action plan is in place to address these issues within an agreed timeframe and they will be followed up next year to determine whether satisfactory improvements have been made. No recommendations have been rejected in the year by management.
- 5.12 IT audit resources were used to provide support and advice on the completion of an IT control matrix required to support a tender submission and to challenge the approach taken in changes to IT systems in place of a pure audit review, this was considered added value by all parties.

Audit Performance

- 5.13 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the Public Sector Internal Audit Standards, and evaluating improvements made over the last twelve months. The effectiveness of Internal Audit is further reviewed through the Joint Committee's delivery of its responsibilities and direct from customers as they provided responses to surveys sent out after each audit.

Reporting

- 5.14 All Internal Audit work is reviewed by a senior auditor to ensure it complies with Internal Audit's standards and that the recommendations made are supported by the work undertaken before any audit reports are issued. This is a fundamental part of ensuring audit quality and that clients receive reports which are both informative, useful and add value to their work processes and procedures.
- 5.15 All audit assignments are subject to formal feedback to management. Draft reports are issued to the managers responsible for the area under review for agreement to the factual accuracy of findings and recommendations. After agreement, a formal implementation plan containing management's agreed actions and comments is issued to relevant officers. Follow up reviews capture evidence of implementation of recommendations.

Quality Assurance/Customer Feedback Survey

- 5.16 A customer feedback survey form is sent out with all audits completed. These provide key responses on the quality of audit service in relation to the following areas:
- Pre-auditing arrangements;
 - Post audit briefings;
 - Audit coverage/scope of the audit;
 - Timeliness of production of report;
 - Accuracy and clarity of the report;

- Practicality of recommendations;
- Professionalism of approach;
- Communication skills and
- Timeliness of audit to your business.

5.17 The surveys are a key part of ensuring the work meets our client expectations and that the quality of audit work is maintained. The results have been analysed over the last year and the percentage of responses are identified in the table below:

Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	2019/20 (%)
Pre-audit arrangements	100
Post-audit briefing	100
Audit coverage/scope of the audit	100
Timeliness of production of report	100
Accuracy and clarity of report	100
Practicality of recommendations	75
Professionalism of approach	100
Communication skills	100
Timeliness of audit to your business	100
Number of forms returned	4

5.18 In all cases customers considered audit to be a positive support. Overall the results are pleasing, showing services delivered consistently at a high level. The only area where the Council have fallen below 100% relates to the practicality of recommendations in one audit which was rated reasonable. The information is used both to improve techniques overall within the team and at annual performance appraisals to identify future development focus relating to individual skills or competences.

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

- Joint Committee 26th February 2019 – Internal Audit Strategic Plan 2019/20.
- Public Sector Internal Audit Standards.
- Accounts and Audit Regulations 2015.

Member

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

Appendices: None