



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	<u>Public</u>
27 th March 2026	

Note report should be shared with and used to provide assurance to IA services within the Joint Committees areas

WEST MERCIA ENERGY
INTERNAL AUDIT ANNUAL REPORT
2025/26

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1. Synopsis

- 1.1 This report provides a summary of Internal Audit's work for 2025/26. Based on the controls evidenced across all areas examined, the Chief Audit Executive's year end opinion on the Company's internal control environment is substantial.

2. Executive Summary

- 2.1 This annual report provides members with details of the work undertaken by Internal Audit for the year ending 31 March 2026. It reports on progress against the annual audit plan and provides the Chief Audit Executive's opinion on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes when considering the Global Internal Audit Standards in the UK Public Sector.
- 2.2 Final performance has been good with 100% of the plan being delivered. The work has been undertaken on a remote basis and we thank the staff of West Mercia Energy for their assistance in ensuring all work could be delivered as planned.
- 2.3 Four good assurance opinions were given in 2025/26 in respect of the finance, debtors, corporate governance and risk management systems and IT, one reasonable assurance opinion was provided in relation to procurement. A total of seven recommendations have been made over the five audit areas reviewed in the year. A management action plan is in place to address the recommendations within an agreed timeframe.
- 2.4 ***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 Chief Audit Executive can deliver a substantial year end opinion on West Mercia Energy's internal control environment for 2025/26.

3. Recommendations

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

- a) Performance against the Audit Plan for the year ending 31 March 2026.
- 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 2025/26.
- c) The Chief Audit Executive's substantial year end opinion on West Mercia Energy's governance, risk management and internal control environment for 2025/26 based on the work undertaken and management responses received.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1 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.
- 4.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015.
- 4.3 There are no direct environmental or equalities consequences of this proposal.
- 4.4 Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be positive.

5. Financial Implications

- 5.1 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.

6. Climate Change Appraisal

- 6.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaption. However, the work of the Committee will look at these aspects relevant to the governance, risk management and control environment.

7. Background

7.1 This report is the culmination of the work of the Internal Audit team during 2025/26 and seeks to:

- Provide an opinion on the adequacy of the risk management, control and governance arrangements.
- 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.
- Inform the review of an effective Internal Audit by providing performance data against the plan.
- Confirm to the Joint Committee that the Audit service has been delivered free from interference throughout the year.

7.2 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”.

7.3 The Global Internal Audit Standards in the UK Public Sector 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. The Global Internal Standards in the UK Public Sector came into force in April 2025, an internal quality assessment is currently being undertaken and an external review is due to be undertaken in 2026/27, the outcomes of these assessments will be reported to the Joint Committee.

7.4 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 2025/26

7.5 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.

7.6 The results of individual audits, when combined, form the basis for the overall opinion on the adequacy of the Company's internal control systems. 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:

- The work undertaken on the fundamental financial systems.
- IT audit work undertaken during the year.

Whilst there are a small number of weakness and areas identified for improvement, none that could result in material misstatement in the Company's accounts and reliance can be placed upon the control environment. Plans have been adopted to manage outstanding concerns.

7.7 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 significant or fundamental weaknesses 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 Chief Audit Executive can deliver a substantial year end opinion on West Mercia Energy's internal control environment for 2025/26.

Key Assurances provided during 2025/26

7.8 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.
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

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
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7.9 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 loss.

7.10 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 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 2025/26

Audit Area	Assurance level	No. of Recommendations made				Total
		Best Practice	Requires Attention	Significant	Fundamental	
Debtors System	Good	0	0	0	0	0
Finance System	Good	0	1	0	0	1
Corporate Governance & Risk Management	Good	0	1	0	0	1
Procurement	Reasonable	0	0	1	0	1
IT	Good	0	4	0	0	4
Total for the period		0	6	1	0	7
Percentage		0%	85.7%	14.3%	0%	100%

7.11 The Internal Audit team has achieved 100% of the plan. Four good assurance levels were issued during the financial year and one Reasonable. For one requires attention recommendation management have agreed to accept the risk, the remaining 6 recommendations have agreed management actions and

implementation dates. A summary of the audits undertaken, controls reviewed and recommendations raised is provided in **Appendix A**. Full audit reports can be provided to members of the Joint Committee on request.

Audit Performance

7.12 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the Global Internal Audit Standards in the UK Public Sector. 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

7.13 All Internal Audit work is reviewed by a principal 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.

7.14 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

7.15 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.

7.16 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	2025/26 (%)
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	100%
Professionalism of approach	100%
Communication skills	100%
Timeliness of audit to your business	100%
Number of forms returned	4

7.17 In all cases customers considered audit to be a positive support. Overall, the results are pleasing, showing services delivered consistently at a high level. There remains an open communication between Management and the Internal Audit Team so that feedback and comments can be provided at any time. 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)

- 2025/26 Internal Audit Strategic Plan - Joint Committee on 14th March 2025
- Global Internal Audit Standards in the UK Public Sector
- Global Internal Audit Standards (GIAS)
- Accounts and Audit Regulations 2015.

Member

Councillor Peter Stoddart of Herefordshire Council

Appendices:

Appendix A – Audit Summary

Appendix A – Audit Summary

The following tables provide a summary of the controls reviewed as part of each audit undertaken within 25/26 and the number recommendations that have been raised against each control. Where recommendations have been raised a summary is provided at the end of each table.

Audit Name: Debtors		Opinion:		Good	
Objective: To review the key controls in place to ensure that customers are billed in a prompt and efficient manner and that income is collected in a safe and secure manner.					
Control & Assessment		Recommendations			
		F	S	RA	BP
√	The recommendations made in the previous audit have been implemented.	-	-	-	-
√	There are appropriate policies and procedure notes in place for the operation of the system.	-	-	-	-
√	Billing information is verified before invoicing customers.	-	-	-	-
√	There are appropriate arrangements in place to ensure prompt payment of invoices.	-	-	-	-
√	There are appropriate post opening procedures in place for the control of cash and cheques.	-	-	-	-
√	There are appropriate arrangements in place for the collection of Income by Direct Debit.	-	-	-	-
√	All income received is reconciled to the bank account.	-	-	-	-
√	Income credited to suspense accounts is reviewed and cleared in a timely manner.	-	-	-	-
√	Management Information in respect of income is timely and adequate.	-	-	-	-
Summary of recommendations made: No recommendations were made in this audit as all controls were found to be operating effectively.					

Audit Name: Finance		Opinion:		Good	
Objective: To review the key finance processes of WME to ensure that there are appropriate controls in place and that those controls are being operated effectively.					
Control & Assessment		Recommendations			
		F	S	RA	BP
√	There are appropriate Financial Regulations which have been approved by the Joint Committee.	-	-	-	-
√	There is an established process for preparation and approval of the annual budget.	-	-	-	-
√	Management Accounts are accurate and produced in a timely manner for review by senior management and Members.	-	-	-	-
√	There are appropriate controls over the use of journal entries within the ledger.	-	-	-	-
√	There is a bank reconciliation process which is undertaken in a timely manner and reviewed by management.	-	-	-	-
√	There are appropriate arrangements in place for the recording and monitoring of VAT.	-	-	-	-
√	There is an appropriate process in place to ensure that the payroll is processed in an accurate and timely manner in line with current legislation.	-	-	-	-
√	Permanent and temporary variations to the payroll are valid, appropriately authorised, and processed accurately.	-	-	-	-
√	There are appropriate processes in place for the control and operation of the creditors system.	-	-	1	-
√	There are appropriate controls to ensure that creditors payments made are accurate, complete, have not previously been paid.	-	-	-	-
Summary of recommendations made: Official orders should be raised for all goods/services prior to payment being made.					

Audit Name: Corporate Governance		Opinion:		Good	
Objective: To confirm that there are appropriate arrangements in place for the management of governance, risk and business continuity during the 2025/26 financial year.					
Control & Assessment		Recommendations			
		F	S	RA	BP
X	The recommendations made in the previous audit have been implemented.	-	-	-	-
√	There is an appropriate process in place to ensure that Strategic and Operational Risks are recorded in a suitable format in the Risk Register and regularly reported to the Joint Committee.	-	-	-	-
√	Satisfactory Corporate Governance arrangements are in place.	-	-	-	-
√	The Joint Committee oversight arrangements defined within the Energy Governance, Accountability, Risk & Reporting Policy (EGARRP) are in place.	-	-	-	-
√	A business continuity plan has been prepared which details the actions to be taken to allow recovery from an incident.	-	-	1	-
Summary of recommendations made: To ensure that the business continuity plan is periodically tested. This recommendation has been restated from the previous audit.					

Audit Name: Procurement		Opinion:		Reasonable	
Objective: To assess and provide assurance on the adequacy and effectiveness of procurement processes and governance arrangements, considering the recent implementation of the Procurement Act 2023.					
Control & Assessment		Recommendations			
		F	S	RA	BP
√	The organisation has an approved procurement policy that includes the roles and responsibilities for undertaking procurement activity	-	-	-	-
√	Procurement policies have been updated in line with changes in legislation	-	-	-	-
X	Third party support for procurement advice is provided in line with an agreed SLA	-	1	-	-
√	Procurement activity is reported in line with Financial Regulations	-	-	-	-
Summary of recommendations made: To ensure that procurement support arrangements are formalised by a written agreement.					

Audit Name: IT			Opinion:		Good	
Objective: To provide assurance on the responses provided in support of the management Cyber Essentials self-assessment providing independent and objective assurance on their accuracy.						
Control & Assessment			Recommendations			
			F	S	RA	BP
-	Previous audit recommendations have been implemented.		-	-	-	-
√	There is evidence to support the responses included as part of the Firewall and Routers responses.		-	-	1	-
√	There is evidence to support the responses included as part of the Secure Configuration responses.		-	-	1	-
√	There is evidence to support the responses included as part of the Security Updates responses.		-	-	-	-
√	There is evidence to support the responses included as part of the User Access Control responses.		-	-	2	-
√	There is evidence to support the responses included as part of the Malware Protection responses.		-	-	-	-
Summary of recommendations made: Recommendations raised related to ensuring key documents being updated such as the IT SLA, security policy and the business continuity plan.						