

SHROPSHIRE COUNCIL AUDIT SERVICES

INTERNAL AUDIT REPORT

RISK MANAGEMENT 2014/15

Assurance Level	Limited
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Customer	West Mercia Energy
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Distribution	Nigel Evans - Director
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Auditors	Peter Chadderton
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Fieldwork dates	January 2015
Debrief meeting	27 th January 2015
Draft report issued	2 nd February 2015
Responses received	3 rd February 2015
Final report issued	3 rd February 2015

Introduction and Background

1. As part of the approved internal audit plan for 2014/15 we have undertaken a review of Risk Management.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards developed jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).
3. We would like to express our thanks to the officers who assisted during the course of the audit.

Scope of the Audit

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.
To review the risk management process including a desk top review of the revised risk policy.
5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - Previous recommendations have been implemented as agreed.
 - Risks arising from business strategies and activities are identified and prioritised and management and the board have determined the level of risk acceptable to the organisation.
 - Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels that were determined to be acceptable to management and the board.
 - Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.
 - The board and management received periodic reports of the results of the risk management process.
6. The audit was delivered on time and budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment which indicates the level of assurance that can be taken based upon our testing and evaluation of the system. This opinion will be reported to the Joint Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas examined, from audit work undertaken we are able to give the following assurance opinion:

Limited	Whilst there is basically a sound system of control, there are
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	weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed so that any material weaknesses in internal control have a reasonable chance of discovery through sample testing, it cannot guarantee or give absolute assurance against all material weaknesses, the overriding of management controls, collusion, instances of fraud or irregularity.
9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at **Appendix 1**. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
6	0	2	4	0

10. Our review identified no areas where assurance can be given.
11. The audit work identified a number of significant issues leading to the following recommendations:
- The current risk register should be reviewed to ensure that all ratings have been correctly recorded in line with the current approved strategy to ensure that reports to the Joint Committee include all the required risks. In the event that the new Risk Management Strategy is approved by the Joint Committee the risk register will need to be revised into the appropriate format.
 - The revised risk policy should be reviewed prior to presentation to the Joint Committee to ensure that the policy has been tailored to WME providing a clear strategy to the Joint Committee and identifying their responsibilities in respect of risk management.

Audit work revealed control weaknesses which, whilst not deemed to be fundamental or significant, limits the level of assurance in the following areas:

- Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.

12. We reviewed the previous recommendations made at the last audit which were accepted by management, the results of which are shown in the following table:

Number of recommendations accepted by management at the last audit	5
Recommendations implemented	1
Recommendations partially implemented	0
Recommendations superseded	1

Limited progress has been made in the implementation of previous recommendations. Recommendations that remain outstanding have been repeated in the attached Exception Report and Action Plan.

Audit Approach

13. The approach adopted for this audit included:
 - Review and documentation of the system.
 - Identification of key controls.
 - Follow up of previous recommendations.
 - Tests of controls to confirm their existence and effectiveness.
 - Evaluation of the controls and identification of weaknesses and potential risks arising from them.
14. Internal Audit report only by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at **Appendix 1**. A more detailed report covering all of the work undertaken can be provided on request, but this is only available in a working paper note format.
15. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action that has been taken to address the identified control weaknesses.

Ceri Pilawski
Audit Services Manager

ACTION PLAN FOR RISK MANAGEMENT AND INSURANCE 2014/15

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
1.1	1	The risk register should be expanded to include a separate tab for opportunities to allow consideration and mitigation of the risks of expansion. (As recommended and agreed in 2013/14)	Requires Attention	Partially	Whilst this recommendation was previously accepted, the updated WME Risk Mgt Strategy details the evaluation and categorisation of risks clearly and it is not felt necessary to create a separate tab. These risks will be considered as part of this framework.	Nigel Evans	Feb 15
1.2	2	The risk register should be reviewed in a timely manner throughout the financial year and not simply as an annual exercise as part of the reporting process. (As recommended and agreed in 2013/14)	Requires Attention	Yes	The risk register has been reviewed twice during the past 12 months and risks and the mitigation thereof are considered on a daily basis	Nigel Evans	On-going
1.3	3	The company should agree a Service Level Agreement for the provision of insurance so that they are fully aware of the services that are being	Requires Attention	Yes	To be considered as part of the 15/16 SLA	Nigel Evans	March 15

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
		provided for the premium paid. (As recommended and agreed in 2013/14)					
2.1	4	The revised Risk Strategy should be reviewed prior to presentation to committee to ensure that the policy has been tailored to WME providing a clear strategy to the Joint Committee and identifying their responsibilities in respect of risk management.	Significant	Yes	New Risk Strategy document to be presented to the Feb Joint Committee	Nigel Evans	Feb 15
3.1	5	The current risk register should be reviewed to ensure that all ratings have been correctly recorded in line with the current approved Strategy to ensure that reports to the Joint Committee include all the required risks. In the event that the new Risk Management Strategy is approved by the Joint Committee the risk register will need to be revised into the appropriate format.	Significant	Yes	A full Risk Register will be presented at the Feb Joint Committee. This Register will include ratings on the old policy basis and the new Risk Strategy.	Nigel Evans	Feb 15
3.2	6	The risk register should be reviewed upon changes to the staffing structure to ensure that all risk owners are still appropriate and the changes have	Requires Attention	Yes	The necessary change have been made for a recent staff change	Nigel Evans	Feb 15

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
		not increased the risk in any areas.					