

# SHROPSHIRE COUNCIL AUDIT SERVICES

## FINAL INTERNAL AUDIT REPORT CORPORATE GOVERNANCE 2013/14

<b>Assurance Level</b>	<b>Reasonable</b>
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<b>Customer</b>	<b>West Mercia Energy</b>
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<b>Distribution</b>	<b>Nigel Evans, Managing Director</b>
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<b>Auditors</b>	<b>Kathy Hall</b>
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<b>Fieldwork dates</b>	24 January 2014
<b>Debrief meeting</b>	7 February 2014
<b>Draft report issued</b>	10 February 2014
<b>Responses received</b>	10 February 2014
<b>Final report issued</b>	10 February 2014

## Introduction and Background

1. As part of the approved internal audit plan for 2013/14 we have undertaken a review of Corporate Governance.
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 assess the Corporate Governance arrangements in place through review and benchmarking a sample of policies for West Mercia Energy.
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.
  - Corporate Governance policies are in place which include Financial Regulations, Standing Orders, and a Scheme of Delegation.
  - The Staff Handbook is comprehensive, relevant, up to date and accessible to all staff.
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:

<b>Reasonable</b>	There is generally a sound system of control but there is evidence of non compliance with some of the 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
7	0	1	6	0

10. Our review identified the following areas where appropriate management controls were in place and operating satisfactorily upon which positive assurance can be given:

✓	Previous recommendations have been implemented.
✓	Corporate Governance policies are in place which include Financial Regulations, Standing Orders, and a Scheme of Delegation.
✓	The Staff Handbook is comprehensive, relevant, up to date and accessible to all staff.

11. The audit work identified one significant issue leading to the following recommendation:
- Advice should be taken from HR and legal if appropriate to confirm the terms within the redundancy policy applicable to West Mercia Energy staff. In the event that this is deemed to be different to the Shropshire Council policy, this should be documented in a WME specific policy, which should be formally approved by the joint owners.
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	4
Recommendations implemented	2
Recommendations partially implemented	2
Recommendations superseded	0
Recommendations not actioned	0

Good 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:
  - Follow up of previous recommendations.
  - Review of a sample of key governance documents.
  - Evaluation of the documents for appropriateness and completeness.
  
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

**APPENDIX 1**

**ACTION PLAN FOR CORPORATE GOVERNANCE 2013/14**

<b>Rec Ref.</b>	<b>Rec No.</b>	<b>Recommendation</b>	<b>Rec Rating</b>	<b>Accepted Yes/No/Partially</b>	<b>Management Response</b>	<b>Lead Officer</b>	<b>Date to be Actioned</b>
1.1	1	In order to meet the requirements of the Joint Agreement, WME should formally adopt the lead authority (Shropshire Council) policy on Equal Opportunities.  (As previously recommended and agreed in 2012/13)	Requires Attention	Yes	Agreed - Policy will be taken to Feb 2014 Joint Committee.	Nigel Evans	February 2014
1.2	2	Consideration should be given to extending the current Related Party Transaction declaration to include a statement to the effect that those completing the declaration will advise the Joint Committee in the event that any declarations require updating in the forthcoming year. New members should also be encouraged to complete the form at their first meeting.	Requires Attention	Yes	Agreed - Will incorporated into declarations to be issued in April 2014.	Nigel Evans	April 2014
2.1	3	In revising the Annual Governance Statement for the current financial year, consideration should be given	Requires Attention	Yes	Agreed - Will be incorporated into the AGS for 2013/14	Nigel Evans	September 2014

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
		<p>to updating the document to reflect the following:</p> <p>Under the heading 'Scope of Responsibility':</p> <ul style="list-style-type: none"> <li>to clarify whether the policies and procedures provide compliance with or are consistent with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2007);</li> <li>update the reference to the CIPFA/SOLACE Application Note to Delivering Good Governance in Local Government: a Framework, to December 2012.</li> </ul> <p>Under the heading 'The Governance Framework':</p> <ul style="list-style-type: none"> <li>add reference to the Scheme of delegation;</li> <li>advise on the role of the Joint Committee in undertaking the core functions of an audit committee.</li> </ul>					
2.2	4	Financial Regulations should include a reference to Risk Management arrangements.	Requires Attention	Yes	Agreed.	Nigel Evans	September 2014

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
3.1	5	The staff handbook should be scheduled for review on a regular basis to identify what policies, if any, need to be updated. Consideration should also be given to adding a note in the handbook to advise staff of whether updated Shropshire Council policies automatically supersede those Shropshire Council policies adopted by WME.	Requires Attention	Yes	Quarterly reviews to be conducted.	Julie Wassall	Ongoing – next review May 2014
3.2	6	Consideration should be given to amending the mileage rate to a 'flat' rate that is not aligned to the engine size of the vehicle, and the removal of the essential user rate.	Requires Attention	Yes	Agreed – no one is an essential user and all mileage claims are at the single rate. The Director to liaise with the Treasurer and the necessary updates made to be made to the policy.	Nigel Evans	September 2014
3.3	7	Advice should be taken from HR and legal if appropriate to confirm the terms within the redundancy policy applicable to West Mercia Energy staff. In the event that this is deemed to be different to the Shropshire	Significant	Yes	Agreed – Nigel Evans to liaise with Shropshire Council HR and legal.	Nigel Evans	September 2014

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
		Council policy, this should be documented in a WME specific policy, which should be formally approved by the joint owners.					