

# SHROPSHIRE COUNCIL AUDIT SERVICES

## INTERNAL AUDIT REPORT

### WEST MERCIA ENERGY SUPPLIER REBATES 2013/14

<b>Assurance Level</b>	<b>Good</b>
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<b>Customer</b>	<b>West Mercia Energy (WME)</b>
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<b>Distribution</b>	<b>Nigel Evans - Director</b>
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<b>Auditors</b>	<b>Pete Chadderton</b>
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<b>Fieldwork dates</b>	November 2013
<b>Debrief meeting</b>	10 December 2013
<b>Draft report issued</b>	24 January 2014
<b>Responses received</b>	24 January 2014
<b>Final report issued</b>	24 January 2014

## **Introduction and Background**

1. As part of the approved internal audit plan for 2013/14 we have undertaken a review of the supplier rebates received by West Mercia Energy.
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 verify that there was a system of control in place to monitor all supplier rebates received and ensure that these are correctly shown within the company accounts. To obtain independent verification of the amounts recorded directly from the suppliers.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
  - Supplier rebates are calculated in accordance with the agreements held.
  - There is segregation of duties between the calculation of supplier rebates and the raising of invoices.
  - Supplier rebates are reviewed on a periodic basis to ensure actuals are in line with estimates.
  - Supplier rebates are included as part of the budget setting process.
  - Management accounts provide details of supplier rebates to members.
  - Supplier rebates are clearly shown in the Annual Accounts.
6. The audit was delayed because we had difficulty in obtaining independent verification of the rebates paid from Calor Gas.

## **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>Good</b>	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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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
1	0	0	0	1

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

✓	Supplier rebates are calculated in accordance with the agreements held.
✓	There is segregation of duties between the calculation of supplier rebates and the raising of invoices.
✓	Supplier rebates are reviewed on a periodic basis to ensure actuals are in line with estimates.
✓	Supplier rebates are included as part of the budget setting process.
✓	Management accounts provide details of supplier rebates to members.
✓	Supplier rebates are clearly shown in the Annual Accounts.

11. This is the first time this area has been reviewed and no previous recommendations existed for this area from other audit work undertaken.

### **Audit Approach**

12. The approach adopted for this audit included:
- Review and documentation of the system.
  - Identification of key controls.
  - Tests of controls to confirm their existence and effectiveness.
  - Evaluation of the controls and identification of weaknesses and potential risks arising from them.
13. 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.

14. 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 WEST MERCIA ENERGY SUPPLIER REBATES 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>
4.1	1	Management should consider showing the Calor Gas rebate separately within the budget, to ensure that this relatively small amount is not overlooked and to ensure the rebate is claimed in a timely manner.	Best Practice	Yes	Agreed. This has been already incorporated into the budget workings for 2014/15	Nigel Evans	Completed