

SHROPSHIRE COUNCIL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT

WEST MERCIA ENERGY

CREDITORS SYSTEM 2013/14

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|------------------------|-------------|
| Assurance Level | Good |
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| Customer | West Mercia Energy |
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| Distribution | Nigel Evans – Director |
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| Auditor | Mark Seddon |
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| Fieldwork dates | 22 nd August 2013 |
| Debrief meeting | 3 rd September 2013 |
| Draft report issued | 3 rd September 2013 |
| Responses received | 9 th September 2013 |
| Final report issued | 9 th September 2013 |

Introduction and Background

1. As part of the approved internal audit plan for 2013/14 we have undertaken a review of Creditors payment controls within 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. The Auditor would like to express his 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.

Follow up of the previous recommendation and systems audit of creditor payment process, including a review of purchasing cards, using established documentation and testing.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - To ensure that previous recommendations have been implemented.
 - There are appropriate policies and procedures in place for the operation of the creditors system.
 - Orders are placed for all goods.
 - Goods received procedures are defined and operated effectively.
 - Prepayment checks are undertaken before an invoice is entered on the system.
 - Appropriate input controls are in place and operated effectively.
 - Credit notes are actioned in a timely manner.
 - Payments made are accurate, complete, have not previously been paid and are made at the optimal time.
 - BACS payments are securely controlled.
 - Transactions on purchasing cards are securely controlled and reviewed by an appropriate officer.
 - Management information in respect of payments to creditors is timely and adequate.
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:

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| Good | 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 |
|-------|-------------|-------------|--------------------|---------------|
| 2 | 0 | 0 | 2 | 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:

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|---|---|
| ✓ | To ensure that previous recommendations have been implemented. |
| ✓ | There are appropriate policies and procedures in place for the operation of the creditors system. |
| ✓ | Orders are placed for all goods. |
| ✓ | Goods received procedures are defined and operated effectively. |
| ✓ | Prepayment checks are undertaken before an invoice is entered on the system. |
| ✓ | Appropriate input controls are in place and operated effectively. |
| ✓ | Credit notes are actioned in a timely manner. |
| ✓ | Payments made are accurate, complete, have not previously been paid and are made at the optimal time. |
| ✓ | BACS payments are securely controlled. |
| ✓ | Transactions on purchasing cards are securely controlled and reviewed by an appropriate officer. |

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| ✓ | Management information in respect of payments to creditors is timely and adequate. |
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11. 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:

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| Number of recommendations accepted by management at the last audit | 1 |
| Recommendations implemented | 0 |
| Recommendations partially implemented | 1 |
| Recommendations superseded | 0 |
| Recommendations not actioned | 0 |

Some progress has been made in the implementation of the previous recommendation. The recommendation has been updated in the attached Exception Report and Action Plan.

Audit Approach

12. 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.
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 CREDITORS 2013/14

| Rec Ref. | Rec No. | Recommendation | Rec Rating | Accepted Yes/No/ Partially | Management Response | Lead Officer | Date to be Actioned |
|-----------------|----------------|---|--------------------|-----------------------------------|----------------------------|---------------------|----------------------------|
| 1.1 | 1 | If West Mercia Energy are to adopt the Shropshire Council terms and conditions for purchase orders this should be clearly stated in the terms and conditions included on the reverse of the purchase orders. Alternatively, West Mercia Energy could adopt and personalise the Shropshire Council terms and conditions (Updated from the previous recommendation made and agreed in 2012/13). | Requires Attention | Yes | Agreed | Gareth Maude | October 2013 |
| 3.1 | 2 | All purchase invoices should be date stamped on receipt at the West Mercia Energy office to provide evidence of the date received in the event of a dispute arising in relation to late payment. | Requires Attention | Yes | Agreed | Martin Elson | Sept 2013 |