

SHROPSHIRE COUNCIL AUDIT SERVICES

INTERNAL AUDIT REPORT

WEST MERCIA ENERGY

FINANCE 2015/16

Assurance Level	Good
------------------------	-------------

Customer	West Mercia Energy
-----------------	---------------------------

Distribution	Nigel Evans- Director
---------------------	------------------------------

Auditor	Mark Seddon
----------------	--------------------

Fieldwork dates	28 th and 30 th July 2015
Debrief meeting	30 th July 2015
Draft report issued	10 th August 2015
Responses received	11 th August 2015
Final report issued	14 th August 2015

Introduction and Background

1. As part of the approved internal audit plan for 2015/16 Audit Services have undertaken a review of Finance.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their 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 follow up the previous recommendation and undertake a systems audit of the finance process 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:
 - Previous recommendations have been implemented.
 - There is an established process for preparation of the annual budget.
 - The annual budget is approved by members prior to the start of the financial year.
 - There is an appropriate reconciliation process to ensure the accuracy of reported information.
 - Management Accounts are 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.
6. The audit was delivered on time and within budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon 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 work undertaken Audit Services are able to give the following assurance opinion:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
-------------	--

8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or 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. The review identified the following areas where appropriate management controls were in place and operating satisfactorily and, upon which, positive assurance can be given:

✓	Previous recommendations have been implemented.
✓	There is an established process for preparation of the annual budget.
✓	The annual budget is approved by members prior to the start of the financial year.
✓	There is an appropriate reconciliation process to ensure the accuracy of reported information.
✓	Management Accounts are 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.

11. Recommendations accepted by management at the previous audit have been reviewed and are detailed below:

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

Good progress has been made in the implementation of the previous recommendation

and there are no previous recommendations outstanding.

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 identified control weaknesses.

Ceri Pilawski
Audit Services Manager

ACTION PLAN FOR FINANCE 2015/16

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
4.1	1	The amounts in the balance sheet identified to be in respect of the reversal of pricing support and the associated journal processed to adjust the extended trial balance should be recorded in a supporting schedule.	Requires Attention	Yes	A summary has been added to the Management Accounts Balance Sheet reconciliations schedule showing the initial pricing support, and the calculation of the amount written back to date.	Jo Pugh-Finance Manager	Completed and ongoing
7.1	2	The position with the outstanding un-presented cheque written in October 2014 should be investigated. Appropriate action should be taken which may include an appropriate adjustment to the bank account reconciliation. The company should consider a policy for reviewing un-presented cheques, to ensure that all cheques over six months old are cancelled and the customer advised to contact the company to make alternative arrangements.	Requires Attention	Yes	This cheque is believed to have been lost, and has now been cancelled and reversed in SAGE, with a revised cheque issued. Going forward any cheques older than 3 months appearing on the month end bank reconciliation will be investigated and dealt with accordingly.	Jo Pugh-Finance Manager	Completed and ongoing