

# SHROPSHIRE COUNCIL AUDIT SERVICES

## INTERNAL AUDIT REPORT

### WEST MERCIA ENERGY

#### DEBTORS 2015/16

<b>Assurance Level</b>	<b>Good</b>
------------------------	-------------

<b>Customer</b>	<b>West Mercia Energy</b>
-----------------	---------------------------

<b>Distribution</b>	<b>Nigel Evans- Director</b>
---------------------	------------------------------

<b>Auditor</b>	<b>Mark Seddon</b>
----------------	--------------------

<b>Fieldwork dates</b>	<b>30<sup>th</sup> July and 13<sup>th</sup> August 2015</b>
<b>Debrief meeting</b>	<b>13<sup>th</sup> August 2015</b>
<b>Draft report issued</b>	<b>24<sup>th</sup> August 2015</b>
<b>Responses received</b>	<b>25<sup>th</sup> August 2015</b>
<b>Final report issued</b>	<b>26<sup>th</sup> August 2015</b>

## **Introduction and Background**

1. As part of the approved internal audit plan for 2015/16 Audit Services have undertaken a review of Debtors.
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 undertake testing in respect of the reconciliation and monitoring of the Debtors and Income System and to review progress on the implementation of the recommendation made in the previous audit.

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 are appropriate policies and procedure notes in place for the operation of the system.
  - Billing information is verified before invoicing customers.
  - There are appropriate arrangements in place to ensure prompt payment of invoices.
  - There are appropriate post opening procedures in place for the control of cash and cheques.
  - There are appropriate arrangements in place for the collection of Income by Direct Debit.
  - All income received is reconciled to the bank account.
  - Refunds are actioned in a timely manner with appropriate authorisation.
  - Write-offs are actioned in a timely manner with appropriate authorisation.
  - Income credited to suspense accounts is reviewed and cleared in a timely manner.
  - Management Information in respect of income is timely and adequate.
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 Audit 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:

<b>Good</b>	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 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
3	0	0	2	1

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 are appropriate policies and procedure notes in place for the operation of the system.
✓	Billing information is verified before invoicing customers.
✓	There are appropriate arrangements in place to ensure prompt payment of invoices.
✓	There are appropriate post opening procedures in place for the control of cash and cheques.
✓	There are appropriate arrangements in place for the collection of Income by Direct Debit
✓	All income received is reconciled to the bank account
✓	Refunds are actioned in a timely manner with appropriate authorisation.
✓	Write-offs are actioned in a timely manner with appropriate authorisation.
✓	Income credited to suspense accounts is reviewed and cleared in a timely manner.
✓	Management Information in respect of income is timely and adequate.

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 previous recommendations. 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 DEBTORS 2015/16**

<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>
3.1	1	It should be ensured that an explanation for differences on the supplier statement reconciliations is recorded on the reconciliation where the variance is in excess of £5 in accordance with the accepted procedure.	Requires Attention	Yes	All differences where the variance is in excess of £5 will be investigated and the explanation recorded on the supplier's statement reconciliation.	Julie Wassall	September 2015
3.2	2	The differences on the Unmetered Supply (UMS) quarterly reconciliation in respect of Shropshire street lighting should be reviewed and cleared.	Best Practice	Yes	Now completed.	Not Applicable	Completed
8.1	3	The contacting of customers with credit balances on their accounts should be progressed. The contact made with the customers should continue to be recorded on the Sage account and a schedule of customers contacted retained as evidence that the balances have been pursued.	Requires Attention	Yes	For VAT credit/rebills (where many of the credit balances arise) a letter is sent to the customer explaining there is a credit balance arising. Any duplicate payments are repaid as soon as possible after discovery. In addition, monthly statements are sent to all customers	Jo Pugh	September 2015

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
					<p>outlining any credit balances. Credit balances are reviewed on an ad hoc basis, and going forward, a list of credit balances will be saved with progress continuing to be noted on SAGE.</p>		