



SHROPSHIRE COUNCIL AUDIT SERVICES

“ADDING VALUE”

FINAL INTERNAL AUDIT REPORT
WME FINANCE 2023/24

Assurance Level | Good



Audit Data

Customer:	West Mercia Energy
Report Distribution:	Nigel Evans, Director Jo Pugh, Finance Manager
Auditor(s):	Catherine Young
Fieldwork Dates:	December 2023
Debrief Meeting:	29th January 2024
Draft Report Issued:	19th January 2024
Responses Received:	30th January 2024
Final Report Issued:	1st February 2024

Assurance		
Previous Assurance Level	Current Assurance Level	Direction of Travel
Good	Good	No change to control environment

Introduction and Background

1. As part of the approved internal audit plan for 2023/24 Audit Services have undertaken a review of Finance.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Maintenance of the control environment is the responsibility of Management. The audit process is designed to provide a reasonable chance of discovering material weaknesses in internal controls. It cannot however, guarantee absolute assurance against all weaknesses including overriding of management controls, collusion, and instances of fraud or irregularity.
4. Audit Services would like to thank officers who assisted during the audit.
5. The audit was delivered on time and within budget.

Scope of the Audit

6. The following scope was agreed with key contacts at the beginning of the audit:
To review the key finance processes of WME to ensure that there are appropriate controls in place and that those controls are being operated effectively.
7. The scope includes a follow up of recommendations made in the 2022/23 audit. Where not implemented fully, these are revisited and the findings included in this report.
8. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved. Objectives with a ✓ demonstrate that appropriate management controls are in place and upon which positive assurance can be given. Objectives with an X are those where the management controls are not being achieved:
 - x The recommendations made in the previous audit have been implemented.
 - ✓ There are appropriate Financial Regulations which have been approved by the Joint Committee.
 - ✓ There is an established process for preparation and approval of the annual budget.
 - ✓ Management Accounts are accurate and 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.
 - ✓ There is an appropriate process in place to ensure that the Payroll is processed in an accurate and timely manner in line with current legislation.
 - ✓ Permanent and temporary variations to the payroll are valid, appropriately authorised, and processed accurately.
 - ✓ There are appropriate processes in place for the control and operation of the creditors system.

- ✓ There are appropriate controls to ensure that creditors payments made are accurate, complete, have not previously been paid.

Assurance Level and Recommendations

9. An opinion is given on the effectiveness of the control environment reviewed during this audit. The level of assurance given is based upon sample testing and evaluation of the controls in place. This will be reported to the Joint Committee and will inform the Annual Governance Statement which accompanies the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

Audit Services can give the following assurance level on the area audited:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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10. Recommendations are made where control weaknesses, risks or areas for improvement have been identified and are of sufficient importance to merit being reported to you in accordance with auditing standards. There are four categories of recommendation; Best Practice, Requires Attention, Significant and Fundamental. Detailed findings and a definition of the recommendation categories are included in the Exception Report at **Appendix 1**. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
2	0	0	2	0

11. A summary of the recommendations, together with the agreed management responses are included at **Appendix 2**. Implementation of these recommendations will address the risks identified and improve the controls that are currently in place.
12. The status of the recommendations accepted by management at the previous audit has been reviewed and is summarised in the table below:

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

The previous recommendation directed management to consider updating the Financial Regulations process for purchasing. The recommendation was considered by management and staff were reminder to follow the agreed process. The recommendation has been repeated due to an order being raised after commitment to spend and potential for the process to be streamlined.

Audit Approach

13. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of the risks to achieving the business outcomes and associated key controls.

- Follow up of previous recommendations.
 - Testing of controls to confirm their existence and effectiveness.
 - Identification of weaknesses and potential risks arising from them.
14. As Internal Audit report by exception, only those areas where control weaknesses and/or errors have been identified are included in this report (**Appendix 1**). Recommendations to improve controls or enhance existing practice are detailed against each finding and the associated risk. Your Action Plan is included at **Appendix 2**. A more detailed report covering all the work undertaken can be provided on request.
15. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action taken to address identified control weaknesses.

Barry Hanson
Head of Governance and Policy

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INTERNAL AUDIT EXCEPTION REPORT FOR WME FINANCE 2023/24

Fundamental	Significant	Requires Attention	Best Practice
Immediate action required to address a major control weakness which, if not addressed, could lead to material loss.	A recommendation to address a significant control weakness where the system may be working but errors may go undetected.	A recommendation aimed at improving the existing control environment.	Suggested action which aims to improve best value, quality or efficiency.

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
Management Control Objective: Permanent and temporary variations to the payroll are valid, appropriately authorised, and processed accurately.					
9.1	<p>The Performance Related Pay (PRP) policy states that this will be calculated based on salary.</p> <p>The 2022 PRP payment was recalculated and this found that the payment is based on salary and additional payments such as additional hours and honorariums.</p>	The policy states that the payment will be based on salary which can be interpreted as basic pay only. Therefore, bonus based on additional payments and salary would not be calculated in line with policy and would result in an overpayment of the bonus.	1	Requires Attention	The Performance Related Pay policy should be updated to clarify the additional payments, such as overtime and honorariums, that will be included in the calculation of the bonus.
Management Control Objective: There are appropriate processes in place for the control and operation of the creditors system.					
10.1	<p>Previous recommendation:</p> <p>Consideration should be given to updating the company's financial regulations, to allow purchases to be made up to a certain nominal value without the requirement to raise a purchase order to avoid unnecessary administrative burden on low value transactions. Until the point at which</p>	Failure to raise purchase orders as required by the company's financial regulations is a breach and increases the risk of inappropriate expenditure.	2	Requires Attention	Consideration should be given to updating the company's financial regulations, to allow purchases to be made up to a certain nominal value without the requirement to raise a purchase order to avoid unnecessary administrative burden on low value transactions. Until the

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	<p>financial regulations are updated, all staff should be reminded to produce purchase orders as currently required.</p> <p>Findings 2023/24 Financial Regulations state that:</p> <p><i>Procurement of Works, Goods, Materials and Services.</i> <i>27. An official order form, approved by the Treasurer, shall be used when entering any contract (as defined by Standing Orders), except where the nature of the transaction makes it inappropriate to do so.</i></p> <p>A sample of five orders and invoices were reviewed. This found that 1/5 orders had been created after the invoice had been received. These invoices related to training.</p> <p>There was evidence that the purchase had been completed by an officer with the financial authorisation to place the order but the process outlined in the standing orders had not been followed.</p>				<p>point at which financial regulations are updated, all staff should be reminded to produce purchase orders as currently required.</p> <p>(As previously recommended and agreed in 2022/23).</p>

ACTION PLAN FOR WME FINANCE 2023/24

Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	Lead Officer	Date to be Actioned
9.1	1	The Performance Related Pay policy should be updated to clarify the additional payments, such as overtime and honorariums, that will be included in the calculation of the bonus.	Requires Attention	Policy will be reviewed and updated	Nigel Evans	May 2024
10.1	2	Consideration should be given to updating the company's financial regulations, to allow purchases to be made up to a certain nominal value without the requirement to raise a purchase order to avoid unnecessary administrative burden on low value transactions. Until the point at which financial regulations are updated, all staff should be reminded to produce purchase orders as currently required. (As previously recommended and agreed in 2022/23).	Requires Attention	The update relating to purchase orders will be incorporated next time the financial regulations are updated. Until the financial regulations are updated staff will continue to produce orders as currently required.	Nigel Evans	The update will be incorporated when the financial regulations are next updated.