

WEST MERICA ENERGY (WME) INTERNAL AUDIT PERFORMANCE REPORT TO FEBRUARY 2018

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1. Summary

- 1.1 This report provides members with an update on the work completed by Internal Audit against the approved Internal Audit Plan 2017/18, presented on 27th February 2017.
- 1.2 Work has continued on the 2017/18 Audit Plan with a timetable in place to fully deliver the required plan within the financial year. All eight audit reports have been completed since the last report, these are Payroll, Creditors, Debtors, Finance, Procurement, Risk Management, Governance and IT. In addition, consultancy support has been provided in respect of financial evaluations and General Data Protection Regulations (GDPR) within budget.
- 1.3 The overall plan remains at 26 Days as agreed in February 2017.

2. Recommendations

- 2.1 The Committee consider and endorse, with appropriate comment, the performance to date against the 2017/18 Audit Plan as set out in this report.

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3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.
- 3.2 Provision of the Internal Audit Annual Plan satisfies both the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015, part 2 which sets out the requirements on all relevant authorities in relation to internal control,

including requirements in respect of accounting records, internal audit and review of the system of internal control. Specifically:

‘A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

4. Financial Implications

4.1 The proposed plan will be met from within the approved Internal Audit budget.

5. Background

5.1 Audit assurance opinions are delivered on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Company to high risks that should have been managed.

5.2 Audit recommendations are an indicator of the effectiveness of the Company's internal control environment and are rated according to their priority:

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

5.3 Recommendations are rated in relation to the audit area rather than the Company's control environment: for example, a control weakness deemed serious in one audit area which results in a significant or fundamental recommendation may not necessarily affect the Company's overall control environment. Similarly, a number of significant recommendations in a small number of areas would not result in a limited

opinion if the majority of areas examined were sound. Consequently, the number of significant recommendations in the table below will not necessarily correlate directly with the number of limited assurance opinions issued. Any fundamental recommendations resulting from a control weakness in the Company's control environment would be reported in detail to the Joint Committee.

- 5.4 A total of seventeen recommendations have been made in the eight final audit reports issued since the last report. A breakdown by area of the seventeen recommendations issued in this period is shown in the table below.
- 5.5 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. Management are asked for an update of progress made on recommendations 12 months after issue. To date this year no recommendations have been rejected by management.

5.6 Audit assurance opinions and recommendations delivered 2017/18

Audit Area	Assurance level	No. of Recommendations made				
		Best Practice	Requires Attention	Significant	Fundamental	Total
Creditors System	Reasonable	0	6	0	0	6
Debtors System	Good	0	3	0	0	3
Finance System	Good	0	0	0	0	0
Governance	Good	0	2	0	0	2
IT Follow Up	Good	0	0	0	0	0
Payroll System	Good	0	4	0	0	4
Procurement	Good	0	1	0	0	1
Risk Management	Reasonable	0	0	1	0	1
Total for the period		0	16	1	0	17
Total to date						
• numbers		0	16	1	0	17
• percentage		0%	94%	6%	0%	100%

- 5.7 Six good and two reasonable assurance levels have been made, there are no unsatisfactory or limited opinions to report. One significant issue was identified by the Audits undertaken since the last report leading to the following recommendation:

Risk Management & Business Continuity	
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The Business Continuity Management Policy and the Business Recovery Plan should be progressed and finalised with sufficient details and information including plans for various emergencies and critical and non-critical failures.

The Policy and Plan should be approved by the Joint Committee and circulated to all Officers. It should be ensured that the completion and management of both the Policy and Plan are consistent with the Annual Governance Statement and Risk Register.

The Business Recovery Plan should be regularly tested and reviewed and any findings as a result should be reflected in the Plan.

5.8 Copies of the Audit Reports are attached as appendices to this report.

6. Additional Information

6.1 Performance against the plan

The internal audit plan was presented to the Joint Committee in February 2017. There have been minor variations to the plan agreed in February as shown below:

Audit	Original Plan	Variation	Revised Plan
Creditors	2	+1	3
Debtors	3	0	3
Finance	3	+1	4
Governance	2	0	2
IT Follow Up	5	-2	3
Payroll	2	0	2
Procurement	1	0	1
Risk Management & Business Continuity	2	0	2
Engagement Management	5	0	5
Contingency	1	0	1
Total	26	0	26

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Public Sector Internal Audit Standards.
Accounts and Audit Regulations 2015

Member

Councillor P Price of Herefordshire Council (Chair of the Joint Committee)

Appendices

Appendix A – Creditors Report 2017/18

Appendix B – Debtors Report 2017/18

Appendix C – Finance Report 2017/18

Appendix D – Governance Report 2017/18

Appendix E – IT Report 2017/18

Appendix F – Payroll Report 2017/18

Appendix G – Procurement Report 2017/18

Appendix H – Risk Management 2017/18