

SHROPSHIRE COUNCIL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT

CREDITORS 2017/18

Assurance Level	Reasonable
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Customer	West Mercia Energy
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Distribution	Jo Pugh – Finance Manager Nigel Evans – Director
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Auditors	Mark Seddon Mark Young
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Fieldwork dates	1st November 2017
Debrief meeting	30th November 2017
Draft report issued	30th November 2017
Responses received	5th December 2017
Final report issued	6th December 2017

Introduction and Background

1. As part of the approved internal audit plan for 2017/18 Audit Services have undertaken a review of Creditors.
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 establish the progress made implementing the recommendation made in the previous audit and carry out a review of the creditor payment process including purchasing cards.

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 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:

Reasonable	There is generally a sound system of control in place but there is evidence of non-compliance with some of the controls.
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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
6	0	0	6	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:

✓	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.

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	0
Recommendations partially implemented	1
Recommendations superseded	0
Recommendations not actioned	0

Reasonable progress has been made in the implementation of previous recommendations. Recommendations which remain outstanding are included 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 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. This will be, available in a working paper 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
Head of Audit

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ACTION PLAN FOR CREDITORS 2017/18

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
3.1	1	It should be ensured that purchase orders and invoices are authorised by Officers in accordance with the delegated limits stated in the Scheme of Delegation. (Updated from the recommendation made and agreed in the 2016/17 audit).	Requires Attention	Yes	Agreed	Jo Pugh	Completed
3.2	2	The Terms and Conditions on stated on the reverse of the Purchase Orders should be reviewed and updated to reflect that they are in respect of 'West Mercia Energy' and not the 'Council'.	Requires Attention	Yes	Agreed, now corrected.	Jo Pugh	Completed
7.1	3	The supplier payment procedures should be reviewed to consider the actions to be taken where the expected turnover with a supplier will not allow a credit note to be taken immediately. Consideration should be given to the circumstances in which a refund would be requested as opposed to waiting a period of time	Requires Attention	Yes	This situation is not common, but is dealt with as arises, usually when a contract expires with a supplier. The procedure notes will be updated to say that if an invoice to cover the credit amount is not	Jo Pugh	December 2017

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
		for the credit note to be cleared.			expected imminently, consideration should be given to requesting a refund.		
10.1	4	It should be ensured that VAT is always reclaimed where a valid VAT receipt is available in respect of purchasing card transactions.	Requires Attention	Yes	Agreed	Jo Pugh	December 2017
10.2	5	It should be ensured that receipts are obtained for all purchasing card transactions in accordance with the Purchasing Card Agreement.	Requires Attention	Yes	Agreed	Nigel Evans	December 2017
10.3	6	All purchasing card transactions should adhere to the financial approval limits set out in the Scheme of Delegation.	Requires Attention	Yes	Agreed	Nigel Evans	December 2017