

# **SHROPSHIRE COUNCIL AUDIT SERVICES**

## **INTERNAL AUDIT REPORT**

### **CORPORATE GOVERNANCE 2017/18**

<b>Assurance Level</b>	<b>Good</b>
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<b>Customer</b>	<b>West Mercia Energy</b>
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<b>Distribution</b>	<b>Nigel Evans - Director</b>
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<b>Auditor</b>	<b>Mark Seddon</b>
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<b>Fieldwork dates</b>	November 2017
<b>Debrief meeting</b>	30 <sup>th</sup> November 2017
<b>Draft report issued</b>	30 <sup>th</sup> November 2017
<b>Responses received</b>	4 <sup>th</sup> January 2018
<b>Final report issued</b>	4 <sup>th</sup> January 2018

## **Introduction and Background**

1. As part of the approved internal audit plan for 2017/18 Audit Services have undertaken a review of Corporate Governance.
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 assess the progress made in implementing the recommendation made in the previous audit and to review the current Corporate Governance arrangements.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
  - The recommendation made in the previous audit has been implemented.
  - The Company has an up to date Constitution.
  - Terms of Reference are in place for sub-committees which are suitable for current practices and are reviewed and adopted on an annual basis.
  - Meetings of the Board are held in accordance with the Constitution.
  - Meetings of the Board are quorate.
  - Board meetings follow a defined order of business.
  - There are signed declarations of interest for all members.
  - Disclosure of Information.
  - There is an induction program for all new members.
  - There is a member's handbook which is up to date, informative and readily accessible to members.
  - All members can access training to meet their needs and ensure that skills and competencies are kept up to date.
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:

<b>Good</b>	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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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:

<b>Total</b>	<b>Fundamental</b>	<b>Significant</b>	<b>Requires Attention</b>	<b>Best Practice</b>
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:

✓	The Company has an up to date Constitution.
✓	Terms of Reference are in place for sub-committees which are suitable for current practices and are reviewed and adopted on an annual basis.
✓	Meetings of the Board are held in accordance with the Constitution.
✓	Meetings of the Board are quorate.
✓	Board meetings follow a defined order of business.
✓	There are signed declarations of interest for all members.
✓	Disclosure of Information.
✓	There is an induction program for all new members.
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✓	All members can access training to meet their needs and ensure that skills and competencies are kept up to date.

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	0
Recommendations superseded	0
Recommendations not actioned	1

No 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 recommendation.
  - 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 CORPORATE GOVERNANCE 2017/18**

<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>
1.1	1	<p>It should be ensured that the policies highlighted in section five of the Joint Agreement are reviewed to ensure that all are available and have been approved and adopted by the Joint Committee.</p> <p>(As previously recommended and agreed in the 2016/17 audit)</p>	Requires Attention	Yes	Agreed. The Director will conduct a review of each of the areas highlighted in section five of the Joint Agreement and will report back initially to Internal Audit as to the current status of each area. Following this, the Director will consider any areas that need to be approved by the Joint Committee (either due to changes since last approved by the Joint Committee or where not previously presented and approved).	Nigel Evans	Initial review February 2018 with any necessary Joint Committee approvals sought in September 2018.
6.1	2	It should be ensured that a Vice-Chair is appointed annually by the Joint Committee in accordance with the	Requires Attention	Yes	Agreed.	Nigel Evans in liaison with	February 2018.

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
		requirements of the Joint Agreement.				Committee Services.	