

WEST MERICA ENERGY (WME) INTERNAL AUDIT PERFORMANCE REPORT TO FEBRUARY 2020

Responsible Officer Ceri Pilawski

e-mail: ceri.pilawski@shropshire.gov.uk

Tel: 01743 257739

1. Summary

- 1.1 This report provides members with an update on the work completed by Internal Audit against the approved Internal Audit Plan 2019/20, presented on 26th February 2019.
- 1.2 All audit planned work for 2019/20 has been completed since the last report. Completed reviews attracting good assurance are Finance, Debtors, Procurement, Corporate Governance and Risk Management. In addition, a review of IT has attracted limited assurance with management agreeing to an action plan to improve controls for compliance with data protection policies; continuity processes to ensure system availability; procedures for the authorisation of changes and the security, efficiency and effectiveness of interfaces with the system.
- 1.3 The plan remains at 22 Days as agreed in February 2019.

2. Recommendations

- 2.1 The Committee consider and endorse, with appropriate comment, the performance to date against the 2019/20 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 twenty one recommendations have been made in the final audit reports issued since the last report. A breakdown by area of the 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 2019/20**

Audit Area	Assurance level	No. of Recommendations made				Total
		Best Practice	Requires Attention	Significant	Fundamental	
Debtors System	Good	0	4	0	0	4
Finance System	Good	0	2	0	0	2
Corporate Governance and Risk Management	Good	0	1	0	0	1
Procurement	Good	0	1	0	0	1
IT	Limited	0	8	5	0	13
Total for the period		0	16	5	0	21
Total to date						
• numbers		0	16	0	0	21
• percentage		0%	76%	24%	0%	100%

- 5.7 There are four good assurance levels and one limited opinion to report. There are five significant issues identified in the IT audit review that cover improved controls for compliance with data protection policies; continuity processes to ensure system availability; procedures for the authorisation of changes and the security, efficiency and effectiveness of interfaces with the system. An action plan is in place to address these issues within an agreed timeframe.
- 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 2019. There have been no variations to the plan agreed in February

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
Internal Audit Plan 2019/20, 26th February 2019.

Member

Councillor Peter Nutting of Shropshire Council (Chair of the Joint Committee)

Appendices

Appendix 1 – Debtors Report 2019/20

Appendix 2 – Finance Report 2019/20

Appendix 3 – Corporate Governance and Risk Management Report 2019/20

Appendix 4 – Procurement Report 2019/20

Appendix 5 - IT Report 2019/20