



Shropshire Council  
Legal and Democratic Services  
Shirehall  
Abbey Foregate  
Shrewsbury  
SY2 6ND

Date: 5<sup>th</sup> February 2015

**Committee:**  
**West Mercia Energy Joint Committee**

**Date: Monday, 16 February 2015**

**Time: 10.00 am**

**Venue: Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND**

You are requested to attend the above meeting.  
The Agenda is attached

Claire Porter  
Head of Legal and Democratic Services (Monitoring Officer)

**Members of West Mercia Energy Joint Committee**

*Herefordshire Council*

P Morgan  
P Price

*Shropshire Council*

S Charmley  
M Owen

*Telford & Wrekin Council*

B McClements  
A England

*Worcestershire County Council*

J Smith  
A Hardman

Your Committee Officer is:

**Emily Marshall** Committee Officer

Tel: 01743 252726

Email: [emily.marshall@shropshire.gov.uk](mailto:emily.marshall@shropshire.gov.uk)

# AGENDA

**1 Election of Chairman**

To elect a Chairman for the ensuing year.

**2 Appointment of Vice-Chairman**

To appoint a Vice-Chairman for the ensuing year.

**3 Apologies for Absence**

To receive apologies for absence.

**4 Named Substitutes**

To receive details of any Member nominated to attend the meeting in place of another Member.

**5 Disclosable Pecuniary Interests**

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

**6 Minutes (Pages 1 - 4)**

To receive the minutes of the Joint Committee meeting held on 22<sup>nd</sup> September 2014.

Copy attached marked 6.

**7 Supplier Contracts**

The Director of West Mercia Energy will provide a verbal update in line with the West Mercia Energy Standing Orders.

**8 External Audit - Annual Audit Letter 2013/14 (Pages 5 - 10)**

Report of the External Auditor is attached, marked 8.

**9 External Audit - West Mercia Energy Audit Plan 2014/15 (Pages 11 - 24)**

Report of the External Auditor is attached, marked 9.

**10 External Audit - Informing the Audit Risk 2014/15 (Pages 25 - 48)**

Report of the External Auditor is attached, marked 10.

**11 Internal Audit - Finance 2014/15 (Pages 49 - 54)**

Report of the Audit Services Manager is attached, marked 11.

**12 Internal Audit - Debtors 2014/15 (Pages 55 - 60)**

Report of the Audit Services Manager is attached, marked 12.

**13 Internal Audit - Risk Management 2014/15 (Pages 61 - 68)**

The report of the Audit Services Manager is attached, marked 13.

**14 Internal Audit - Audit Plan 2015/16 (Pages 69 - 72)**

Report of the Audit Services Manager is attached, marked 14.

**15 Exclusion of Public and Press**

*To consider a resolution under Section 100 (A) of the Local Government Act 1972 that the proceedings in relation to the following items shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the provisions of Schedule 12A of the Act.*

**16 Exempt Minutes (Pages 73 - 76)**

To receive the Exempt Minutes of the meeting of the West Mercia Energy Joint Committee held on 22nd September 2014.

**17 Trading Performance to Date 2014/15 (Pages 77 - 82)**

Report of the Director is attached, marked 17.

**18 Business Plan and Budget (Pages 83 - 112)**

The report of the Director is attached, marked 18.

**19 Minutes of the Flexible Energy Management Panel (Pages 113 - 130)**

Report of the Director is attached, marked 19.

**20 Risk Management (Pages 131 - 146)**

Report of the Director is attached, marked 20.

**21 Joint Agreement**

The Director of West Mercia Energy will give a verbal update.

**22 Date of Next Meeting**

The next meeting of the West Mercia Energy Joint Committee will take place on Monday, 21<sup>st</sup> September 2014, at 10.00 a.m. in the Shrewsbury Room, Shirehall, Shrewsbury.

**Minutes of the meeting of West Mercia Energy Joint Committee held in the Shrewsbury Room, Shirehall on Monday 22 September 2014 at 10.00am.**

**Members Present:**

Herefordshire Council	P Price
Shropshire Council	M Owen (Vice-Chairman)
Telford & Wrekin Council	W McClements
Worcestershire County Council	A I Hardman (Chairman) J Smith

**Officers Present:**

West Mercia Energy	N Evans
Grant Thornton	Grant Paterson J Hill
Shropshire Council	J Walton C Pilawski N Denton M Seddon S Davies
Worcestershire County Council	M Howard
Herefordshire County Council	R Wood
Telford and Wrekin	D. Sidaway S. Bass

**1. APOLOGIES FOR ABSENCE**

An apology for absence was received from Councillor A England (Telford and Wrekin).

**2. NAMED SUBSTITUTIONS**

There were no substitutes in attendance.

**3. DISCLOSABLE PECUNIARY INTERESTS**

Members were reminded that they must not participate in the discussion or voting on any matter in which they had a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

#### 4. MINUTES

**RESOLVED:**

That the Minutes of the meeting held on 24<sup>th</sup> February 2014 be approved as a correct record subject to the inclusion of Councillor J Smith being added to the list of those present.

#### 5. SUPPLIER CONTRACTS

Mr. N. Evans, Director provided a verbal update in relation to the Supplier Contracts. He referred to the successful companies and noted that the Supplier Contracts were outlined in the Annual Audit Report.

**RESOLVED:**

That the update be noted.

#### 6. STATEMENT OF ACCOUNTS 2013/14 and ANNUAL GOVERNANCE STATEMENT 2013/14

The Treasurer explained that items 6 (Statement of Accounts 2013/14 and Annual Governance Statement 2013/14) and 7 (External Audit – Audit Findings Report 2013/14) would be dealt with together. It was explained that following adjustments made as a result of consultation with External Audit, the Statement of Accounts had been amended from the previous draft copy circulated in June 2014.

Mr Grant Patterson (Grant Thornton) presented the Audit Findings Report for 2013/14 explaining that External Audit was proposing to issue an unqualified opinion on the financial statements. The key messages arising from the audit of the Joint Committee's financial statements were explained and adjustments that had been made were highlighted.

Mr Grant Patterson reported that following the recommendation from last year in relation to the risk of the lack of segregation of duties within the journals system, procedures had been put in place and the weakness identified had been addressed. To conclude, Mr Patterson explained that there was no change to the audit fee this year.

In response to a query, the Treasurer gave further clarification on paragraph 18 of the statement of accounts (IAS 19 Employee Benefits) explaining that retirement benefits were accounted for when they were earned rather than when taken as pensions. Mr Grant Paterson added that this was a true and fair figure and he was comfortable with how this was accounted.

**RESOLVED:**

- 1) That the Treasurer's Letter of Representation be received and signed by the Chairman.
- 2) That the Statement of Accounts for 2013/14 be approved and signed by the Chairman.

3) That the Annual Governance Statement 2012/13 be approved.

**7. EXTERNAL AUDIT – AUDIT FINDINGS REPORT 2013/14**

See Minute 6 above.

**RESOLVED:** That the Audit Findings report, 2012/13 be received.

**8. EXTERNAL AUDIT – AUDIT FEE LETTER 2014/15**

Mr Grant Patterson (Grant Thornton) presented the Audit Fee Letter 2014/15 and noted that the fee remained the same for 2014/15 and was as proposed in the letter.

**RESOLVED:**  
That the External Audit Fee Letter 2014/15 be noted.

**9. INTERNAL AUDIT – PAYROLL 2014/15**

Ms. C. Pilawski (Audit Services Manager) outlined the report, explaining that the overall assurance level was good and referred to one item that required attention. It was noted that a recommendation had been proposed in relation to the Staff Handbook as detailed in Appendix 1 of the report.

**RESOLVED:**  
That the Internal Audit – Payroll 2014/15 report be noted.

**10. INTERNAL AUDIT – CREDITORS 2014/15**

Ms. C. Pilawski (Audit Services Manager) outlined the report, explaining that the overall assurance level was good and referred to the Action Plan at Appendix 1 of the report which highlighted recommendations in relation to the 3 items that required attention.

**RESOLVED:**  
That the Internal Audit – Creditors 2014/15 report be noted.

**11. EXCLUSION OF PUBLIC AND PRESS**

**RESOLVED:** That under Section 100(A)(A4) of the Local Government Act 1972, the public be excluded during the consideration of the following items of business on the grounds that they might involve the likely disclosure of exempt information as defined in Schedule 12(A) of the Act.

**12. EXEMPT MINUTES**

(The full version of Minute 12 constitutes exempt information under the Access to Information Rules and has accordingly been withheld from publication.)

**RESOLVED:** That the Exempt Minutes of the meeting held on 24<sup>th</sup> February 2014 be approved as a correct record.

**13. INTERNAL AUDIT – GENERAL IT CONTROLS – FOLLOW UP**

(The full version of Minute 13 constitutes exempt information under the Access to Information Rules and has accordingly been withheld from publication.)

**RESOLVED:** That the contents of the report be noted.

**14. DISTRIBUTION OF SURPLUS**

(The full version of Minute 14 constitutes exempt information under the Access to Information Rules and has accordingly been withheld from publication.)

**RESOLVED:** That the contents of the report be noted.

**15. BUSINESS PLAN and TRADING PERFORMANCE TO DATE 2014/15 - UPDATE**

(The full version of Minute 15 constitutes exempt information under the Access to Information Rules and has accordingly been withheld from publication.)

**RESOLVED:** That the contents of the report be noted.

**16. MINUTES OF THE FLEXIBLE ENERGY MANAGEMENT PANEL**

(The full version of Minute 16 constitutes exempt information under the Access to Information Rules and has accordingly been withheld from publication.)

**RESOLVED:** That the minutes of the meetings of the Flexible Energy Management Panel be received.

**17. ENERGY GOVERNANCE, ACCOUNTABILITY, RISK and REPORTING POLICY**

(The full version of Minute 17 constitutes exempt information under the Access to Information Rules and has accordingly been withheld from publication.)

**RESOLVED:** That the Policy be approved.

**18. RISK MANAGEMENT UPDATE**

(The full version of Minute 18 constitutes exempt information under the Access to Information Rules and has accordingly been withheld from publication.)

**RESOLVED:** That the contents of the update be noted.

**19. DATE OF NEXT MEETING**

It was noted that the next meeting of the West Mercia Energy Joint Committee would be held on Monday 16th February 2015 at 10.00 a.m., venue to be confirmed.

The meeting ended at 11:20 a.m.

**Signed .....**

**Dated .....**



# The Annual Audit Letter for West Mercia Energy Joint Committee

Year ended 31 March 2014

October 2014

**Grant Patterson**

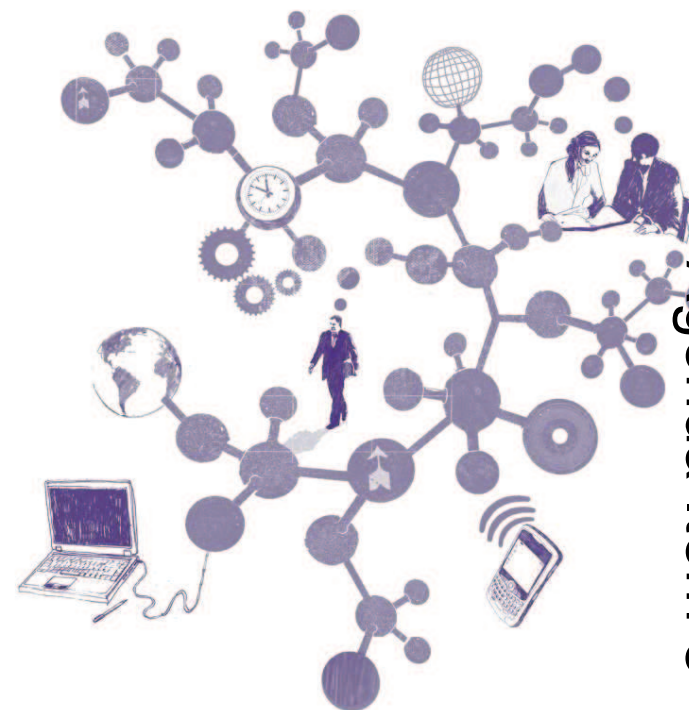
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# Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at West Mercia Energy Joint Committee ('the Joint Committee ') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Joint Committee and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued 18 February 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

**Financial statements audit (including audit opinion)**

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The owners of the Joint Committee (Hereford Council, Shropshire Council, Telford & Wrekin Council and Worcestershire County Council) have updated the joint agreement and from 1 April 2013 the Joint Committee changed its name to West Mercia Energy Joint Committee.

We issued an unqualified opinion on the Joint Committee's 2013/14 financial statements on 22 September 2014, ahead of the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Joint Committee's financial position and of the income and expenditure recorded by the Joint Committee.

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 22 September 2014 to the Joint Committee. The key messages reported were:

- The financial statements presented for audit were basically sound.
- In 2012/13 we highlighted that an improved review process of the financial statements against the requirements of the CIPFA Code and other items be incorporated within the closedown timetable for the preparation of the Joint Committee's financial statements. Our 2013/14 audit found a number of presentation and disclosure items requiring amendment in the accounts. There were two main areas where these amendments arose:
  - The first being associated with a specific area of local government accounts. This is that as a Joint Committee it is not a principal local government body and therefore statutory overrides of accounting for pensions do not apply. The accounts presented for audit had been presented as if the statutory overrides for pensions had applied which is incorrect.
  - The second being associated with disclosures (accounting policies and notes) to support the prior year sale of the discontinued operation.

We have worked with your officers on these and the accounts have been amended. We have recommended that the Joint Committee should continue to develop the improved review process against the requirements of the CIPFA Code and other items incorporated within the closedown timetable for the preparation of the Joint Committee's annual financial statements.

- In 2012/13 we asked management and those charged with governance to consider actions that could be taken to reduce the risk of the lack of segregation of duties within the journals system or recognise that this is a risk that the Joint Committee is willing to tolerate within its operating environment. The item was considered at the Joint Committee meeting in September 2013. Our 2013/14 audit has found that procedures have been put in place for the authorisation by the Treasurer of journals raised by the Director to address this.

## Key messages (continued)

<p><b>Value for Money (VfM) conclusion</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 8</p>	<p>We issued an unqualified VfM conclusion for 2013/14 on 22 September 2014.</p> <p>The key areas we considered for our work as specified by the Audit Commission are:</p> <ul style="list-style-type: none"> <li>• Review of the annual governance statement for indications of any matters of concern relating to proper arrangements which are defined by the Audit Commission as corporate performance management and financial management arrangements that form a key part of the system of internal control. Our 2013/14 audit did not identify any matters of concern relating to the Joint Committee's arrangements in these areas</li> <li>• Consider the work of relevant regulatory bodies or inspectorates, where applicable. No reports from the Audit Commission or other relevant regulatory bodies or inspectorates have been issued to the Joint Committee in respect of the 2013/14 year</li> <li>• Undertake a risk assessment and consider any significant risks relating to your proper arrangements for securing economy, efficiency and effectiveness. We completed a risk assessment for our 2013/14 audit and did not identify any risks relating to your proper arrangements for securing economy, efficiency and effectiveness.</li> </ul> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Joint Committee put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.</p>
<p><b>Audit fee</b></p>	<p>Our fee for 2013/14 was £18,386, excluding VAT. Further detail is included within appendix A. Our fee for 2012/13 was £23,386, excluding VAT inclusive of additional work required relating to the sale of the discontinued operation and implementation of a new financial system.</p>
<p><b>Looking forward</b></p>	<p>The business of the Joint Committee is the provision of gas, electricity and oil and the turnover in 2014/15 is budgeted to be £76.6 million. In the trading period to August 2014 the reported surplus was £128 K ahead of budget. The Joint Committee recognise that the business operates in a challenging and competitive market and will need to ensure that its plans remain on track to deliver results to the budgeted levels and that its governance arrangements continue to reflect the framework within which it has to operate.</p>

# Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and confirm there were no fees for the provision of non audit services.

## Fees

	Per Audit plan £	Actual fees £
Audit Fee	18,386	18,386
<b>Total fees</b>	<b>18,386</b>	<b>18,386</b>

## Fees for other services

Service	Fees £
None	Nil

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## Reports issued

Report	Date issued
Informing the Audit Risk assessment	February 2014
Audit Plan	February 2014
Audit Findings Report	September 2014
Annual Audit Letter	October 2014



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# The Audit Plan for West Mercia Energy Joint Committee

Year ended 31 March 2015

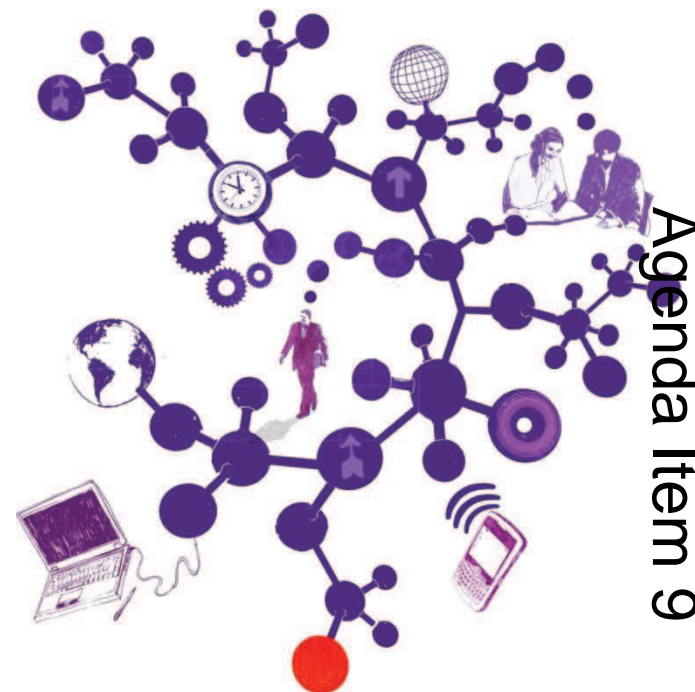
16 February 2015

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Agenda Item 9

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Joint Committee or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



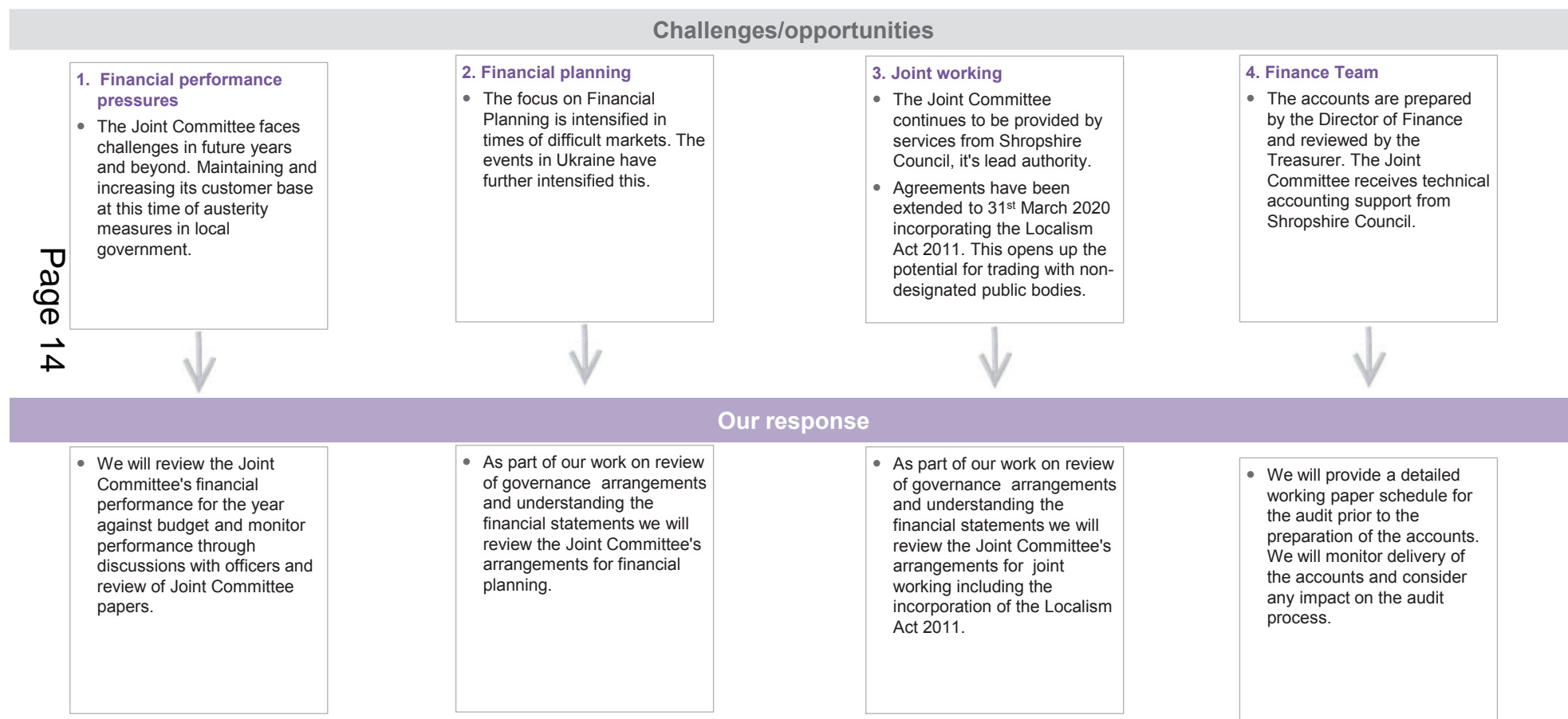
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# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Joint Committee is facing. We set out a summary of our understanding below.



# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

## Developments and other requirements

### 1. Financial reporting

- Changes to the CIPFA Code of Practice.

### 2. Legislation

- The Local Audit and Accountability Act 2014 no longer includes joint committees in the schedule of bodies requiring a statutory audit under the Act.

### 3. Corporate governance

- Annual Governance Statement (AGS).
- Explanatory foreword.

### 5. Financial Pressures

- Managing and retaining the Committee's customer base against the assumptions in its business plan will be a significant challenge in this time of austerity in Local Government as Member Authorities of the Joint Committee and much of its client base are impacted by the finance settlement.

## Our response

Whilst the key changes to the 2014/15 Code are not applicable to the Joint Committee, we will ensure that:

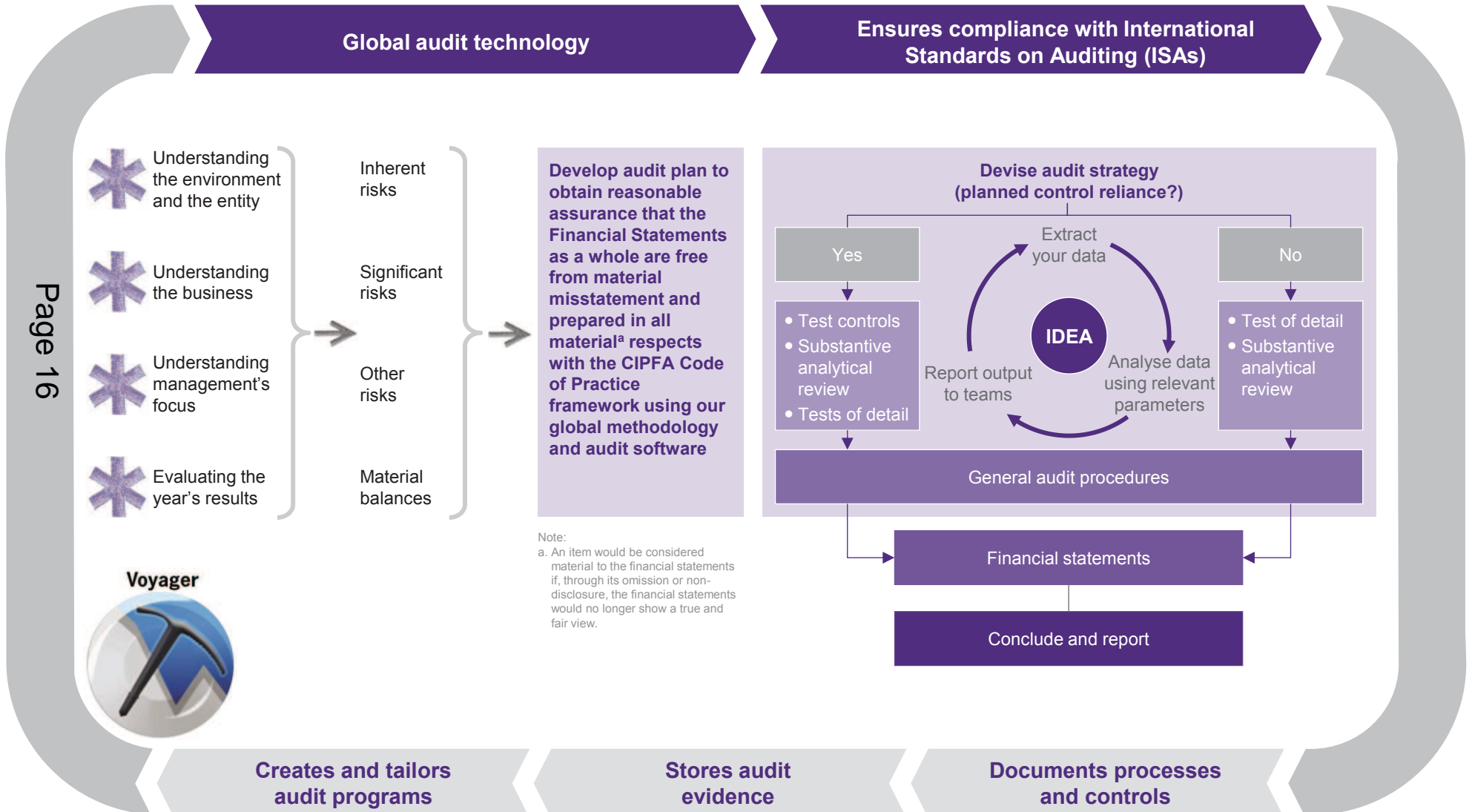
- the Joint Committee complies with the on-going requirements of the CIPFA Code of Practice through discussions with management and our substantive testing.

- We will engage with the Joint Committee on future risks/assurance needs following this change.

- We will review the arrangements the Joint Committee has in place for the production of the AGS.
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.

- We will review the Joint Committee's financial performance for the year against budget and monitor performance through discussions with officers and review of Joint Committee papers.

# Our audit approach



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# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<b>Work planned:</b> <ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies.</li><li>• Testing material revenue streams.</li></ul>
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<b>Work planned:</b> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management.</li><li>• Updating of our understanding of the journals control environment and testing of journal entries.</li><li>• Review of unusual significant transactions.</li></ul>

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# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Turnover – Utility Revenue	Existence/Occurrence Contract accounting not consistent with terms.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>We will document the processes and controls in place around the accounting for Turnover – Utility Revenue and carry out walkthrough tests to confirm operation of controls.</li> <li>Tests of detail on utility revenue included in the financial statements including testing on a sample of utility revenue transactions.</li> </ul>
Cost of Goods Sold – Utility Expenditure	Valuation – Gross. Costs not accounted for property.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>We will document the processes and controls in place around the accounting for Cost of Goods Sold – Utility Expenditure and carry out walkthrough tests to confirm operation of controls.</li> <li>Tests of detail on utility expenditure included in the financial statements including testing on a sample of utility expenditure transactions.</li> </ul>
Cost of Goods Sold – Utility Expenditure	Valuation – Net. Activity variation adjustments to expenditures not correct.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>We will document the processes and controls in place around the accounting for Cost of Goods Sold – Utility Expenditure and carry out walkthrough tests to confirm operation of controls.</li> <li>Tests of detail on utility expenditure included in the financial statements including testing on a sample of utility expenditure transactions.</li> </ul>

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# Value for money

## **Value for money**

The Code requires us to issue a conclusion on whether the Joint Committee has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

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We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Review of the annual governance statement for indications of any matters of concern relating to proper arrangements which are defined by the Audit Commission as corporate performance management and financial management arrangements that form a key part of the system of internal control;
- Consider the work of the Audit Commission and other relevant regulatory bodies or inspectorates;
- Undertake a risk assessment and consider any significant risks relating to your proper arrangements for securing economy, efficiency and effectiveness.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Joint Committee on a review-by-review basis.

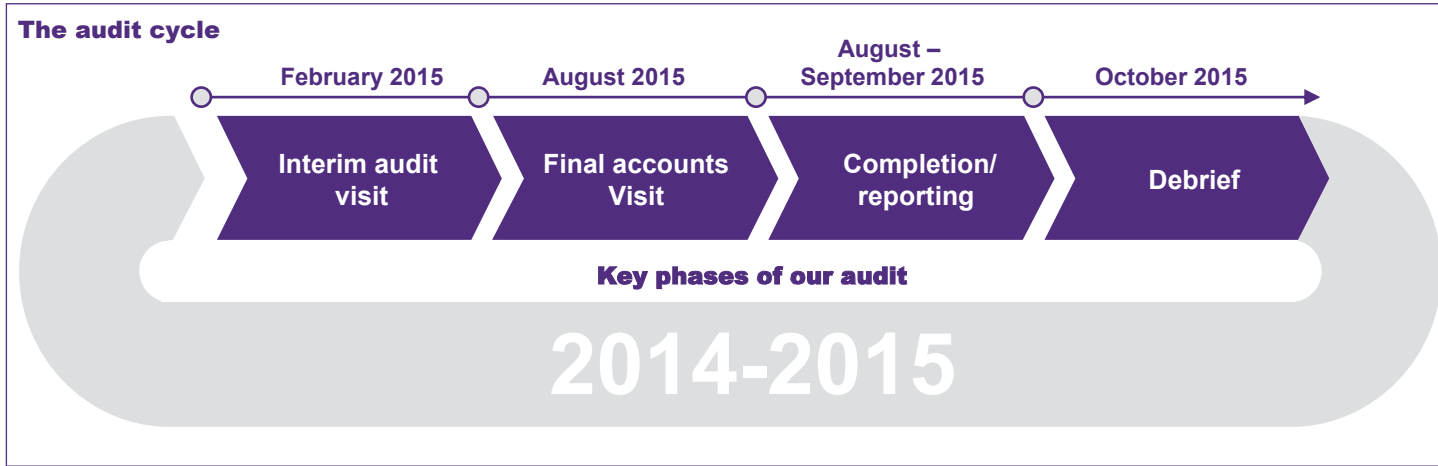
# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
<b>Internal audit</b>	<p>We have undertaken a high level review of Internal Audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have reviewed the plan of work for Internal audit to identify areas where there may be potential for us to rely on Internal Audit work.</p> <p>We also reviewed internal audit's work on the Joint Committee' key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Joint Committee and that internal audit work contributes to an effective internal control environment at the Committee. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Walkthrough testing</b>	<p>We are completing walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work to date has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Joint Committees financial statements.</p>



# Key dates



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<b>Date</b>	<b>Activity</b>
January 2015	Planning
February 2015	Interim site visit
February 2015	Presentation of audit plan to the Joint Committee
August 2015	Year end fieldwork
August 2015	Audit findings clearance meeting with Director of Finance
September 2015	Report audit findings to the Joint Committee
September 2015	Sign financial statements opinion

# Fees and independence

## Fees

	£
Joint Committee audit	18,386
<b>Total fees (excluding VAT)</b>	<b>18,386</b>

### Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Joint Committee and its activities, have not changed significantly
- The Joint Committee will make available management and accounting staff to help us locate information and to provide explanations

## Fees for other services

Service	Fees £
None	Nil

### Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Joint Committee.

## Respective responsibilities

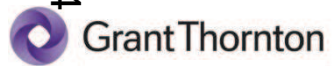
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Joint Committee's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Joint Committee's key risks when reaching our conclusions under the Code.

It is the responsibility of the Joint Committee to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Joint Committee is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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# Informing the audit risk assessment for West Mercia Energy Joint Committee

**Year ended**

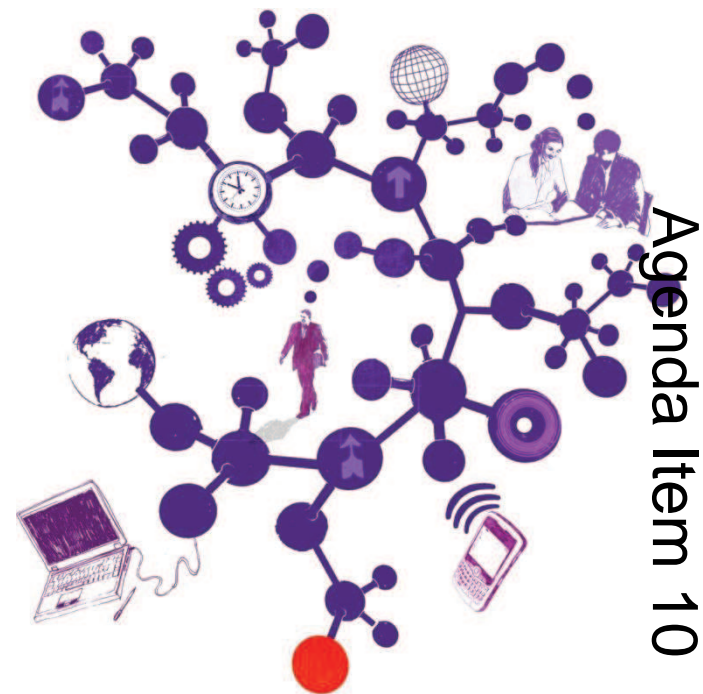
31 March 2015

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Agenda Item 10

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Joint Committee's external auditors and the Joint Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Joint Committee under auditing standards.

## Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Joint Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Joint Committee and also specify matters that should be communicated.

The two-way communication assists both the auditor and the Joint Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Joint Committee and supports the Joint Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Joint Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- related parties
- accounting estimates.

This report includes a series of questions on each of these areas and the response we have received from the Joint Committee's management. The Joint Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.



# Fraud

## Issue

### Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Joint Committee and management. Management, with the oversight of the Joint Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Joint Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Joint Committee's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Joint Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Joint Committee oversees the above processes. We are also required to make inquiries of both management and the Joint Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Joint Committee's management.

# Fraud risk assessment

Question	Management response
<p>Has the Joint Committee assessed the risk of material misstatement in the financial statements due to fraud or error? What are the results of this process?</p>	<p>Yes – By the establishment of control systems to reduce the risk through financial regulations, standing orders and scheme of delegation. By employing staff within the finance function with the appropriate professional qualifications. By the regular production of management accounts and comparison to annual budgets.</p>
<p>How are the Joint Committee satisfied that the overall control environment is robust. In particular what processes does the Joint Committee have in place to identify and respond to risks of fraud?</p>	<p>Fraud risks are identified by Internal audit in their audit planning process; in identifying key controls to be assessed as part of an audit; in targeted fraud prevention work and by raising awareness of the potential for fraud with staff, members and people working and involved with WME. This is done through the Anti-Fraud and Corruption Strategy and speaking up about Wrongdoing Policy.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>No areas with a high risk of fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Yes – Journals raised by the Director have been subject to the review by the Treasurer during 2014/15.</p>

# Fraud risk assessment (continued)

Question	Management response
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets) ?</p>	<p>No areas considered to be high risk.</p>
<p>How does the Joint Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p>	<p>Reliance is taken from the annual work performed by Internal Audit who regularly report on their findings to the Joint Committee. The Internal Audit plan is approved by Joint Committee at regular intervals.</p> <p>In addition the Joint Committee receives updates on governance arrangements to provide assurance that the intended controls are working e.g. Risk management updates and the Annual Governance Statement.</p>
<p>What arrangements are in place to report fraud issues and risks to the Joint Committee?</p>	<p>Collaboration between the Director, Internal Audit and the Treasurer. A Staff Whistle blowing Policy is in place.</p>

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# Fraud risk assessment (continued)

Question	Management response
How does the Joint Committee communicate and encourage ethical behaviour of its staff and contractors?	Staff are encouraged to report their concerns about fraud as set out in the Speaking up about wrongdoing (whistleblowing) policy and the Joint Committee's Anti-Corruption Strategy.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported ?	The Joint Committee has a Whistleblowing Policy in place to enable staff to raise concerns regarding malpractice. No issues have been reported.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud ?	No.
Are you aware of any instances of actual, suspected or alleged fraud, either within the Joint Committee as a whole or within specific departments since 1 April 2014 ?	No.
Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2014 ? If so, how has the Joint Committee responded to these ?	No.

# Laws and regulations

## Issue

### Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Joint Committee, is responsible for ensuring that the Joint Committee's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Joint Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>What arrangements does the Joint Committee have in place to prevent and detect non-compliance with laws and regulations ?</p>	<p>The Joint Committee has appointed a Monitoring Officer and a Treasurer, both of whom are responsible for ensuring all applicable statutes and regulations are complied with. The Monitoring Officer will report to the Joint Committee if he/she considers any proposal or decision to be unlawful.</p> <p>The Treasurer is required to report to the Joint Committee if a decision has been made or is about to be made that involves incurring unlawful expenditure or any unlawful action in relation to the financial accounts.</p> <p>The Treasurer and the Director are professionally qualified in finance with appropriate levels of experience. The Treasurer reports directly to the Joint Committee.</p> <p>Assurance also gained from Internal Audit work for 2014-15.</p> <p>The Joint Committee has a Whistleblowing Policy in place to enable staff to raise concerns regarding malpractice. In addition, the Joint Committee's constitution incorporates Financial Regulations, Standing Orders, and Scheme of Delegation to ensure business is conducted in compliance with existing law and regulations.</p>

# Impact of laws and regulations (continued)

Question	Management response
<p>How does management gain assurance that all relevant laws and regulations have been complied with ?</p>	<p>The Joint Committee has a Annual Governance Statement which highlights the scope of responsibility which determines sound system of internal controls and management of risk. A risk register is kept and in the event of any incident, risks are reviewed to ensure controls, mitigation measures and scores are appropriate.</p> <p>The Monitoring Officer and Treasurer provide advice to the Director on compliance with relevant laws and regulations.</p> <p>Internal Audit examine, evaluate and report on arrangements to ensure compliance with legislation and regulations, recommending to management any arrangements to address weaknesses, as necessary.</p>

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## Impact of laws and regulations (continued)

Question	Management response
<p>How is the Joint Committee provided with assurance that all relevant laws and regulations have been complied with ?</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 36</p>	<p>The Monitoring Officer and Treasurer provide advice to the Joint Committee on compliance with relevant laws and regulations.</p> <p>The Joint Committee is responsible for the approval of the Annual Governance Statement and the review of the related assurances which set out the system of internal control and detail the policies and procedures in place. This provides the assurance that management arrangements are in place for identifying and responding to changes in law and regulations and highlights any significant governance issues arising as a result of such changes.</p> <p>Internal Auditors' reports to the Joint Committee incorporate issues relating to compliance with legislation and regulations, where appropriate.</p>
<p>Have there been any instances of non-compliance or suspected non-compliance with laws and regulations since 1 April 2014, or earlier with an on-going impact on the Joint Committee's 2014/15 financial statements ?</p>	<p>No.</p>



## Impact of laws and regulations (continued)

Question	Management response
What arrangements does the Joint Committee have in place to identify, evaluate and account for litigation or claims ?	<p>The Treasurer has responsibility to account for litigation or claims in the annual accounts that are considered by Joint Committee and subject to external audit.</p> <p>Given the relatively small size of the organisation, the Director would be aware of or made aware of by his team of any issues.</p>
Is there any actual or potential litigation or claims that would affect the 2014/15 financial statements ?	No.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance ?	No.

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# Going Concern

## Issue

### Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

# Going concern considerations

Question	Management response
Does the Joint Committee have procedures in place to assess the Joint Committee's ability to continue as a going concern ?	A detailed Business Plan for the Joint Committee is approved in February each year. Regular management reporting is produced for the Joint Committee indicating the positive trading performance of the business.
Is management aware of the existence of events or conditions that may cast doubt on the Joint Committee's ability to continue as a going concern ?	No.
Are arrangements in place to report the going concern assessment to the Joint Committee ?	The WME Business Plan for 2015/16 contains financial projections for 2015/16 and the Business Plan constitutes a going concern assessment where factors affecting future profitability have been considered. The Joint Agreement is currently to 31 <sup>st</sup> March 2016 and will be shortly extended to 31 <sup>st</sup> March 2020. Management regularly report to the Flexible Energy Management Panel in terms of future trading performance and contractual positions.
Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the Joint Committee's Business Plan and the financial information provided to the Joint Committee throughout the year ?	Yes.
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern ?	Yes.

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## Going concern considerations (continued)

Question	Management response
Have there been any significant issues raised with the Joint Committee during the year which could cast doubts on the assumptions made ? (Examples include adverse comments raised by internal audit regarding financial performance or significant weaknesses in systems of financial control).	No.
Does a review of available financial information identify any adverse financial indicators including negative cash flow ? If so, what action is being taken to improve financial performance ?	No.
Does the Joint Committee have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Joint Committee's objectives ? If not, what action is being taken to obtain those skills ?	Yes.

# Related Parties

## Issues

### Matters in relation to Related Parties

Local Government bodies are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Joint Committee (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the Joint Committee that gives it significant influence over the Joint Committee;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Joint Committee, or of any entity that is a related party of the Joint Committee.

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A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Joint Committee perspective but material from a related party viewpoint then the Joint Committee must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

### Question

What controls does the Joint Committee have in place to identify, account for and disclose related party transactions and relationships ?

### Management response

Members and chief officers complete annually a Related Party Transactions Declaration Form.  
At the formal tender stage of contracts, the tenderer is required to complete a declaration of any connection with officers or elected members of WME.

# Accounting estimates

Issue
<p><b>Matters in relation to accounting estimates</b></p> <p>Local government bodies apply appropriate estimates in the preparation of their financial statements. ISA (UK&amp;I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.</p> <p>Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Joint Committee identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.</p> <p>Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Joint Committee is using as part of its accounts preparation; these are detailed in Appendix A to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:</p> <ul style="list-style-type: none"><li>the estimate is reasonable; and</li><li>estimates have been calculated consistently with other accounting estimates within the financial statements.</li></ul> <p>We would ask the Joint Committee to satisfy itself that the arrangements for accounting estimates are adequate.</p>

Question	Management response
Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable ?	Yes.
How is the Joint Committee provided with assurance that the arrangements for accounting estimates are adequate ?	By obtaining the necessary input of the Treasurer, Director and Internal Audit as required.

# Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of Property Plant and Equipment	Assets are assigned to asset categories with appropriate asset lives.	Consistent asset lives applied to each asset category.	No	The useful lives of equipment are recorded in accordance with the adopted accounting policy of the Joint Committee	No
Depreciation	Depreciation is provided for on property plant and equipment with a finite useful life on a straight-line basis	Consistent application of depreciation method across assets	No	The length of the life is determined at the point of acquisition or revaluation.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	No	Valuations are made in-line with the CIPFA Code of Practice guidance.	No
Non adjusting events - events after the balance sheet date	The Joint Committee follows the requirements of the CIPFA Code of Practice.	The Treasurer is notified by the Director.	This would be considered on individual circumstances	This would be considered on individual circumstances	No

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## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Measurements are obtained from appropriate sources. The Joint Committee follows the requirements of the CIPFA Code of Practice.	The financial instruments are measured by the Director and the accounts reviewed by the Treasurer .	No	The measurements are based upon the best information held at the current time and are provided by experts in their field.	No
Supplier accruals	Accruals are estimated by reviewing goods and services received prior to the end of the financial year for which an invoice has not been received.	The date of receipt of the goods and services is used in the estimation of the accrual.	No	The use of actual dates of receipt of goods and services gives a low degree of uncertainty.	No
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Mercers. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Joint Committee responds to queries raised by the administering Joint Committee Shropshire Council.	The Joint Committee are provided with an actuarial report by Mercers (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No

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## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are made where an event has taken place that gives the Joint Committee a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense line in the CI&ES in the year that the Joint Committee becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties	Charged in the year that the Joint Committee becomes aware of the obligation	No	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income if it is virtually certain that reimbursement will be received by the Joint Committee	No

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# SHROPSHIRE COUNCIL AUDIT SERVICES

## INTERNAL AUDIT REPORT

### WEST MERCIA ENERGY

#### FINANCE 2014/15

<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>	September 2014
<b>Debrief meeting</b>	24 <sup>th</sup> September 2014
<b>Draft report issued</b>	8th October 2014
<b>Responses received</b>	9 <sup>th</sup> October 2014
<b>Final report issued</b>	14 <sup>th</sup> October 2014

## **Introduction and Background**

1. As part of the approved internal audit plan for 2014/15 we have undertaken a review of Finance.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards developed jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).
3. The Auditor would like to express his 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 follow up the previous recommendation and undertake a systems audit of the finance process using established documentation and testing.

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 is an established process for preparation of the annual budget.
  - The annual budget is approved by members prior to the start of the financial year.
  - There is an appropriate reconciliation process to ensure the accuracy of reported information.
  - Management Accounts are 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
6. The audit was delivered on time and budget.

## **Audit Opinion**

7. An opinion is given on the effectiveness of the control environment which indicates the level of assurance that can be taken based upon our testing and evaluation of the system. This opinion will be reported to the Audit 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 audit work undertaken we 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 consistently applied.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed so that any material weaknesses in internal control have a reasonable chance of discovery through sample testing, it cannot guarantee or give absolute assurance against all material weaknesses, the overriding of management controls, collusion, 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
1	0	0	1	0

10. Our review identified the following areas where appropriate management controls were in place and operating satisfactorily upon which positive assurance can be given:

	To ensure that previous recommendations have been implemented.
	There is an established process for preparation of the annual budget.
	The annual budget is approved by members prior to the start of the financial year.
	There is an appropriate reconciliation process to ensure the accuracy of reported information.
	Management Accounts are 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

11. We reviewed the previous recommendations made at the last audit which were accepted by management, the results of which are shown in the following table:

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

Good progress has been made in the implementation of previous recommendations and no previous recommendations remain outstanding.

### **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 only 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, but this is only available in a working paper note 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 the identified control weaknesses.

Ceri Pilawski  
Audit Services Manager



**ACTION PLAN FOR FINANCE 2014/15**

<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>
4.1	1	The sales and purchases upload summary spreadsheet included in the monthly upload review file should be reviewed and if no longer required should be removed from the file.	Requires Attention	Yes	This sheet is no longer required and will be deleted moving forward.	Martin Elson	Nov 2014

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# SHROPSHIRE COUNCIL AUDIT SERVICES

## INTERNAL AUDIT REPORT

### WEST MERCIA ENERGY

#### DEBTORS 2014/15

<b>Assurance Level</b>	<b>Good</b>
------------------------	-------------

<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>Fieldwork dates</b>	September 2014
<b>Debrief meeting</b>	12 <sup>th</sup> September 2014
<b>Draft report issued</b>	8 <sup>th</sup> October 2014
<b>Responses received</b>	9 <sup>th</sup> October 2014
<b>Final report issued</b>	14 <sup>th</sup> October 2014

## **Introduction and Background**

1. As part of the approved internal audit plan for 2014/15 we have undertaken a review of Debtors.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards developed jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).
3. The Auditor would like to express his 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 undertake testing in respect of the reconciliation and monitoring of the Debtors and Income System and to review progress on the implementation of the recommendations made in the previous audit.

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 procedure notes in place for the operation of the system.
  - Billing information is verified before invoicing customers.
  - There are appropriate arrangements in place to ensure prompt payment of invoices.
  - There are appropriate post opening procedures in place for the control of cash and cheques.
  - There are appropriate arrangements in place for the collection of Income by Direct Debit
  - All income received is reconciled to the bank account
  - Refunds are actioned in a timely manner with appropriate authorisation.
  - Write-offs are actioned in a timely manner with appropriate authorisation.
  - Income credited to suspense accounts is reviewed and cleared in a timely manner.
  - Management Information in respect of income is timely and adequate.
6. The audit was delivered on time and budget.

## **Audit Opinion**

7. An opinion is given on the effectiveness of the control environment which indicates the level of assurance that can be taken based upon our testing and evaluation of the system. This opinion will be reported to the Audit 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 audit work undertaken we 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 consistently applied.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed so that any material weaknesses in internal control have a reasonable chance of discovery through sample testing, it cannot guarantee or give absolute assurance against all material weaknesses, the overriding of management controls, collusion, 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
1	0	0	1	0

10. Our review identified the following areas where appropriate management controls were in place and operating satisfactorily upon which positive assurance can be given:

	To ensure that previous recommendations have been implemented.
	There are appropriate policies and procedure notes in place for the operation of the system.
	Billing information is verified before invoicing customers.
	There are appropriate arrangements in place to ensure prompt payment of invoices.
	There are appropriate post opening procedures in place for the control of cash and cheques.
	There are appropriate arrangements in place for the collection of Income by Direct Debit
	All income received is reconciled to the bank account
	Refunds are actioned in a timely manner with appropriate authorisation.
	Write-offs are actioned in a timely manner with appropriate authorisation.
	Income credited to suspense accounts is reviewed and cleared in a timely manner.
	Management Information in respect of income is timely and adequate.

11. We reviewed the previous recommendations made at the last audit which were accepted by management, the results of which are shown in the following table:

Number of recommendations accepted by management at the last audit	2
Recommendations implemented	0
Recommendations partially implemented	1
Recommendations superseded	1
Recommendations not actioned	0

Good progress has been made in the implementation of previous recommendations. Recommendations that remain outstanding have been repeated 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 only 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, but this is only available in a working paper note 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 the identified control weaknesses.

Ceri Pilawski  
Audit Services Manager

**ACTION PLAN FOR DEBTORS 2014/15**

<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>
8.1	1	When a customer has been contacted about a credit balance this should be recorded on Sage to evidence that the contact has been made. (Updated from the previous recommendation made and agreed in 2013/14).	Requires Attention	Yes	It is accepted that on occasions notes have not been recorded for attempted contact with customers with low value credit balances.	Martin Elson	On going

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# SHROPSHIRE COUNCIL AUDIT SERVICES

## INTERNAL AUDIT REPORT

### RISK MANAGEMENT 2014/15

<b>Assurance Level</b>	<b>Limited</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>Auditors</b>	<b>Peter Chadderton</b>
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<b>Fieldwork dates</b>	January 2015
<b>Debrief meeting</b>	27 <sup>th</sup> January 2015
<b>Draft report issued</b>	2 <sup>nd</sup> February 2015
<b>Responses received</b>	3 <sup>rd</sup> February 2015
<b>Final report issued</b>	3 <sup>rd</sup> February 2015

## Introduction and Background

1. As part of the approved internal audit plan for 2014/15 we have undertaken a review of Risk Management.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards developed jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).
3. We would like to express our 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 review the risk management process including a desk top review of the revised risk policy.
5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
  - Previous recommendations have been implemented as agreed.
  - Risks arising from business strategies and activities are identified and prioritised and management and the board have determined the level of risk acceptable to the organisation.
  - Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels that were determined to be acceptable to management and the board.
  - Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.
  - The board and management received periodic reports of the results of the risk management process.
6. The audit was delivered on time and budget.

## Audit Opinion

7. An opinion is given on the effectiveness of the control environment which indicates the level of assurance that can be taken based upon our 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 audit work undertaken we are able to give the following assurance opinion:

<b>Limited</b>	Whilst there is basically a sound system of control, there are
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	weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key 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 so that any material weaknesses in internal control have a reasonable chance of discovery through sample testing, it cannot guarantee or give absolute assurance against all material weaknesses, the overriding of management controls, collusion, 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	2	4	0

10. Our review identified no areas where assurance can be given.
11. The audit work identified a number of significant issues leading to the following recommendations:
  - The current risk register should be reviewed to ensure that all ratings have been correctly recorded in line with the current approved strategy to ensure that reports to the Joint Committee include all the required risks. In the event that the new Risk Management Strategy is approved by the Joint Committee the risk register will need to be revised into the appropriate format.
  - The revised risk policy should be reviewed prior to presentation to the Joint Committee to ensure that the policy has been tailored to WME providing a clear strategy to the Joint Committee and identifying their responsibilities in respect of risk management.

Audit work revealed control weaknesses which, whilst not deemed to be fundamental or significant, limits the level of assurance in the following areas:

- Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.

12. We reviewed the previous recommendations made at the last audit which were accepted by management, the results of which are shown in the following table:

Number of recommendations accepted by management at the last audit	5
Recommendations implemented	1
Recommendations partially implemented	0
Recommendations superseded	1

Limited progress has been made in the implementation of previous recommendations. Recommendations that remain outstanding have been repeated in the attached Exception Report and Action Plan.

### **Audit Approach**

13. 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.
14. Internal Audit report only 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, but this is only available in a working paper note format.
15. 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 the identified control weaknesses.

Ceri Pilawski  
Audit Services Manager

**ACTION PLAN FOR RISK MANAGEMENT AND INSURANCE 2014/15**

<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	The risk register should be expanded to include a separate tab for opportunities to allow consideration and mitigation of the risks of expansion.  (As recommended and agreed in 2013/14)	Requires Attention	Partially	Whilst this recommendation was previously accepted, the updated WME Risk Mgt Strategy details the evaluation and categorisation of risks clearly and it is not felt necessary to create a separate tab. These risks will be considered as part of this framework.	Nigel Evans	Feb 15
1.2	2	The risk register should be reviewed in a timely manner throughout the financial year and not simply as an annual exercise as part of the reporting process.  (As recommended and agreed in 2013/14)	Requires Attention	Yes	The risk register has been reviewed twice during the past 12 months and risks and the mitigation thereof are considered on a daily basis	Nigel Evans	On-going
1.3	3	The company should agree a Service Level Agreement for the provision of insurance so that they are fully aware of the services that are being	Requires Attention	Yes	To be considered as part of the 15/16 SLA	Nigel Evans	March 15

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
		provided for the premium paid.  (As recommended and agreed in 2013/14)					
2.1	4	The revised Risk Strategy should be reviewed prior to presentation to committee to ensure that the policy has been tailored to WME providing a clear strategy to the Joint Committee and identifying their responsibilities in respect of risk management.	Significant	Yes	New Risk Strategy document to be presented to the Feb Joint Committee	Nigel Evans	Feb 15
3.1	5	The current risk register should be reviewed to ensure that all ratings have been correctly recorded in line with the current approved Strategy to ensure that reports to the Joint Committee include all the required risks. In the event that the new Risk Management Strategy is approved by the Joint Committee the risk register will need to be revised into the appropriate format.	Significant	Yes	A full Risk Register will be presented at the Feb Joint Committee. This Register will include ratings on the old policy basis and the new Risk Strategy.	Nigel Evans	Feb 15
3.2	6	The risk register should be reviewed upon changes to the staffing structure to ensure that all risk owners are still appropriate and the changes have	Requires Attention	Yes	The necessary change have been made for a recent staff change	Nigel Evans	Feb 15

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
		not increased the risk in any areas.					

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## WEST MERCIA ENERGY (WME) INTERNAL AUDIT STRATEGIC PLAN 2015/16

**Responsible Officer** Ceri Pilawski

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### 1. Summary

This report details the proposed programme of audit work for the year 2015/16 and recommends that members approve the programme, as set out in the report.

Internal Audit Services to West Mercia Energy have continued to be provided by Shropshire Council and a Service Level Agreement is under review for this provision to March 2017.

### 2. Recommendations

- a) The Committee are asked to consider and endorse, with appropriate comment, the approval of the proposed programme of audits for 2015/16.

### 3. Background

The S151 Officer is legally required to maintain sound and proper financial management on behalf of the West Mercia Energy. This includes a responsibility for maintaining internal audit. Internal audit, provided by Shropshire Council, is based on a programme of audits over a four-year period, which has been in effect from WME's formation in April 2012.

Audit priorities and known risks have been examined and a detailed audit plan has been produced for the provision of audit services in the current financial year, for consideration by the Committee.

### 4. Approach to the Audit Programme

Each audit area has been reviewed with the Managing Director in relation to the risks presented to WME. Some areas are required to be audited every year, as they are fundamental to sound financial management.

The audit programme is shown at **Appendix A**. At the February 2013 meeting members agreed that, rather than approving the four years contained within the strategic plan, each years proposed plan would be reviewed and presented to committee for approval in order that the plan could be revised, if necessary, to address current issues or changes. This will ensure that the audits are timely, appropriate and add value to the service area concerned.

## 5. Resources and Delivery

WME has provided a budget in 2015/16 to deliver 26 days of audit including a small contingency. Average days over the four year period identified in the SLA are 26 per annum.

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

Internal audit strategic plan 2012/13 to 2015/16 – February 2013

Internal audit strategic plan 2013/14 - June 2013

Internal audit strategic plan 2014/15 – February 2014

**Appendices:**

**Appendix A: West Mercia Energy – Proposed Internal Audit Plan 2015/16**

## APPENDIX A

**WEST MERCIA ENERGY - AUDIT AREAS**

<b>AUDIT</b>	<b>Including review of:</b>	<b>2015/16 DAYS</b>
<b>PAYROLL</b>	Starters and leavers, overtime, travel, subsistence and performance related pay.	2
<b>PROCUREMENT</b>	Electricity	1
<b>CREDITORS</b>	Orders, payments, credit notes, purchase cards	2
<b>DEBTORS</b>	Billing, collection, refunds, write-offs, rebates (to cover gas, electricity and oil on a rolling three year basis)	3
<b>FINANCE</b>	Budgetary control, journals and control accounts reconciliation, bank control and reconciliation, exception reporting and reconciliation, VAT	3
<b>IT</b>	Follow-up of the recommendations made in the 2014/15 general IT controls review and to undertake additional in depth work on those areas identified arising from the work	5
<b>CORPORATE GOVERNANCE AND RISK MANAGEMENT</b>	Corporate governance	2
	Risk management	2
<b>ENGAGEMENT MANAGEMENT</b>	Previous recommendation follow up, audit management, audit planning, servicing Audit Committee, advisory	5
	Contingency	1
<b>TOTAL</b>		<b>26</b>

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