



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

Date: Date Not Specified

**Committee:
West Mercia Energy Joint Committee**

Date: Monday, 24 February 2014

Time: 10.00 am

Venue: Council Chamber, Westgate, Bridgnorth, Shropshire, WV16 5AA

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

Your Committee Officer is:

Emily Marshall Committee Officer

Tel: 01743 252726

Email: 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 23rd September 2013.

Copy attached marked 6.

7 External Audit - Annual Audit Letter 2012/13 - West Mercia Supplies Joint Committee (Pages 5 - 16)

Report of the External Auditor is attached, marked 7.

8 External Audit - Audit Plan 2013/14 - West Mercia Energy Joint Committee
(Pages 17 - 32)

Report of the External Auditor is attached, marked 8.

9 External Audit - Informing the Audit Risk Assessment paper 2013/14 - West Mercia Energy Joint Committee (Pages 33 - 56)

Report of the External Auditor is attached, marked 9.

10 External Audit - Internal Audit - External Audit Protocol for WME Joint Committee (Pages 57 - 60)

Report of the Audit Service Manager is attached, marked 10.

11 Internal Audit Reports 2013/2014 (Pages 61 - 90)

- a) Corporate Governance (Item 11a)
- b) Finance (Item 11b)
- c) Supplier Rebates (Item 11c)
- d) Income Streams (Item 11d)
- e) Previous Recommendation Follow Up (Item 11e)

12 Internal Audit - Audit Plan 2014/2015 (Pages 91 - 94)

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

13 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.

14 Exempt Minutes (Pages 95 - 96)

To receive the Exempt Minutes of the Joint Committee meeting held on 23rd September 2013.
Copy attached marked 14.

15 West Mercia Energy Trading Performance to Date 2013/2014 (Pages 97 - 102)

Exempt report of the Director is attached, marked 15.

16 West Mercia Energy Business Plan and Budget for 2014/15 (Pages 103 - 124)

Exempt report of the Chief Executives are attached, marked 16.

17 Minutes of the Flexible Energy Management Panel (Pages 125 - 144)

Exempt report of the Director is attached, marked 17.

18 West Mercia Energy Equality Policy (Pages 145 - 192)

Exempt report of the Director is attached, marked 18.

19 Areas of Consideration Prior to September 2014 (Pages 193 - 194)

Exempt report of the Director is attached, marked 19.

20 Date of Next Meeting

To note that the next meeting of the West Mercia Energy Joint Committee will be held on Monday, 22nd September 2014, venue to be confirmed.

Minutes of the meeting of West Mercia Energy Joint Committee held in the Council Chamber, Westgate, Bridgnorth Monday 23 September 2013 at 10.00am.

Members Present:

Herefordshire Council	P Price (Chairman) Russell B Hamilton
Shropshire Council	S Charmley M Owen
Telford & Wrekin Council	B McClements (Vice-Chairman)
Worcestershire County Council	A I Hardman

Officers Present:

West Mercia Energy	N Evans
Grant Thornton	G Patterson J Hill
Shropshire Council	J Walton C Pilawski P Chadderton E Marshall
Worcestershire County Council	M Howard
Herefordshire County Council	R Wood
Telford and Wrekin	D. Sidaway S. Bass

20. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors A England (Telford and Wrekin) and J Smith (Worcestershire).

21. NAMED SUBSTITUTIONS

There were no substitutes in attendance.

22. 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.

23. MINUTES

RESOLVED:

- 1) That the Minutes of the West Mercia Supplies Audit Committee held on 24th June 2013 be received.
- 2) That the Minutes of the West Mercia Supplies Joint Committee held on 24th June 2013 be received.

24. STATEMENT OF ACCOUNTS 2012/13 AND ANNUAL GOVERNANCE STATEMENT 2012/13

The Treasurer explained that there had been some changes around the disclosure element of the document, so items 5 (Statement of Accounts 2012/13 and Annual Governance Statement 2012/13) and 6 (External Audit – Audit Findings Report) would be dealt with together. It was explained that the draft Statement of Accounts had been reviewed by the Audit and Joint Committee in June 2013. Since then the main substance of the Accounts had not changed but there had been a number of minor disclosure issues identified by external Audit, however these had not affected the bottom line figures.

Mr Grant Patterson (Grant Thornton) presented the Audit Findings Report for 2012/13 explaining that the key issue arising from the audit was that External Audit were proposing to issue an unqualified opinion on the Joint Committee's financial statements and an unqualified Value for Money conclusion.

The key messages arising from the audit of the Joint Committee's financial statements were explained and two adjustments that had been made were highlighted.

Mr Grant Patterson explained in more detail, one of the risks that had been identified in the review of journal controls was the risk of management override of controls. Mr Patterson stressed that the audit work had not identified any evidence of management override of controls, but that the lack of segregation of duties in this area had been identified as a weakness. Members of the Joint Committee sought further clarification, in response the Treasurer explained that within a small organisation it could be difficult to segregate duties however he was confident that there were other checks and balances within the organisation that meant that the processes were secure. The Committee accepted that some change in the process was required in this area and requested that the Treasurer, the Director of West Mercia Energy and the Audit Services Manager should investigate further.

With regard to the Statement of Accounts, Mr Grant Patterson explained that some slight issues had been identified that would need amending but that these did not affect the overall bottom line figures contained within the Accounts.

To conclude, Mr Patterson explained that the fee had varied this year to take into account of the additional work around the sale of the supplies division.

RESOLVED:

- 1) That the Treasurer's Letter of Representation be received and signed by the Chairman.
- 2) That authority be delegated to the Director of West Mercia Energy, in consultation with the Chairman of the Joint Committee to finalise and sign off the Statement of Accounts for 2012/13.
- 3) That the Annual Governance Statement 2012/13 be received.

25. EXTERNAL AUDIT – AUDIT FINDINGS REPORT 2012/13

See Minute 5 above

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

26. INTERNAL AUDIT – CREDITORS SYSTEM 2013/14

Ms C Pilawski, Audit Services Manager presented the report, confirming that the overall assurance level was rated as good.

RESOLVED: That the Internal Audit Report be noted.

27. INTERNAL AUDIT – PAYROLL 2013/14

Ms C Pilawski, Audit Services Manager presented the report, confirming that the overall assurance level was rated as good.

RESOLVED: That the Internal Audit Report be noted.

28. 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.

29. EXEMPT MINUTES

(The full version of Minute 29 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 24TH June 2013 be approved as a correct record.

30. PROFIT RELATED PAY SCHEME

(The full version of Minute 30 constitutes exempt information under the Access to Information Rules and has accordingly been withheld from publication.)

RESOLVED: That the recommendations contained within the report be approved.

31. DISTRIBUTION OF SURPLUS

(The full version of Minute 31 constitutes exempt information under the Access to Information Rules and has accordingly been withheld from publication.)

RESOLVED: That the recommendations contained within the report be approved.

32. WEST MERCIA ENERGY TRADING PERFORMANCE TO DATE 2013/14

(The full version of Minute 32 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.

33. MINUTES OF THE FLEXIBLE ENERGY MANAGEMENT PANEL

(The full version of Minute 33 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.

34. DATE OF NEXT MEETING

It was noted that the next meeting of the West Mercia Energy Joint Committee would be held on Monday, 24 February 2014 at 10.00 a.m. in the Council Chamber, Westgate, Bridgnorth.

The meeting ended at 11.10 a.m.

Signed

Dated



The Annual Audit Letter for West Mercia Supplies Joint Committee

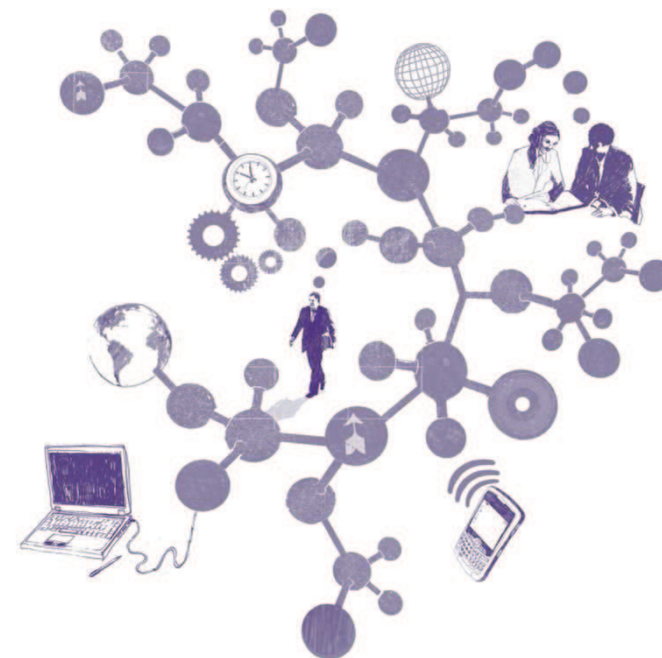
Year ended 31 March 2013

16 October 2013

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Agenda Item 7

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Section 1: Executive summary

01. Executive summary

02. Audit of the accounts

03. Value for Money

Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at West Mercia Supplies Joint Committee ('the Joint Committee') for the year ended 31 March 2013:

- auditing the 2012/13 accounts (Section two), and
- assessing the Joint Committee's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three).

The Letter is intended to communicate key messages to the Joint Committee and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 23 September 2013.

Responsibilities of the external auditors and the Joint Committee

This Letter 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).

The Joint Committee is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 12 June 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions we have provided in relation to the financial year 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Joint Committee's financial position as at 31 March 2013 and its income and expenditure for the year, and
- an unqualified conclusion in respect of the Joint Committee's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Executive summary (continued)

Key areas for Joint Committee attention

We summarise here the key messages arising from our audit for the Joint Committee to consider as well as highlighting key issues facing the Joint Committee in the future.

The Joint Committee sold its stationery division in April 2012 for £6.74million and relocated its offices for the continuing business. It continues to operate its utility division under the name of West Mercia Energy. The owners (Shropshire Council, Hereford Council, Telford & Wrekin Council and Worcestershire County Council) have updated the joint agreement and from 1 April 2013 the Joint Committee has changed its name to West Mercia Energy Joint Committee.

The continuing business is the provision of gas, electricity and oil to public sector bodies and the turnover in 2013/14 is budgeted to be £65million. In the trading period to July of 2013/14 the reported surplus was £61K ahead of budget.

The business operates in a challenging and competitive market. The Joint Committee will need to ensure that its plans remain in order on track to deliver results to the budgeted levels.

Acknowledgements

This Letter has been agreed with the Treasurer and Director and will be presented to the next meeting of the Joint Committee in February 2014.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Joint Committee's staff.

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

01. Executive summary

02. Audit of the accounts

03. Value for Money

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Joint Committee presented us with draft accounts on 20 June 2013, in accordance with the statutory deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced on 1 July 2013.

Issues arising from the audit of the accounts

The sale of the stationery division had initially been incorrectly treated as a 'disposal where other parties have interests' rather than a discontinued operation. We provided early views to Officers prior to the start of the final audit visit on the accounting for a discontinued operation. Our audit identified that a significant number of additional disclosures were required to support the disclosure for the discontinued operation.

Following a comprehensive review by Officers of the cashflow statements required for the continuing and the discontinued operation an updated set of financial statements was provided to us on the 27 September 2013, enabling us to complete our audit work by the statutory deadline.

The audit identified that there is a significant deficiency in the system used for the processing of journals. The deficiency is that not all journals are subjected to segregation of duties in the authorisation and the posting to the ledger. We extended our testing to all journals not subjected to this type of control. From our testing we did not identify any errors in the processing of journals. We reported this weakness to the Joint Committee in our Audit Findings Report on the 23 September 2013. The Joint Committee has requested that Officers implement specified actions during the 2013/14 financial year.

Annual governance statement

The Joint Committee's Annual Governance Statement was approved at the Joint Committee on the 23 September 2013 and reported no significant internal control issues. We concluded that the Annual Governance Statement and Explanatory Foreword were consistent with our knowledge of the Joint Committee. Our review confirmed that the statement fairly reflects the Joint Committee's risk assurance and governance framework.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (who are the Joint Committee). We presented our report to the Joint Committee on 23 September 2013. The report was updated following the completion of work on the updated set of accounts received on the 27 September 2013. We summarise only the key messages in this Letter.

We issued an unqualified opinion on the Joint Committee's 2012/13 accounts on 30 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Joint Committee's financial position and of the income and expenditure recorded by the Joint Committee.

Section 3: Value for Money

01. Executive summary

02. Audit of the accounts

03. Value for Money

Value for Money

Scope of work

The Code describes the Joint Committee's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance, and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion on whether the Joint Committee has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The key areas we are required to consider as specified by the Audit Commission are:

- 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, 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 2012/13 financial year; and,
- undertake a risk assessment and consider any significant risks relating to your proper arrangements for securing economy, efficiency and effectiveness.

Key findings

We have undertaken a review of the Annual Governance Statement and have not identified any matters of concern relating to the Joint Committee's corporate performance management arrangements.

We identified that the Joint Committee's budget was approved at its February 2013 meeting and monthly management accounts had been provided to the Joint Committee and the owners during the year. We have not identified any matters of concern relating to the Joint Committee's financial management arrangements.

A risk assessment has been completed. This identified the risk relating to your arrangements for securing economy, efficiency and effectiveness from the sale of the stationery division in April 2012. We have reviewed documentation of the arrangements put in place for the sale of the division. This review did not identify any matters to report to you.

Overall VFM conclusion

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 2013.

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Appendix

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	23,386	23,386
Total fees	23,386	23,386

Fees for other services

Service	Fees £
None	Nil

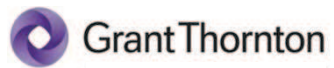
In respect of the fee:

Our fees are exclusive of VAT.

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Reports issued

Report	Date issued
Audit Plan	12 June 2013
Audit Findings Report	
- Presented to the Joint Committee 23 September 2013	11 September 2013
- Updated Audit Findings Report	27 September 2013
Annual Audit Letter	16 October 2013



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The Audit Plan for West Mercia Energy Joint Committee

Year ended 31 March 2014

10 February 2014

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Agenda Item 8

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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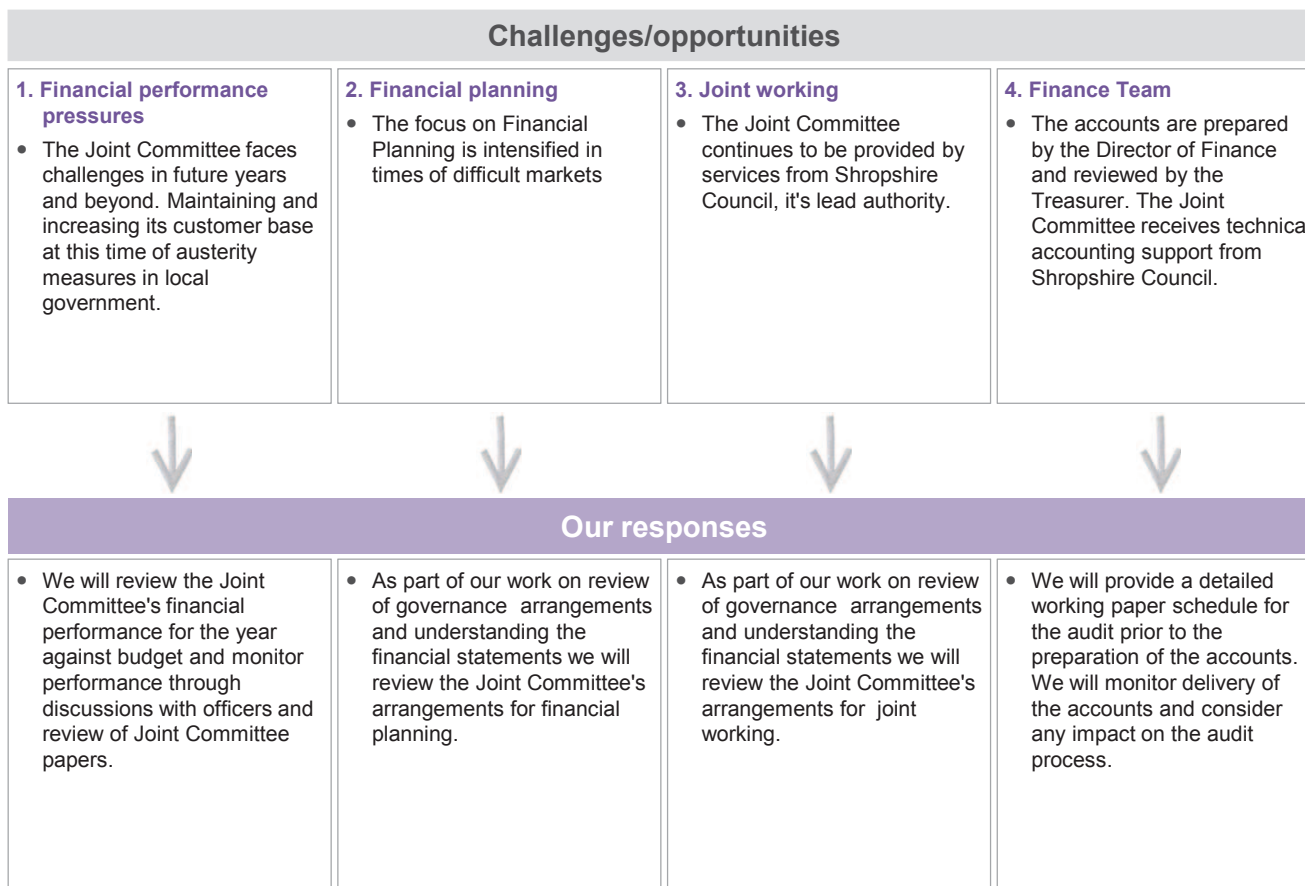
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Understanding your business

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.

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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 and associated guidance.

Developments and other requirements

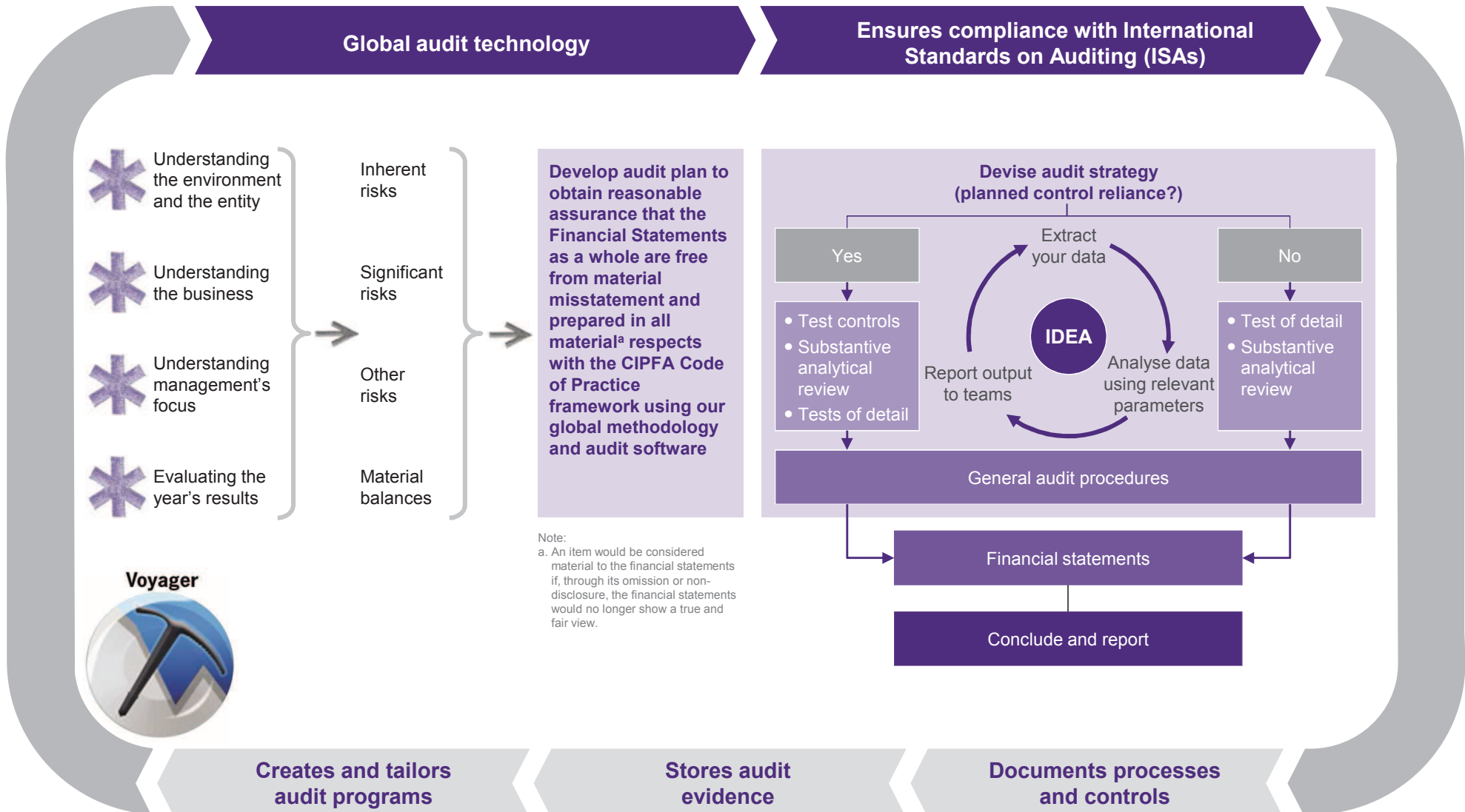
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice, including those related to pension cost disclosures. 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement 2013/14 impacts on both the owners of the Joint Committee and much of its client base. 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • The requirement for auto enrolment has come in during 2013/14 and significant structural changes (i.e. introduction of career weighted average) for the Local Government Pension Scheme (LGPS) will come into force in 2014/15. 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • 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. 	<p>6. Other requirement</p> <ul style="list-style-type: none"> • The owners of the Joint Committee signed an updated Joint Agreement. This agreement changed the name of the Joint Committee to West Mercia Energy Joint Committee to reflect the changes in its operations. There were no substantive changes to the ownership arrangements.
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Our response

<p>We will ensure that</p> <ul style="list-style-type: none"> • the Joint Committee complies with the requirements of the CIPFA Code of Practice as part of our work on the financial statements through discussions with management and through our audit testing. 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Joint Committee through our regular meetings with senior management and those charged with governance, providing a view where appropriate. 	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • We will review how the Joint Committee dealt with the impact of the 2013/14 changes and has planned for the 2014/15 changes through our meetings with senior management. 	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • We have continued to discuss any potential impact of the change in the Joint Agreement on the audit arrangements for through our regular meetings with senior management. We have been notified that the Audit Commission has changed the name of the Joint Committee in its records and therefore we are of the view that our audit appointment is unaffected.
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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.	Work planned: <ul style="list-style-type: none">• Review and testing of revenue recognition policies• Testing material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	Work planned: <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions

Other risks

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).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Turnover – Utility Revenue	Contract accounting not consistent with terms	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for Turnover – Utility Revenue and carried out walkthrough tests to confirm operation of controls. 	Tests of detail on utility revenue included in the financial statements including: <ul style="list-style-type: none"> Testing on a sample of utility revenue transactions
Cost of Goods Sold – Utility Expenditure	Costs not accounted for property	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for Cost of Goods Sold – Utility Expenditure and carried out walkthrough tests to confirm operation of controls. 	Tests of detail on utility expenditure included in the financial statements including: <ul style="list-style-type: none"> Testing on a sample of utility expenditure transactions
Debtors (long & short term) – Utility revenue	Recorded debtors not valid	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for Trade debtors and prepayments and carried out walkthrough tests to confirm operation of controls. 	Tests of detail on trade debtors and prepayments in the financial statements including: <ul style="list-style-type: none"> Review of calculation of significant prepayments and other items. Review of payments after the year end.
Creditors (long & short term) – Utility expenditure	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for Trade creditors and accruals and carried out walkthrough tests to confirm operation of controls. 	Tests of detail on trade creditors and accruals in the financial statements including: <ul style="list-style-type: none"> Review of calculation of significant accruals and other items. Review of payments after the year end.

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	Conclusion/ Summary
Internal audit	<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 service to the Joint Committee.</p> <p>We can take assurance from Internal Audit work in contributing positively to the internal control environment and overall governance arrangements at the Joint Committee.</p> <p>Our review to date of Internal Audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed the walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements -</p> <ul style="list-style-type: none"> • Utility revenue –existence/occurrence • Utility expenditure – valuation (gross and net) 	<p>From the work completed to date our work has not identified any weaknesses which impact on our audit approach.</p>

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Journal entry controls	<p>We are in the process of reviewing the Joint Committee's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>As part of this work we will follow up the significant deficiency in controls identified in the prior year. This weakness was in regard to the lack of segregation of duties in the authorisation and posting of journals. Following this finding management agreed to implement an additional review by the Treasurer of journals not subjected to segregation of duties.</p>	From the work completed to date our work has not identified any weaknesses which impact on our audit approach.
Value for Money conclusion	We have undertaken an initial risk assessment.	No significant risks have been identified from the work completed to date.

Value for Money

Introduction

The Code of Audit Practice 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.

2013/14 VfM conclusion

Our Value for Money conclusion will be based on key areas we are required to consider as specified by the Audit Commission. These key areas are:

- 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.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Joint Committee's priority areas and can be used as a source of assurance for members. Currently we do not anticipate the need to undertake specific reviews to support our VfM conclusion. However, if this position changes we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

The results of all our local VfM audit work and key messages 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.

Code criteria

Review of the annual governance statements; 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 in its use of resources

We will consider whether the Joint Committee is performing in line with its approved budget

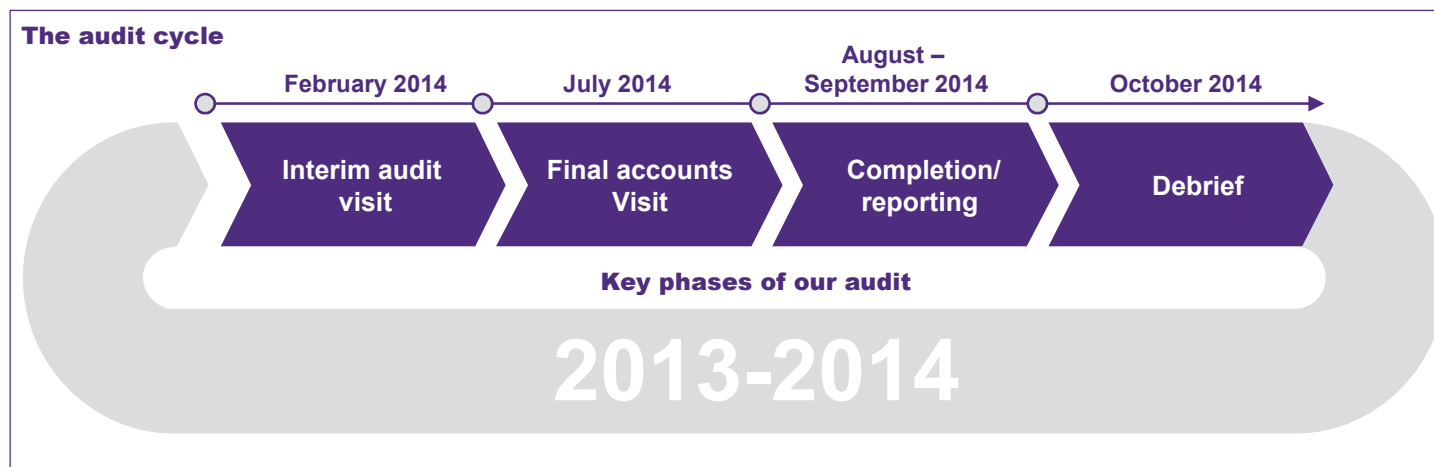
Work to be undertaken

Risk-based work focusing on review of the annual governance statements; work of the Audit Commission and other relevant regulatory bodies or inspectorates.

Specifically we will:

- Continue to monitor the Joint Committee's progress and delivery of outturn against budget to the end of the financial year

Key dates



Date	Activity
January 2014	Planning meeting
February 2014	Interim site visit
February 2014	Presentation of Audit Plan to Audit Committee
July 2014	Year end fieldwork
August 2014	Audit findings clearance meeting with Director of Finance
September 2014	Report audit findings to the Joint Committee
September 2014	Sign financial statements opinion and value for money conclusion
October 2014	Issue Annual Audit letter

Fees and independence

Fees

	£
Joint Committee audit	18,386
Total	18,386

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- 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

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).

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

Page 33
Year ended
31 March 2014

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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 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.

This 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 2013/14.</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 whistleblowing Policy is in place.</p>

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 (last approved in June 2013) 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 2013 ?	No.
Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2013 ? 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
What arrangements does the Joint Committee have in place to prevent and detect non-compliance with laws and regulations ?	<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 2013-14</p> <p>The Joint Committee has a Whistleblowing Policy (last approved in June 2013) 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
How does management gain assurance that all relevant laws and regulations have been complied with ?	<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>

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>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 2013, or earlier with an on-going impact on the Joint Committee's 2013/14 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 ?	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. Given the relatively small size of the organisation, the Director would be aware of or made aware of by his team of any issues.
Is there any actual or potential litigation or claims that would affect the 2013/14 financial statements ?	No.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance ?	No.

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 2014/15 contains financial projections for the 3 years 2014/15 to 2016/17 which constitutes a going concern assessment. The Joint Agreement is currently to 31 st March 2016 and will be shortly extended to 31 st 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.

Going concern considerations (continued)

Question	Management response
<p>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).</p>	<p>No.</p>
<p>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 ?</p>	<p>No.</p>
<p>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 ?</p>	<p>Yes.</p>

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.

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.

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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

Matters in relation to accounting estimates

Local government bodies apply appropriate estimates in the preparation of their financial statements. ISA (UK&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.

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.

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:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Joint Committee to satisfy itself that the arrangements for accounting estimates are adequate.

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Question

Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable ?

Management response

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?
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
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
Creditor 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

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?
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 body - Shropshire Council.	The Joint Committee use an expert Mercers to provide an actuarial report.	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
Pension Fund (LGPS) Liabilities	The liabilities figures are calculated by the actuarial expert Mercers. These figures are based on a set of assumptions.	The Joint Committee responds to queries raised by the administering body - Shropshire Council.	The Joint Committee use an expert Mercers to provide an actuarial report.	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

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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Internal Audit – External Audit Protocol for West Mercia Energy Joint Committee

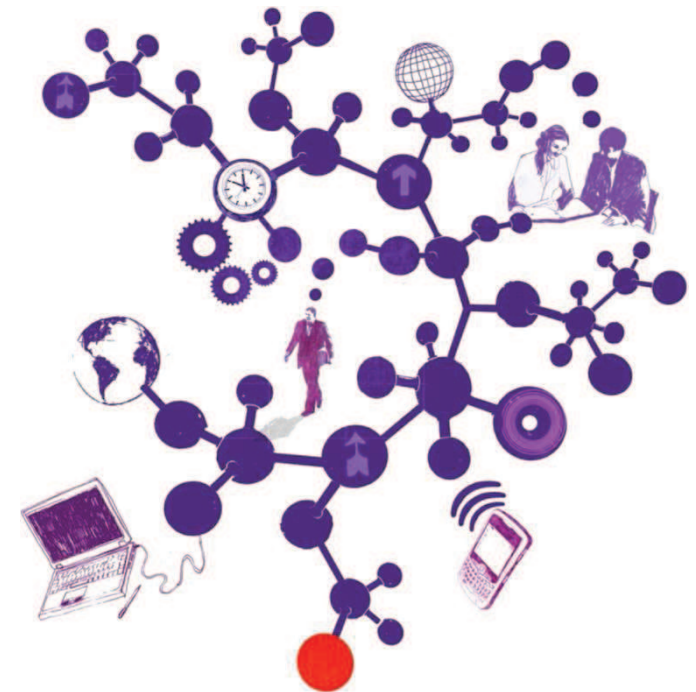
Year ended 31 March 2014

October 2013

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Agenda Item 10

Introduction and Principles

Introduction

The protocol sets out the key principles and procedures underpinning the working relationship between Audit Services and the Joint Committee's external auditors, Grant Thornton. It establishes a framework for coordination, cooperation and exchange of information.

The protocol is based on the understanding of International Standards on Auditing (ISA), in particular ISA 315 (Identifying and assessing risks of material misstatement through understanding the entity and its environment) and ISA 610 (Using the work of internal auditors).

Principles

ISA 315 states the internal audit function is likely to be relevant to the audit of the financial statements if the nature of their work relates to the entity's financial reporting. ISA 610 recognises external audit and internal audit have different objectives and priorities. The external auditor has the sole responsibility for the opinion on the financial statements and using the work of internal audit does not impact on this responsibility in any way. Therefore the external auditor needs to consider how and whether it is appropriate to place reliance on the work of internal audit.

Procedures

Together internal audit and Grant Thornton will:

- Meet on a quarterly basis to share and discuss audit plans, update and review issues identified through on-going or planned work, review progress and exchange key findings. Such discussions will inform the Grant Thornton audit approach.
- Liaise to identify and exchange knowledge of emerging or identified key risk areas.
- Use quarterly meetings to ensure reporting lines to the Audit Committee are clear and information provided is clear and timely.

Internal audit will:

- Provide details to Grant Thornton of fraud above £10,000 and details of any identified or potential cases of corruption.
- Provide Grant Thornton with appropriate access to working papers and relevant documents, and with electronic access to published internal audit reports on key financial systems which may impact upon on the audit approach.
- Share its approach to systems audit work and associated documentation with Grant Thornton.

Grant Thornton will:

- Advise internal audit which of the financial systems we consider are key to the production on the financial statements.
- Share testing strategies with internal audit on a timely basis to maximise the scope to ensure effective and efficient use of resources for both parties.
- Share details of our approach as requested.

Way forward:

This protocol has been discussed and agreed with the Audit Services Manager. The protocol will be reviewed annually and updated to reflect changes to internal audit standards and the international auditing standards (ISA's).



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SHROPSHIRE COUNCIL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT CORPORATE GOVERNANCE 2013/14

Assurance Level	Reasonable
------------------------	-------------------

Customer	West Mercia Energy
-----------------	---------------------------

Distribution	Nigel Evans, Managing Director
---------------------	---------------------------------------

Auditors	Kathy Hall
-----------------	-------------------

Fieldwork dates	24 January 2014
Debrief meeting	7 February 2014
Draft report issued	10 February 2014
Responses received	10 February 2014
Final report issued	10 February 2014

Introduction and Background

1. As part of the approved internal audit plan for 2013/14 we have undertaken a review of Corporate Governance.
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 assess the Corporate Governance arrangements in place through review and benchmarking a sample of policies for West Mercia Energy.
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.
 - Corporate Governance policies are in place which include Financial Regulations, Standing Orders, and a Scheme of Delegation.
 - The Staff Handbook is comprehensive, relevant, up to date and accessible to all staff.
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:

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

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
7	0	1	6	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:

✓	Previous recommendations have been implemented.
✓	Corporate Governance policies are in place which include Financial Regulations, Standing Orders, and a Scheme of Delegation.
✓	The Staff Handbook is comprehensive, relevant, up to date and accessible to all staff.

11. The audit work identified one significant issue leading to the following recommendation:
- Advice should be taken from HR and legal if appropriate to confirm the terms within the redundancy policy applicable to West Mercia Energy staff. In the event that this is deemed to be different to the Shropshire Council policy, this should be documented in a WME specific policy, which should be formally approved by the joint owners.
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	4
Recommendations implemented	2
Recommendations partially implemented	2
Recommendations superseded	0
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

13. The approach adopted for this audit included:
 - Follow up of previous recommendations.
 - Review of a sample of key governance documents.
 - Evaluation of the documents for appropriateness and completeness.

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 CORPORATE GOVERNANCE 2013/14

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
1.1	1	In order to meet the requirements of the Joint Agreement, WME should formally adopt the lead authority (Shropshire Council) policy on Equal Opportunities. (As previously recommended and agreed in 2012/13)	Requires Attention	Yes	Agreed - Policy will be taken to Feb 2014 Joint Committee.	Nigel Evans	February 2014
1.2	2	Consideration should be given to extending the current Related Party Transaction declaration to include a statement to the effect that those completing the declaration will advise the Joint Committee in the event that any declarations require updating in the forthcoming year. New members should also be encouraged to complete the form at their first meeting.	Requires Attention	Yes	Agreed - Will incorporated into declarations to be issued in April 2014.	Nigel Evans	April 2014
2.1	3	In revising the Annual Governance Statement for the current financial year, consideration should be given	Requires Attention	Yes	Agreed - Will be incorporated into the AGS for 2013/14	Nigel Evans	September 2014

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
		<p>to updating the document to reflect the following:</p> <p>Under the heading 'Scope of Responsibility':</p> <ul style="list-style-type: none"> to clarify whether the policies and procedures provide compliance with or are consistent with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2007); update the reference to the CIPFA/SOLACE Application Note to Delivering Good Governance in Local Government: a Framework, to December 2012. <p>Under the heading 'The Governance Framework':</p> <ul style="list-style-type: none"> add reference to the Scheme of delegation; advise on the role of the Joint Committee in undertaking the core functions of an audit committee. 					
2.2	4	Financial Regulations should include a reference to Risk Management arrangements.	Requires Attention	Yes	Agreed.	Nigel Evans	September 2014

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
3.1	5	The staff handbook should be scheduled for review on a regular basis to identify what policies, if any, need to be updated. Consideration should also be given to adding a note in the handbook to advise staff of whether updated Shropshire Council policies automatically supersede those Shropshire Council policies adopted by WME.	Requires Attention	Yes	Quarterly reviews to be conducted.	Julie Wassall	Ongoing – next review May 2014
3.2	6	Consideration should be given to amending the mileage rate to a 'flat' rate that is not aligned to the engine size of the vehicle, and the removal of the essential user rate.	Requires Attention	Yes	Agreed – no one is an essential user and all mileage claims are at the single rate. The Director to liaise with the Treasurer and the necessary updates made to be made to the policy.	Nigel Evans	September 2014
3.3	7	Advice should be taken from HR and legal if appropriate to confirm the terms within the redundancy policy applicable to West Mercia Energy staff. In the event that this is deemed to be different to the Shropshire	Significant	Yes	Agreed – Nigel Evans to liaise with Shropshire Council HR and legal.	Nigel Evans	September 2014

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
		Council policy, this should be documented in a WME specific policy, which should be formally approved by the joint owners.					

SHROPSHIRE COUNCIL AUDIT SERVICES

INTERNAL AUDIT REPORT

WEST MERCIA ENERGY

FINANCE 2013/14

Assurance Level	Good
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Customer	West Mercia Energy
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Distribution	Nigel Evans – Director
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Auditor	Mark Seddon
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Fieldwork dates	17 th and 19 th September 2013
Debrief meeting	19 th September 2013
Draft report issued	2 nd October 2013
Responses received	31 st October 2013
Final report issued	4 th November 2013

Introduction and Background

1. As part of the approved internal audit plan for 2013/14 we have undertaken a review of the Finance systems at West Mercia Energy.
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.

Follow up of the previous recommendation and 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 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:

Good	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 only one minor exception. In all areas examined appropriate management controls were in place and operating satisfactorily upon which positive assurance can be given.
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	7
Recommendations implemented	6
Recommendations partially implemented	0
Recommendations superseded	0
Recommendations not actioned	1

Good progress has been made in the implementation of previous recommendations. The recommendation that remains outstanding has 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

APPENDIX 1

ACTION PLAN FOR WEST MERCIA ENERGY FINANCE 2013/14

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
1.1	1	Unpresented items on the bank reconciliations should include the issued date so that the age of items is clear. Items over six months old should be reviewed and the cheques cancelled and reissued as required (As recommended and agreed in the previous audit).	Requires Attention	Yes	Agreed	Martin Elson	Completed 31 st Oct 2013 and will be reviewed 6 monthly thereafter

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SHROPSHIRE COUNCIL AUDIT SERVICES

INTERNAL AUDIT REPORT

WEST MERCIA ENERGY SUPPLIER REBATES 2013/14

Assurance Level	Good
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Customer	West Mercia Energy (WME)
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Distribution	Nigel Evans - Director
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Auditors	Pete Chadderton
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Fieldwork dates	November 2013
Debrief meeting	10 December 2013
Draft report issued	24 January 2014
Responses received	24 January 2014
Final report issued	24 January 2014

Introduction and Background

1. As part of the approved internal audit plan for 2013/14 we have undertaken a review of the supplier rebates received by West Mercia Energy.
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 verify that there was a system of control in place to monitor all supplier rebates received and ensure that these are correctly shown within the company accounts. To obtain independent verification of the amounts recorded directly from the suppliers.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - Supplier rebates are calculated in accordance with the agreements held.
 - There is segregation of duties between the calculation of supplier rebates and the raising of invoices.
 - Supplier rebates are reviewed on a periodic basis to ensure actuals are in line with estimates.
 - Supplier rebates are included as part of the budget setting process.
 - Management accounts provide details of supplier rebates to members.
 - Supplier rebates are clearly shown in the Annual Accounts.
6. The audit was delayed because we had difficulty in obtaining independent verification of the rebates paid from Calor Gas.

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:

Good	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	0	1

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

✓	Supplier rebates are calculated in accordance with the agreements held.
✓	There is segregation of duties between the calculation of supplier rebates and the raising of invoices.
✓	Supplier rebates are reviewed on a periodic basis to ensure actuals are in line with estimates.
✓	Supplier rebates are included as part of the budget setting process.
✓	Management accounts provide details of supplier rebates to members.
✓	Supplier rebates are clearly shown in the Annual Accounts.

11. This is the first time this area has been reviewed and no previous recommendations existed for this area from other audit work undertaken.

Audit Approach

12. The approach adopted for this audit included:

- Review and documentation of the system.
- Identification of key controls.
- 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

APPENDIX 1

ACTION PLAN FOR WEST MERCIA ENERGY SUPPLIER REBATES 2013/14

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
4.1	1	Management should consider showing the Calor Gas rebate separately within the budget, to ensure that this relatively small amount is not overlooked and to ensure the rebate is claimed in a timely manner.	Best Practice	Yes	Agreed. This has been already incorporated into the budget workings for 2014/15	Nigel Evans	Completed

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SHROPSHIRE COUNCIL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT

WEST MERCIA ENERGY INCOME STREAMS 2013/14

Assurance Level	Good
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Customer	West Mercia Energy (WME)
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Distribution	Nigel Evans - Director
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Auditors	Pete Chadderton
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Fieldwork dates	December 2013
Debrief meeting	10 th December 2013
Draft report issued	13 th December 2013
Responses received	17 th December 2013
Final report issued	17 th December 2013

Introduction and Background

1. As part of the approved internal audit plan for 2013/14 we have undertaken a review of the income control systems in place.
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 key controls in place to ensure that customers are billed in a prompt and efficient manner and that income is collected in a safe and secure manner.
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 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:

Good	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
2	0	0	2	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	7
Recommendations implemented	6
Recommendations partially implemented	1
Recommendations superseded	0
Recommendations not actioned	0

Excellent progress has been made in the implementation of previous recommendations. The recommendation that remains outstanding has 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

APPENDIX 1

ACTION PLAN FOR INCOME STREAMS 2013/14

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
1.1	1	Credit balances and credit items on customer accounts should be reviewed on a proactive basis.	Requires Attention	Yes	Agreed	Martin Elson	On Going
6.1	2	The direct debit reconciliation figure should be supported by the email from the Utilities Billing System to allow the checking officer to confirm that the reconciliation has been correctly completed.	Requires Attention	Yes	Agreed	Martin Elson	Completed

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SHROPSHIRE COUNCIL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT

FOLLOW UP OF PREVIOUS RECOMMENDATIONS 2013/14

Assurance Level	Good
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Customer	West Mercia Energy
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Distribution	Nigel Evans – Director
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Auditors	Kathy Hall
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Fieldwork dates	24 January 2014
Debrief meeting	Not required
Draft report issued	Not required
Responses received	Not required
Final report issued	29 January 2014

Introduction and Background

1. As part of the approved internal audit plan for 2013/14 we have undertaken a review of previous recommendations.
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 Director who assisted during the course of the audit.

Scope of the Audit

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.
To assess the degree to which recommendations made in the 2012/13 follow up audit have been implemented. All other recommendations made in 2012/13 have been followed up as part of each relevant audit in 2013/14.
5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - Recommendations made in the 2012/13 recommendation follow up audit have been satisfactorily implemented.
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:

Good	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. 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	5

Excellent progress has been made in the implementation of previous recommendations.

Ceri Pilawski
Audit Services Manager

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WEST MERCIA ENERGY (WME) INTERNAL AUDIT STRATEGIC PLAN 2012/13 TO 2015/16

Responsible Officer Ceri Pilawski

e-mail: ceri.pilawski@shropshire.gov.uk Telephone: 01743 252027

1. Summary

This report details the proposed programme of audit work for the year 2014/15 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 in place for this provision to March 2016.

2. Recommendations

- a) The Committee are asked to consider and endorse, with appropriate comment, the approval of the proposed programme of audits for 2014/15.

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, with 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 2014/15 to deliver 26 days of audit plus an additional five days for IT work. Average days over the four year period identified in the SLA are 25 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 2012/13 to 2015/16 - June 2013

Appendices:

Appendix A: West Mercia Energy – Proposed Internal Audit Plan 2014/15

APPENDIX A

WEST MERCIA ENERGY - AUDIT AREAS

AUDIT	Including review of:	2014/15 DAYS
PAYROLL	Starters and leavers, overtime, travel, subsistence and performance related pay.	2
PROCUREMENT	Gas	1
	Oil	1
CREDITORS	Orders, payments, credit notes, purchase cards	2
DEBTORS	Billing, collection, refunds, write-offs, rebates (to cover gas, electricity and oil on a rolling three year basis)	4
FINANCE	Budgetary control, journals and control accounts reconciliation, bank control and reconciliation, exception reporting and reconciliation, VAT	4
IT	Follow-up of the recommendations made in the 2013/14 general IT controls review and to undertake additional in depth work on those areas identified arising from the work	5
CORPORATE GOVERNANCE AND RISK MANAGEMENT	Corporate governance	2
	Risk management	2
ENGAGEMENT MANAGEMENT	Previous recommendation follow up, audit management, audit planning, servicing Audit Committee, advisory	6
	Contingency	2
TOTAL		31

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