



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

Date: 13 June 2013

Committee:
West Mercia Energy Joint Committee

Date: Monday, 24 June 2013

Time: 11.00 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

Herefordshire Council

J Jarvis
P Price (Chairman)

Shropshire Council

S Charmley
M Owen
C Wild

Telford & Wrekin Council

B McClements (Vice-Chairman)
A England

Worcestershire County Council

Representative to be confirmed
A Hardman

Your Committee Officer is:

Emily Marshall Committee Officer

Tel: 01743 252726

Email: emily.marshall@shropshire.gov.uk

AGENDA

1 Apologies for Absence

To receive apologies for absence.

2 Named Substitutes

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

3 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.

4 Minutes (Pages 1 - 4)

To receive the minutes of the meeting held on 25th February 2013.
Copy attached marked 4.

5 External Audit Plan 2012/2013 (Pages 5 - 22)

The External Audit Plan 2012/13 is attached, marked 5.

6 External Audit Fees Letter 2013/14 (Pages 23 - 26)

The External Audit Fees Letter 2013/14 is attached, marked 6.

**7 Corporate Governance and Risk Management Report 2012/13 -
WITHDRAWN**

*This item has been withdrawn, the Report will be considered by the
Audit Committee*

8 Internal Audit 2012/13 Summary Audit Report (Pages 27 - 34)

Report of the Audit Service Manager is attached, marked 8.

9 Internal Audit Plan 2013/14 - WITHDRAWN

This item has been withdrawn, the Plan will be considered by the Audit Committee

10 Financial Results 2012/13 and Statutory Statement of Accounts 2012/13 (Pages 35 - 38)

Report of the Treasurer is attached, marked 10.

11 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.

12 Exempt Minutes (Pages 39 - 40)

To receive the Exempt Minutes of the meeting held on 25th February 2013.
Copy attached marked 12.

13 West Mercia Energy Trading Performance 2012/13 (Pages 41 - 44)

Report of the Director is attached, marked 13.

14 West Mercia Energy Trading Performance to Date 2013/14 (Pages 45 - 48)

Report of the Director is attached, marked 14.

- 15 Minutes of the Flexible Energy Management Panel** (Pages 49 - 50)
Report of the Director is attached, marked 15.
- 16 Energy Governance, Accountability, Risk and Reporting Policy** (Pages 51 - 94)
Report of the Director is attached, marked 16.
- 17 Committee Considerations** (Pages 95 - 96)
Report of the Director is attached, marked 17.
- 18 Financial Regulations** (Pages 97 - 108)
Report of the Director is attached, marked 18.
- 19 Standing Orders** (Pages 109 - 118)
Report of the Director is attached, marked 19.
- 20 Scheme of Delegation** (Pages 119 - 126)
Report of the Director is attached, marked 20.
- 21 Credit Management Policy** (Pages 127 - 138)
Report of the Director is attached, marked 21.
- 22 Risk Management and Business Continuity Arrangements** (Pages 139 - 156)
Report of the Director is attached, marked 22.
- 23 Counter Fraud, Bribery and Anti-Corruption Policy and Staff Whistleblowing Policy** (Pages 157 - 164)
Report of the Director is attached, marked 23.

24 Date of Next Meeting

The next meeting will be held on Monday, 23rd September 2013 at 11.00 a.m. in the Council Chamber, Westgate, Bridgnorth

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Minutes of the meeting of West Mercia Energy Joint Committee held at Westgate, Bridgnorth Monday 25 February 2013 at 11.00am.

Members Present:

Herefordshire Council	P Price (Chairman)
Shropshire Council	S Charmley M Owen
Telford & Wrekin Council	W McClements
Worcestershire County Council	A I Hardman D. Thain

Officers Present:

West Mercia Energy	N Evans
Grant Thornton	J Hill
Shropshire Council	J Walton N Denton C Pilawski K Hall E Marshall
Worcestershire County Council	M Howard
Herefordshire Council	D. Powell
Telford and Wrekin	D. Sidaway S. Bass

1. ELECTION OF CHAIRMAN

RESOLVED: That Mr P Price be elected Chairman for the ensuing year.

2. ELECTION OF VICE-CHAIRMAN

RESOLVED: That Mr W McClements be elected Vice-Chairman for the ensuing year.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies for absence were received from Mr A England and Mr J Jarvis. The Chairman welcomed Worcestershire County Council's new representative, Mr David Thain to the meeting.

4. DISCOLSABLE PECUINARY 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.

5. MINUTES

Mr M Howard reported that further to Minute 56, the new Joint Agreement for West Mercia Energy had been agreed by all four authorities and was in the process of receiving official seal.

RESOLVED:

That the minutes of the meeting held on 24th September 2012 be approved as a correct record.

6. AUDIT COMMITTEE TERMS OF REFERENCE AND WORK PLAN

Ms C Pilawski introduced the report which recommended changes to the Audit Committee Terms of Reference and also approval of a work plan for the Committee. Ms Pilawski pointed out that the Work Plan could be varied as the year progressed and that the points raised at the earlier Audit Committee meeting would also be taken on board.

A request was made to change reference to "Internal Audit" to "Shropshire Council".

RESOLVED:

(a) That the Audit Committee Terms of Reference be adopted for inclusion within the Scheme of Delegation for West Mercia Energy.

(b) That the Audit Committee Work Plan, as detailed at Appendix B, be approved.

7. ANNUAL AUDIT LETTER 2011/2012

Ms J Hill (Grant Thornton) introduced the Annual Audit Letter 2011/12. Ms Hill drew the Committee's attention to page 3 of the letter which detailed the key messages of the audit. Ms Hill also confirmed that there were no material errors identified.

RESOLVED: That the Annual Audit Letter 2011/2012 be noted.

8. FEES LETTER 2012/13

Ms J Hill (Grant Thornton) introduced the Fees Letter 2012/13. Ms Hill explained that additional significant risks had been identified following the sale of the supplies division of the business and additional audit procedures were required which would result in an increase to the scale fee for 2012/13. It was however pointed out that efficiencies might be identified as work progressed, but it was difficult to quantify an amount at this time.

RESOLVED: That the Fees Letter 2012/13 be noted.

9. DELEGATION TO THE DIRECTOR

The report of the Chief Executives was received. The report outlined a recommendation to grant delegated authority to the Director of West Mercia Energy to approve customer contracts up to a certain level.

In response to a question, Mr N Evans, Director of West Mercia Energy confirmed that any contracts approved using delegated powers would be reported to the Flexible Energy Sub-Committee.

RESOLVED: That the Director of West Mercia Energy be granted delegated authority to approve customer contracts up to a level of £500,000 and supplier contracts up to a level of £100,000. Any contract above these levels would require the approval of each of the Chief Executives of the Owing Authorities or their nominated representative.

10. EXCLUSION OF THE 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.

11. EXEMPT MINUTES

(The full version of Minute 11 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 September 2012 be approved as a correct record.

12. WEST MERCIA ENERGY BUDGET 2012/2013

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

RESOLVED: That the Budget for 2012/13 be approved.

13. TRADING PERFORMANCE TO DATE

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

RESOLVED: That the content of the report be noted.

14. BUSINESS PLAN AND BUDGET FOR 2013/2014

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

RESOLVED: That the Business Plan and Budget for 2013/14 be approved.

15. FLEXIBLE ENERGY SUB-COMMITTEE

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

RESOLVED: That the minutes of the meetings of the Flexible Energy Sub-Committee held on 29th August 2012 and 2nd November 2012 be approved. It was noted that the Group would now be referred to as the Flexible Energy Management Panel.

16. ENERGY GOVERNANCE, ACCOUNTABILITY, RISK AND REPORTING POLICY

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

RESOLVED: That the Energy Governance, Accountability, Risk and Reporting Policy for West Mercia Energy be approved.

17. HEALTH AND SAFETY POLICY

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

RESOLVED: That the West Mercia Energy Health and Safety Policy be approved.

18. DATE OF NEXT MEETING

RESOLVED: That the next meeting of the West Mercia Energy Joint Committee be held on Monday, 24th June 2013 at 11.00 a.m. in the Council Chamber, Westgate, Bridgnorth.



The Audit Plan for West Mercia Supplies Joint Committee

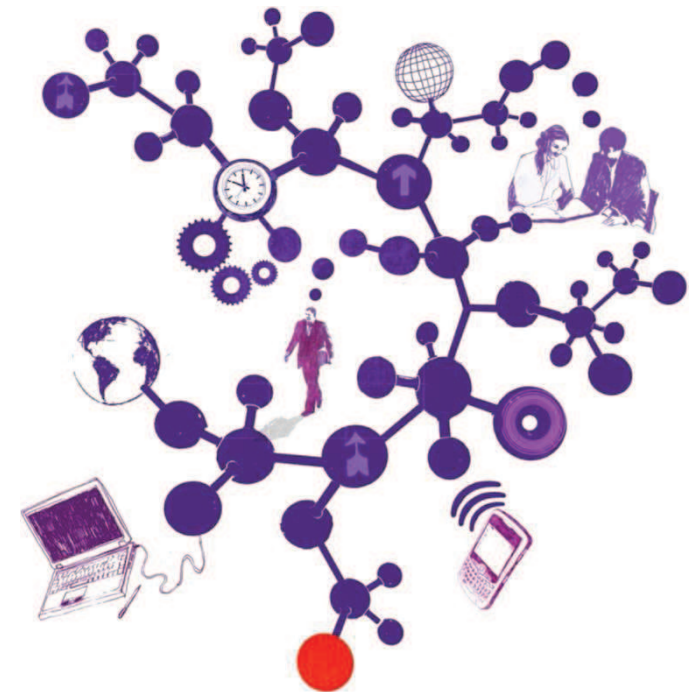
Year ended 31 March 2013

12 June 2013

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Agenda Item 5

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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Section

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2. Developments relevant to your business and the audit
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6. Other risks
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9. Logistics and our team
10. Fees and independence
11. Communication of audit matters with those charged with governance

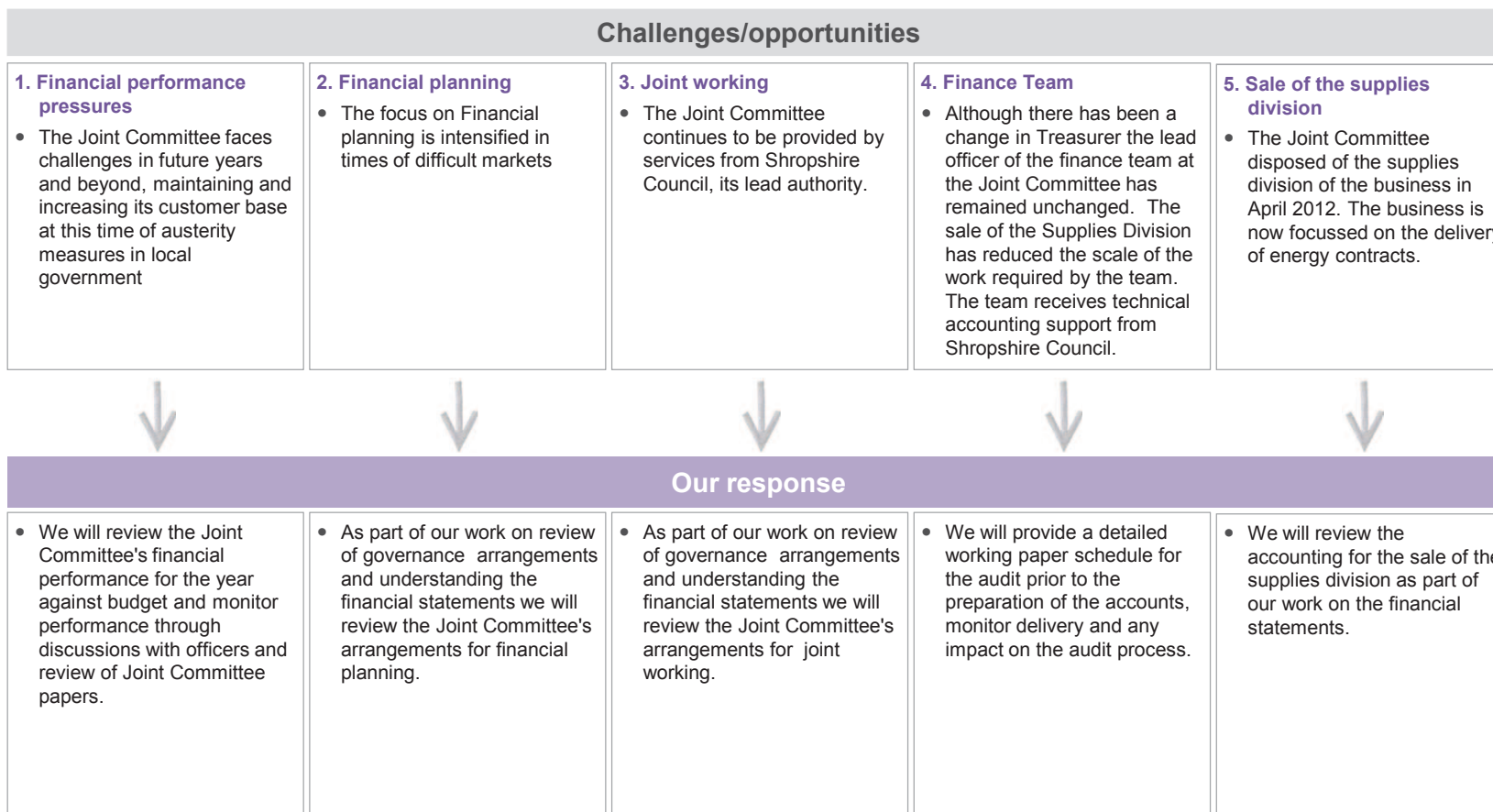
Appendices

- A. Action plan

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

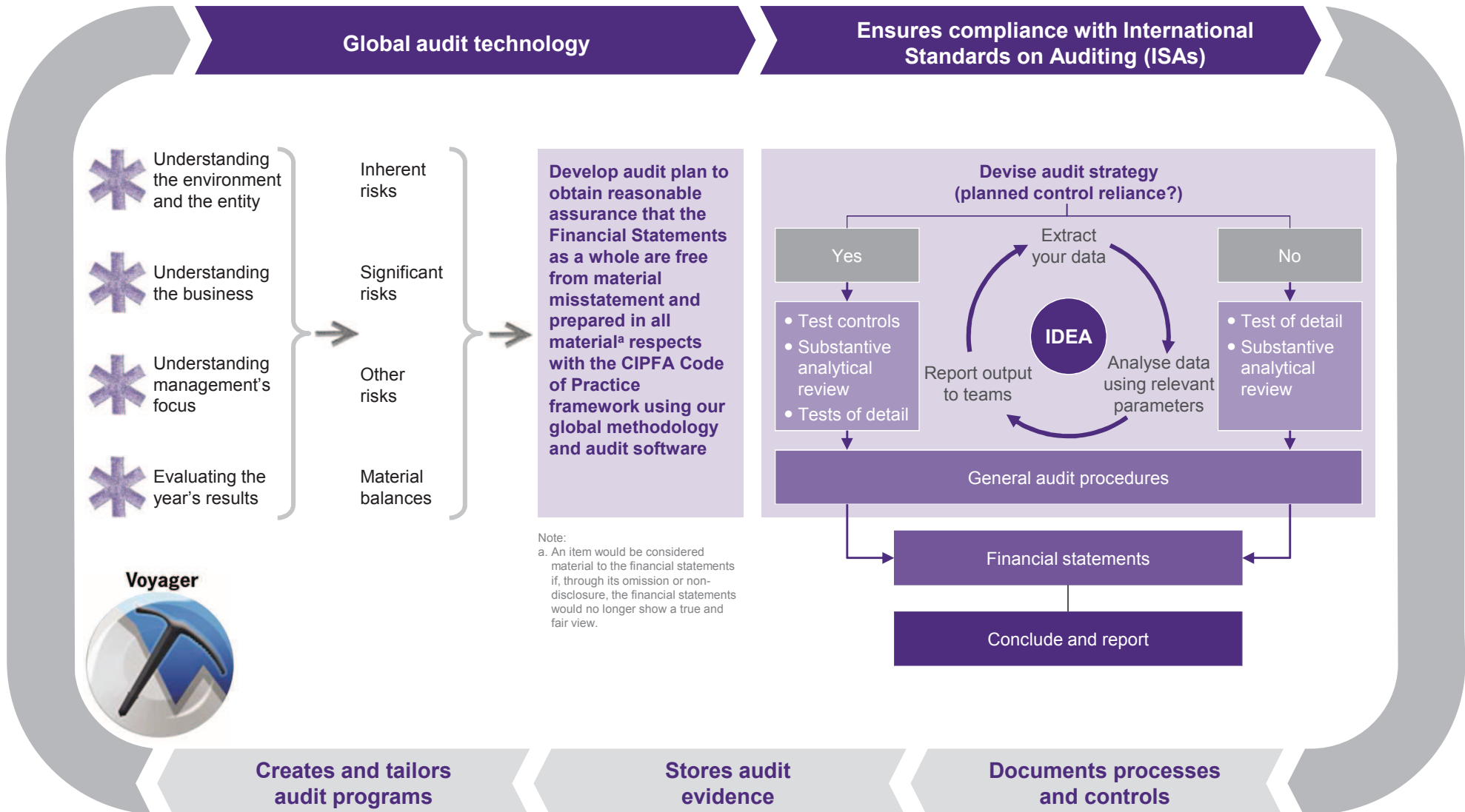
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement 2012/13 impacts on the owners of the Joint Committee 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • Planning for the impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing and maintaining the customer base against plan 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 are in the process of signing an updated joint agreement. The agreement changes the name of the Joint Committee to West Mercia Energy Joint Committee.
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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 	<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 discuss how the Joint Committee is planning to deal with the impact of the 2013/14 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 will discuss the impact of the change in name of the Joint Committee on arrangements for audit through our regular meeting with senior management and those charged with governance.
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Our audit approach

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An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
CONTINUING OPERATIONS						
Turnover – Utility Revenue	Yes	Utility revenue	Medium	Other	Contract accounting not consistent with terms	✓
Cost of Goods Sold – Utility Expenditure	Yes	Utility expenditure	Medium	Other	Costs not accounted for properly	✓
Other Trading Operation Income	No	Other revenues	Low	None		×
Cost of services - operating expenses	No	Operating expenses	Low	None		×
Cost of services – employee remuneration	No	Employee remuneration	Low	None		×
Interest payable and similar charges	No	Borrowings	Low	None		×
Pension interest cost	No	Employee remuneration	Low	None		×
Return on Pension assets	No	Employee remuneration	Low	None		×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest & investment income	No	Investments	Low	None		×
Surplus or deficit on discontinued operations	Yes	Discontinued Operations – see Significant risk	Medium	Other	Proceeds of sale incorrectly allocated	✓
Distribution to Member authorities	Yes	Operating expenses	Low	None		×
Actuarial (gains)/losses on pension fund assets & liabilities	No	Employee Remuneration	Low	None		×
DISCONTINUED OPERATIONS						
Turnover – Supplies Revenue	No	Supplies Revenues	Low	None		×
Cost of goods sold – Supplies Expenditure	No	Supplies Expenditure	Low	None		×
Operating expenses – Supplies	No	Operating Expenditure – Supplies	Low	None		×
Operating expenses – Employee remuneration – supplies	No	Operating Expenditure – Employee remuneration – Supplies	Low	None		×
(Gain)/Loss on disposal of non current assets	No	Property, plant and equipment	Low	None		×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Low	None		✓
Intangible assets	No	Intangible assets	Low	None		✗
Debtors (long & short term)	Yes	Utility Revenue & supplies revenue	Medium	Other	Recorded debtors not valid	✓
Assets held for sale	Yes	Property, Plant & Equipment	Low	None		✓
Inventories	Yes	Inventories	Low	None		✓
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓
Creditors (long & Short term)	Yes	Utility expenditure and Operating expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

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.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review and testing of revenue recognition policies <p>Further work planned:</p> <ul style="list-style-type: none"> Performance of attribute testing on material revenue streams Review and testing of revenue recognition policies
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.	<p>Work planned:</p> <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
Disposal of Supplies Division	The Joint committee has disposed of its supplies division for a significant value. There is a risk that the proceeds of sale are incorrectly allocated and accounted for in accordance with the Cipfa Code.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of judgments and decisions made management Review of proposed accounting treatment and provided early view on these <p>Further work planned:</p> <ul style="list-style-type: none"> Performance of substantive testing on the receipt of the proceeds Testing of the Completion statement entries for the sale of the division agreed with the purchaser
Implementation of a new General Ledger system	The Joint committee has implemented a new General Ledger system.	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have undertaken a high level review of the GL package We have gained an understanding of the arrangements for the transfer of balances from the previous general ledger <p>Further work planned:</p> <ul style="list-style-type: none"> Review of the initial entries into the General ledger for accuracy and completeness

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).

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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"> Performance of attribute 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"> Performance of attribute testing on a sample of utility expenditure transactions
Debtors (long & short term)	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)	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

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have :

- considered the effectiveness of the internal audit function
- considered internal audit's work on the Joint Committee's key financial systems
- undertaken walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- undertaken a high level review of Information Technology (IT) controls

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	Work performed	Conclusion/ Summary
Internal audit	<p>We have undertaken a high level review of internal audit's overall arrangements.</p> <p>We have reviewed the plan of work for Internal audit and discussed with them our proposed testing strategy to identify areas where there may be potential for us to rely on Internal Audit work.</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>
Walkthrough testing	<p>Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements -</p> <ul style="list-style-type: none"> • Utility revenue –existence/occurrence • Utility expenditure – valuation 	<p>No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.</p>

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Review of information technology (IT) controls	Our information systems specialist has performed a high level remote view of the general IT control environment, as part of the overall review of the internal controls system. The Joint committee has implemented a new General Ledger system and we have gained an understanding of the arrangements for the transfer of balances from the previous general ledger.	We concluded that, from the work undertaken to date, we have not identified any material weaknesses which are likely to adversely impact on the Joint Committee's financial statements.
Journal entry controls	We have reviewed the Joint committee's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Joint committee's control environment or financial statements.	No issues have been identified from the work completed to date in relation to journal entry controls.

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.

2012/13 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

Work to be undertaken

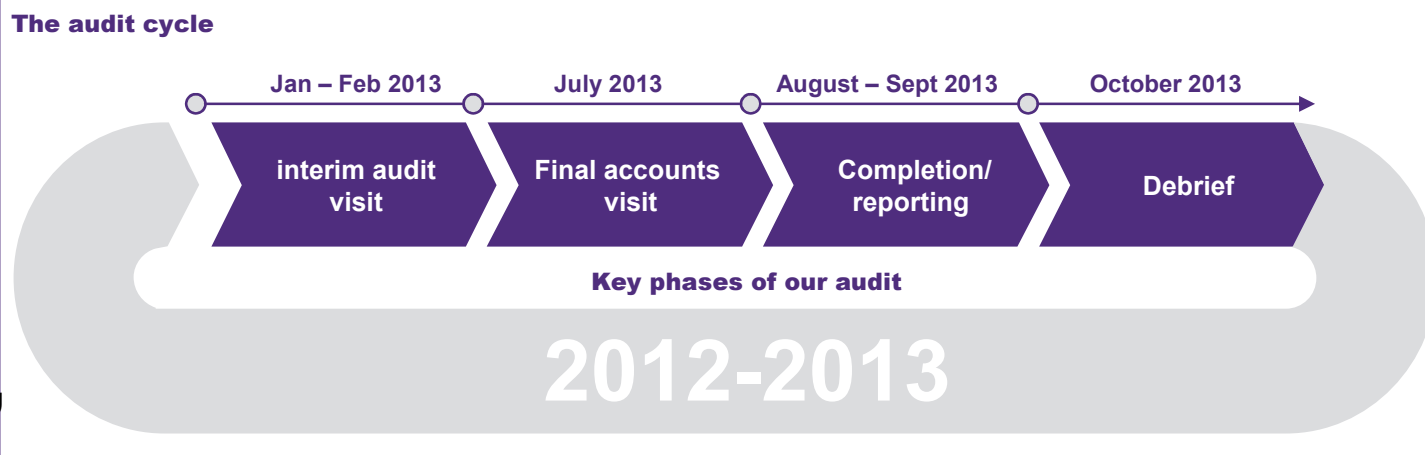
Risk-based work focusing on review of the annual governance statements; work of the Audit Commission and other relevant regulatory bodies or inspectorates.

Specifically we will:

- Continue to monitor the Joint Committee's progress and delivery of outturn against budget to the end of the financial year
- Review the Joint Committee's assessment of Value for Money for the sale of the supplies division
- Take account of evidence already available

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

Logistics and our team



Date	Activity
January 2013	Planning meeting
Feb – March 2013	Interim site work
24 June 2013	The audit plan presented to Audit Committee
July 2013	Year end fieldwork commences
August 2013	Audit findings clearance meeting
September 2013	Audit Committee meeting to report our findings
September 2013	Sign financial statements and VfM conclusion
October 2013	Issue Annual Audit Letter

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Our team

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Fees and independence

Fees

	£
Joint Committee audit (Note 1 below provides additional detail)	23,386
Total	23,386

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

Note 1 The scale fee from the Audit Commission is £18,386. The Audit Commission have approved a fee variation of £5,000 for the additional work arising on two matters not envisaged at the time of the setting of the scale fee. These matters being the sale of the supplies division and disclosures required for a discontinued operation together with the implementation of a new general ledger system.

Fees for other services

Service	Fees £
None	Nil

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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11 April 2013

Dear James

Planned audit fee for 2013/14

The Audit Commission has set its proposed work programme and scales of fees for 2013/14. In this letter we set out details of the audit fee for the Joint Committee along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

The Joint Committee's scale fee for 2013/14 has been set by the Audit Commission at £18,386. This is the same as the original audit scale fee of £18,386 for 2012/13. As reported to the Audit Committee we are currently waiting for approval from the Audit Commission to vary the 2012/13 fee to £23,386 to address the additional audit risks identified for that year.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-work-programme.

The audit planning process for 2013/14, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)

Value for Money conclusion

Under the Audit Commission Act, we must be satisfied that the Joint Committee has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on a review of the annual governance statement.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2013	4,596
December 2013	4,596
March 2014	4,596
June 2014	4,598
Total	18,386

Outline audit timetable

We will undertake our audit planning and interim audit procedures in Spring 2014. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in July/August 2014.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	January to March 2014	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Joint Committee's accounts and VfM.
Final accounts audit	July to August 2014	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	January to August 2014	Audit Findings (Report to those charged with governance)	As above.
Annual audit letter	October 2014	Annual audit letter to the Joint Committee	The letter will summarise the findings of all aspects of our work.

Our team

The key members of the audit team for 2013/14 are:

	Name	Phone Number	E-mail
Engagement Lead	Grant Patterson	0121 232 5296 07880 456 114	grant.b.patterson@uk.gt.com
Engagement Manager	Joan Hill	0121 232 5327 07880 456 108	joan.hill@uk.gt.com
Audit Executive	Nigel Meredith	0121 232 5308	nigel.j.meredith@uk.gt.com

Additional work

The scale fee excludes any work requested by the Joint Committee that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Joint Committee.

Other matters

We are aware that the Joint Committee is in the process of updating its joint agreement following the sale of the supplies division. We understand that the sale included the use of the name West Mercia Supplies and that the joint committee intends to make arrangements to change its name to West Mercia Energy Joint Committee. We will continue to work with you during this transition period.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Jon Roberts, our Public Sector Assurance regional lead partner jon.roberts@uk.gt.com.

Yours sincerely



Grant Patterson
Director
For Grant Thornton UK LLP

cc Nigel Evans - Director

WEST MERCIA ENERGY INTERNAL AUDIT ANNUAL REPORT 2012/13

Responsible Officer Ceri Pilawski

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

1. Summary

This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2013. It reports on progress against the annual audit plan. It also provides the Head of Audit's (Audit Service Manager's) opinion on the internal controls, as required by the CIPFA Code of Practice for Internal Audit in Local Government replaced by the Public Sector Internal Audit Standards from April 1st 2013, which in turn contributes to the review of the effectiveness of the systems of internal control as required by the Accounts and Audit Regulations 2011 4(2).

Final performance has been good with 100% of the revised plan being delivered.

Four good and two reasonable assurances were made in 2012/13. A total of 29 recommendations have been made in the six audit reports issued in the year. No fundamental recommendations have been made.

On the basis of the work undertaken and management responses received; the organisation's financial systems, internal control environment and risk management procedures are sound and working effectively and the Audit Service Manager is able to deliver a positive year end opinion on West Mercia Energy's internal control environment for 2012/13.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

- a) Performance against the Audit Plan for the year ended 31 March 2013.
- b) That the system of internal control is operating effectively and can be relied upon when considering the Annual Governance Statement for 2012/13.
- c) The Audit Service Manager's positive year end opinion on West Mercia Energy's internal control environment for 2012/13 on the basis of the work undertaken and management responses received.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the organisation's financial and risk management systems and procedures and is closely aligned to the West Mercia Energy risk register. The Plan is delivered in an effective manner; where Internal Audit independently and objectively examines, evaluates and reports on the adequacy of its customers control environments as a contribution to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal controls create an environment where poor performance, fraud, irregularity and inefficiency can go undetected leading to financial loss and reputational damage.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.3 There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.4 Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be positive.

4. Financial Implications

- 4.1 The Internal Audit plan is delivered within approved budgets; the work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the organisation.

5. Background

- 5.1 This report is the culmination of the work of the Internal Audit team during 2012/13 and seeks to:
- Provide an opinion on the adequacy of the governance arrangements;
 - Inform the annual review of the effectiveness of its system of internal control that informs the Annual Governance Statement by commenting on the nature and extent of significant risks; and
 - Inform the review of an effective Internal Audit by providing performance data against the plan.

- 5.2 The requirement for Internal Audit derives from local government legislation, including section 151 of the Local Government Act 1972 which requires the Authority to make arrangements for the proper administration of its financial affairs. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2011, in that “a relevant body must undertake an adequate and effective internal audit of its accounting records and systems of internal control in accordance with the proper practices in relation to internal control”.
- 5.3 The CIPFA Code of Practice for Internal Auditors in Local Government defines the scope of the annual report on internal audit activity. The annual report should include an assessment as to the extent to which compliance with the Code has been achieved. This annual report provides information to support that assessment and that an effective Internal Audit is established at West Mercia Energy, in accordance with the requirements of the 2011 Accounts and Audit Regulations. The Internal Audit Service is provided by Shropshire Council. In June 2013, a paper is to be presented to Shropshire Council’s Audit Committee which provides assurance on the service, against the CIPFA Code. West Mercia Energy can take assurance from this report.
- 5.4 From April 1st 2013, the Public Sector Internal Audit Standards replaced CIPFA’s Code of Practice for Internal Auditors in Local Government, against which the compliance of Internal Audit with sector standards was previously measured and reported upon. The new standards reiterate the requirement for the Audit Service Manager to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit service and includes both an internal and external assessment and the requirement for an annual report. The 2013/14 year will be assessed against these new standards.
- 5.5 Internal Audit operates a strategic risk based plan. The plan is reviewed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk, this results in a comprehensive range of audits undertaken in the year, to support the overall opinion on the control environment. The plan contains a small provision for contingency provision; any unforeseen work demands that may arise, i.e. special investigations, are delivered in addition to the planned work in agreement with the Managing Director.

Annual Internal Audit Opinion from Internal Audit Work undertaken during 2012/13

- 5.6 It is the responsibility of West Mercia Energy to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under the Public Sector Internal Audit Standards to deliver an annual internal audit opinion and report. The annual internal audit opinion will conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. This opinion plays a key part in informing West Mercia Energy’s Annual Governance Statement and enabling the Audit Committee to deliver their annual assurance statement to the West Mercia Energy Joint Committee.

5.7 The results of individual audits, when combined, form the basis for the overall opinion on the adequacy of the organisation’s internal control systems. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that absolute assurance. The work of Internal Audit is intended only to provide reasonable assurance on controls on the basis of the work undertaken. In assessing the level of assurance to be given, I have taken into account:

- The work undertaken on the fundamental financial systems. Whilst revealing a number of areas of weakness and identifying areas for improvement there are no significant material weaknesses that could result in a material misstatement in the accounts and reliance can be placed upon them. Plans have been adopted to manage outstanding concerns.
- From other planned audit work undertaken during the year, there have been no major financial weaknesses or issues identified; the financial systems, internal control environment and risk management procedures are sound and working effectively.

5.8 These assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.

5.9 On the basis of the work undertaken and management responses received; the organisation’s financial systems, internal control environment and risk management procedures are sound and working effectively and the Audit Service Manager is able to deliver a positive year end opinion on the West Mercia Energy’s internal control environment for 2012/13.

Key Assurances provided during 2012/13

5.10 Audit assurance opinions are awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key control.

Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non compliance with the controls that do exist. This exposes the organisation to high risks that should have been managed.
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Audit assurance opinions delivered in 2012/13

Audit	Good	Reasonable	Limited	Unsatisfactory
Corporate Governance and Risk Management		✓		
Creditors	✓			
Finance		✓		
Income	✓			
Payroll	✓			
Recommendation Follow Up (2011/12 Recommendations)	✓			
Total for year				
➤ numbers	4	2	0	0
➤ percentage	66%	34%		

- 5.11 All audit reviews in the year gave good and reasonable assurances. Positive responses to recommendations have been received by management and will be followed up next year to determine whether satisfactory improvements have been made.
- 5.12 The team has achieved 100% of the plan which is in line with its target.
- 5.13 Audit recommendations are also an indicator of the effectiveness of the internal control environment and are rated according to their priority:

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

- 5.14 Recommendations are rated in relation to the audit area rather than the organisation's control environment, for example, a control weakness deemed serious in one area which results in a significant or fundamental recommendation may not affect the overall control environment. Similarly, a number of significant recommendations in a small number of areas would not result in a limited opinion if the majority of areas examined were sound, consequently, the number of significant recommendations in the table below will not necessarily correlate directly with the number of limited assurance

opinions issued in above. Any significant or fundamental recommendations resulting from a control weakness in West Mercia Energy's control environment would be reported in detail to the Audit Committee

- 5.15 A total of 29 recommendations have been made in the six audit reports issued in the year; these are broken down by audit area in the table below.

Audit opinion and recommendations made on 2012/13 audits

System	Level of Assurance Given	Number of Recommendations made				Total
		BP	RA	S	F	
Corporate Governance and Risk Management	Reasonable		3	3		6
Creditors	Good		1			1
Finance	Reasonable		5	2		7
Income	Good		7			7
Payroll	Good	1	2			3
Recommendation Follow Up (2011/12 Recommendations)	Good		4	1		5
Totals		1	22	6	0	29
Percentage		3.45%	75.87%	20.68%	0	100%

- 5.16 It is management's responsibility to ensure that accepted audit recommendations are implemented within an agreed timescale. With the exception of annual audits where recommendations are revisited as a matter of course; remaining recommendations are followed up annually by obtaining an update from management on progress made and performing sample testing. No recommendations have been rejected in the year by management.

Audit Performance

- 5.17 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the Public Sector Internal Audit Standards, benchmarking the service against others in the sector and evaluating improvements made over the last twelve months. The effectiveness of Internal Audit is further reviewed through the Audit Committee's delivery of its responsibilities and direct from customers as they provided responses to surveys sent out after each audit.

Reporting

- 5.18 All Internal Audit work is reviewed by a senior auditor to ensure it complies with Internal Audit's standards and that the recommendations made are supported by the work undertaken before any audit reports are issued. This is seen as a fundamental part of ensuring audit quality and that clients receive

reports which are both informative, useful and add value to their work processes and procedures.

- 5.19 All audit assignments are subject to formal feedback to management. Draft reports are issued to the managers responsible for the area under review for agreement to the factual accuracy of findings and recommendations. After agreement, a formal implementation plan containing management's agreed actions and comments is issued to relevant officers. Follow up reviews capture evidence of implementation of recommendations.

Quality Assurance/Customer Feedback Survey

- 5.20 A customer feedback survey form is sent out with the all audits completed. These provide key feedback on the quality of audit service in relation to a number of areas, including:
- Pre auditing arrangements;
 - Post audit briefings;
 - Audit scope;
 - Accuracy, clarity and timeliness of the report production;
 - Practicality of recommendations;
 - Professionalism of approach and
 - Communication skills.
- 5.21 The surveys are a key part of ensuring the work meets our client expectations and that the quality of audit work is maintained. The results have been analysed over the last year and the percentage of responses are identified in the table below:

Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	2012/13
Pre-audit arrangements	79%
Post-audit briefing	96%
Audit coverage/scope of the audit	79%
Timeliness of production of report	100%
Accuracy and clarity of report	100%
Practicality of recommendations	75%
Professionalism of approach	100%
Communication skills	100%
Timeliness, competence, manner	100%
Number of forms returned	6

- 5.22 Overall the results are pleasing, showing services delivered consistently at a high level. The information is used both to improve techniques overall within the team and at annual performance appraisals to identify future development

focus relating to individual skills or competences. We still need to further improve on our pre-audit and post-audit meetings; this is reflected in some of the scores we have received.

- 5.23 During the last year a specific comment was received in respect of the audit service from a questionnaire to the effect that management were very happy, once more, with the work performed by Internal Audit.

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

Proposed 2012/13 to 2015/16 Internal Audit Programme - Audit Committee on 25 February 2013

Public Sector Internal Audit Standards.

Code of Practice for Internal Auditors in Local Government 2006 –published December 2006.

Accounts and Audit Regulations 2011.

WEST MERCIA SUPPLIES JOINT COMMITTEE 24th June 2013

Financial Results 2012/2013 and Statutory Statement of Accounts 2012/13

Report of the Treasurer

Purpose

1. The purpose of this report is:
 - a) to consider the trading results for the year 2012/13 as reflected in the Statement of Accounts attached (Appendix 1);
 - b) to note and comment on the Statement of Accounts to the year ended 31 March 2013 for formal approval by the Joint Committee by 30 September 2013 in accordance with statutory obligations;
 - c) to approve the Annual Governance Statement for the year ended 31 March 2013 (Appendix 2); and
 - d) to note that the Treasurer will submit a Letter of Representation to the District Auditor in due course.

Trading Results 2011/12

2. The Statement of Accounts for the year ended 31 March 2013 is attached. The Statement has been produced in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 as far as it is practicable and applicable for WMS-JC.
3. The Statement of Accounts includes transactions relating to the sale of the Stationery Division. As part of the sales agreement the non-current assets of WMS transferred, these consisting of the Land & Buildings (which comprised the WMS warehouse/office buildings) and the plant and equipment, including vehicles of WMS. The four Member Authorities have agreed the income from the sale, both capital (from sale of non-current assets) and revenue, will be transferred to them on an equal four way split. .
4. The Comprehensive Income and Expenditure Statement shows a gross profit and other income of £2.794 million from continuing operations. Against this are set expenses of £0.712 million, pension adjustment of £0.164 million and adjustment for discontinued service of £7.275 million resulting in a net operating loss of £5.357 million.
5. Members will wish to note that Operating Expenses include the value of Profit Related Pay (PRP) to which staff are entitled (£0. 045 million).

6. The Movement of Reserves Statement shows a General Fund balance of £4.546 million brought forward from 2011/12 to which is added the net surplus on the Comprehensive Income and Expenditure Statement for 2012/13. A number of adjustments are made to the account as follows:
- a) Adjustments netting £0.585 million in respect of pension fund contributions;
 - b) Capital expenditure of £0.030 million financed from reserves; and
 - c) The reversal of depreciation and impairment charged through the Income and Expenditure account of £0.035 million.
 - d) Adjustments netting £2.873 million in respect of sales of the stationery division asset amounts held in the Capital Adjustment Account

The Statement shows a closing balance of £2.231 million.

Approval of Statement of Accounts

7. The Accounts and Audit Regulations 2011 require that the Statement of Accounts be signed and dated by the Treasurer to the Joint Committee and certified that it represents a true and fair view of the financial position of the Committee by 30 June 2013.
8. The Accounts and Audit Regulations also require the Statement of Accounts to be considered and then approved by formal resolution of the Joint Committee by 30 September 2013.
9. Following approval there is a requirement that the Statement shall be signed and dated by the person presiding at the committee at which that approval was given.
10. The intention behind the requirement is that the Chair's signature should formally represent the completion of the Joint Committee's approval process of the accounts. It does not relate to the role of the responsible financial officer in certifying that the Statement is a proper reflection of Joint Committee's financial position.
11. The Joint Committee is invited to review the Statement of Accounts for final approval by the Joint Committee in September 2013.
12. District Audit will require written representations that management acknowledges its responsibility for the true and fair presentation of the financial statements in accordance with the applicable financial reporting framework. This will be provided in the Letter of Representation, which the Treasurer will submit shortly before the auditor gives his audit opinion by 30 September 2013.

Audit Considerations

13. The District Auditors will be commencing the Audit of the financial statements in July 2013.

Recommendation

14. The Treasurer recommends that:
 - a) The Joint Committee note and comment on the Statement of Accounts for the financial year ended 31 March 2013
 - b) The Joint Committee note and comment on the Annual Governance Statement

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