



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

Date: 17th February 2016

Committee:
West Mercia Energy Joint Committee

Date: Monday, 29 February 2016

Time: 10.00 am

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

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

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

Members of West Mercia Energy Joint Committee

<i>Herefordshire Council</i>	G Powell P Price
<i>Shropshire Council</i>	S Charmley M Wood
<i>Telford & Wrekin Council</i>	L Carter A England
<i>Worcestershire County Council</i>	J Smith A Blagg

Your Committee Officer is:

Emily Marshall Committee Officer
Tel: 01743 257717
Email: emily.marshall@shropshire.gov.uk

AGENDA

1 Election of Chairman

To elect a Chairman of the West Mercia Energy Joint Committee for the ensuing year.

2 Appointment of Vice-Chairman

To appoint a Vice-Chairman of the West Mercia Energy Joint Committee 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 - 6)

To receive the minutes of the Joint Committee meeting held on 28th September 2015.

Copy attached marked 6.

7 Supplier Contracts

The Director of WME will provide a verbal update in line with the WME Standing Orders

8 External Audit - Annual audit letter 14/15 (Pages 7 - 16)

Report of the External Auditor is attached, marked 8.

Contact: Richard Percival/James McLarnon (0121 212 4000)

9 External Audit - Audit Plan 2015/16 (Pages 17 - 30)

Report of the External Auditor is attached, marked 9.

Contact: Richard Percival/James McLarnon (0121 212 4000)

10 External Audit - Informing the Audit Risk 2015/16 (Pages 31 - 56)

Report of the External Auditor is attached, marked 10.

Contact: Richard Percival/James McLarnon (0121 212 4000)

11 Internal Audit - Performance Reports To February 2016 (Pages 57 - 82)

The reports of the Audit Services Manager are attached, marked 11.

11a – Payroll

11b – Creditors

11c – Risk Management and Insurance

11d – IT

Contact: Ceri Pilawski (01743 257739)

12 Internal Audit - Audit Plan 2016/17 (Pages 83 - 86)

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

Contact: Ceri Pilawski (01743 257739)

13 Governance Update (Pages 87 - 90)

Report of the Director of West Mercia Energy is attached, marked 13

Contact: Nigel Evans (01743 231101)

14 Flexible Energy Management Panel - Terms of Reference (Pages 91 - 94)

Report of the Director of West Mercia Energy is attached, marked 14

Contact: Nigel Evans (01743 231101)

15 Exclusion of Public and Press

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

16 Exempt Minutes (Pages 95 - 98)

To receive the Exempt Minutes of the meeting held on 28th September 2015 attached, marked 16.

Contact: Emily Marshall (01743 257717)

17 Trading Performance to Date 2015/16 (Pages 99 - 106)

Exempt report of the Director of West Mercia Energy is attached, marked 17

Contact: Nigel Evans (01743 231101)

18 Business Plan and Budget 2016/17 (Pages 107 - 138)

Exempt report of the Director of West Mercia Energy is attached, marked 18

Contact: Nigel Evans (01743 231101)

19 Minutes of the Flexible Energy Management Panel (Pages 139 - 148)

The Exempt minutes of the Flexible Energy Management Panel Meetings are attached, marked 19

Contact: Nigel Evans (01743 231101)

20 Risk Management Update (Pages 149 - 166)

Exempt report of the Director of West Mercia Energy is attached, marked 20

Contact: Nigel Evans (01743 231101)

21 Date of Next Meeting

The next meeting of the West Mercia Energy Joint Committee will be held on Monday 26th September 2016 at 10.00 a.m. in the Shrewsbury Room, Shirehall.



Committee and Date

West Mercia Energy Joint
Committee

29th February 2016

WEST MERCIA ENERGY JOINT COMMITTEE

Minutes of the meeting held on 28 September 2015

In the Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND

10.00 - 11.30 am

Responsible Officer: Emily Marshall

Email: emily.marshall@shropshire.gov.uk Tel: 01743 257717

Present

Councillor Mike Owen (Chairman)

Councillors Steve Charmley, Lee Carter, Paul Rone and John Smith.

23 Apologies for Absence

Apologies for absence were received from Councillor Adrian Hardman (Worcestershire), Graham Powell (Herefordshire), Phillip Price (Herefordshire) and Arnold England (Telford and Wrekin).

24 Named Substitutes

Councillor Paul Rone (Herefordshire) was in attendance as a substitute for Philip Price (Herefordshire).

25 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.

26 Minutes

An amendment to the Minutes was reported. Councillor P. Price was the representative from Herefordshire Council not Worcestershire as stated at minute number 2.

RESOLVED:

That the Minutes of the West Mercia Energy Joint Committee held on 16th February 2015 be approved as a correct record, subject to the above amendment.

27 Supplier Contracts

In accordance with Standing Orders, the Director of West Mercia Energy provided an update on Supplier Contracts.

He reported that with regards to the energy consultancy services contract, it had not been appropriate to go to market and so the current contract would be renewed in accordance with Standing Order 3.2(iii) with the Flexible Energy Management Panel being supportive of this approach.

In respect of the liquefied petroleum gas contract Standing Order 5.3 was being utilised to allow for post tender negotiations

RESOLVED:

That the update on supplier contracts by the Director of West Mercia Energy be noted.

28 West Mercia Energy Statement of Accounts 2014/15 and Annual Governance Statement 2014/15

The Treasurer presented the report Letter of Representation, the Statement of Accounts 2014/15 and the Annual Governance Statement 2014/15 for the West Mercia Energy Joint Committee (Copy attached to the signed minutes).

The Treasurer confirmed that there were no major issues to report and in response to a question, he explained how the pension deficit was addressed within the Business Plan, adding that there had been no concerns in this area and the next valuation was due in 2016.

RESOLVED:

1. That the Treasurer's Letter of Representation be noted and signed by the Chairman.
2. That the 2014/15 Statement of Accounts be approved and signed by the Chairman (in accordance with the requirements of the Accounts and Audit Regulations 2011).
3. That the Annual Governance Statement 2014/15 be approved.

29 External Audit - Audit Findings Report 2014/15

Mr A. Davies (External Auditor – Grant Thornton) presented the West Mercia Energy Joint Committee Audit Findings Report 2014/15 (copy attached to the signed minutes). Mr Davies expressed his appreciation for the assistance provided by the Director and his team during the audit process.

RESOLVED:

That the West Mercia Energy Joint Committee Audit Findings Report 2014/15 be noted.

30 Internal Audit - Update Reports

The Audit Services Manager presented the 2014/15 Annual Report and the Internal Audit update reports for Procurement, Finance and Debtors for 2014/15 (copies attached to the signed minutes).

RESOLVED:

1. That the Internal Audit Annual Report 2014/15 be noted.
2. That the Internal Audit Report – Procurement 2015/16 be noted.
3. That the Internal Audit Report – Finance 2015/16 be noted.
4. That the Internal Audit Report – Debtors 2015/16 be noted.

31 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.

32 Exempt Minutes

RESOLVED:

That the Exempt Minutes of the meeting held on 16th February 2015 be approved as a correct record.

33 Distribution of Surplus

The Treasurer presented an exempt report (copy attached to the signed exempt minutes), which recommended the level of distribution of surplus to the member authorities.

RESOLVED:

That the recommendations contained within the exempt report be approved.

34 Scheme of Delegation

The Treasurer requested that consideration of the report be deferred until the next meeting and outlined the reasons for this.

RESOLVED:

That consideration of the exempt report be deferred until the next meeting.

35 Flexible Energy Management Panel - Terms of Reference

The Treasurer requested that consideration of the report be deferred until the next meeting and outlined the reasons for this.

RESOLVED:

That consideration of the exempt report be deferred until the next meeting.

36 West Mercia Energy Joint Agreement

The Treasurer requested that consideration of the report be deferred until the next meeting and outlined the reasons for this.

RESOLVED:

That consideration of the exempt report be deferred until the next meeting.

37 Supplier and Customer Contracts

The Director of West Mercia Energy presented an exempt report (copy attached to the signed exempt minutes), which provided an update on Supplier and Customer Contracts for the forthcoming six month period.

RESOLVED:

That the recommendations contained within the exempt report be approved.

38 Update on the Local Authority Audit and Accountability Act 2014

The Treasurer presented an exempt report (copy attached to the signed exempt minutes), which informed members of changes to the statutory audit requirements for Joint Committees.

RESOLVED:

That the recommendation contained within the exempt report be approved.

39 Business Plan and Trading Performance to Date 2015/16

The Director of West Mercia Energy presented an exempt report (copy attached to the signed exempt minutes), which detailed the Business Plan and Trading Performance to date for 2015/16 together with the current predicted final result for the year.

RESOLVED:

That the recommendation contained within the exempt report by the Director be approved.

40 Flexible Energy Management Panel - Minutes

The Director of West Mercia Energy presented an exempt report (copy attached to the signed exempt minutes), which presented the Minutes of the Flexible Energy Management Panel meetings held on 8th January, 24th February, 14th April and 17th June 2015.

RESOLVED:

That the recommendation contained within the exempt report by the Director be approved.

41 Risk Management Update

The Director of West Mercia Energy presented an exempt report (copy attached to the signed exempt minutes), which provided an update on risks in accordance with the West Mercia Energy Risk Management Strategy.

RESOLVED:

That the recommendation contained within the exempt report be approved.

42 West Mercia Energy Health and Safety Policy

The Director of West Mercia Energy presented an exempt report (copy attached to the signed exempt minutes), which presented to Members the updated Health and Safety Policy for West Mercia Energy.

RESOLVED:

That the recommendation contained within the exempt report be approved.

43 West Mercia Energy Staff Terms and Conditions

The Treasurer provided an update on the West Mercia Energy Staff Terms and Conditions.

RESOLVED:

That the update on the West Mercia Energy Staff Terms and Conditions be noted.

44 Dates of Future Meetings

Dates of meetings for 2016 would be circulated to members in due course.

Signed (Chairman)

Date:

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<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	8
29 th February 2016	Public

EXTERNAL AUDIT - ANNUAL AUDIT LETTER 2014/15

Responsible Officer Nigel Evans

e-mail: nevens@westmerciaenergy.co.uk Tel: 01743 231101

1. Summary

- 1.1 Grant Thornton, the Joint Committee's external auditors, presented their audit findings to the Joint Committee in September and this paper enables them to present their final audit letter for the year ended 31st March 2015.

2. Recommendations

- 2.1 The Joint Committee are asked to consider and endorse, with appropriate comment, the contents of the report presented by Grant Thornton.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Grant Thornton's audit work was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

4. Financial Implications

- 4.1 There are no direct financial implications arising from this report.

5. Background

5.1 At the Joint Committee of 28 September 2015, Grant Thornton presented their findings from the audit work they had conducted on the WME accounts for the year ended 31st March 2015. Shortly after the meeting Grant Thornton issued their unqualified audit opinion for this set of accounts.

5.2 The key messages from the attached audit letter are:

- No issues were identified in respect of the risks that were identified in the audit plan.
- No issues were identified from a review of the accounting policies, estimates and key judgements.
- Unqualified opinion of the WME financial statements 2014/15.
- Unqualified value for money conclusion for 2014/15.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p>
<p>Joint Committee 28 September 2015 – Audit Findings for West Mercia Energy Joint Committee (Year ended 31 March 2015)</p>
<p>Joint Committee 16 February 2015 – Audit Plan for West Mercia Energy Joint Committee (Year ended 31 March 2015)</p>
<p>Member Councillor P Price of Herefordshire Council (vice-chair of the Joint Committee)</p>
<p>Appendices The Annual Audit Letter for West Mercia Energy Joint Committee (Year ended 31 March 2015)</p>

The Annual Audit Letter for West Mercia Energy Joint Committee

Year ended 31 March 2015

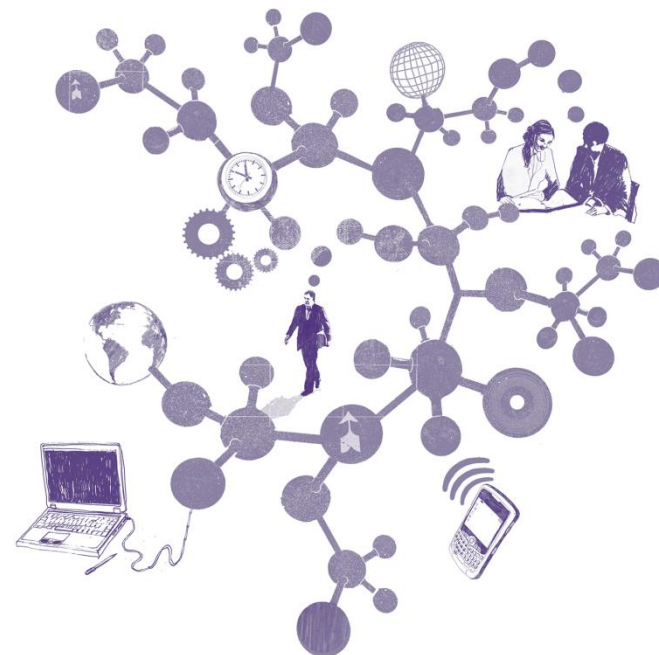
October 2015

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at West Mercia Energy Joint Committee ('the joint committee') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Joint Committee and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 16 February 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

Page 11

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 28 September 2015 to the Joint Committee. The key messages reported were:

- Our work identified no issues in respect of the risks set out in our audit plan dated 16 February 2015.
- Our review of the Joint Committee's accounting policies, estimates and key judgements identified no issues.
- In addition our work identified that controls were operating effectively and there were no adjusted or unadjusted misstatements identified.
- A number of minor disclosure changes were made to the financial statements during the audit to further enhance transparency.
- As reported in our audit plan dated 16 February 2015 the Local Audit and Accountability Act 2014 no longer includes provision for Joint Committees in the schedule of bodies requiring a statutory audit under the Act. West Mercia Energy is a £70 m business that generates a distribution for each of the members. Going forward the Joint Committee will need to consider the assurance it requires on the financial statements. A recommendation was made in our Audit Findings report presented to the Joint Committee on 28 September 2015. This is set out in appendix A to this report.

We issued an unqualified opinion on the Joint Committee's 2014/15 financial statements on 28 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Joint Committee's financial position and of the income and expenditure recorded by the Joint Committee.

Key messages continued

Value for Money (VfM) conclusion	<p>We issued an unqualified VfM conclusion for 2014/15 on 28 September 2015.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Joint Committee put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.</p>
Audit fee	<p>Our fee for 2014/15 was £18,386, excluding VAT which was in line with our planned fee for the year and which is in line with the previous year. Further detail is included within appendix B.</p>

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Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>Issues: The Local Audit and Accountability Act 2014 no longer includes provision for Joint Committees in the schedule of bodies requiring a statutory audit under the Act. West Mercia Energy is a £70 m business that generates a distribution for each of the members and also holds funds on behalf of their customers.</p> <p>Recommendation: The Joint Committee should consider their assurance needs following changes set out in the Local Audit and Accountability Act 2014.</p>	High	<p>A paper will be presented at the Joint Committee of 28th September recommending the continuation of an external audit by the Treasurer.</p> <p>Responsible officer: Treasurer Due date: 28 September 2015</p> <p>Update: Its was agreed by the Joint Committee that a level of independent assurance would be obtained going forward.</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Joint Committee Audit	18,386	18,386
Total audit fees	18,386	18,386

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Reports issued

Report	Date issued
Audit Plan	February 2015
Audit Findings Report	September 2015
Annual Audit Letter	October 2015



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<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	9
29 th February 2016	Public

EXTERNAL AUDIT - AUDIT PLAN 2015/16

Responsible Officer Nigel Evans

e-mail: nevans@westmerciaenergy.co.uk Tel: 01743 231101

1. Summary

- 1.1 At the September Joint Committee members were advised of the changes to the statutory audit requirements for Joint Committees effective from 1 April 2015. At this Joint Committee it was agreed to continue with an annual external audit to provide the Joint Committee the necessary continued assurance regarding stewardship of funds.

2. Recommendations

- 2.1 The Joint Committee are asked to consider and endorse, with appropriate comment, the audit plan for 2015/16 as presented by Grant Thornton.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Grant Thornton's audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.
- 3.4 The risks associated with not conducting an external audit including an audit opinion were considered when the decision was made to continue with an external audit.

4. Financial Implications

- 4.1 The quoted audit fee for 2015/16 is £13,000 compared to the fee for 2014/15 of £18,386. This represents a reduction of £5,386, 29%.

5. Background

- 5.1 Grant Thornton are also the external auditors of both Shropshire Council and the Shropshire County Pension Fund and will be for 2015/16 and 2016/17. Shropshire Council will conduct a procurement exercise in late 2017 to appoint auditors from 1st April 2017 and it is expected that that the audit for the WME Joint Committee will form part of this procurement exercise.

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

Joint Committee 28 September 2015 – Local Audit and Accountability Act 2014

Member

Councillor P Price of Herefordshire Council (vice-chair of the Joint Committee)

Appendices

Appendix A - Grant Thornton Audit Plan for the WME Joint Committee (year ended 31 March 2016)

The Audit Plan for West Mercia Energy Joint Committee

Year ended 31 March 2016

29 February 2016

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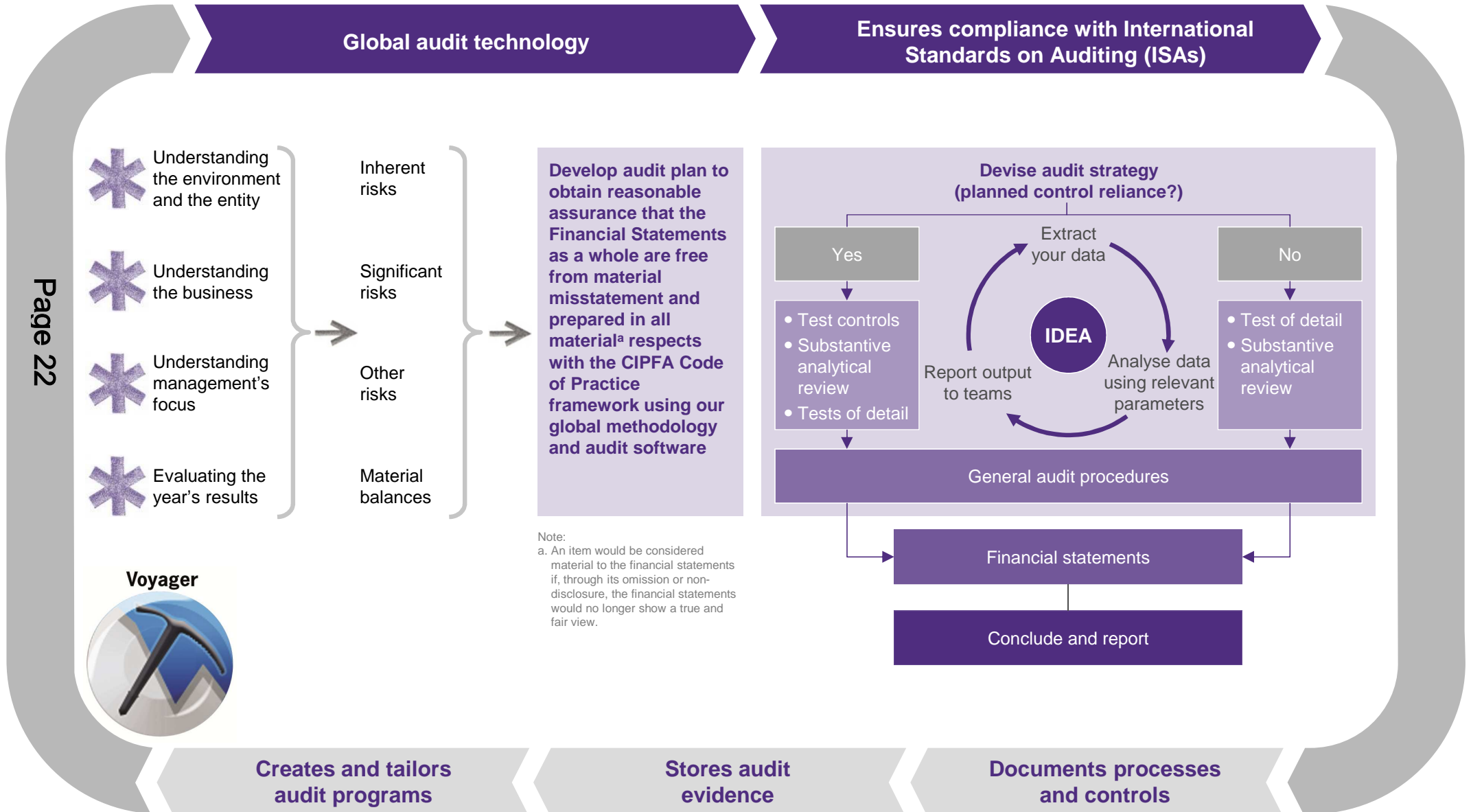
The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible 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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Our audit approach



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 planned:</p> <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 the presumption 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. • Updating of our understanding of the journals control environment and testing of journal entries. • Review of unusual significant transactions.

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Other risks identified

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

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

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

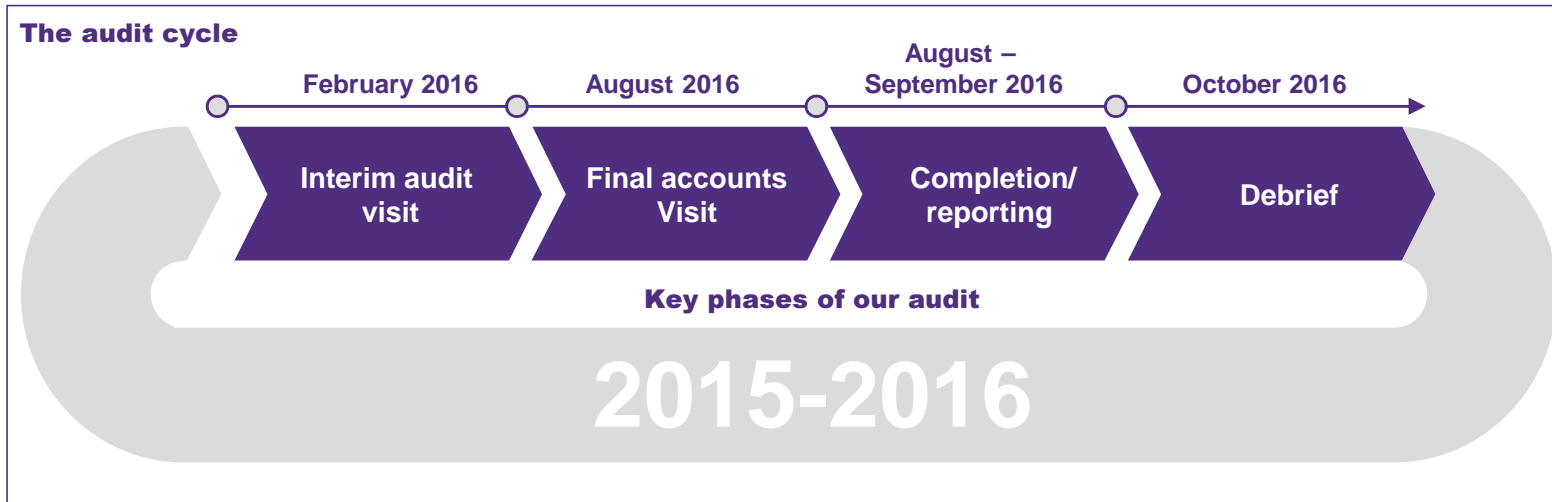
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Results of interim audit work

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

	Work performed and findings	Conclusion
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 and satisfactory service to the Joint Committee and that internal audit work contributes to an effective internal control environment at the Committee. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We are completing walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work to date has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has not identified any material weaknesses which are likely to adversely impact on the Joint Committees financial statements.</p>

Key dates



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Date	Activity
January 2016	Planning
February 2016	Interim site visit
February 2016	Presentation of audit plan to the Joint Committee
August 2016	Year end fieldwork
August 2016	Audit findings clearance meeting with Director of Finance
September 2016	Report audit findings to the Joint Committee
September 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Joint Committee audit	13,000
Total fees (excluding VAT)	13,000

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

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

Fees for other services

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

Independence and ethics

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

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

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

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

The 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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Committee and Date

West Mercia Energy Joint
Committee

29th February 2016

Item

10

Public

EXTERNAL AUDIT - INFORMING THE AUDIT RISK 2015/16

Responsible Officer Nigel Evans

e-mail: nevans@westmerciaenergy.co.uk Tel: 01743 231101

1. Summary

- 1.1 The purpose of this report is to contribute towards the effective two-way communication between the Joint Committee's external auditors (Grant Thornton) and the Joint Committee, as those charged with governance.

2. Recommendations

- 2.1 The Joint Committee are asked to consider whether the management responses contained in the attached report are consistent with its understanding and whether there are any further comments it wishes to make.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Grant Thornton's audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

4. Financial Implications

- 4.1 There are no direct financial implications arising from this report.

5. Background

- 5.1 The report attached from Grant Thornton covers some important areas of the auditors risk assessment where they are required to make inquiries of the Joint Committee under auditing standards.
- 5.2 As part of their risk assessment procedures Grant Thornton 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
- 5.3 The attached report is sectioned by the five categories detailed above and details the questions raised and the corresponding management response.

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

None

Member

Councillor P Price of Herefordshire Council (vice-chair of the Joint Committee)

Appendices

Appendix A - Informing the audit risk assessment for the West Mercia Energy Joint Committee (year ended 31 March 2016)
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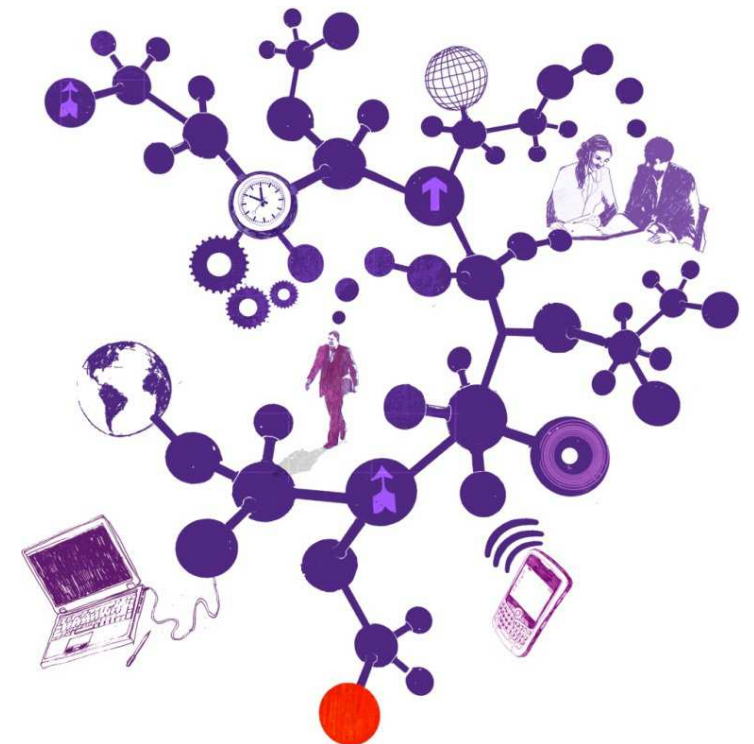
Informing the audit risk assessment for West Mercia Energy Joint Committee

Year ended
31 March 2016

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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 –</p> <p>By the establishment of control systems to reduce the risk through financial regulations, standing orders and scheme of delegation.</p> <p>By employing staff within the finance function with the appropriate professional qualifications.</p> <p>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</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>

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Fraud risk assessment (continued)

Question	Management response
How does the Joint Committee communicate and encourage ethical behaviour of its staff and contractors?	Staff are encouraged to report their concerns about fraud as set out in the Speaking up about wrongdoing (whistleblowing) policy and the Joint Committee's Anti-Corruption Strategy.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported ?	The Joint Committee has a Whistleblowing Policy in place to enable staff to raise concerns regarding malpractice. No issues have been reported.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud ?	No.
Are you aware of any instances of actual, suspected or alleged fraud, either within the Joint Committee as a whole or within specific departments since 1 April 2015?	No.
Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2015? If so, how has the Joint Committee responded to these ?	No.

Laws and regulations

Issue

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
<p data-bbox="69 368 831 491">What arrangements does the Joint Committee have in place to prevent and detect non-compliance with laws and regulations ?</p> <p data-bbox="91 699 136 863" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 42</p>	<p data-bbox="891 368 2085 536">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 data-bbox="891 587 2085 710">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 data-bbox="891 761 2085 884">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 data-bbox="891 935 1733 975">Assurance also gained from Internal Audit work for 2015-16.</p> <p data-bbox="891 1026 2085 1193">The Joint Committee has a Whistleblowing Policy in place to enable staff to raise concerns regarding malpractice. In addition, the Joint Committee's constitution incorporates Financial Regulations, Standing Orders, and Scheme of Delegation to ensure business is conducted in compliance with existing law and regulations.</p>

Impact of laws and regulations (continued)

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

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Impact of laws and regulations (continued)

Question	Management response
<p>How is the Joint Committee provided with assurance that all relevant laws and regulations have been complied with ?</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 44</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 2015, or earlier with an on-going impact on the Joint Committee's 2015/16 financial statements ?</p>	<p>No.</p>

Impact of laws and regulations (continued)

Question	Management response
What arrangements does the Joint Committee have in place to identify, evaluate and account for litigation or claims ?	<p>The Treasurer has responsibility to account for litigation or claims in the annual accounts that are considered by Joint Committee and subject to external audit.</p> <p>Given the relatively small size of the organisation, the Director would be aware of or be made aware of by his team of any issues.</p>
Is there any actual or potential litigation or claims that would affect the 2015/16 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.

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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 2016/17 contains financial projections for 2016/17 and the Business Plan constitutes a going concern assessment where factors affecting future profitability have been considered. The Joint Agreement has been 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.

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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 and additions to the WME team will be made during 2016 to support delivery of the marketing plan.</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.

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

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

Question

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

Management response

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

Accounting estimates

Issue

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.

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

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of Property Plant and Equipment and Motor Vehicles	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 and motor vehicles with a finite useful life on a straight-line basis	Consistent application of depreciation method across assets	No	The length of the life is determined at the point of acquisition or revaluation.	No

Appendix A Accounting Estimates (Continued)

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

Appendix A Accounting Estimates (Continued)

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

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Appendix A Accounting Estimates (Continued)

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

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Committee and Date

West Mercia Energy Joint
Committee
29th February 2016

Item

Public

WEST MERICA ENERGY (WME) INTERNAL AUDIT PERFORMANCE REPORT TO FEBRUARY 2016

Responsible Officer Ceri Pilawski
e-mail: ceri.pilawski@shropshire.gov.uk

Tel: 01743 257739

1. Summary

- 1.1 This report provides members with an update on the work completed by Internal Audit against the approved Internal Audit Plan 2015/16, presented on 16th February 2015.
- 1.2 Work has continued on the 2015/16 Audit Plan with a timetable in place to fully deliver the required audits within the financial year. Four reports have been completed since the last report, these are Payroll, Creditors, Risk Management and IT Audit Follow Up. Work is currently planned in respect of the Governance audit. The report on Governance will be presented to the Committee for its consideration once management have considered any recommendations proposed and approved the final report issued.
- 1.3 There have been minor adjustments to the time allotted to audits within the agreed plan following a reduction in the IT audit requirements for the current financial year. The overall plan remains at 26 Days as agreed in February 2015.

2. Recommendations

- 2.1 The Committee consider and endorse, with appropriate comment, the performance to date against the 2015/16 Audit Plan as set out in this report.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.
- 3.2 Provision of the Internal Audit Annual Plan satisfies both the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015, part 2 which sets out the requirements on all relevant authorities in relation to internal control, including requirements in respect of accounting records, internal audit and review of the system of internal control. Specifically:

‘A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

4. Financial Implications

- 4.1 The proposed plan will be met from within the approved Internal Audit budget.

5. Background

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

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

- 5.2 Audit recommendations are an indicator of the effectiveness of the Company’s internal control environment and are rated according to their priority:

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
---------------------------	--

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

- 5.3 Recommendations are rated in relation to the audit area rather than the Company's control environment: for example, a control weakness deemed serious in one audit area which results in a significant or fundamental recommendation may not necessarily affect the Company's overall control environment. Similarly, a number of significant recommendations in a small number of areas would not result in a limited opinion if the majority of areas examined were sound. Consequently, the number of significant recommendations in the table below will not necessarily correlate directly with the number of limited assurance opinions issued. Any fundamental recommendations resulting from a control weakness in the Company's control environment would be reported in detail to the Joint Committee.
- 5.4 A total of seven recommendations have been made in the four final audit reports issued since the last report. A breakdown by area of the four recommendations issued in this period is shown in the table below.
- 5.5 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. Management are asked for an update of progress made on recommendations 12 months after issue. To date this year no recommendations have been rejected by management.

5.6 Audit assurance opinions and recommendations delivered 2015/16

Audit Area	Assurance level	No. of Recommendations made				
		Best Practice	Requires Attention	Significant	Fundamental	Total
Payroll System	Reasonable	0	1	1	0	2
Creditors System	Good	0	2	0	0	2
Risk Management	Good	0	1	0	0	1
IT Audit Follow Up	Reasonable	0	2	0	0	2
Total for the period		0	6	1	0	7
Total to date						
• numbers		1	10	1	0	12
• percentage		8%	84%	8%	0%	100%

- 5.7 Two good and two reasonable assurance levels have been made, there are no unsatisfactory or limited opinions to report. One significant issue was identified by the Audits undertaken since the last report leading to the following recommendation:

Payroll System	<p>The Service Level Agreement should be agreed and signed by WME and Shropshire Council.</p> <p>Note: Management have confirmed that the Service Level Agreement has</p>
-----------------------	--

	now been agreed and signed.
--	-----------------------------

5.8 Copies of the Audit Reports are attached as appendices to this report.

6. Additional Information

6.1 Performance against the plan

The internal audit plan was presented to the Joint Committee in February 2015. There have been minor variations to the plan agreed in February as shown below:

Audit	Original Plan	Variation	Revised Plan
Payroll	2	0	2
Procurement	1	0	1
Creditors	2	0	2
Debtors	3	+ 1	4
Finance	3	+ 2	5
IT	5	- 3	2
Risk Management	2	0	2
Governance	2	0	2
Engagement Management	5	0	5
Contingency	1	0	1
Total	26	0	26

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

Public Sector Internal Audit Standards.
Accounts and Audit Regulations 2015

Member

Councillor P Price of Herefordshire Council (vice-chair of the Joint Committee)

Appendices

Appendix A – Payroll Report 2015/16

Appendix B – Creditors Report 2015/16

Appendix C – Risk Management Report 2015/16

Appendix D – IT Recommendation Follow Up Report 2015/16

SHROPSHIRE COUNCIL AUDIT SERVICES

INTERNAL AUDIT REPORT

WEST MERCIA ENERGY

PAYROLL 2015/16

Assurance Level	Reasonable
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Customer	West Mercia Energy
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Distribution	Nigel Evans – Director
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Auditors	Lucy Hammond
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Fieldwork dates	30 th September & 1 st October 2015
Debrief meeting	2 nd October 2015
Draft report issued	9 th October 2015
Responses received	19 th October 2015
Final report issued	22 nd October 2015

Introduction and Background

1. As part of the approved internal audit plan for 2015/16 Audit Services have undertaken a review of Payroll.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.

Follow up of the previous recommendations and audit of the payroll control process, including overtime claims, travel and subsistence expenses and the reconciliation process in place for transferring payroll costs into the Sage nominal ledger, using established documentation and testing.

The Payroll and Human Resources function within West Mercia Energy is an administrative and authorisation process with the actual payroll calculations, statutory deductions and payment being carried out by Shropshire Council and recharged on a monthly basis.

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 adequate segregation of duties in place.
 - Payroll data is correctly transferred and accurately processed.
 - Permanent and temporary variations to the payroll are valid, appropriately authorised, and processed accurately.
 - Travel and subsistence is appropriately controlled and actioned in a timely manner.
 - Management information is produced in an accurate and timely manner and subject to review.
 - Workforce Requirements and costs are appropriate to the tasks undertaken and the policies of the organisation.
6. The audit was delivered on time and within budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon testing and evaluation of the system. This opinion will be reported to the Audit Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas examined, from work undertaken Audit Services are able to give the following assurance opinion:

Reasonable	There is generally a sound system of control in place but there is evidence of non-compliance with some of the controls
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or instances of fraud or irregularity.
9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at **Appendix 1**. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
2	0	1	1	0

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

✓	To ensure that previous recommendations have been implemented.
✓	Payroll data is correctly transferred and accurately processed.
✓	Permanent and temporary variations to the payroll are valid, appropriately authorised, and processed accurately.
✓	Travel and subsistence is appropriately controlled and actioned in a timely manner.
✓	Management information is produced in an accurate and timely manner and subject to review.
✓	Workforce Requirements and costs are appropriate to the tasks undertaken and the policies of the organisation.

11. The audit work identified one significant issue leading to the following recommendation:
 - The Service Level Agreement should be agreed and signed by WME and Shropshire Council.
12. Recommendations accepted by management at the previous audit have been reviewed and are detailed below:

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

Recommendations partially implemented	1
Recommendations superseded	0
Recommendations not actioned	0

Limited progress has been made in the implementation of previous recommendations. Recommendations which remain outstanding are included in the attached Exception Report and Action Plan.

Audit Approach

13. The approach adopted for this audit included:
 - Review and documentation of the system.
 - Identification of key controls.
 - Follow up of previous recommendations.
 - Tests of controls to confirm their existence and effectiveness.
 - Evaluation of the controls and identification of weaknesses and potential risks arising from them.

14. Internal Audit report only by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at **Appendix 1**. A more detailed report covering all of the work undertaken can be provided on request, but this is only available in a working paper note format.

15. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action that has been taken to address identified control weaknesses.

Ceri Pilawski
Audit Services Manager

ACTION PLAN FOR PAYROLL 2015/16

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
2.1	1	The Service Level Agreement should be agreed and signed by WME and Shropshire Council.	Significant	Yes	Now agreed and signed	Nigel Evans	Completed
2.3	2	Individual policies within the staff handbook should be dated and should have evidence of version control. (Updated from the previous recommendation made and agreed and originally made in 2013/14).	Requires Attention	Yes	Now reviewed and updated	Julie Wassall	Completed

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SHROPSHIRE COUNCIL AUDIT SERVICES

INTERNAL AUDIT REPORT

CREDITORS 2015/16

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	30 th September and 1 st October 2015
Debrief meeting	1 st October 2015
Draft report issued	7 th October 2015
Responses received	14 th October 2015
Final report issued	14 th October 2015

Introduction and Background

1. As part of the approved internal audit plan for 2015/16 Audit Services have undertaken a review of Creditors.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.
To establish the progress made implementing recommendations made in the previous audit and carry out a review of the creditor payment process including purchasing cards.
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 procedures in place for the operation of the creditors system.
 - Orders are placed for all goods.
 - Goods received procedures are defined and operated effectively.
 - Prepayment checks are undertaken before an invoice is entered on the system.
 - Appropriate input controls are in place and operated effectively.
 - Credit notes are actioned in a timely manner.
 - Payments made are accurate, complete, have not previously been paid and are made at the optimal time.
 - BACS payments are securely controlled.
 - Transactions on purchasing cards are securely controlled and are reviewed by an appropriate officer.
 - Management information in respect of payments to creditors is timely and adequate.
6. The audit was delivered on time and within budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon testing and evaluation of the system. This opinion will be reported to the Audit Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas examined, from work undertaken Audit Services 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 applied consistently.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or instances of fraud or irregularity.
9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at **Appendix 1**. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
2	0	0	2	0

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

✓	To ensure that previous recommendations have been implemented.
✓	There are appropriate policies and procedures in place for the operation of the creditors system.
✓	Orders are placed for all goods.
✓	Goods received procedures are defined and operated effectively.
✓	Prepayment checks are undertaken before an invoice is entered on the system.
✓	Appropriate input controls are in place and operated effectively.
✓	Credit notes are actioned in a timely manner.
✓	Payments made are accurate, complete, have not previously been paid and are made at the optimal time.
✓	BACS payments are securely controlled.
✓	Transactions on purchasing cards are securely controlled and are reviewed by an appropriate officer.
✓	Management information in respect of payments to creditors is timely and adequate.

11. Recommendations accepted by management at the previous audit have been reviewed and are detailed below:

Number of recommendations accepted by management at the last audit	3
Recommendations implemented	3
Recommendations partially implemented	0
Recommendations superseded	0
Recommendations not actioned	0

Good progress has been made in the implementation of previous recommendations. Recommendations which remain outstanding are included in the attached Exception Report and Action Plan.

Audit Approach

12. The approach adopted for this audit included:
 - Review and documentation of the system.
 - Identification of key controls.
 - Follow up of previous 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 identified control weaknesses.

Ceri Pilawski
Audit Services Manager

ACTION PLAN FOR CREDITORS 2015/16

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
3.1	1	The purchase order record should be accurately maintained. The record should provide a complete and up to date of all orders raised. All order values and dates should be completed and where an invoice has been received in respect of an order this should be recorded. Where an order number has not been used the order should be marked as cancelled.	Requires Attention	Yes	The purchase order record will be reviewed regularly for omissions and/or subsequent invoices received and completed as necessary. If an order number is not used it will be marked as cancelled.	Jo Pugh	Immediately
3.2	2	All purchase invoices should be date stamped on receipt at the West Mercia Energy office to provide evidence of the date received in the event of a dispute arising in relation to late payment.	Requires Attention	Yes	Noted – generally those not stamped relate to those received by e-mail and authorised prior to passing to Finance, and these will be date stamped in future.	Jo Pugh	Immediately

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SHROPSHIRE COUNCIL AUDIT SERVICES

INTERNAL AUDIT REPORT

RISK MANAGEMENT AND INSURANCE 2015/16

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	12 th and 14 th October 2015
Debrief meeting	15 th October 2015
Draft report issued	15 th October 2015
Responses received	21 st October 2015
Final report issued	22 nd October 2015

Introduction and Background

1. As part of the approved internal audit plan for 2015/16 Audit Services have undertaken a review of Risk Management and Insurance.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.

To review the progress made on the implementation of the recommendations made in the previous audit report. To ensure that there are systems in place for the identification, assessment, recording, control and monitoring of risk. To ensure that there are appropriate and adequate insurance arrangements in place.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - The recommendations made in the previous audit have been implemented as agreed.
 - Risks arising from business strategies and activities are identified and prioritised and management and the board have determined the level of risk acceptable to the organisation.
 - Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels that were determined to be acceptable to management and the board.
 - Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.
 - The board and management received periodic reports of the results of the risk management process.
 - There are appropriate and adequate insurance arrangements in place.
6. The audit was delivered on time and within budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon testing and evaluation of the system. This opinion will be reported to the Audit Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas

examined, from work undertaken Audit Services 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 applied consistently.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or instances of fraud or irregularity.
9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at **Appendix 1**. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
1	0	0	1	0

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

✓	The recommendations made in the previous audit have been implemented as agreed.
✓	Risks arising from business strategies and activities are identified and prioritised and management and the board have determined the level of risk acceptable to the organisation.
✓	Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels that were determined to be acceptable to management and the board.
✓	Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.
✓	The board and management received periodic reports of the results of the risk management process.
✓	There are appropriate and adequate insurance arrangements in place.

11. Recommendations accepted by management at the previous audit have been reviewed and are detailed below:

Number of recommendations accepted by management at the last audit	6
Recommendations implemented	4
Recommendations partially implemented	0

Recommendations superseded	0
Recommendations not actioned	2

Good progress has been made in the implementation of previous recommendations. Recommendations which remain outstanding are included in the attached Exception Report and Action Plan with the exception of the recommendation in respect of the outstanding Service Level Agreement which was issued in the 2015/16 Payroll Audit.

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 identified control weaknesses.

Ceri Pilawski
Audit Services Manager

ACTION PLAN FOR RISK MANAGEMENT AND INSURANCE 2015/16

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
2.1	1	<p>Consideration should be given to including further positive risks or opportunities in the risk register to ensure that there is a review and mitigation of the risks to the company as a result of growth of the business.</p> <p>(Updated from the previous recommendation originally recommended in 2013/14).</p>	Requires Attention	Yes	Agreed	Nigel Evans	March 2016

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SHROPSHIRE COUNCIL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT

IT AUDIT FOLLOW UP 2015/16

Assurance Level	Reasonable
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Customer	Nigel Evans - Director
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Distribution	Neil Marston – IT and Database Support
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Auditors	Barry Hanson
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Fieldwork dates	November 2015
Debrief meeting	14 December 2015
Draft report issued	2 December 2015
Responses received	14 December 2015
Final report issued	15 December 2015

Introduction and Background

1. As part of the approved internal audit plan for 2015/16 Audit Services have undertaken a follow up review of the recommendations made in the 2014-15 Audit.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.
To follow up the recommendations made in the 2014-15 audit.
5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - To follow up the recommendations made in the 2014-15 audit review.
6. The audit was delivered on time and within budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon testing and evaluation of the system. This opinion will be reported to the Audit Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas examined, from work undertaken Audit Services are able to give the following assurance opinion:

Reasonable	There is generally a sound system of control in place but there is evidence of non-compliance with some of the controls
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or instances of fraud or irregularity.
9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at **Appendix 1**. Implementation of

these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
2	0	0	2	0

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

✓	To follow up the recommendations made in the 2014-15 audit review.
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11. Recommendations accepted by management at the previous audit have been reviewed and are detailed below:

Number of recommendations accepted by management at the last audit	3
Recommendations implemented	1
Recommendations partially implemented	1
Recommendations superseded	0
Recommendations not actioned	1

Reasonable progress has been made in the implementation of previous recommendations. Recommendations which remain outstanding are included in the attached Exception Report and Action Plan.

Audit Approach

12. The approach adopted for this audit included:
- Follow up of previous recommendations.
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 identified control weaknesses.

Ceri Pilawski
Audit Services Manager

ACTION PLAN FOR IT AUDIT 2015 / 16

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
1.1	1	The draft SLA with Shropshire Council for IT Services should be reviewed and finalised as soon as possible. It should include details of the reporting of compliance with KPI's and confirmation of what happens to WME data and licensing on cessation of the agreement. Consideration should be also given to the support agreement end date and WME should commence a procurement process for IT Support services from April 2016 onwards.	Requires Attention	Yes	Agreed – a draft SLA was received for 15/16 from Shropshire Council on 26 th November. A number of review points have been passed back including the points raised here and a meeting to discuss all the points raised is to be arranged including provision for 16/17.	Nigel Evans	Jan 2016
1.2	2	The IT issues log should be reviewed and updated. This should include details of when the issue was resolved, lessons learned and procedural changes required to ensure service continuity.	Requires Attention	Yes	Agreed	Neil Marston	December 2015



Committee and Date

West Mercia Energy Joint
Committee

29th February 2016

Item

Public

WEST MERCIA ENERGY (WME) INTERNAL AUDIT STRATEGIC PLAN 2016/17

Responsible Officer Ceri Pilawski

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

Tel: 01743 257739

1. Summary

- 1.1 This report details the proposed programme of audit work for the year 2016/17 and recommends that members approve the programme, as set out in the report.
- 1.2 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 2017.

2. Recommendations

- 2.1 The Committee are asked to consider and endorse, with appropriate comment, the approval of the proposed programme of audits for 2016/17.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Under the Joint Committee's terms of reference, reviewing the risk based audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any other work upon which reliance is placed, is an important responsibility. In considering this plan Members should be assured that it is linked to the Company's key risks and provides sufficient coverage to ensure a reasonable opportunity to identify any weaknesses in the internal control environment. Where critical to the Company's operations these will be reported and rectified where possible and viable.
- 3.2 Areas to be audited within the plan have been considered with the knowledge of risk register information both operational and strategic.

- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.
- 3.4 Provision of the Internal Audit Annual Plan satisfies both the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015, part 2 which sets out the requirements on all relevant authorities in relation to internal control, including requirements in respect of accounting records, internal audit and review of the system of internal control. Specifically:

‘A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

4. Financial Implications

- 4.1 The proposed plan will be met from within the approved Internal Audit budget.

5. Background

- 5.1 The S151 Officer is legally required to maintain sound and proper financial management on behalf of the West Mercia Energy (WME). This includes a responsibility for maintaining internal audit. Internal audit, provided by Shropshire Council, is based on a programme of audits over a rolling four-year period, which has been in effect from WME’s formation in April 2012.
- 5.2 Audit priorities and known risks have been examined and a detailed audit plan has been produced for the provision of audit services in the next financial year, for consideration by the Committee.
- 5.3 Each potential audit area has been reviewed with the Director and considered in relation to the strategic risks of the Company. Some areas are required to be audited every year, as they are fundamental to sound financial management.
- 5.4 The audit programme is shown at **Appendix A**. The proposed plan is presented to Committee for approval to reflect current issues and risks. This will ensure that the audits are timely, appropriate and add value. It takes account of issues identified by the Company’s risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the company audited. The proposed plan takes into account the requirement to produce an annual internal audit opinion and assurance framework. Some minor adjustments may be needed to the plan before it is finalised; if significant, these will be agreed by the Director and reported to the next Joint Committee.

6. Resources and Delivery

WME has provided a budget in 2016/17 to deliver 26 days of audit including a small contingency.

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

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

Internal audit strategic plan 2013/14 - June 2013

Internal audit strategic plan 2014/15 – February 2014

Internal audit strategic plan 2015/16 – February 2015

Member

Councillor P Price of Herefordshire Council (vice-chair of the Joint Committee)

Appendices

Appendix A: West Mercia Energy – Proposed Internal Audit Plan 2016/17

APPENDIX A**WEST MERCIA ENERGY - AUDIT AREAS**

AUDIT	Including review of:	2016/17 DAYS
PAYROLL	Starters and leavers, overtime, travel, subsistence and performance related pay.	2
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)	3
FINANCE	Budgetary control, journals and control accounts reconciliation, bank control and reconciliation, exception reporting and reconciliation, VAT	3
IT	Follow-up of the recommendations made in the 2015/16 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	5
	Contingency	2
TOTAL		26



<u>Committee and Date</u>
West Mercia Energy Joint Committee
29 th February 2016

<u>Item</u>
13
Public

GOVERNANCE UPDATE

Responsible Officer Nigel Evans

e-mail: nevans@westmerciaenergy.co.uk Tel: 01743 231101

1. Summary

- 1.1 This report is to provide an update to the Joint Committee regarding the governance arrangements of WME. The current Joint Agreement is in place until 31st March 2020 following Cabinet approval from each of the Member Authorities and a number of specific WME governance documents are in place.

2. Recommendations

- 2.1 The Joint Committee are asked to:
- A. note the work conducted to date and the requirement for the existing governance documents to be updated.
 - B. authorise the Director to undertake further work, in conjunction with the Monitoring Officers of the Member Authorities, to review and revise the existing governance documents where required in order to bring any revised documents to the September 2016 Joint Committee for approval.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

3.3 As a result of some areas of governance requiring improvement, there has been an impact on some day to day issues such as the timely sign of sales contracts and this governance review seeks to mitigate such issues.

4. Financial Implications

4.1 There are no direct financial implications arising from this report.

5. Background

5.1 In recent years a number of changes have occurred in the Joint Committee, through a restructure of the business as a result of the sale of the supplies side of the business in 2012, resulting change in management and changes in the Authorities providing support to the Joint Committee itself. Whilst some essential amendments to the Joint Agreement have been made to deal with these changes, a fundamental review of the governance arrangements has not been undertaken during this period of change and existing, historic practices have continued into the new business undertaken by the Joint Committee and it appears that, historically, some documents and policies have been developed in isolation of other governance documents.

5.2 The Annual Business Plan and Budget for 2015/16 indicated the requirement for the Joint Agreement to be extended to 31st March 2020 and following Cabinet approval at each of the Member Authorities the extension to the Joint Agreement was secured in July 2015.

5.3 The current WME Financial Regulations, Standing Orders and Scheme of Delegation were approved by the Joint Committee in June 2013 and the current Energy Governance, Accountability, Risk and Reporting Policy was approved by the Joint Committee in September 2014.

5.4 A number of improvements have been made over the past year which include:

- Forward Plans being produced and published for the Joint Committee decisions.
- The Shropshire Council website includes all necessary details of the Joint Committee such as membership, Forward Plans and decisions.
- The other 3 Member Authorities and WME have a link from their website to the relevant page on the Shropshire Council website.
- Liaison with s151 and Monitoring Officers prior of the Member Authorities to papers being issued to the Joint Committee.

5.5 In addition to the improvements made to date, it is recommended to review the following areas and update documentation as required:

- Joint Agreement – an update to provide a more detailed constitution for the Joint Committee. It should be noted that any amendments to the Joint Agreement will need to be approved by the Executives of each of the Member Authorities;
- WME’s Energy Governance, Accountability, Risk and Reporting Policy.
- WME’s Standing Orders including governance procedures and the Scheme of Delegation from the Joint Committee to the Director and onward delegations to Officers and the Financial Regulations.

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

Joint Committee 24 June 2013 – Financial Regulations, Standing Orders and Scheme of Delegation

Joint Committee 22 September 2014 - Energy Governance, Accountability, Risk and Reporting Policy

Joint Committee 16 February 2015 – Annual Business Plan and Budget 2015/16

Member

Councillor P Price of Herefordshire Council (vice-chair of the Joint Committee)

Appendices

None

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Committee and Date

West Mercia Energy Joint
Committee

29th February 2016

Item

14

Public

FLEXIBLE ENERGY MANAGEMENT PANEL - TERMS OF REFERENCE

Responsible Officer Nigel Evans

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1. Summary

- 1.1 This report is to present to the Joint Committee updated Terms of Reference for the Flexible Energy Management Panel.

2. Recommendations

- 2.1 The Joint Committee are asked to:

- A. approve the Terms of Reference as detailed in 5.5
- B. approve that the Flexible Energy Management Panel changes its name to the Flexible Energy Advisory Panel.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

4. Financial Implications

- 4.1 There are no direct financial implications arising from this report.

5. Background

- 5.1 WME has operated a flexible buying procurement model for both gas and electricity since 2006. Shortly after this move to flexible energy buying, the Flexible Energy Sub-committee was formed which then became the Flexible Energy Management Panel in 2012 following the sale of the catalogue division of West Mercia Supplies.
- 5.2 The panel acts as an advisory panel to the Joint Committee and Director of WME. As the name of the panel suggests the key area of focus is that of the flexible energy purchasing of WME. The panel's key duties are to provide support and advice as well as challenge to the energy purchasing conducted by WME officers. Furthermore, the officers from the Member Authorities who sit on the panel provide a helpful link for WME back to each of the Member Authorities.
- 5.3 The panel consists of at least one officer from each of the Member Authorities plus WME officers. Until recently an elected member from one of the Member Authorities has sat on the panel since its formation. As part of this review into the role of this panel, moving forward this will be an officer only group to avoid any conflict of interests, as this panel is an advisory panel to the decision making, member lead Joint Committee.
- 5.4 The panel meets approximately 6 to 7 times each year including:
- February – to set the annual capped sales price and to consider any discounts off the capped price for Term 1 (April to August)
 - August – to consider any discounts off the capped price for Term 2 (September to December)
 - December – to consider any discounts off the capped price for Term 3 (January to March)
- 5.4 As part of the current governance review it is recommended that it is clarified that the panel operates as an advisory panel and not a sub-committee of the Joint Committee. As a result it is recommended that the panel be now referred to as the Flexible Energy Advisory Panel rather than Flexible Energy Management Panel. Furthermore the Terms of Reference have been refreshed to more accurately reflect the duties performed by the panel as detailed below.
- 5.5 The proposed updated Terms of Reference are as follows:
- a) To undertake strategic policy formulation in relation to the WME energy offering and to propose such policies to the WME Joint Committee.
 - b) To consider any necessary changes (specific to the purchase of energy) to the WME Energy, Governance, Accountability, Risk and Reporting Policy (EGARRP) and recommend any amendments to EGARRP to the Joint Committee.

- c) To keep under review forward buying policies developed by WME officers, including any alternative risk strategies and to monitor the performance of such polices.
- d) To act in an advisory capacity to the Director of WME in the setting of annual capped sales prices and any discounts from these capped prices.
- e) To act in an advisory capacity to the Director of WME with regards any pricing support deemed necessary from one year to the next in the context of ensuring the appropriate balance between returns to the Member Authorities and on going customer retention.
- f) To receive daily (or as otherwise agreed) detailed market movement information.
- g) To review all buying decisions and to consult with the Director in respect of Critical Incidents (as defined in EGARRP).
- h) To keep under review Capital at Risk levels and to advise WME on proposed amendments in light of prevailing market conditions.
- i) To advise and comment on new business opportunities proposed by the Director.
- j) To monitor and review trading results against the annual budget.
- k) To monitor and review future pricing positions.
- l) To keep under review additions to and removals from the customer portfolio.
- m) Recommend to the Director when any matter relating to the above is to be reported to the Joint Committee.
- n) Present to the Joint Committee approved minutes from meetings of the panel so that that the Joint Committee may consider and endorse with appropriate comment.

5.6 The previous Terms of Reference were contained within the Energy Governance, Accountability, Risk and Reporting Policy which was last approved by the Joint Committee in September 2014. The updated Energy Governance, Accountability, Risk and Reporting Policy will also now be reviewed so that is presented to the September 2016 Joint Committee for approval

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p> <p>Joint Committee 22 September 2014 - Energy Governance, Accountability, Risk and Reporting Policy</p>
<p>Member Councillor P Price of Herefordshire Council (vice-chair of the Joint Committee)</p>
<p>Appendices None</p>

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