



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

Date: 15<sup>th</sup> September 2016

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

**Date: Monday, 26 September 2016**

**Time: 10.00 am**

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

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

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

**Members of West Mercia Energy Joint Committee**

<i>Herefordshire Council</i>	D Harlow P Price (Chairman)
<i>Shropshire Council</i>	S Charmley M Wood
<i>Telford &amp; Wrekin Council</i>	L Carter A England
<i>Worcestershire County Council</i>	J Smith A Blagg (Vice-Chairman)

Your Committee Officer is:

**Emily Marshall** Committee Officer  
Tel: 01743 257717  
Email: [emily.marshall@shropshire.gov.uk](mailto:emily.marshall@shropshire.gov.uk)

# AGENDA

## **1 Apologies for Absence**

To receive apologies for absence.

## **2 Named Substitutes**

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

## **3 Disclosable Pecuniary Interests**

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

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

To receive the minutes of the Joint Committee meeting held on 29<sup>th</sup> February 2016.

Copy attached marked 4.

## **5 Supplier Contracts**

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

## **6 Statement of Accounts 2015/16 and Annual Governance Statement 2015/16 (Pages 7 - 56)**

Report of the Treasurer is attached.

Contact: James Walton (01743 258915)

## **7 External Audit: Audit Findings Report 2015/16 (Pages 57 - 84)**

Report of the External Auditor.

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

**8 Internal Audit Annual Report 2015/2016** (Pages 85 - 92)

Report of the Audit Services Manager.

Contact: Ceri Pilawski (01743 257739)

**9 Internal Audit Quality Assurance Improvement Programme** (Pages 93 - 98)

Report of the Audit Services Manager.

Contact: Ceri Pilawski (01743 257739)

**10 Exclusion of Press and Public**

*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.*

**11 Exempt Minutes** (Pages 99 - 102)

To approve the exempt minutes of the meeting held on 29<sup>th</sup> February 2016.

Contact: Emily Marshall 01743 257717

**12 Distribution of Surplus** (Pages 103 - 106)

Exempt report of the Treasurer.

Contact: James Walton (01743 258915)

**13 Joint Agreement - West Mercia Energy Joint Committee** (Pages 107 - 108)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (01743 231101)

**14 Financial Regulations** (Pages 109 - 122)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (01743 231101)

**15 Standing Orders - West Mercia Energy Joint Committee** (Pages 123 - 134)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (01743 231101)

**16 Scheme of Delegation - West Mercia Energy Joint Committee** (Pages 135 - 140)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (01743 231101)

**17 Energy Governance, Accountability, Risk and Reporting Policy** (Pages 141 - 180)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (01743 231101)

**18 Update on Business Plan and Trading Performance to Date 2016//17** (Pages 181 - 190)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (01743 231101)

**19 Minutes of the Flexible Energy Advisory Panel** (Pages 191 - 208)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (01743 231101)

**20 Risk Management Update** (Pages 209 - 212)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (01743 231101)

**21 Date of Next Meeting**

To agree the dates of meetings of the West Mercia Energy Joint Committee for 2017.

**This page is intentionally left blank**



## Committee and Date

West Mercia Energy Joint  
Committee

26<sup>th</sup> September 2016

## **WEST MERCIA ENERGY JOINT COMMITTEE**

**Minutes of the meeting held on 29 February 2016**

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

**10.00 - 11.05 am**

**Responsible Officer:** Emily Marshall

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

### **Present**

Councillors Michael Wood, Price (Vice Chairman), Arnold England, Smith and Blagg (Vice-Chairman (Worcestershire))

### **1 Election of Chairman**

#### **RESOLVED:**

That Councillor Price (Herefordshire) be elected Chairman of the West Mercia Energy Joint Committee for the ensuing year.

### **2 Appointment of Vice-Chairman**

#### **RESOLVED:**

That Councillor A Blagg (Worcestershire) be appointed Vice-Chairman of the West Mercia Energy Joint Committee for the ensuing year.

### **3 Apologies for Absence**

Apologies for absence were received from Councillors Lee Carter (Telford & Wrekin), Steve Charmley (Shropshire) and Graham Powell (Herefordshire).

### **4 Named Substitutes**

There were no substitutes in attendance.

### **5 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.

### **6 Minutes**

#### **RESOLVED:**

That the Minutes of the West Mercia Energy Joint Committee held on 28<sup>th</sup> September 2015 be approved as a correct record.**Page 1**

## 7 **Supplier Contracts**

In accordance with Standing Orders, Mr N. Evans, Director of West Mercia Energy provided a update on Supplier Contracts.

The Director reported that there were no entries to make the Joint Committee aware of on this occasion.

### **RESOLVED:**

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

## 8 **External Audit - Annual audit letter 14/15**

The Chairman introduced Mr Richard Percival and Mr James McLarnon of Grant Thornton to the Joint Committee. Mr Richard Percival (External Auditor – Grant Thornton) presented the West Mercia Energy Joint Committee Annual Audit Letter 2014/15 (copy attached to the signed minutes).

Mr Percival explained that there was only one recommendation that had been identified during the 2014/15 Audit and this had arisen from the Local Audit and Accountability Act 2014 which no longer included a statutory obligation to have an external audit. Mr Percival added that he was pleased to report that Grant Thornton had been approached to continue with the external audit process to ensure a level of independent assurance.

### **RESOLVED:**

That the External Audit Annual Audit Letter 2014/15 be endorsed.

## 9 **External Audit - Audit Plan 2015/16**

Mr Richard Percival (Grant Thornton) introduced the West Mercia Energy Joint Committee External Audit Plan 2015/16 (copy attached to the signed minutes).

Mr Nigel Evans (Director) reported that in late 2016 Shropshire Council would undertake a procurement exercise to appoint auditors from 1<sup>st</sup> April 2017 and it was expected that the West Mercia Energy Joint Committee would form part of this exercise.

The reduction in the audit fee reflected the fact that there was no longer a requirement to undertake a value for money exercise.

Mr Richard Percival proceeded to outline the key points and dates contained within the Audit Plan.

Councillor Price asked for clarification of the table on page 28 “Our Communication Plan”. In response Mr Percival explained that the table showed where issues would be reported, but it was not anticipated that there would be anything to report.



**RESOLVED:**

That the External Audit Plan 2015/16 be endorsed.

**10 External Audit - Informing the Audit Risk 2015/16**

Mr Richard Percival (Grant Thornton) presented the Informing the Audit Risk 2015/16 (copy attached to the signed minutes). Mr Percival reported that there were no issues to raise and that they were happy with the management response.

**RESOLVED:**

That the External Audit Informing the Audit Risk 2015/16 be noted and the management responses contained within the report are consistent with the understanding of the West Mercia Energy Joint Committee with no further comments to make.

**11 Internal Audit - Performance Reports To February 2016**

The Audit Services Manager presented the Internal Audit Performance Report to February 2016 (copy attached to the signed minutes).

**RESOLVED:**

That the performance to date against the 2015/16 Audit Plan be endorsed.

**12 Internal Audit - Audit Plan 2016/17**

The Audit Services Manager presented the Internal Audit, Audit Plan 2016/17 (copy attached to the signed minutes).

**RESOLVED:**

That the proposed programme of audits for 2016/17 be endorsed.

**13 Governance Update**

The Director of West Mercia Energy introduced the Governance Update report (copy attached to the signed minutes).

**RESOLVED:**

1. That the work conducted to date and the requirement for the existing governance documents to be updated be noted; and
2. The Director of West Mercia Energy be authorised 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.

#### 14 **Flexible Energy Management Panel - Terms of Reference**

The Director of West Mercia Energy introduced the report which outlined the updated terms of reference for the Flexible Energy Management Panel.

A Member questioned whether there should be an elected member representative on the Panel and what the arrangements were for the Advisory Panel feeding back to the Joint Committee. In response, the Director put the Advisory Committee into context and reassured the Joint Committee that the Panel was an advisory panel only and no decisions were made and that systems were in place to report any issues back to Members.

In response to the concerns expressed, the suggestion was put forward that minutes of the Flexible Energy Advisory Panel should be circulated to Joint Committee Members as soon as they were finalised, rather than being sent out with the agenda for the next Joint Committee meeting.

**RESOLVED:**

1. That the Terms of Reference detailed in paragraph 5.5 be approved; and
2. That the Flexible Energy Management Panel changes its name to the Flexible Energy Advisory Panel.

#### 15 **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.

#### 16 **Exempt Minutes**

**RESOLVED:**

That the Exempt Minutes of the meeting held on 28<sup>th</sup> September 2015 be approved as a correct record.

#### 17 **Trading Performance to Date 2015/16**

The Director presented an exempt report (copy attached to the signed exempt minutes), which outlined the current trading performance for 2015/16 and the forecasted full year result for 2015/16.

**RESOLVED:**

That the recommendation contained within the exempt report be approved.

#### 18 **Business Plan and Budget 2016/17**

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 2016/17 together with the current predicted final result for the year.

**RESOLVED:**

That the recommendation contained within the exempt report be approved.

**19 Minutes of the Flexible Energy Management Panel**

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 24<sup>th</sup> August and 10<sup>th</sup> November 2015.

**RESOLVED:**

That the recommendation contained within the exempt report be approved.

**20 Risk Management Update**

The Director of West Mercia Energy presented the exempt report (copy attached to the signed minutes) which provided and update on Risk Management.

**RESOLVED:**

That the recommendation contained within the exempt report be approved.

**21 Date of Next Meeting**

It was noted that the next meeting would take place on Monday, 26<sup>th</sup> September at 10.00 a.m. in the Shrewsbury Room, Shirehall, Shrewsbury

Signed ..... (Chairman)

Date: .....

**This page is intentionally left blank**



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	6
26 <sup>th</sup> September 2016	Public

## Statement of Accounts 2015/16 and Annual Governance Statement 2015/16

**Responsible Officer** James Walton - Treasurer  
e-mail: [james.walton@shropshire.gov.uk](mailto:james.walton@shropshire.gov.uk) Tel: 01743 258915

### 1. Summary

- 1.1 The purpose of this report is to present to the Joint Committee the Letter of Representation, the Statement of Accounts 2015/16 and the Annual Governance Statement 2015/16.

### 2. Recommendations

- 2.1 The Joint Committee is asked;
- a) To note the Letter of Representation to be signed by the Chairman and submitted by the Treasurer.
  - b) To consider and approve the finalised Statement of Accounts 2015/16 to be signed by the Chairman and the Treasurer.
  - c) To consider and approve the Annual Governance Statement 2015/16.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 Details of the potential risks affecting the balances and financial health of WME are considered within the Statement of Accounts

### 4. Financial Implications

- 4.1 This report considers the overall financial position of WME in the form of the Statement of Accounts, the accounts consider the level of assets controlled by WME and the level of balances held.

## 5. Background

- 5.1 WME external auditors, Grant Thornton have audited the accounts during August.
- 5.2 WME is required to produce a Letter of Representation for the external auditors which provides assurance that the information submitted within the accounts is accurate and that all material information has been disclosed to the auditors. External audit will only sign off the accounts once this letter has been received. See Appendix 1
- 5.3 The Joint Committee is required to approve the annual accounts after the findings of the audit are known. The formal date for approval and publication of the accounts is 30<sup>th</sup> September. See Appendix 2
- 5.4 The Statement of Accounts is accompanied by WME's Annual Governance Statement 2015/16, which details processes and procedures in place to enable WME to carry out its' functions effectively. See Appendix 3.

## 6 Publication of Accounts

- 6.1 The annual Statement of Accounts 2015/16 will be published on the WME website, shortly after, copies of the accounts deposited with each of the Member Authorities.

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

CIPFA Code of Practice (CODE) on Local Authority Accounting

CIPFA/SOLACE guidance on the Annual Governance Statement

### Member

Councillor P Price of Herefordshire Council (Chair of the Joint Committee)

### Appendices

1 - The Letter of Representation

2 - Statement of Accounts 2015/16

3 - Annual Governance Statement 2015/16



Grant Thornton UK LLP  
 Colmore Building  
 20 Colmore Circus  
 Birmingham  
 B4 6AT

26 September 2016

Dear Sirs

**West Mercia Energy**  
**Financial Statements for the year ended 31 March 2016**

This representation letter is provided in connection with the audit of the financial statements of West Mercia Energy Joint Committee for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ("the Code"); which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Joint Committee and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Joint Committee has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.



- vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as disclosed in the financial statements:
  - a there are no unrecorded liabilities, actual or contingent
  - b none of the assets of the Joint Committee has been assigned, pledged or mortgaged
  - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xii The financial statements are free of material misstatements, including omissions.
- xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv We believe that the Joint Committee's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Joint Committee's needs. We believe that no further disclosures relating to the Joint Committee's ability to continue as a going concern need to be made in the financial statements.

#### Information Provided

- xv We have provided you with:
  - a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b additional information that you have requested from us for the purpose of your audit; and
  - c unrestricted access to persons within the Joint Committee from whom you determined it necessary to obtain audit evidence.
- xvi We have communicated to you all deficiencies in internal control of which management is aware.
- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.





- xviii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Joint Committee involving:
  - a management;
  - b employees who have significant roles in internal control; or
  - c others where the fraud could have a material effect on the financial statements.
- xx We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Joint Committee's financial statements communicated by employees, former employees, regulators or others.
- xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii We have disclosed to you the identity of all the Joint Committee's related parties and all the related party relationships and transactions of which we are aware.
- xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Annual Governance Statement**

- xxiv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Joint Committee's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Narrative Report**

- xxv The disclosures within the Narrative Report fairly reflect our understanding of the Joint Committee's financial and operating performance over the period covered by the financial statements.

**Approval**

The approval of this letter of representation was minuted by the **Joint Committee** at its meeting on 26 September 2016.

Signed on behalf of the Joint Committee

.....

James Walton  
 Section 151 Officer  
 Shropshire Council  
 26 September 2016

.....

Clr Philip Price  
 Chair of the Joint Committee  
 26 September 2016



**This page is intentionally left blank**

**WEST MERCIA ENERGY JOINT COMMITTEE**  
**STATEMENT OF ACCOUNTS FOR THE YEAR**  
**ENDING 31<sup>ST</sup> MARCH 2016**

## **WEST MERCIA ENERGY JOINT COMMITTEE**

### **CONTENTS**

	<b>Page Number</b>
<b>Financial Summary for the Year 2015/16</b>	2
<b>Introductory Statements:</b>	
Statement of Responsibilities and Joint Committee Approval	5
<b>Core Financial Statements and Explanatory Notes:</b>	
Movement in Reserves Statement	7
Comprehensive Income and Expenditure Statement	9
Balance Sheet	10
Cash Flow Statement	11
Notes to the Core Financial Statements	12
<b>Auditors Report</b>	

## **WEST MERCIA ENERGY JOINT COMMITTEE**

### **FINANCIAL SUMMARY** **FOR THE YEAR 2015/16**

#### **Introduction**

This document is the Statement of Accounts for West Mercia Energy Joint Committee. It covers the financial year 1 April 2015 to 31 March 2016 and shows the organisation's financial position at the year end together with the trading income and expenditure figures that have been produced throughout the period.

West Mercia Energy Joint Committee is a purchasing consortium established as a Joint Committee under s.101 of the Local Government Act 1972 and comprises of four Member Authorities:

- Herefordshire Council
- Shropshire Council
- Telford & Wrekin Council
- Worcestershire County Council

Each Member Authority appoints a number of their Elected Members to serve on the Joint Committee. The Joint Committee is delegated with the operation and management of the organisation and is responsible for the discharge of the functions of the Member Authorities

Following the sale of the stationery division of West Mercia Supplies Joint Committee in April 2012, the West Mercia Supplies name and most of the staff transferred as part of the sales agreement, with the energy side of the organisation remaining with the four Member Authorities. The pension liability was retained fully following the sale of the stationery division. The liability as at 31<sup>st</sup> March 2016 was £4.950 million, a decrease of £0.411 million, from £5.361 million as at 31<sup>st</sup> March 2015.

In June 2013 the Joint Agreement was updated which involved the change of name of the Joint Committee from West Mercia Supplies Joint Committee to West Mercia Energy Joint Committee, and the change of voting rights. With regards the voting rights each Member Authority now has two votes whereas up to 31<sup>st</sup> March 2013 Shropshire Council and Worcestershire County Council each had three votes with Herefordshire Council and Telford & Wrekin Council having two votes each.

## **Professional Advice**

Certain professional services are provided for Joint Committee including:

- Financial Advice  
The Member Authorities have appointed Shropshire Council as Treasurer.
- Legal Advice  
The Member Authorities have appointed Shropshire Council as Secretary.

The Treasurer and the Secretary shall liaise with officers of Member Authorities so that they comply with their responsibilities under s.5 of the Local Government and Housing Act 1989 and s.151 of the Local Government Act 1972.

## **The Statements**

### **Narrative Report**

This provides an effective guide to the most significant matters reported in the accounts, including an explanation of the financial position and details the performance during the financial year.

### **Statement of Responsibilities and Joint Committee Approval**

This section deals with the financial responsibilities of the Joint Committee and the Treasurer to the Joint Committee and confirms the date when the Joint Committee approved the accounts.

### **Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by the Joint Committee, analysed into usable reserves (ie those that can be used to fund expenditure) and other reserves.

### **Comprehensive Income and Expenditure Account**

This account summarises the annual income and expenditure of the trading operations to show the organisation's net surplus for the year.

### **Balance Sheet**

This sets out the financial position of the Joint Committee as at the year end 31 March 2016.

### **The Cash Flow Statement**

This summarises the inflows and outflows of cash arising from the day to day transactions of the organisation.

## **Narrative report 2015/16**

The net operating surplus of £2.079M for the year 2015/16 was a positive performance both in terms of comparison against the budget set for the year and the prior year result. The main reason for the improved result was the benefits secured in the energy market from the innovative WME buying strategy. By continuing to trade energy volumes within the financial year market benefits were secured. These benefits would not have been achieved through a traditional fixed price contract and it allowed WME to provide customers with significant discounts off the capped sales prices within the year.

The lower prices secured in the market for 2015/16 together with impact of energy efficiency measures and the mild weather conditions has resulted in a reduction in turnover.

In terms of customer retention, all the Local Authority contracts which were due to expire on 31st March 2016 have been retained. In the context of the current market conditions this can be viewed as an excellent result.

The net liability position of the Joint Committee is reflective of the pension liability which was retained fully following the sale of the stationery division in 2012. The Joint Committee's retirement benefits liability decreased by £0.411 million (from £5.361 million to £4.950 million) during the financial year 2015/16. As at 31<sup>st</sup> March 2016, the net liabilities of the Joint Committee stood at £2.157 million (£2.663 million at 31<sup>st</sup> March 2015).

The net working capital of the Joint Committee continues to be closely monitored and this has resulted in a strong performance throughout 2015/16.

Energy prices will continue to be the key factor on the level of turnover and net result of WME in the future. The energy commodity prices for 2016/17 are once again lower (third consecutive year) which is good news for customers. This will, however in result in lower turnover next financial year.

## **Further Information**

For further information about the Joint Committee's Statement of Accounts, please contact:

J Walton  
S151 Officer  
Shropshire Council  
Shirehall  
Abbey Foregate  
Shrewsbury  
Shropshire  
SY2 6ND

Tel 0345 678 9000

## **STATEMENT OF RESPONSIBILITIES AND JOINT COMMITTEE APPROVAL**

### **Responsibilities of West Mercia Energy Joint Committee**

West Mercia Energy Joint Committee is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this organisation, that officer is the Treasurer to the Joint Committee. Day to day financial management is the responsibility of the Director. The Director is also responsible for:
  - i. keeping proper accounting records, which are up to date.
  - ii. taking reasonable steps for the prevention and detection of fraud and other irregularities.
- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.
- to approve the Statement of Accounts.

### **Responsibilities of the Treasurer to the Joint Committee**

The Treasurer to the Joint Committee, with support from the Director, is responsible for the preparation of West Mercia Energy Joint Committee Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'), is required to provide a true and fair view of the financial position of the organisation at the accounting date and its income and expenditure for the year ended 31 March 2016.

In preparing this Statement of Accounts the Treasurer to the Joint Committee has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code;
- applied the concept of 'going concern' by assuming that Joint Committee's services will continue to operate for the foreseeable future.

The Treasurer to the Joint Committee has also to:

- ensure proper accounting records are kept, which are up to date;
- take reasonable steps for the prevention and detection of fraud and other irregularities.



## **APPROVAL OF THE STATEMENT OF ACCOUNTS**

### **Treasurer to the Joint Committee**

In accordance with the Accounts and Audit (England) Regulations 2015 I certify that the Committee's Statement of Accounts provides a true and fair view of the financial position of the West Mercia Energy Joint Committee at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.

**Treasurer to the Joint Committee .....**  
**(James Walton)**

### **Joint Committee Approval**

In accordance with the Accounts and Audit (England) Regulations 2015 I certify that the West Mercia Energy Joint Committee approved the Statement of Accounts for the year ended 31 March 2016.

**Chairman of the  
West Mercia Energy Joint Committee .....**  
**(Cllr Philip Price)**

**Date:**

## MOVEMENT IN RESERVES STATEMENT AS AT 31 MARCH 2016

This statement shows the movement in the year on the different reserves held by the Joint Committee, analysed into usable reserves (i.e. those that can be used to fund expenditure) and other reserves. The gain or (loss) for the year shows the true economic cost of the Joint Committee's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

	Usable Reserves		Total reserves	
	General fund	Earmarked pensions reserve	Joint Committee capital adjustment account	
	Note 19	Note 20		
	£000	£000	£000	£000
<b>Balance at 31 March 2015</b>	<b>2,673</b>	<b>-5,361</b>	<b>25</b>	<b>-2,663</b>
Net gain for the year	40	-	-	40
Other comprehensive income & expenditure	466	-	-	466
<b>Total comprehensive income &amp; expenditure</b>	<b>506</b>	<b>-</b>	<b>-</b>	<b>506</b>
Transfer to/from Earmarked Reserves	-413	411	2	-
<b>Increase/(decrease) in year</b>	<b>93</b>	<b>411</b>	<b>2</b>	<b>506</b>
<b>Balance at 31 March 2016</b>	<b>2,766</b>	<b>-4,950</b>	<b>27</b>	<b>-2,157</b>

### Earmarked Pensions Reserve

The Earmarked Pensions Reserve represents the difference between the actuarially calculated value of the pension fund assets and the present value of the scheme liabilities.

### Joint Committee Capital Adjustment Account

The Joint Committee Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets as if in accordance with statutory provisions.

## MOVEMENT IN RESERVES STATEMENT (CONTINUED) AS AT 31 MARCH 2015

	Usable Reserves		Total reserves	
	General fund	Earmarked pensions reserve	Joint Committee capital adjustment account	
	Note 19	Note 20		
	£000	£000	£000	£000
<b>Balance at 31 March 2014</b>	<b>2,567</b>	<b>-3,979</b>	<b>15</b>	<b>-1,397</b>
Net gain for the year	86	-	-	86
Other comprehensive income & expenditure	-1,352	-	-	-1,352
<b>Total comprehensive income &amp; expenditure</b>	<b>-1,266</b>	<b>-</b>	<b>-</b>	<b>-1,266</b>
Transfer to/from Earmarked Reserves	1,372	-1,382	10	-
<b>Increase/(decrease) in year</b>	<b>106</b>	<b>-1,382</b>	<b>10</b>	<b>-1,266</b>
<b>Balance at 31 March 2015</b>	<b>2,673</b>	<b>-5,361</b>	<b>25</b>	<b>-2,663</b>

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2016

This Statement shows the accounting income and cost in the year of providing services in accordance with generally accepted accounting practice.

	Notes	2015-2016 £000	2014-2015 £000
<b>INCOME</b>			
Turnover	5	-63,177	-70,258
Less cost of goods sold		60,902	68,349
Gross profit		-2,275	-1,909
Other trading operation income		-708	-748
<b>Gross Profit</b>		<b>-2,983</b>	<b>-2,657</b>
<b>OPERATING EXPENSES</b>			
Employees	8	670	589
Pension impact (IAS19)	17	-119	-144
Premises		37	26
Supplies & services		86	54
Central departmental & technical support	9,10	73	71
Provision for bad debts		-1	-6
Depreciation		14	13
<b>Total Operating Expenses</b>		<b>760</b>	<b>603</b>
		<b>-2,223</b>	<b>-2,054</b>
<b>SURPLUS OF SERVICES</b>			
Financing and investment income and expenditure	7	144	144
<b>NET OPERATING SURPLUS</b>		<b>-2,079</b>	<b>-1,910</b>
Distribution to Member Authorities		2,039	1,824
<b>NET GAIN FOR THE YEAR</b>		<b>-40</b>	<b>-86</b>
<b>OTHER COMPREHENSIVE INCOME &amp; EXPENDITURE</b>			
Remeasurements (Liabilities & Assets)	17	-466	1,352
<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>		<b>-506</b>	<b>1,266</b>

## BALANCE SHEET AS AT 31 MARCH 2016

The Balance Sheet shows the value as at the Balance Sheet date of the asset and liabilities recognised by the Joint Committee. The net assets of the Joint Committee (assets less liabilities) are matched by the reserves held by the Joint Committee.

<b>31 March 2015</b>		<b>31 March 2016</b>	<b>Notes</b>
<b>£000</b>		<b>£000</b>	
25	Plant & equipment	27	11
<b>25</b>	<b>Long term assets</b>	<b>27</b>	
10,714	Short term debtors	9,151	14
5,584	Cash and cash equivalents	4,950	15
<b>16,298</b>	<b>Current assets</b>	<b>14,101</b>	
-13,625	Short term creditors	-11,335	16
<b>-13,625</b>	<b>Current liabilities</b>	<b>-11,335</b>	
<b>2,673</b>	<b>Net current assets</b>	<b>2,766</b>	
-5,361	Other long term liabilities	-4,950	17
<b>-5,361</b>	<b>Long term liabilities</b>	<b>-4,950</b>	
<b>-2,663</b>	<b>Net liabilities</b>	<b>-2,157</b>	
	<b><u>Financed by:</u></b>		
-2,663	Usable Reserves	-2,157	18
<b>-2,663</b>	<b>Total reserves</b>	<b>-2,157</b>	

## CASHFLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2016

The Cash Flow Statement shows the changes in cash and cash equivalents of the Joint Committee during the reporting period. The statement shows how the Joint Committee generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Joint Committee's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the Joint Committee.

<b>2014-2015</b>		<b>2015-2016</b>	
<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>Notes</b>
<b>Operating activities</b>			
<u>Cash outflows</u>			
586 Cash paid to and on behalf of employees	678		
145 Other operating costs	195		
66,525 Cost of goods sold	63,184		
67,256		64,057	
<u>Cash inflows</u>			
-68,932 Turnover	-64,740		
-748 Other trading operation income	-708		
-69,680		-65,448	
<b>-2,424 Net cash inflow from operating activities</b>		-1,391	21.1
<b>-7 Investing activities</b>		-14	21.2
<b>1,824 Financing activities</b>		2,039	21.3
<b>-607 Net decrease/(increase) in cash and cash equivalents</b>		<b>634</b>	<b>21.4</b>
4,977 Cash and cash equivalents at 1st April		5,584	
<b>5,584</b> Cash and cash equivalents at 31st March		<b>4,950</b>	<b>21.4</b>

## **NOTES TO THE CORE FINANCIAL STATEMENTS**

### **1. Accounting Policies**

#### **1.1 General Principles**

This Statement of Accounts for 2015/16 summarises the Joint Committee's transactions for the 2015/16 financial year and its position at 31 March 2016. The accounts have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code Board, as far as it is practicable and applicable to the Joint Committee, supported by International Financial Reporting Standards (IFRS). The nature of the Joint Committee as a purchasing consortium means that full compliance is not always possible for example the Comprehensive Income and Expenditure Account layout shows the income first and then all the expenditure grouped by type of expense. This differs from Local Authority Accounting, but this layout does allow a reader to interpret the statement in relation to the industry the Joint Committee operates in. The Joint Committee has prepared an annual Statement of Accounts in line with the Accounts and Audit (England) Regulations 2015.

#### **1.2 Concepts**

The Statement of Accounts have been prepared in accordance with all prevailing concepts of accrual and going concern together with relevance, reliability and comparability. The going concern concept assumes that the organisation will continue in operational existence for the foreseeable future. The management of WME are of this view as the Joint Agreement is in place to 31<sup>st</sup> March 2020 and both supplier and customer contracts are in place beyond 31<sup>st</sup> March 2017.

#### **1.3 Legislation**

Where specific legislative requirements regarding accounting treatment conflict with the Joint Committee's own accounting policies, legislative requirements shall apply.

#### **1.4 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting estimates are accounted for prospectively ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the changes provide more reliable or relevant information about the effect of transactions, other events and conditions on the Organisations' financial position or financial performance.



Where a change is made it is made retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparable amounts for the prior period.

## **1.5 Accruals of Expenditure and Income**

Revenue and capital transactions are accounted for on an accruals basis. This means that all revenue income is recorded when the debt has been established rather than when money has been received. Similarly, expenditure is recorded when it is owed rather than when the payment is made.

Sums owed to the Joint Committee as at 31 March are included as debtors. Sums still owed by the Joint Committee at 31 March are included as creditors.

## **1.6 Plant and Equipment and Motor Vehicles**

Under s102 of the local Government Act 1972, a Joint Committee does not have sufficient corporate status to acquire assets. However, given that the Joint Committee both accrues the economic benefits from and assumes liabilities for its Building assets, the “substance over form” policy justifies the inclusion of the assets in the Organisation’s accounts.

Plant and equipment and motor vehicles are tangible assets (ie assets with physical substance) that are held for use in the production or supply of goods and services, or for administrative purposes, and are expected to be used during more than one period.

### **Recognition**

The cost of an item of plant and equipment and motor vehicles is recognised (and hence capitalised) as an asset on the Balance Sheet if:

- it is probable that the future economic benefits or service potential associated with the item will flow to the organisation;
- the cost of the item can be measured reliably; and
- has a value in excess of £500.

Costs that meet the recognition principle include initial costs of acquisition and construction, and costs incurred subsequently to enhance, replace part of, or service the asset. Subsequent costs arising from day-to-day servicing of an asset (ie labour costs and consumables), commonly referred to as ‘repairs and maintenance’, are not capitalised if they do not meet the recognition principle because the expenditure does not add to the future economic benefits or service potential of the asset and is charged to revenue, when it is incurred.

### **Initial Measurement**

Expenditure on the acquisition, creation and enhancement of plant and equipment, with a value in excess of £500, that qualifies for recognition is capitalised on an accruals basis in the accounts. To be capitalised, the expenditure must be for assets yielding benefits to the Joint Committee for a period of greater than one year.



### Measurement After Recognition

Plant and equipment are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS). Plant and equipment are classified into the groupings required by the Local Authority Code and are included in the Balance Sheet net of depreciation.

### Derecognition

The carrying amount of an item of plant and equipment shall be derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an asset shall be the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from derecognition of an asset shall be included in the Surplus or Deficit on the Provision of Services when the item is derecognised.

If the asset derecognised was carried at a revalued amount an additional entry is required; the balance of the Revaluation Reserve in respect of asset derecognised is written off to the Joint Committee Capital Adjustment Account and reported in the Movement in Reserves Statement.

### Depreciation

Depreciation is provided on tangible fixed assets calculated by using the straight-line method where appropriate.

Depreciation and amortisation are charged over the finite useful life of each asset, based on their value, these lives, and methods of valuation, being as follows:

Asset and Method of Valuation	Depreciation/Amortisation Period
Computer Equipment (Historical Cost)	3 years
Office Equipment (Historical Cost)	3 years
Fixtures & Fittings (Historical Cost)	3 years
Motor Vehicles (Historical Cost)	3 years

Where the carrying amount of an item of plant and equipment is decreased as a result of a revaluation, ie a significant decline in an asset's carrying amount during the period that is not specific to the asset (as opposed to an impairment), the decrease is recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset (ie up to its historical cost) and thereafter charged to the Net Surplus or Deficit for the Year.

### Componentisation

Where components of an asset are significant in value in relation to the total value of the asset as a whole and they have substantially different economic lives, they should be recognised and depreciated separately. The requirement for componentisation for depreciation purposes is applicable to enhancement and acquisition expenditure and revaluations carried out from 1 April 2010.

## **Impairment**

At the end of each reporting period an assessment takes place as to whether there is any indication that an asset may be impaired. Examples of events and changes in circumstances that indicate an impairment may have incurred include:

- a significant decline (ie more than expected as a result of the passage of time or normal use) in an asset's carrying amount during the period, that is specific to the asset;
- evidence of obsolescence or physical damage of an asset;
- a commitment by the organisation to undertake a significant reorganisation; or
- a significant adverse change in the statutory or other regulatory environment in which the organisation operates.

An impairment loss on a revalued asset is recognised in the Revaluation Reserve (to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset) and thereafter charged to the Net Surplus or Deficit for the Year.

## **1.7 Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that are readily convertible to known amounts of cash with insignificant risk of change in value. The Joint Committee holds no cash equivalents.

## **1.8 Debtors and Creditors**

The revenue accounts of the Joint Committee are maintained on an accruals basis in accordance with the Code. That is, sums due to or from the Joint Committee during the year are included whether or not the cash has actually been received or paid in the year.

## **1.9 Reserves**

### **General Fund Balance**

The Balance Sheet includes a sum for the General Fund Balance. This shows the total unused accumulated net surplus for the Joint Committee carried forward to 2016/17.

### **Earmarked Pensions Reserve**

The Earmarked Pensions Reserve represents the difference between the actuarially calculated value of the pension fund assets and the present value of the scheme liabilities.

### **Joint Committee Capital Adjustment Account**

This represents the difference between the costs of fixed assets consumed and the financing set aside to pay for them.

## 1.10 Employee Benefits

The accounting policy relating to the treatment of benefits payable during employment and post-employment benefits is consistent with IAS 19 Employee Benefits.

### **Benefits Payable During Employment**

Where the accumulating short-term absences (eg annual leave and flexi time earned by employees but not taken at 31 March) are not material, these are not accrued for in the accounts.

### **Post-Employment Benefits**

As part of the terms and conditions of employment of its employees, the Joint Committee offers retirement benefits. These benefits will not be payable until retirement but the Joint Committee has a commitment to make payments that need to be disclosed at the time that the employees earn their future entitlement.

The Joint Committee participates in the Shropshire County Pension Fund, which is a funded Defined Benefit scheme.

The liabilities of the Pension Fund attributable to the Joint Committee are included in the Balance Sheet on an actuarial basis using the project unit method - ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of projected warnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 3.6% (based on the indicative rate of return on high quality corporate bonds of appropriate duration).

The assets of Shropshire County Pension Fund attributable to the Joint Committee are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the service expenditure
  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on Services in the Comprehensive Income and Expenditure Statement
- net interest on the net defined benefit liability (asset), ie net interest expense for West Mercia Energy Joint Committee – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  
- Contributions paid to the Shropshire County Pension Fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, the General Fund Balance is to be charged with the amount payable by the Joint Committee to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **1.11 Interest**

Interest receivable from investments is recognised in the financial statements during the period in which it became due to the Joint Committee.

Interest payable to Member Authorities is recognised in the financial statements during the period in which it became due by Joint Committee.

### **1.12 Foreign Currency**

Foreign currency transactions are converted to sterling at the exchange rate applicable on the date of the transaction. There were no foreign currency transactions during the year.

### **1.13 Events After the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

There were no such events after the Balance Sheet date which need to be considered.

### **1.14 Provisions**

Provisions are made where an event has taken place that gives the Joint Committee a legal or constructive obligation that 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 to the appropriate line in the Comprehensive Income and Expenditure Statement in the year that the Joint Committee becomes aware of the obligation, and measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation. When payments are made they are charged to the provision carried in the Balance Sheet.

The bad debt provision is made up of a general provision for all debts over 12 months old plus any specific debts which are less than 12 months old.

### **1.15 Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

### **1.16 Distribution of Surplus to Member Authorities**

The Joint Agreement requires the Joint Committee to determine the level of accumulated surplus that shall be retained for various reserve purposes. In practice the Joint Committee typically takes its decision in October. The decision is taken in the light of known accumulated surplus, a view at that point of the amount to be retained for contingency, future investment or other reserve purposes, including a consideration of performance, risks and development proposals at that time. The distribution made to Member Authorities is then charged to the Comprehensive Income and Expenditure Statement in the year that it is agreed by the Joint Committee.

## **2. Accounting standards that have been issued but have not yet been adopted**

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2016/17 Code:

- Amendments to IAS19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRS's 2010 - 2012 cycle
- Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS16 Property, plant and equipment and IAS 38 intangible assets
- Annual Improvement to IFRS's 2012-2014, these improvements are minor, principally providing clarification
- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative). The format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement will change and a new Expenditure and Funding Analysis will be introduced.

It is anticipated that the introduction on these standards will not have a material impact on the financial statements. However, in the 2016/17 year the comparator 2015/16 Comprehensive Income and Expenditure Statement and the Movement in reserves must reflect the new formats and reporting requirements.

## **3. Critical judgements in applying accounting policies**

In applying the accounting policies set out in Note 1, the Joint Committee has had to consider certain judgements about complex transactions or those involving uncertainty about future events.

There are no critical judgements made in the Statement of Accounts.

#### 4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures based on assumptions made by the Joint Committee. Estimates are made taking into account historical experience, current trends and other relevant factors. There is, however, a risk that actual results could be materially different from the assumptions and estimates.

The items in the Joint Committee’s Balance Sheet at 31 March 2016 for which there is a risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Effect if Actual Results Differ From Assumptions
<b>Pensions Liability</b>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a one year increase in life expectancy would result in an increase in the pension liability of £253,000. However the assumptions interact in complex ways. During 2015/16 the actuaries advised that the net pensions liability had increased by £411,000.</p>

#### 5. Turnover

Turnover is the VAT exclusive total of invoiced sales for energy.

## 6. Segment Information

The analysis of income and expenditure on the face of the Comprehensive Income and Expenditure Statement is in accordance with the IAS1 and not that specified by the Service Reporting Code of Practice as this aids the readers understanding. Further analysis of the components within the Comprehensive Income and Expenditure Statement is as follows;

	2015/16 £000	2014/15 £000
Energy sales	-62,394	-69,657
Other income	-783	-601
<b>Total Turnover</b>	<b>-63,177</b>	<b>-70,258</b>
Gross Profit	-1,492	-1,308
Other income	-783	-601
<b>Total Gross Profit</b>	<b>-2,275</b>	<b>-1,909</b>
Other trading operating income	-708	-748
Employee costs	670	589
Pensions impact	55	30
Depreciation	13	13
Other expenses	123	74
Central expenses	73	71
Interest revenue	-30	-30
<b>Net operating surplus</b>	<b>-2,079</b>	<b>-1,910</b>
Distribution of surplus to Member Authorities	2,039	1,824
<b>Net gain for the year</b>	<b>-40</b>	<b>-86</b>



## 7. Financing and Investment Income and Expenditure

### Interest and Investment Income

The Joint Committee's daily bank balances are invested with Shropshire Council balances. Interest is debited or credited to the Joint Committee on the basis of the level of daily bank balances invested.

	2015/16	2014/15
	£000	£000
Pensions interest cost and expected return on pensions	174	174
Interest receivable and similar income	-30	-30
<b>Total</b>	<b>144</b>	<b>144</b>

## 8. Staff Remuneration

In 2015/16 the number of employees who received remuneration in excess of £50,000 fell into the following bands:

Band	Number of Employees	
	2015/16	2014/15
£ 65,000 to £ 69,999	1	1

Remuneration for these purposes includes all sums paid to an employee by way of salary, expenses, profit related pay and the money value of any other benefits received other than cash.

There are no staff members receiving remuneration between £50,000 and £64,999 so the staff remuneration table above has been adjusted accordingly.

## Disclosure of Remuneration for Senior Employees

### 2015/16

Post Title	Salary (inc fees & allowances) £	Bonuses (PRP) £	Pension Contributions £	Total Remuneration (inc pension contribution) £
Director	61,824	6,207	5,647	73,678
	<b>61,824</b>	<b>6,207</b>	<b>5,647</b>	<b>73,678</b>

### 2014/15

Post Title	Salary (inc fees & allowances) £	Bonuses (PRP) £	Pension Contributions £	Total Remuneration (inc pension contribution) £
Director	61,104	6,893	5,884	73,881
	<b>61,104</b>	<b>6,893</b>	<b>5,884</b>	<b>73,881</b>

There are no compulsory redundancies or staff members receiving exit packages in 2014/15 or 2015/16.

## 9. Audit Costs

During 2015/16 the Joint Committee incurred the following fees in respect of external audit and statutory inspection.

	2015/16 £000	2014/15 £000
Fees payable to External Auditors with regard to external audit services	13	17

## 10. Related Party Transactions

The Joint Committee is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Joint Committee or to be controlled or influenced by the Joint Committee. Disclosure of these transactions allows readers to assess the extent to which the Organisation might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Organisation.

### Members and Officers

Members of the Joint Committee have direct control over the Joint Committee's financial and operating policies. Certain senior officers may also be in a position to influence policies, particularly those who form the Organisation's management team. All members and senior officers have been written to, advising them of their obligations and asking for any declarations of related party transactions to be disclosed.

The Joint Committee Members are also members of other local organisations (for example county councils). No other personal or prejudicial interest in the material transactions of the Joint Committee has been disclosed by any of the Joint Committee Members or by any of the senior management. The Joint Committee is owned by four Member Authorities. Membership entitles the authorities to a share of any surplus generated by the Joint Committee. For clarity, the turnover with each Member Authority was:

	<b>2015/16</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
Herefordshire Council	1,936	2,019
Shropshire Council	3,622	4,215
Telford & Wrekin Council	3,649	4,283
Worcestershire County Council	5,418	6,019

Included within Central Departmental Costs are the following amounts for services provided by Shropshire Council during the year:

	<b>2015/16</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
Human Resources Support Services	2	2
Payroll Services	1	2
Treasury Services	4	4
Committee Services	6	6
Financial Advice	12	12
Internal Audit	10	12
ICT support	5	2
Legal Services	8	9
Procurement	6	6



Included within Central Departmental Costs are the following amounts for services provided by Telford & Wrekin Council during the year:

	<b>2015/16</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
ICT support	4	-

## 11. Plant & Equipment

	<b>Plant, Equipment and Motor Vehicles 2015/16</b>	<b>Plant, Equipment and Motor Vehicles 2014/15</b>
	<b>£000</b>	<b>£000</b>
<b>Cost / Valuation</b>		
As at 1 April	60	37
Additions	16	23
Disposals	(3)	-
As at 31 March	73	60
<b>Accumulated Depreciation</b>		
As at 1 April	35	22
Charge	14	13
Relating to disposals	(3)	-
As at 31 March	46	35
<b>Net Book Value</b>		
<b>As at 31 March 2016</b>	<b>27</b>	<b>25</b>
As at 31 March 2015	25	15

All plant and equipment are valued at cost depreciated over their anticipated useful life, commencing in the year of acquisition.

## 12. Contractual Commitments

West Mercia Energy has a lease agreement on the business premises, at a value not material to the accounts.

There were no capital commitments for the year ended 31<sup>st</sup> March 2016.

## 13. Financial Instruments

### Categories of Financial Instruments

The Joint Committee has the following categories of financial instruments carried in the Balance Sheet. These categories are all classified as having insignificant risk.

	Long term		Current	
	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000
<b>Debtors:</b>				
Financial assets carried at contract amounts	-	-	9,151	10,714
<b>Total included in Debtors</b>	-	-	9,151	10,714
<b>Creditors:</b>				
Financial liabilities carried at contract amount	-	-	11,250	13,522
<b>Total included in Creditors</b>	-	-	11,250	13,522

### Income, Expense, Gains and Losses

	2015/16					2014/15				
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
Interest expense	-	-	-	-	-	-	-	-	-	-
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	-	-	-	-	-	-	-	-	-	-
Interest income	-	30	-	-	30	-	30	-	-	30
<b>Total income in Surplus or Deficit on the Provision of Services</b>	-	30	-	-	30	-	30	-	-	30
Gains/losses on revaluation	-	-	-	-	-	-	-	-	-	-
<b>Net gain for the year</b>	-	30	-	-	30	-	30	-	-	30

## **Fair Values of Assets and Liabilities**

Financial liabilities, financial assets represented by loans and receivables and long term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount;
- The fair value of Creditors is taken to be the invoiced or billed amount.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

## **Nature and Extent of Risks Arising from Financial Instruments**

The organisation's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Joint Committee.
- Liquidity risk – the possibility that the Joint Committee might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial losses might arise from changes in such measures as interest rates.

### **Credit Risk**

Credit risks arise from deposits with banks and from credit exposures to the organisation's customers. Deposits are made managed by Shropshire Council and are made with banks which satisfy criteria as outlined in Shropshire Council's creditworthiness policy.

Customer debt is managed in accordance with the Joint Committee Credit Management Policy. The level of debt written off each financial year is negligible with the net position of write offs over the last three financial years being less 0.01% of turnover.

### **Liquidity Risk**

In order to support seasonal trade variations, the Joint Committee has a treasury arrangement with Shropshire Council that provides ready access to liquid funds for short-term borrowing at market interest rates.

### **Market Risk**

The Joint Committee is exposed to interest rate risk in terms of its exposure to rate movements on its bank deposits and short-term borrowings. The impact on the Income and Expenditure Account for rate changes on interest receivable and payable on such transactions is nominal in relation to the Joint Committee's turnover.

## 14. Short Term Debtors

	<b>31 March 2016 £000</b>	<b>31 March 2015 £000</b>
Member Authorities	1,928	2,574
Other Local Authorities	7,089	7,751
Bodies external to general government	134	389
	<b>9,151</b>	<b>10,714</b>

The amounts due from “Member Authorities” referred to in the above table also include the amounts due from related parties, as follows:

	<b>31 March 2016 £000</b>	<b>31 March 2015 £000</b>
Herefordshire Council	451	367
Shropshire Council	418	644
Telford & Wrekin Council	468	707
Worcestershire County Council	590	856
	<b>1,928</b>	<b>2,574</b>

## 15. Cash and Cash Equivalents

	<b>Opening Balance 1<sup>st</sup> April 2015 £000</b>	<b>Movement During the Year £000</b>	<b>Closing Balance 31<sup>st</sup> March 2016 £000</b>
Bank current accounts	<b>5,584</b>	<b>(634)</b>	<b>4,950</b>

## 16. Short Term Creditors

	<b>31 March 2016 £000</b>	<b>31 March 2015 £000</b>
Member Authorities	454	512
Other Local Authorities	2,260	2,520
Bodies external to general government	8,621	10,593
	<b>11,335</b>	<b>13,625</b>

## 17. IAS 19 Employee Benefits

As part of the terms and conditions of employment of its employees, the Joint Committee offers retirement benefits. These benefits will not be payable until retirement but the Joint Committee has a commitment to make payments that need to be disclosed at the time that the employees earn their future entitlement.

The Joint Committee participates in the Shropshire County Pension Fund, which is a funded Defined Benefit scheme. This means that retirement benefits are determined independently of the investments of the fund and the Joint Committee has an obligation to make contributions where assets are insufficient to meet employee benefits. The Joint Committee and its employees pay contributions into the fund which is calculated at a level intended to balance pension liabilities with investment assets. The Joint Committee recognises the cost of retirement benefits in the cost of employees when they are earned rather than when the benefits are paid as pensions.

The principal risks to the Joint Committee of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme.

The following transactions have been made in the Comprehensive Income and Expenditure Account and the Movement in Reserves Statement during 2015/16.

	2015/16 £000	2014/15 £000
<b>Comprehensive Income &amp; Expenditure Account</b>		
Operating Expense (Employees):		
• Current Service Cost	80	46
• Administration Expenses	2	2
• Employers Contributions	-201	-192
Pension Impact (IAS19)	-119	-144
Financing and Investment Income and Expenditure:		
• Net Interest Cost	174	174
<b>Total Post-employment benefits contained within Net Operating Surplus</b>	<b>55</b>	<b>30</b>
Other Comprehensive Income & Expenditure:		
Remeasurement of the net defined benefit liability comprising;		
Return on plan assets (excluding the amount included in the net interest expense)	301	-571
Actuarial (gains) and losses arising on changes in Financial assumptions	-767	1,923
<b>Total Post-employment Benefits contained within the Other Comprehensive Income and Expenditure</b>	<b>-466</b>	<b>1,352</b>
<b>Net charge to Comprehensive Income &amp; Expenditure Account</b>	<b>-411</b>	<b>1,382</b>





<b>2015/16</b>	<b>2014/15</b>
<b>£000</b>	<b>£000</b>

**Movement in Reserves Statement:**

Reversal of net charges made for retirement benefits in accordance with IAS19	-256	-222
Actual Amount Charged against the General Fund Balance for Pensions in the Year:		
• Employers contributions payable to the Scheme	201	192
Remeasurement of the net defined liabilities	466	-1,352
<b>Movement on Pension's Reserve</b>	<b>411</b>	<b>-1,382</b>

**Pensions Assets and Liabilities Recognised in the Balance Sheet**

The amount included in the Balance Sheet arising from the Joint Committee's obligation in respect of its' defined benefit plans is as follows;

	<b>2015/16</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
Present Value of the defined benefit obligation	13,397	13,933
Fair Value of plan assets	-8,447	-8,572
Net liability arising from defined benefit obligation	4,950	5,361

### Reconciliation of the Movements in the Fair Value of the Scheme (Plan) Assets:

	<b>2015/16</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
Opening fair value of scheme assets	-8,572	-8,313
Interest income	-281	-359
Remeasurement gain		
The return on Plan assets	301	-571
Employer contributions	-201	-192
Contributions by scheme participants	-28	-24
Benefits paid	332	885
Administration Expenses	2	2
<b>At 31 March</b>	<b>-8,447</b>	<b>-8,572</b>

### Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):

	<b>Funded</b>	<b>Liabilities</b>
	<b>2015/16</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
At 1 April	13,933	12,292
Current Service Cost	80	46
Interest cost	455	533
Contributions by scheme participants	28	24
Remeasurement (gains) and losses		
• Actuarial (gains)/losses arising from changes in financial assumptions	-767	1,923
Benefits paid	-332	-885
<b>At 31 March</b>	<b>13,397</b>	<b>13,933</b>

## Pension Scheme Assets

	Fair value of Scheme Assets	
	2015/16	2014/15
	£000	£000
Cash & Cash Equivalents		
• Cash Accounts	<u>145</u>	<u>267</u>
<b>Cash Total</b>	<b>145</b>	<b>267</b>
Equity Instruments		
• UK Quoted	634	706
• Global quoted	<u>3,680</u>	<u>3,753</u>
<b>Equity Instruments Total</b>	<b>4,314</b>	<b>4,459</b>
Bonds		
• UK Government indexed	938	951
• Pimco (Global Investment grade Credit)	616	627
• Pimco (Global Absolute return bond fund)	<u>619</u>	<u>609</u>
<b>Bonds Total</b>	<b>2,173</b>	<b>2,187</b>
Property		
• Property Funds	<u>452</u>	<u>351</u>
<b>Property Total</b>	<b>452</b>	<b>351</b>
Private Equity	<u>370</u>	<u>357</u>
<b>Private Equity Total</b>	<b>370</b>	<b>357</b>
Other Investment Funds		
• Infrastructure	125	55
• Hedge Funds	<u>868</u>	<u>896</u>
<b>Other Total</b>	<b>993</b>	<b>951</b>
<b>Total assets</b>	<b>8,447</b>	<b>8,572</b>

All scheme assets have quoted prices in active markets

### Basis for Estimating Assets and Liabilities

The liabilities of the scheme have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent upon assumptions including mortality rates and salary levels.

The Pension Fund liabilities have been assessed by Mercer Human Resource Consulting Limited who are independent actuaries.

The significant assumptions used by the actuary have been:

	2015/16	2014/15
<b>Mortality assumptions:</b>		
Longevity at 65 for current pensioners (years):		
Men	23.9	23.9
Women	26.4	26.3
Longevity at 65 for future pensioners (years):		
Men	26.2	26.1
Women	29.2	29.1
Rate of CPI Inflation	2.0%	2.0%
Rate of Increase in Salaries	3.5%	3.5%**
Rate of Increase in Pensions	2.0%	2.0%
Rate for Discounting Scheme Liabilities	3.6%	3.3%

\*\*An adjustment has been made for short term pay restraint in line with the most recent actuarial valuation

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

#### Impact on the Defined Benefit Obligation in the Scheme\*

	Increase in Assumption £000	Decrease in assumption £000
Longevity (increase or decrease in 1 year)	13,650	13,144
Rate of inflation (increase or decrease by 0.1%)	13,648	13,146
Rate of increase in salaries (increase or decrease by 0.1%)	13,405	13,389
Rate of increase in pensions (increase or decrease by 0.1%)	14,648	13,146
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	13,151	13,643

\*The current Defined Benefit Obligation as at 31<sup>st</sup> March 2016 is £13.397 million

## **Techniques Employed to Manage Risk**

The Shropshire County Pension Fund does not hold an Asset & Liability Matching Strategy however does use other techniques to manage risks within the Fund. The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e promised benefits to pay members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price, currency and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

## **Impact on the Joint Committee's Cash Flows**

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Joint Committee has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 19 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Joint Committee anticipates to pay £207,000 expected contributions to the scheme in 2016/2017

The weighted average duration of the defined benefit obligation for scheme members is 19 years, 2015/16 (19 years 2014/2015).

## 18. Usable Reserves

An analysis of the usable reserves is shown below:

	Opening Balance 1 <sup>st</sup> April 2015 £000	Contributions		Closing Balance 31 <sup>st</sup> March 2016 £000
		To £000	From £000	
General Fund	2,673	506	-413	2,766
Earmarked Pensions reserve	-5,361	667	-256	-4,950
Joint Committee capital adjustment account	25	16	-14	27
<b>Total usable reserves</b>	<b>-2,663</b>	<b>1,189</b>	<b>-683</b>	<b>-2,157</b>

## Comparative Analysis in 2014/15

	Opening Balance 1 <sup>st</sup> April 2014 £000	Contributions		Closing Balance 31 <sup>st</sup> March 2015 £000
		To £000	From £000	
General Fund	2,567	1,468	-1,362	2,673
Earmarked Pensions reserve	-3,979	192	-1,574	-5,361
Joint Committee capital adjustment account	15	23	-13	25
<b>Total usable reserves</b>	<b>-1,397</b>	<b>1,683</b>	<b>-2,949</b>	<b>-2,663</b>

## 19. Earmarked Pensions Reserve

The Earmarked Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits as if in accordance with statutory provisions. The Joint Committee accounts for post employment benefits in the Comprehensive Income & Expenditure Statement as the benefits earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. Statutory arrangements, however, require benefits earned to be financed as the Joint Committee makes employer's contributions to pension funds or pays any pension for which it is directly responsible. The balance on the Earmarked Pensions Reserve shows a substantial shortfall in the benefits earned by past and current employees and the resources available to meet them. The statutory arrangements will ensure that funding is available by the time the benefits come to be paid.

	<b>2015/16</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
<b>Opening Balance at 1 April</b>	<b>-5,361</b>	<b>-3,979</b>
Remeasurement (Liabilities & Assets)	466	-1,352
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement	-256	-222
Employer's pensions contributions & direct payments to pensioners payable in the year	201	192
<b>Closing Balance at 31 March</b>	<b>-4,950</b>	<b>-5,361</b>

## 20. Joint Committee Capital Adjustment Account

The Joint Committee Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets as if under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement. The Account is credited with the amounts set aside by the Joint Committee as finance for the costs of acquisition, construction and enhancement.

	<b>31 March</b>	<b>31 March</b>
	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Opening balance at 1 April	25	15
Fixed assets purchased from revenue resources	16	23
Depreciation of fixed assets	-14	-13
<b>Closing Balance at 31 March</b>	<b>27</b>	<b>25</b>

## 21. Note to the Cashflow Statement

<b>21.1 Reconciliation of Income and Expenditure Account to Net Cashflow</b>			
<b>2014-2015</b>		<b>2015-2016</b>	
<b>£000</b>		<b>£000</b>	
1,910	<b>Net Operating Surplus on Comprehensive I&amp;E Account</b>	2,079	
	<b>Adjust net surplus on the provision of services for non cash movements</b>		
13	Depreciation	14	
30	IAS 19 Movements on Earmarked Pension Reserve	55	
-1,326	(Increase) / decrease in debtors	1,563	
1,827	Increase / (decrease) in creditors	-2,290	
	<b>Adjust for items included in the net surplus on the provision of services</b>		
-30	Interest and investment income	-30	
<b>2,424</b>	<b>Net cash inflow from operating activities</b>	<b>1,391</b>	





## **21.2 Cash Flow Statement – Investing Activities**

	<b>31 March 2016 £000</b>	<b>31 March 2015 £000</b>
Interest and investment income	-30	-30
Purchase of plant and equipment	<u>16</u>	<u>23</u>
<b>TOTAL</b>	<b><u>-14</u></b>	<b><u>-7</u></b>

## **21.3 Cash Flow Statement – Financing Activities**

	<b>31 March 2016 £000</b>	<b>31 March 2015 £000</b>
Distribution to Member Authorities	<u>2,039</u>	<u>1,824</u>
<b>TOTAL</b>	<b><u>2,039</u></b>	<b><u>1,824</u></b>

## **21.4 Movement in Cash and Cash Equivalents**

	<b>Balance 31/03/15 £000</b>	<b>Balance 31/03/16 £000</b>	<b>Movement In Year £000</b>
Cash in hand	5,584	4,950	-634

## **22. Purchase of Non-current Assets**

Non-current assets to the value of £16,000 relating to office equipment and a motor vehicle were financed from the General Fund Balance in 2015/16 (£23,000 2014/15).

As the purchase of assets is a charge to the General Fund Balance, the expenditure did not constitute a cash outflow from the Income and Expenditure Account.

**This page is intentionally left blank**

## **APPENDIX 3 - WEST MERCIA ENERGY JOINT COMMITTEE**

### **ANNUAL GOVERNANCE STATEMENT 2015/16**

#### **Scope of Responsibility**

West Mercia Energy Joint Committee (Joint Committee) is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

The Joint Committee also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness

In discharging this overall responsibility, the Joint Committee is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the organisation's functions and which includes arrangements for the management of risk.

The Joint Committee has an interlocking set of documents, protocols and procedures that provide assurance in corporate governance matters which are consistent with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2007), CIPFA/SOLACE Application Note to Delivering Good Governance in Local Government: a Framework (December 2012) and CIPFA The Role of the Chief Financial Officer in Local Government (2015) and meets the requirements of regulation 4(2) of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement.

#### **The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, and culture values, by which the Joint Committee is directed and controlled and reviews how its activities contribute to the strategic objectives of the Member Authorities. It enables the Joint Committee to monitor the achievement of its own strategic objectives and to consider whether those objectives have led to the delivery of the intended outcomes as set out in the Business Plan.

The system of internal control is designed to manage risk to a reasonable level and is not intended to eliminate all risk of failure to achieve policies, aims and objectives completely. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is designed to identify and prioritise the risks to the achievement of the Joint Committee policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

It is kept under continual review and changes are made to accommodate a changing risk profile when and where necessary. The Joint Committee seeks to maintain sound systems to protect against risks and mitigate their impact upon the organisation. The systems are constantly being reviewed and updated. Risks in this policy relate to the

whole organisation and not just trading risks which inevitably form the largest sector of risk.

### **The Governance Framework**

The business is operated under the authority of a Joint Committee formed under the Local Government Act 1972, the Member Authorities being Shropshire Council, Herefordshire Council, Worcestershire County Council and Telford & Wrekin Council. A Joint Agreement between those Member Authorities determines the governance arrangements.

The Joint Committee is the elected Member body responsible for the discharge of the functions of the Member Authorities. The Joint Agreement determines a number of strategic policies that shall be maintained and provides Financial Regulations for the business. It operates under a system of Standing Orders, an annual business plan (including budget) and strategic policies. Many of the strategic policies are modelled on those adopted by Shropshire Council. All delegation and authority levels relating to the business are outlined in the West Mercia Energy Scheme of Delegation.

Shropshire Council acts as the Lead Authority and employs staff and holds property employed on behalf of the Member Authorities. A Secretary and a Treasurer to the Joint Committee are appointed from the Officers of the Member Authorities. A Director, appointed by the Joint Committee, operates and manages the business on a day to day basis.

From June 2013 in order to reflect the size of the organisation and simplify the governance arrangements appropriate to risk, the duties of the Audit Committee transferred to the Joint Committee. These duties include review of the financial and performance reporting of the organisation, the adequacy of the internal control, governance and risk management framework and considering any issues arising from the auditing of the organisation either by Internal or External Audit.

Objectives, targets and performance measures are set in an Annual Business Plan which reflects the outcome of external and customer consultation, analysis of current and future needs and consideration of current performance.

Members, officers and staff behaviours are governed by Codes of Conduct, which include a requirement for declarations of interest to be completed by Members and senior officers annually. Registers of interests of Members are maintained by their own councils.

Key decisions are made by the Joint Committee based on written reports which may include assessments of legal and financial implications, consideration of risks and how these will be managed. Other day to day decisions are made by officers, which were referred to the Director as appropriate.

Risk Management procedures are formalised within the Risk Management Strategy, which is reviewed on an annual basis. The Business Continuity Plan is reviewed on an annual basis.

**Review of Effectiveness**

The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the officers within the organisation who have responsibility for the development and maintenance of the internal control environment.

**Internal Audit**

**2015/16 Audit programme**

Eight audits were performed during the year. Six audits were issued with good assurance and two with reasonable. There were a total of 13 recommendations from these eight audits. Overall there were no fundamental recommendations from any of the audits conducted in 2015/16.

On the basis of the work undertaken and management responses received, in the opinion of the Audit Service Manager, the organisation’s financial systems, internal control environment and risk management procedures are sound and working effectively. Furthermore the Audit Service Manager is able to deliver a positive year end opinion on the Joint Committee’s internal control environment for 2015/16.

**Significant Governance Issues**

During 2015/16 the Member Authorities have agreed to a review of the key governance documents of WME. This review is being conducted during 2016/17 and an updated Joint Agreement will be presented to the Member Authorities for their approval. Furthermore the Joint Committee will be presented with an updated Financial Regulations, Standing Orders and Scheme of Delegation. These revised governance documents are building on the current governance documents that are in place with enhancements incorporated as necessary.

**Certification**

To the best of our knowledge, the governance arrangements as defined above have been operating effectively during the year. Steps will be taken over the coming year to resolve the governance arrangements as highlighted above. Any improvements implemented shall be monitored as part of the next annual review.

Treasurer: .....  
(James Walton)

Chairman of the  
West Mercia Energy Joint Committee: .....  
(Cllr Philip Price)

**This page is intentionally left blank**



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	7
26 <sup>th</sup> September 2016	Public

## EXTERNAL AUDIT – AUDIT FINDINGS REPORT 2015/16

**Responsible Officer** Nigel Evans

e-mail: [nevens@westmerciaenergy.co.uk](mailto:nevens@westmerciaenergy.co.uk) Tel: 01743 231101

### 1. Summary

- 1.1 Grant Thornton, the Joint Committee's external auditors, have completed their audit work regarding the financial statements of the Joint Committee for the year ended 31<sup>st</sup> March 2016 and this report enables them to present their audit findings to the Joint Committee.

### 2. Recommendations

- 2.1 The Joint Committee are asked to consider and endorse, with appropriate comment, the contents of the audit findings 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 International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice.

#### 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, it was highlighted that from 1<sup>st</sup> April 2015 implementation of the Local Audit and Accountability Act 2014 meant that joint committees are no longer required to have their accounts separately prepared and audited. At this Joint Committee it was agreed to continue with an annual external audit in order to provide the Joint Committee with the necessary continued assurance regarding stewardship of funds.

5.2 Grant Thornton presented their audit plan for 2015/16 to the February Joint Committee which was considered and endorsed.

5.3 Grant Thornton conducted an interim audit visit in February and their main audit work within August in line with the audit plan. The key messages from the attached audit findings report are:

- No adjustments were identified affecting the Joint Committee's reported financial position.
- There are no significant issues to bring to the attention of the Joint Committee as those charged with governance.
- Anticipate an unqualified opinion of the WME financial statements.

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

Joint Committee 29<sup>th</sup> February 2016 – External Audit, Audit Plan 2015/16

Joint Committee 28<sup>th</sup> September 2015 – Local Audit and Accountability Act

**Member**

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

**Appendices**

Appendix 1 - Grant Thornton, The Audit Findings for West Mercia Energy Year Ended 31 March 2016



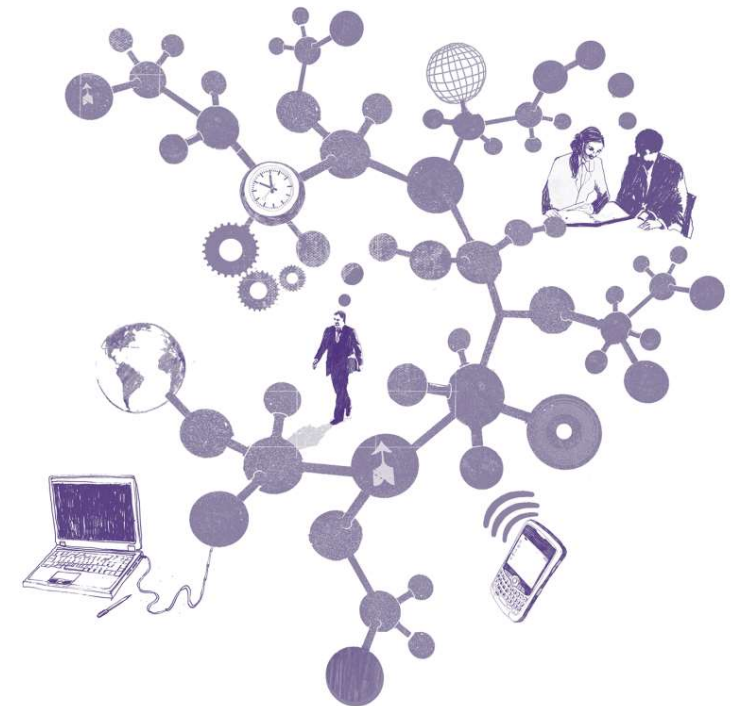
# The Audit Findings for West Mercia Energy

Year ended 31 March 2016

26 September 2016

**Richard Percival**  
Associate Director  
T 0121 232 5434  
E [Richard.d.Percival@uk.gt.com](mailto:Richard.d.Percival@uk.gt.com)

**Jim McLarnon**  
Assistant Manager  
T 0121 232 5219  
E [james.a.mclarnon@uk.gt.com](mailto:james.a.mclarnon@uk.gt.com)



---

# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	4
2. Audit findings	7
3. Fees, non-audit services and independence	19
4. Communication of audit matters	21

## Appendices

A Draft audit opinion

**Page 60**

West Mercia Energy  
Chapter House South  
Abbey Foregate  
Shrewsbury  
SY2 5DE

26 September 2016

Dear Members of the Joint Committee

**Audit Findings for West Mercia Energy for the year ending 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of West Mercia Energy, the Joint Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely,

Richard Percival  
Engagement lead

**Chartered Accountants**

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.  
Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grant-thornton.co.uk for further details.

---

# Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Page 62

## Purpose of this report

This report highlights the key issues affecting the results of West Mercia Energy ('the Joint Committee') and the preparation of the Joint Committee's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260,

From the 1 April 2015 the implementation of the Local Audit and Accountability Act 2014 ('the Act') means that joint committees are no longer required to have their accounts separately prepared and audited. West Mercia Energy has decided to continue to prepare accounts and have them audited. It has adopted the CIPFA Code of Practice on Local Authority Accounting as the appropriate accounting framework. We have audited the 2015/16 accounts against this framework and in accordance with the applicable Code of Audit Practice.

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Joint Committee's financial statements give a true and fair view of the financial position of the Joint Committee and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 29 February 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## Key audit and financial reporting issues

### Financial statements opinion

We have identified no adjustments affecting the Joint Committee's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded a net operating surplus of £2.079 million; the audited financial statements are unchanged.

There are no significant issues we wish to raise to the attention of Joint Committee as those charged with governance. Further details are set out in section two of this report. We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A).

### **Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

There are no matters to report with respect to the Annual Governance Statement

### **Controls**

#### **Roles and responsibilities**

The Joint Committee's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Joint Committee.

#### **Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention. Further details are provided within section two of this report.

### **Acknowledgement**

Matters arising from the financial statements have been discussed with the Director.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**

**September 2016**

---

## Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

At the audit planning stage, we determined overall materiality to be £1,405k (being 2% of gross revenue in the prior year). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality with the exception of updating this to take in to account 2015/16 draft financial statements figures.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £63k.

We identified the following items where we decided that separate materiality levels were appropriate.

Page 66

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	All transactions made by the Joint Committee affect the cash and cash equivalents balance and it is therefore considered to be material by nature.	£50k
Disclosures of senior employees' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5k
Disclosure of related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	This is determined on a case by case basis as accounting standards stipulate that the transaction must be material in context to the Joint Committee and the related party.



# Audit findings against significant risks

"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 (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Page 67	<p><b>1. The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>As part of our audit work we have completed:</p> <ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• substantive testing of material revenue streams</li> <li>• revenue cut-off testing to ensure income has been recorded in the correct financial period</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
	<p><b>2. Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have completed:</p> <ul style="list-style-type: none"> <li>• review of entity level controls</li> <li>• Detailed testing of large and unusual journal entries</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• Review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues however we have raised a point in relation to the control environment for the attention of those charged with governance.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Turnover – Utility Revenue</b>  <span style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 68</span>	Existence/Occurrence  (Contract accounting not consistent with terms)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>substantive testing of an attribute sample of utility revenue transactions including agreement to supporting evidence and receipt of income</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Cost of Goods Sold – Utility Expenditure</b>	Valuation – Gross.  (Costs not accounted for property)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>substantive testing of an attribute sample of utility expenditure including agreement to supporting evidence and remittance of payment</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Cost of Goods Sold – Utility Expenditure</b>	Valuation – Net.  (Activity variation adjustments to expenditures not correct)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>substantive testing of an attribute sample of utility expenditure including agreement to supporting evidence and remittance of payment</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.



# Significant matters discussed with management

	Significant matter	Commentary
1.	<p><b>IFRS 13 – Fair Value Measurement</b></p> <p>The CIPFA Code of Practice adopted accounting standard IFRS 13 in 2015/16. This introduces a new, consistent definition of fair value and should be applied prospectively from the current year onwards.</p> <p>The standard requires enhanced disclosures in relation to monetary and non-monetary assets and liabilities of a body including documentation of valuation techniques and observable and unobservable inputs in the fair value hierarchy.</p>	<p>The affects of IFRS 13 as they apply to the Joint Committee are limited given the non-complex nature of financial instruments held and no investment properties or surplus assets on the balance sheet.</p> <p>Therefore we are satisfied that disclosure of financial instruments is appropriate however we have proposed that the accounting policies for financial instruments are amended to reflect compliance with the standard should the Joint Committee ever be required to account for more complex, long terms financial instruments.</p>

Page 69

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Joint Committee's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>• Revenue and capital transactions are accounted for on an accruals basis meaning revenue income is recorded when the debt has been established rather than when money has been received.</li> </ul>	<p>We have concluded that:</p> <ul style="list-style-type: none"> <li>• The revenue recognition policy is appropriate under the relevant accounting framework</li> <li>• The policy has been applied consistent with the prior period and we have identified no issues from substantive testing performed</li> <li>• The accounting policy is adequately disclosed in the financial statements</li> </ul>	
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– Useful life of PPE</li> <li>– Accruals</li> <li>– Valuation of pension fund net liability</li> </ul> </li> </ul>	<p>We have concluded that:</p> <ul style="list-style-type: none"> <li>• Accounting policies for key estimates and judgements are appropriate under the relevant accounting framework</li> <li>• The extent of judgement involved is limited and therefore reduces the risk of management override of controls</li> <li>• The potential financial statement impact of different assumptions in the valuation of the pension fund deficit would not be material</li> <li>• Estimates and judgements made by management have been benchmarked against industry practice and are deemed to be reasonable</li> </ul>	

Page 70

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
 © 2016 Grant Thornton UK LLP | Audit Findings Report for West Mercia Energy | 2015/16

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	The Director has a reasonable expectation that the services provided by the Joint Committee will continue for the foreseeable future. Members concur with this view. For this reason, the Joint Committee continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Joint Committee's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	
<b>Other accounting policies</b>		We have reviewed the Joint Committee's policies against the requirements of the CIPFA Code of Practice. The Joint Committee's accounting policies are appropriate and consistent with previous years.	

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
 © 2016 Grant Thornton UK LLP | Audit Findings Report for West Mercia Energy | 2015/16

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

## Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Joint Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Joint Committee.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send a confirmation request to NatWest. This permission was granted and the requests were sent and returned with positive confirmation.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>

## Other communication requirements continued


	Issue	Commentary
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>• We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas:</li> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>• The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Joint Committee acquired in the course of performing our audit, or otherwise misleading. It should be noted that we requested management enhance the Narrative Report however this was not due to material omissions or inconsistencies and therefore we will not report on this matter.</li> </ul>

# Internal controls


The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Utility Revenue, Utility Expenditure and Journals as set out above.

The matters that we identified during the course of our audit are set out in the table below.

Page 74	Assessment	Issue and risk	Recommendations
1.		<ul style="list-style-type: none"> <li>Our review of the journals control environment has identified that the Director of the Joint Committee has the ability to post journal entries. We would not expect senior financial reporting personnel to have this level of access as it increases the risk of management override of controls.</li> </ul>	<ul style="list-style-type: none"> <li>We acknowledge that there are compensating controls in place to ensure all journals posted by the Director are reviewed and counter authorised by the Treasurer of the Joint Committee and no postings by the Director occurred in 2015/16.</li> <li>We recommend however that journals access levels are reviewed to ensure only the appropriate individuals have the authority to prepare and post journal entries.</li> </ul> <p><b>Management Response</b></p> <p>In the absence of the Finance Manager, the Director would be required to process journals to allow the production of management accounts. All such transactions will continue to be authorised by the Treasurer of the Joint Committee. Every six months the Finance Manager will extract from the finance system a report detailing the journals posted over the six month period. This report will include reference to the person posting the journal and will be issued directly by the Finance Manager to the Treasurer.</p>

**Assessment**

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.



## Adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. As a result of our audit procedures performed, we have not identified any misstatements.

## Unadjusted misstatements

As a result of our audit procedures performed, we have not identified any unadjusted misstatements.

## Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	<b>Adjustment type</b>	<b>Value £'000</b>	<b>Account balance</b>	<b>Impact on the financial statements</b>
1	Disclosure	N/A	N/A	The Narrative Report was updated to include greater detail in respect of key events, activities and financial performance in the period. This was also amended to include commentary on future plans and the changes in regulations which have lead to the Joint Committee no longer requiring a formal audit.
2	Disclosure	N/A	N/A	Accounting policy 1.1 has been updated to remove an incorrect reference to the Audit and Accounts Regulations 2015.

---

## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

**03. Fees, non audit services and independence**

04. Communication of audit matters

Page 77

We confirm below our final fees charged for the audit.

### Fees

	Final fee £
Joint Committee audit	13,000
<b>Total audit fees (excluding VAT)</b>	<b>13,000</b>

We can confirm that no non-audit or audited related services have been undertaken for the Joint Committee.

### 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.

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

---

## Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Page 79

# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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 issues 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 auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

Page 81

# Appendix A: Audit opinion

**We anticipate we will provide the Joint Committee with an unmodified audit report**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST MERCIA ENERGY JOINT COMMITTEE

We have audited the financial statements of West Mercia Energy Joint Committee (the "Joint Committee") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Joint Committee, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Joint Committee and the Joint Committee's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements: present a true and fair view of the financial position of the Joint Committee as at 31 March 2016 and of its expenditure and income for the year then ended; and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

### Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

### Matters on which we are required to report by exception

We are required to report to you if: in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or we issue a report in the public interest under section 24 of the Act; or we make a written recommendation to the Joint Committee under section 24 of the Act; or we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.



**Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Signature – to be added

Engagement lead name – to be added  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Building  
20 Colmore Circus  
Birmingham  
B2 6AT

Date – to be added

**Page 83**



© 2016 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

**[grant-thornton.co.uk](http://grant-thornton.co.uk)**



Committee and Date
West Mercia Energy Joint Committee
26 <sup>th</sup> September 2016

Item
8
Public

## WEST MERCIA ENERGY INTERNAL AUDIT ANNUAL REPORT 2015/16

**Responsible Officer** Ceri Pilawski

e-mail: [ceri.pilawski@shropshire.gov.uk](mailto:ceri.pilawski@shropshire.gov.uk) Telephone: 01743 257739

### 1. Summary

- 1.1 This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2016. It reports on progress against the annual audit plan. It also provides the Head of Audit's (Audit Service Manager's) opinion on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes taking into account the Public Sector Internal Audit Standards or Guidance, as required by the Accounts and Audit Regulations 2015.
- 1.2 Final performance has been good with 100% of the revised plan being delivered.
- 1.3 Six good and two reasonable assurances were made in 2015/16. A total of 13 recommendations have been made in the eight audit reports issued in the year. No fundamental recommendations have been made during 2015/16.
- 1.4 ***On the basis of the work undertaken and management responses received; the organisation's governance, risk management and internal control processes are sound and working effectively and the Audit Service Manager is able to deliver a positive year end opinion on West Mercia Energy's internal control environment for 2015/16.***

### 2. Recommendations

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

- a) Performance against the Audit Plan for the year ended 31 March 2016.
- b) That the system of governance, risk management and internal control is operating effectively and can be relied upon when considering the Annual Governance Statement for 2015/16.
- c) The Audit Service Manager's positive year end opinion on West Mercia Energy's governance, risk management and internal control environment for 2015/16 on the basis of the work undertaken and management responses received.

## **REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

- 3.1 The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Company's financial, governance and risk management systems and procedures and is closely aligned to the Company's risk register. The Plan is delivered in an effective manner; where Internal Audit independently and objectively examines, evaluates and reports on the adequacy of its customers control environments as a contribution to the proper, economic, efficient and effective use of resources. It provides assurances on the governance, risk management and internal control systems, by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal controls create an environment where poor performance, fraud, irregularity and inefficiency can go undetected leading to financial loss and reputational damage.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015.
- 3.3 There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.4 Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be positive.

### **4. Financial Implications**

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

### **5. Background**

- 5.1 This report is the culmination of the work of the Internal Audit team during 2015/16 and seeks to:

- Provide an opinion on the adequacy of the risk management, control and governance arrangements;
  - Inform the annual review of the effectiveness of its system of internal control that informs the Annual Governance Statement by commenting on the nature and extent of significant risks; and
  - Inform the review of an effective Internal Audit by providing performance data against the plan.
- 5.2 The requirement for Internal Audit derives from local government legislation, including section 151 of the Local Government Act 1972 which requires the Authority to make arrangements for the proper administration of its financial affairs. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2015, in that “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”.
- 5.3 The Public Sector Internal Audit Standards (PSIAS) define the scope of the annual report on internal audit activity. The annual report must incorporate an annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and internal control. This annual report provides information to support that assessment and that an effective Internal Audit is established for West Mercia Energy, in accordance with the requirements of the 2015 Accounts and Audit Regulations. The Internal Audit Service is provided by Shropshire Council. In June 2016, a paper is to be presented to Shropshire Council’s Audit Committee which provides assurance on the effectiveness of the Internal Audit service against the PSIAS. West Mercia Energy can take assurance from this report.
- 5.4 Internal Audit operates a strategic risk based plan. The plan is reviewed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk, this results in a comprehensive range of audits undertaken in the year, to support the overall opinion on the control environment. The plan contains a small contingency provision for any unforeseen work demands that may arise and any special investigations, are delivered in addition to the planned work in agreement with the Director.

#### **Annual Internal Audit Opinion from Internal Audit Work undertaken during 2015/16**

- 5.5 It is the responsibility of West Mercia Energy to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under the Public Sector Internal Audit Standards to deliver an annual internal audit opinion and report. The annual internal audit opinion will conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and internal control. This opinion plays a key part in informing West Mercia Energy’s Annual Governance Statement.
- 5.6 The results of individual audits, when combined, form the basis for the overall

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

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

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

5.8 ***On the basis of the work undertaken and management responses received; the organisation’s governance, risk management and internal control processes are sound and working effectively and the Audit Service Manager is able to deliver a positive year end opinion on West Mercia Energy’s internal control environment for 2015/16.***

**Key Assurances provided during 2015/16**

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

<b>Good</b>	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.
<b>Reasonable</b>	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.
<b>Limited</b>	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key control.

<b>Unsatisfactory</b>	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the organisation to high risks that should have been managed.
-----------------------	--

### **Audit assurance opinions delivered in 2015/16**

<b>Audit</b>	<b>Good</b>	<b>Reasonable</b>	<b>Limited</b>	<b>Unsatisfactory</b>
Corporate Governance	✓			
Risk Management	✓			
Creditors	✓			
Procurement	✓			
Finance	✓			
Debtors	✓			
Payroll		✓		
General IT Controls Follow Up		✓		
<b>Total for year</b>				
➤ <b>numbers</b>	<b>6</b>	<b>2</b>	<b>0</b>	<b>0</b>
➤ <b>percentage</b>	<b>75%</b>	<b>25%</b>	<b>0%</b>	<b>0%</b>

- 5.10 Six good and two reasonable assurances were issued during the financial year. Positive responses to recommendations have been received by management and will be followed up next year to determine whether satisfactory improvements have been made.
- 5.11 The Internal Audit team has achieved 100% of the plan which is in line with its target.
- 5.12 Audit recommendations are also an indicator of the effectiveness of the Company's internal control environment and are rated according to their priority:

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

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

consequently, the number of significant recommendations in the table below will not necessarily correlate directly with the number of limited assurance opinions issued in above. Any fundamental recommendations resulting from a control weakness in West Mercia Energy's control environment would be reported in detail to the Joint Committee.

- 5.14 A total of 13 recommendations have been made in the eight audit reports issued in the year; these are broken down by audit area in the table below.

### **Audit opinion and recommendations made on 2015/16 audits**

Audit	Level of Assurance Given	Number of Recommendations made				Total
		BP	RA	S	F	
Corporate Governance	Good		1			1
Risk Management	Good		1			1
Creditors	Good		2			2
Procurement	Good					0
Finance	Good		2			2
Debtors	Good	1	2			3
Payroll	Reasonable		1	1		2
General IT Controls	Reasonable		2			2
<b>Total for year</b>						
➤ numbers		<b>1</b>	<b>11</b>	<b>1</b>	<b>0</b>	<b>13</b>
➤ percentage		<b>7.7%</b>	<b>84.6%</b>	<b>7.7%</b>	<b>0%</b>	<b>100%</b>

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

### **Audit Performance**

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

### **Reporting**

- 5.17 All Internal Audit work is reviewed by a senior auditor to ensure it complies with Internal Audit's standards and that the recommendations made are supported by the work undertaken before any audit reports are issued. This is seen as a fundamental part of ensuring audit quality and that clients receive reports which are both informative, useful and add value to their work processes and procedures.



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

### **Quality Assurance/Customer Feedback Survey**

5.19 A customer feedback survey form is sent out with the all audits completed. These provide key feedback on the quality of audit service in relation to a number of areas, including:

- Pre auditing arrangements;
- Post audit briefings;
- Audit coverage/scope of the audit;
- Timeliness of production of report;
- Accuracy and clarity of the report;
- Practicality of recommendations;
- Professionalism of approach;
- Communication skills and
- Timeliness of audit to your business.

5.20 The surveys are a key part of ensuring the work meets our client expectations and that the quality of audit work is maintained. The results have been analysed over the last year and the percentage of responses are identified in the table below:

### **Customer Feedback Survey Forms - percentage of excellent and good responses**

<b>Item Being Scored</b>	<b>2015/16</b>
Pre-audit arrangements	100%
Post-audit briefing	100%
Audit coverage/scope of the audit	100%
Timeliness of production of report	100%
Accuracy and clarity of report	100%
Practicality of recommendations	100%
Professionalism of approach	83%
Communication skills	100%
Timeliness of audit to your business	100%
Number of forms returned	6

5.21 Overall the results are pleasing, showing services delivered consistently at a high level. In respect of professionalism of approach, the Director raised one issue re confidentiality in respect of the payroll audit. The auditor undertaking the audit raised a couple of payroll queries in an open plan office; whilst there was no breach of confidentiality in this instance, there was a risk that a breach could have

occurred. The feedback was accepted and all auditors reminded of the need to stay alert to such potential risks. This demonstrates how the information is used both to improve techniques overall within the team and at annual performance appraisals to identify future development focus relating to individual skills or competences.

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

- Proposed 2012/13 to 2015/16 Internal Audit Programme - Audit Committee on 25 February 2013.
- Public Sector Internal Audit Standards.
- Accounts and Audit Regulations 2015.

**Member**

Councillor P Price of Herefordshire Council (Chair of the Joint Committee)

**Appendices**

**None**



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	9
26 <sup>th</sup> September 2016	Public

## WEST MERCIA ENERGY

### INTERNAL AUDIT QUALITY ASSURANCE IMPROVEMENT PROGRAMME

**Responsible Officer** Ceri Pilawski

e-mail: [ceri.pilawski@shropshire.gov.uk](mailto:ceri.pilawski@shropshire.gov.uk) Telephone: 01743 257739

#### 1. Summary

- 1.1 Shropshire Council Internal Audit Service complies with the Public Sector Internal Audit Standards (PSIAS). As part of this process the service must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspect of the internal audit activity.
- 1.2 This programme is designed to enable an evaluation of the service's conformance with the PSAIS; definition of internal auditing, the standards and whether auditors apply the code of ethics. The programme assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 1.3 This quality assurance and improvement programme includes both internal and external assessments.
- 1.4 This report provides members with an update on the External Assessment review planned in November 2016.

#### 2. Recommendations:

- 2.1 The Committee are asked to consider and endorse, with appropriate comment, the information set out in this report.

### REPORT

#### 3. Risk Assessment and Opportunities Appraisal

- 3.1 This report sets out how Shropshire Council Internal Audit Service develop and maintain a Quality Assurance and Improvement Programme (QAIP). The report is to provide members with an update on the External assessment of this programme which will be undertaken by CIPFA in November 2016.

- 3.2 The recommendation contained in this report is compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

#### **4. Financial Implications**

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

#### **5. Background**

- 5.1 This quality assurance and improvement programme includes both internal and external assessments.

##### **Internal Assessment**

- 5.2 The internal assessment involves ongoing monitoring of the performance of internal audit activity against the PSIAS, which have been incorporated into the routine policies and practices used to manage the service. These arrangements are as follows:

- Internal audit procedures (manual)
- Ongoing supervision and review of audit work
- Performance management information
- Feedback from auditees following specific audit work/ reports
- Results of quality assurance reviews, internal and external
- A self-assessment against the requirements of the PSIAS
- Any feedback from External Audit on the effectiveness of the function
- Completion of the actions within the Quality Assurance Improvement Programme Action Plan.

- 5.3 The following processes also help to inform and assess the performance of Internal Audit throughout the year:

- Regular meetings of the Head of Internal Audit and senior Audit staff with the Treasurer
- Access for the Head of Internal Audit to the Chair, Director and External Auditor as required
- Consideration of the Risk Management process as reported to West Mercia Energy Joint Committee on a regular basis and through discussions with key officers and members
- The Audit Plan is approved by the West Mercia Energy Joint Committee
- Audit plan performance is reported on and any significant changes are signed off by the Director and reported to West Mercia Energy Joint Committee
- At least annually the Head of Internal Audit meets with the Director to consider and discuss the key risks facing the Company and impact on the internal control environment. The annual plan is drafted as a result of these discussions. More frequent meetings are held in areas of high risk
- Assurances are available annually on the public agenda for Shropshire Council's Audit Committee in terms of an approved Audit Charter; self-assessment against the PSIAS and performance of the Internal Audit service

- 5.4 Annually a full review against the PSIAS is conducted by the Head of Internal Audit. The review is shared and commented upon by Senior Auditors and discussed at team meetings, along with the associated action plan for improvement. The Head of Internal Audit then presents the assessment to the Council's Section 151 Officer who has an understanding of the PSIAS requirements and provides a challenge to the assessment. Following this the results of the self-assessment are reported to the June Audit Committee at Shropshire Council along with details of any areas of non-conformance with the PSIAS. External clients are sign posted to the Shropshire Council website Audit Committee report for their assurances. All clients can provide challenge on the process at any time.
- 5.5 This self-assessment review is provided in conjunction with the Annual Internal Audit report, found on Shropshire Council's Audit Committee June agenda too. When read together the two reports demonstrate the effectiveness of the Internal Audit service and compliance against the PSIAS.
- 5.6 The internal assessment concludes that there are no areas where the Internal Audit function is not complying with the Code and whilst there are areas of partial compliance, these are not considered significant and do not compromise compliance with the code.

### **External Assessment**

- 5.7 An external assessment of the team's compliance with the PSIAS must be completed once every five years by a qualified, independent assessor or assessment team. The Head of Internal Audit has discussed this assessment with Shropshire's Audit Committee and the Section 151 Officer and agreed that the self-assessment conducted annually will be validated by external assessors. The alternative option is for a full external assessment.
- 5.8 Following a tendering process with other councils, coordinated by Staffordshire County Council, The Chartered Institute of Public Finance and Accountancy (CIPFA) have been awarded the contract and engaged by Shropshire Council to conduct the fieldwork for the assessment week beginning the 21st November 2016. CIPFA are well qualified to conduct such a review as the internal audit standard setter within local government and as such has a deep knowledge of the impact of the PSIAS on the public sector as a whole. CIPFA also have responsibility for setting accounting standards for a significant part of the economy and can therefore use this experience to provide pertinent feedback to the service and its clients. CIPFA is independent of the Council and Ray Gard, FCCA, CFIIA, CPFA, DMS who will be conducting the review has no conflict of interest with Shropshire Council or WME. Being the professional accountancy body for public sector finance, CIPFA ensures that all consultancy, including PSIAS External Quality Assurance reviews, is delivered completely independently of any other organisation.
- 5.9 Results of the external assessment will be reported publically to Shropshire Council's Audit Committee and shared with West Mercia Energy.

**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

Internal audit strategic plan 2016/17 – February 2016

**Member**

Councillor P Price of Herefordshire Council (Chair of the Joint Committee)

**Appendices**

**Appendix A** - Internal audit strategic plan 2016/17

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

<b>AUDIT</b>	<b>Including review of:</b>	<b>2016/17 DAYS</b>
<b>PAYROLL</b>	Starters and leavers, overtime, travel, subsistence and performance related pay.	2
<b>CREDITORS</b>	Orders, payments, credit notes, purchase cards	2
<b>DEBTORS</b>	Billing, collection, refunds, write-offs, rebates (to cover gas, electricity and oil on a rolling three year basis)	3
<b>FINANCE</b>	Budgetary control, journals and control accounts reconciliation, bank control and reconciliation, exception reporting and reconciliation, VAT	3
<b>IT</b>	Follow-up of the recommendations made in the 2015/16 general IT controls review and to undertake additional in depth work on those areas identified arising from the work	5
<b>CORPORATE GOVERNANCE AND RISK MANAGEMENT</b>	Corporate governance	2
	Risk management	2
<b>ENGAGEMENT MANAGEMENT</b>	Previous recommendation follow up, audit management, audit planning, servicing Audit Committee, advisory	5
	Contingency	2
<b>TOTAL</b>		<b>26</b>

**This page is intentionally left blank**



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

**This page is intentionally left blank**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

**This page is intentionally left blank**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

**This page is intentionally left blank**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

**This page is intentionally left blank**



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

**This page is intentionally left blank**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

**This page is intentionally left blank**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

**Document is Restricted**

**This page is intentionally left blank**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

**This page is intentionally left blank**



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

**Document is Restricted**

**This page is intentionally left blank**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

**This page is intentionally left blank**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

**This page is intentionally left blank**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

**This page is intentionally left blank**



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

**This page is intentionally left blank**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

**Document is Restricted**

**This page is intentionally left blank**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

**This page is intentionally left blank**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

**This page is intentionally left blank**



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

**Document is Restricted**

**This page is intentionally left blank**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

**This page is intentionally left blank**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

**This page is intentionally left blank**