



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

Date: 18th February 2019

Committee: West Mercia Energy Joint Committee

Date: Tuesday, 26 February 2019

Time: 10.00 am

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

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

Claire Porter
Director of Legal and Democratic Services

Members of West Mercia Energy Joint Committee

<i>Herefordshire Council</i>	D Harlow P Price
<i>Shropshire Council</i>	P Nutting R Macey
<i>Telford & Wrekin Council</i>	L Carter R Evans
<i>Worcestershire County Council</i>	J Smith A Hardman (Chairman)

Your Committee Officer is:

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

AGENDA

1 Election of Chairman

To elect a Chairman for the ensuing year.

2 Apologies for Absence

To receive apologies for absence.

3 Appointment of Vice-Chairman

To appoint a Vice-Chairman for the ensuing year.

4 Minutes (Pages 1 - 6)

To receive the minutes of the Joint Committee meeting held on 24th September 2018.

Copy attached marked 4.

5 Public Questions

To receive any question or petitions from the public, notice of which has been given in accordance with Procedure Rule 14. The deadline for this meeting is 10.00 a.m. on Monday, 25th February 2019.

6 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.

7 Supplier Contracts

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

8 External Audit Plan 2018/19 (Pages 7 - 18)

Report of the External Auditor

Contact: Richard Percival (0121 212 4000)

9 External Audit - Informing the Audit Risk 2018/19 (Pages 19 - 40)

Report of the External Auditor is attached, marked 9.

Contact: Richard Percival (0121 212 4000)

10 Internal Audit Performance Reports to February 2019 (Pages 41 - 82)

The reports of the Audit Services Manager.

Appendix A – Creditors

Appendix B – Debtors

Appendix C – Finance

Appendix D –Governance

Appendix E – Payroll

Appendix F – Procurement

Appendix G – Risk Management

Contact: Ceri Pilawski (01743 257739)

11 Internal Audit Strategic Plan 2019/20 (Pages 83 - 86)

Report of the Audit Services Manager.

Contact: Ceri Pilawski (01743 257739)

12 Anti-Slavery and Human Trafficking Statement 2018/19 (Pages 87 - 90)

Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

13 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.

14 Exempt Minutes (Pages 91 - 94)

To approve the exempt Minutes of the meeting held on 24th September 2018.

Contact: Emily Marshall (01743 257717)

15 Annual Business Plan and Budget 2019/20 including a Review of 2018/19
(Pages 95 - 130)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

16 Minutes of the Flexible Energy Advisory Panel (Pages 131 - 140)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

17 Energy Governance, Accountability, Risk and Reporting Policy (Pages 141 - 214)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

18 Risk Management Update (Pages 215 - 232)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

19 Date of Next Meeting

The next meeting of the West Mercia Energy Joint Committee will be held on Tuesday, 24th September 2019 at 10.00 a.m. in the Shrewsbury Room, Shirehall, Shrewsbury.



Committee and Date

West Mercia Energy Joint
Committee

26th February 2019

WEST MERCIA ENERGY JOINT COMMITTEE

Minutes of the meeting held on 24 September 2018

**In the Ludlow Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND
10.00 - 11.52 am**

Responsible Officer: Emily Marshall

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

Present

Councillors R. Evans, Price, Nic Laurens (Vice Chairman) and Robert Macey

19 Apologies for Absence

Apologies for absence were received from Councillors Carter (Telford and Wrekin) (Substitute: Councillor R Evans), A Hardman (Worcestershire), D Harlow (Herefordshire) and J Smith (Worcestershire).

20 Minutes

That the Minutes of the West Mercia Energy Joint Committee held on 26th February 2018 be approved as a correct record and signed by the Chairman.

21 Public Questions

There were no public questions or petitions received.

22 Disclosable Pecuniary Interests

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

23 Supplier Contracts

The Director reported that there were no entries to report.

RESOLVED:

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

24 Statement of Accounts 2017/2018 and Annual Governance Statement 2017/2018

Mr J. Walton, Treasurer (WME) presented the Letter of Representation, the Statement of Accounts 2017/18 and the Annual Governance Statement 2017/18 for the West Mercia Energy Joint Committee (copy attached to the signed minutes).

RESOLVED:

1. That the Letter of Representation be noted and signed by the Chairman and submitted by the Treasurer.
2. That the finalised Statement of Accounts 2017/18 be approved and signed by the Chairman and the Treasurer.
3. That the Annual Governance Statement 2017/18 be approved.

25 External Audit - Audit Findings Report 2017/2018

Mr R. Percival (External Auditor – Grant Thornton) presented the West Mercia Energy Joint Committee Audit Findings Report 2017/18 (copy attached to the signed minutes).

Mr Percival drew Members attention to page 71, Control Recommendations and explained that Journals Control was a long-standing issue and not a concern. With regards to Going Concern, Mr Percival explained that this was implicit as WME was underwritten by member bodies.

Members commented that they were pleased to receive such a positive report and congratulated the Director and his Team for their work.

RESOLVED:

That the West Mercia Energy Joint Committee Audit Findings Report 2017/18 be noted.

26 Internal Audit Annual Report 2017/18

P. Chadderton, Principal Auditor introduced Internal Audit Annual report 2016/17 (copy attached to the signed minutes).

RESOLVED:

1. That performance against the Audit Plan for the year ended 31 March 2018 be endorsed.
2. To note 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 2017/18.
3. That the Head of Audit's positive year end opinion on West Mercia Energy's governance, risk management and internal control environment for 2017/18

on the basis of the work undertaken and management responses received be noted.

27 **Distribution of Surplus**

The Treasurer presented the report which recommended the level of distribution of surplus held at 31 March 2018 to the Member Authorities (copy attached to the signed minutes).

In response to a question, the Treasurer explained how the level of distribution of surplus was calculated.

RESOLVED:

1. That the retention of accumulated surplus of £0.630 million be approved.
2. That the distribution of accumulated surplus of £0.843 million, in accordance with the provisions of the Joint Agreement, be approved.

28 **Treatment of Pension Liability for WME and Former WMS**

Mr James Walton, Treasurer provided an update on the pension liability for West Mercia Energy and former West Mercia Supplies.

Mr Walton provided the Committee with an update on the background to the pensions liability and the potential risk implications for the business, The Director explained that the risk related to completing tender exercises, although there was a sound explanation for the pensions liability it could cause loss of business if the tender form only had a yes/no option.

The Treasurer went on to explain that the issue had been discussed with the actuary and several options had been put forward, all options came with wider implications.

Option one was explained. This option would involve setting up a “shell organisation” with a separate set of accounts exclusively for the pension liability. The disadvantage of this option was that it would increase administrative work.

Option two was the preferred option. This option would mean that the pension liability would be shared between the four owning authorities, split four ways, shared out equally based on their profiles, for each authority to manage. This option would need Secretary of State approval.

The pros and cons of each option were discussed as well as the upfront and ongoing costs associated with each option.

The Treasurer reported that he would bring a more detailed report to the next meeting of the Joint Committee.

RESOLVED:

That the update on the pension liability for WME and Former WMS be noted.

29 West Mercia Energy Data Protection Policy

N. Evans, Director WME presented the report which recommended approval of the WME Data Protection Policy (copy attached to the signed minutes) which had been reviewed and updated in light of the General Data Protection Regulation (GDPR).

The Director confirmed that all WME staff had received appropriate training.

RESOLVED:

That the WME Data Protection Policy be approved.

30 West Mercia Energy Health and Safety Policy

N. Evans, Director WME presented the updated WME Health and Safety Policy (copy attached to the signed minutes) for approval.

The Director reported an additional amendment, Health Surveillance was not appropriate for WME and so would be deleted from the Policy.

RESOLVED:

That the WME Health and Safety Policy be approved.

31 Exclusion of Press and Public

RESOLVED:

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

32 Exempt Minutes

RESOLVED:

That the Exempt Minutes of the meeting held on 26th February 2018 be approved as a correct record.

33 Update on Business Plan and Trading Performance to Date 2018/2019

The Director presented an exempt report (copy attached to the signed exempt minutes), which presented an update on the West Mercia Energy Annual Business Plan and Budget 2018/19.

RESOLVED:

That the recommendation contained within the exempt report be approved.

34 Minutes of the Flexible Energy Advisory Panel

The Director presented an exempt report (copy attached to the signed exempt minutes), which presented the minutes of the Flexible Energy Management/Advisory Panel meetings that had been held since the last meeting of the Joint Committee.

RESOLVED:

That the recommendation contained within the exempt report be approved.

35 Risk Management Update

The Director presented an exempt report (copy attached to the signed exempt minutes), which provided an update on risk management.

RESOLVED:

That the recommendation contained within the exempt report be approved.

36 Date of Next Meeting

It was noted that the Committee Officer would circulate the dates of meetings for 2019 in due course.

Signed (Chairman)

Date:

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<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	8
26 February 2019	Public

EXTERNAL AUDIT PLAN 2018/19

Responsible Officer Nigel Evans

e-mail: nevens@westmerciaenergy.co.uk Tel: 0333 1014353

1. Summary

- 1.1 It has been previously agreed for the Joint Committee to continue with an external audit to provide the Joint Committee the necessary continued assurance regarding stewardship of funds.
- 1.2 This report provides the Joint Committee with the proposed external audit plan for 2018/19 for consideration and approval.

2. Recommendations

It is recommended that the Joint Committee:

- 2.1 approve the draft audit plan for 2018/19 as presented by Grant Thornton
- 2.2 approve the commissioning of Grant Thornton to undertake the audit in accordance with the audit plan.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Grant Thornton's audit work is conducted in accordance with the International Standards on Auditing (ISAs) (UK).

- 3.4 The risks associated with not conducting an external audit including an audit opinion were considered when the decision was made in September 2015 to continue with an external audit.

4. Financial Implications

- 4.1 The quoted audit fee for 2018/19 is £13,500, an increase of £500 on the £13,000 in 2017/18. The fee has remained at £13,000 since 2015/16 after a reduction from the 2014/15 rate of £18,386.

5. Background

- 5.1 At the September 2015 Joint Committee, members were advised of the changes to the statutory audit requirements for Joint Committees effective from 1 April 2015. At this Joint Committee, it was agreed to continue with an annual external audit to provide the Joint Committee the necessary continued assurance regarding stewardship of funds.
- 5.2 The scope of the audit to be undertaken is set out in Grant Thornton's proposal and the 'significant risks' identified for special audit consideration are identified on page 3 of the proposal and in more detail on pages 4 and 5.
- 5.3 Grant Thornton will conduct their main audit work on the WME accounts for 2018/19 in July and will bring their report to the September Joint Committee.

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

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

Member

Councillor A Hardman of Worcestershire County Council (Chair of the Joint Committee)

Appendices

Appendix A - Grant Thornton Audit Plan for West Mercia Energy (year ended 31 March 2019)



External Audit Plan

Year ending 31 March 2019

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

West Mercia Energy Joint Committee
26 February 2019

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Contents



Your key Grant Thornton
team members are:

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Section

1. Introduction & headlines
2. Significant risks identified
3. Materiality
4. Audit logistics, team & fees
5. Independence & non-audit services

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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West Mercia Energy Joint Committee ('WME') for those charged with governance.

Respective responsibilities

Our respective responsibilities are set out in the agreed engagement letter.

Scope of our audit

The Joint Committee has adopted the Code of Practice on Local Authority Accounting in the UK as its accounting framework.

The scope of our audit is set in accordance with International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the WME's financial statements that have been prepared by management with the oversight of those charged with governance (the Joint Committee).

The audit of the financial statements does not relieve management or the Joint Committee of your responsibilities. 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 audit approach is based on a thorough understanding of West Mercia Energy's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Income from utility revenue
- Management override of controls
- Going concern disclosures
- Valuation of the pension fund net liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.2 million (PY £1.247 million), which equates to 1.9% of prior year gross revenue for the year. We report uncorrected omissions or misstatements, other than those which are 'clearly trivial', to those charged with governance. Clearly trivial has been set at £0.06 million (PY £0.062 million).

Audit logistics

Our planning and interim visit will take place in January and our final visit will take place in July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our agreed fee for the audit will be £13,500 (PY: £13,000). This is subject to meeting our delivery requirements set out on page 10.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For WME we have concluded that the greatest risk of material misstatement relates to utility income. WME procures energy in bulk from a market where prices are highly volatile and outcomes depend on detailed contractual terms. In particular, activities near the period end are more likely to be based on subjective criteria determined by management. There is a greater audit risk to ensure recognised contract conditions have been satisfied</p> <p>We have therefore identified the occurrence and accuracy of utility income as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the accounting policy for recognition of income from utilities for appropriateness; • gain an understanding of the system for accounting for income from utilities and evaluate the design of the associated controls; • agree, on a sample basis, amounts recognised as income from utility in the financial statements to ensure that accurately accounted for in line with contract terms and that income is appropriately recognised.
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Joint Committee agrees a target financial contribution from WME and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Going concern disclosures	<p>As auditors, we are required to “obtain sufficient appropriate audit evidence” about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern.</p> <p>WME is dependent on being able to trade on favourable terms within the existing energy market. There are heightened risks for trading due to Brexit outcomes uncertainties.</p> <p>We therefore identified the adequacy of disclosures relating to going concern in the financial statements as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▪ discuss the financial standing with officers and in particular how the impacts of Brexit uncertainties have been considered ▪ evaluate management's assessment of going concern assumptions and supporting information, including budgets and cash flow forecasts ▪ examine the terms of available cash support facilities ▪ evaluate the completeness and accuracy of disclosures on any material uncertainties with regard to going concern in the financial statements.
Valuation of the pension fund net liability	<p>The pension fund net liability, is a highly material estimate in the financial statements which is sensitive to changes in the key assumptions.</p> <p>We therefore identified valuation of the pension fund net liability as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▪ update our understanding of the processes and controls in place to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls ▪ evaluate the instructions issued by management to the actuary and the scope of the actuary's work ▪ assess the competence, capabilities and objectivity of the actuary ▪ assess the accuracy and completeness of the information provided to the actuary to estimate the net pension liability ▪ test the consistency of the pension fund asset and liabilities and disclosures in the financial statements with the actuarial report ▪ undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary and performing any additional procedures suggested within the report ▪ obtain assurances from the auditor of Shropshire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund, and the fund assets valuation in the pension fund financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in September 2019.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. 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.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross revenue of the Joint Committee for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.2 million (PY £1.247 million), which equates to 1.9% of your prior year gross revenue for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £0.90m.

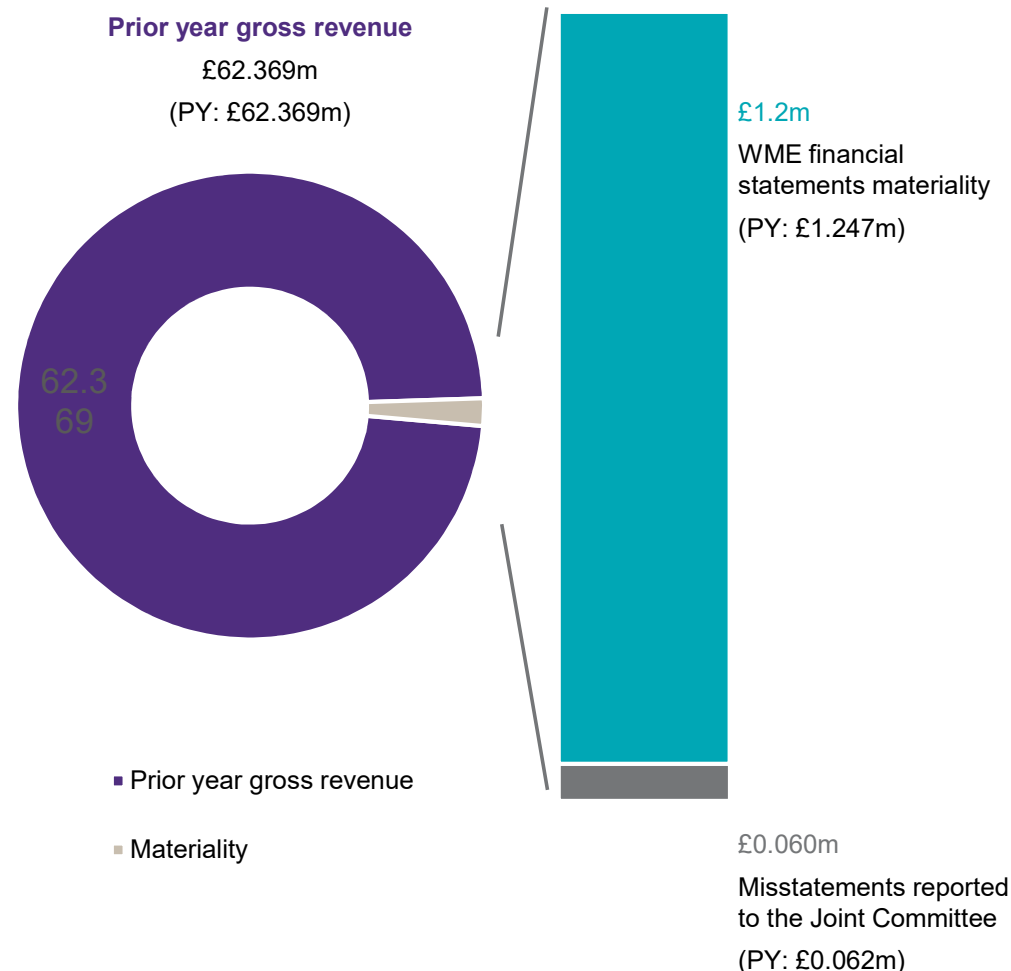
Senior officer remuneration materiality has been reduced to £50,000 due to its sensitive nature and public interest.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Joint Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Joint Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of WME, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £60,000 (PY £62,000).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Joint Committee to assist it in fulfilling its governance responsibilities.



Audit logistics, team & fees



Richard Percival, Engagement Lead

Richard will be the main point of contact for the Chair, Director and Committee members. He will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit. Richard will sign your audit opinion.



Dave Rowley, Audit Manager

Dave will work with the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. He will attend Joint Committee with Richard, and supervise Allison in leading the on-site team. He will undertake reviews of the team's work and draft clear, concise and understandable reports.



Allison Thomas, Audit Incharge

Allison will be the day to day contact for the audit, organising our visits and liaising with WME staff. She will lead the on-site team and will monitor deliverables, manage our query log ensuring that any significant issues and adjustments are highlighted to management as soon as possible.

Audit fees

The planned audit fees are £13,500 (PY: £13,000) for the financial statements audit completed in line with the terms of our engagement. In setting your fee, we have assumed that the scope of the audit, and WME and its activities, do not significantly change.

Where additional audit work is required to address risks relating to the application of changes to International Financial Reporting Standard (IFRS) 15 – Revenue from contracts with customers and WME's recognition and accounting treatment of income from contracts or on emerging going concern issues, we will consider the need to charge fees in addition to the audit fee on a case by case basis. Any additional fees will be discussed and agreed with management.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- supply supporting schedules to all figures in the accounts by the agreed dates and in accordance with the agreed upon information request list
- make all appropriate staff available during the period of the audit to help locate information and to provide explanations.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff and that you are kept informed of progress during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Joint Committee. No other services were identified.



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<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	9
26 February 2019	Public

EXTERNAL AUDIT - INFORMING THE AUDIT RISK ASSESSMENT 2018/19

Responsible Officer Nigel Evans

e-mail: nevans@westmerciaenergy.co.uk Tel: 0333 1014353

1. Summary

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

2. Recommendations

It is recommended that the Joint Committee:

- 2.1 consider the management responses contained in the attached report to ensure they are consistent with its understanding and make any further comments.
- 2.2 approve the management responses to the queries raised by Grant Thornton.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Grant Thornton's audit work is conducted in accordance with the International Standards on Auditing (ISAs) (UK).

4. Financial Implications

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

5. Background

5.1 The report attached from Grant Thornton covers some important areas of the auditors' risk assessment where they are required to make inquiries of the Joint Committee under auditing standards.

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

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

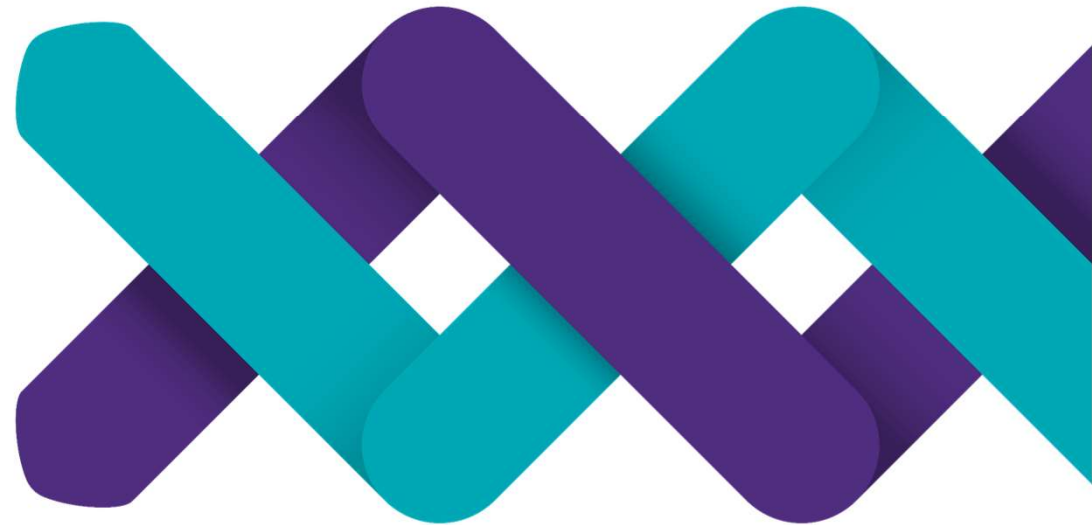
5.3 The attached report is sectioned by the five categories detailed above and details the questions raised and the corresponding management response.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p> <p>None</p>
<p>Member Councillor A Hardman of Worcestershire County Council (chair of the Joint Committee)</p>
<p>Appendices Appendix A - Informing the audit risk assessment for West Mercia Energy 2018/19</p>

Informing the audit risk assessment for West Mercia Energy

2018/19

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Purpose

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

Background

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

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

Communication

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

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

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

Fraud

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

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

Fraud risk assessment

Question	Management response
<p>How does the Joint Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What arrangements are in place to report fraud issues and risks to the Joint Committee?</p>	<p>Reliance is taken from the annual work performed by Internal Audit who regularly report on their findings to the Joint Committee. The Internal Audit plan is approved by Joint Committee at regular intervals.</p> <p>In addition the Joint Committee receives updates on governance arrangements to provide assurance that the intended controls are working e.g. Risk management updates and the Annual Governance Statement. Collaboration between the Director, Internal Audit and the Treasurer. A Staff Whistleblowing Policy is in place.</p>
<p>How does the Joint Committee communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>Staff are encouraged to report their concerns about fraud as set out in the Speaking up about wrongdoing (whistleblowing) policy and the Joint Committee's Anti-Corruption Strategy.</p>
<p>How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?</p>	<p>The Joint Committee has a Whistleblowing Policy in place to enable staff to raise concerns regarding malpractice.</p> <p>No issues have been reported.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>No</p>
<p>Are you aware of any instances of actual, suspected, or alleged fraud either within the Joint Committee as a whole or within specific departments since 1 April 2018?</p>	<p>No specific frauds identified.</p>
<p>Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2018? If so how does the Joint Committee respond to these?</p>	<p>No</p>

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Laws and regulations

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
<p>What arrangements does the Joint Committee have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>The Joint Committee has appointed a Monitoring Officer and a Treasurer, both of whom are responsible for ensuring all applicable statutes and regulations are complied with. The Monitoring Officer will report to the Joint Committee if he/she considers any proposal or decision to be unlawful.</p> <p>The Treasurer is required to report to the Joint Committee if a decision has been made or is about to be made that involves incurring unlawful expenditure or any unlawful action in relation to the financial accounts.</p> <p>The Treasurer and the Director are professionally qualified in finance with appropriate levels of experience. The Treasurer reports directly to the Joint Committee.</p> <p>Assurance also gained from Internal Audit work for 2018-19.</p> <p>The Joint Committee has a Whistleblowing Policy in place to enable staff to raise concerns regarding malpractice. In addition, the Joint Committee's constitution incorporates Financial Regulations, Standing Orders, and Scheme of Delegation to ensure business is conducted in compliance with existing law and regulations.</p>

Impact of laws and regulations

Question	Management response
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>The Joint Committee has aN Annual Governance Statement which highlights the scope of responsibility which determines sound system of internal controls and management of risk. A risk register is kept and in the event of any incident, risks are reviewed to ensure controls, mitigation measures and scores are appropriate.</p> <p>The Monitoring Officer and Treasurer provide advice to the Director on compliance with relevant laws and regulations.</p> <p>Internal Audit examine, evaluate and report on arrangements to ensure compliance with legislation and regulations, recommending to management any arrangements to address weaknesses, as necessary.</p>
<p>How is the Joint Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer and Treasurer provide advice to the Joint Committee on compliance with relevant laws and regulations.</p> <p>The Joint Committee is responsible for the approval of the Annual Governance Statement and the review of the related assurances which set out the system of internal control and detail the policies and procedures in place. This provides the assurance that management arrangements are in place for identifying and responding to changes in law and regulations and highlights any significant governance issues arising as a result of such changes.</p> <p>Internal Auditors' reports to the Joint Committee incorporate issues relating to compliance with legislation and regulations, where appropriate.</p>

Impact of laws and regulations

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Question	Management response
<p>Have there been any instances of non-compliance or suspected non-compliance with law and regulations since 1 April 2018, or earlier with an on-going impact on the 2018/19 financial statements?</p>	<p>We are aware that a Customer has a query in respect of WME's compliance with or exemption from the need to be a licensed supplier of electricity under the Electricity Act 1989, therefore are on notice that a Customer is querying a possible non-compliance given their interpretation of the Act and WME's arrangements.</p> <p>The Customer is being supplied with energy by TOTAL Gas & Power (who is a licensed supplier) and as such WME does not consider that it is the supplier of electricity to the Customer requiring a licence.</p> <p>WME is currently consulting an external legal advisor to review its contractual arrangements to ensure that they clearly address any application of the Electricity Act 1989 to WME or confirm its non-application, and to ensure that there is no ambiguity as to the relationship between the Customer, WME and the energy supplier.</p>
<p>What arrangements does the Joint Committee have in place to identify, evaluate and account for litigation or claims?</p>	<p>The Treasurer has responsibility to account for litigation or claims in the annual accounts that are considered by Joint Committee and subject to external audit.</p> <p>Given the relatively small size of the organisation, the Director would be aware of or be made aware of by his team of any issues.</p>
<p>Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No</p>
<p>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?</p>	<p>No</p>

Going concern

Matters in relation to laws and regulations

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

Going concern is a fundamental principle in the preparation of financial statements. Under the going concern assumption, West Mercia Energy is viewed as continuing in operation for the foreseeable future with no necessity of liquidation or ceasing trading. Accordingly, the Joint Committee's assets and liabilities are recorded on the basis that assets will be realised and liabilities discharged in the normal course of business.

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Below are key questions on the going concern assumption which we would like the Audit & Governance Committee to consider.

Going concern considerations

Question	Management response
Does the Joint Committee have procedures in place to assess the Joint Committee's ability to continue as a going concern?	A detailed Business Plan for the Joint Committee is approved in February each year, this looks forward two years. Regular management reporting is produced for the Joint Committee indicating the positive trading performance of the business.
Is management aware of the existence of other events or conditions that may cast doubt on the Joint Committee's ability to continue as a going concern?	No
<p>Page 32</p> <p>Are arrangements in place to report the going concern assessment to the Joint Committee? How has the Joint Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?</p>	The WME Business Plan for 2019/20 contains financial projections for 2019/20 and the Business Plan constitutes a going concern assessment where factors affecting future profitability have been considered. The Joint Agreement has been extended to 31 st March 2020 and has recently been updated further. Management regularly report to the Flexible Energy Advisory Panel in terms of future trading performance and contractual positions.
Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Joint Committee's Business Plan and the financial information provided to the Joint Committee throughout the year?	Yes
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	Yes

Going concern considerations

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

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Related parties

Matters in relation to Related Parties

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

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

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

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

Related party considerations have been set out below and management has provided its response.

Related parties

Question	Management response
What controls does the Joint Committee have in place to identify, account for, and disclose related party transactions and relationships?	Members and chief officers complete annually a Related Party Transactions Declaration Form. At the formal tender stage of contracts, the tenderer is required to complete a declaration of any connection with officers or elected members of WME.
Who have the Joint Committee identified as related parties?	See response as above. Also within the annual accounts transactions for the financial year between WME and each of the Member Authorities are disclosed.

Accounting estimates

Matters in relation to accounting estimates

Local Government bodies need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate. Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Joint Committee identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all material estimates that the CCG is using as part of its accounts preparation; these are detailed in Appendix A to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

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

Accounting estimates considerations have been set out below and management has provided its response.

Accounting estimates

Question	Management response
Are management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	No
Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
How is the Joint Committee provided with assurance that the arrangements for accounting estimates are adequate?	By obtaining the necessary input of the Treasurer, Director and Internal Audit as required.

Appendix A - Accounting estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of Property Plant and Equipment and Motor Vehicles	Assets are assigned to asset categories with appropriate asset lives.	Consistent asset lives applied to each asset category.	No	The useful lives of equipment are recorded in accordance with the adopted accounting policy of the Joint Committee	No
Depreciation	Depreciation is provided for on property plant and equipment and motor vehicles with a finite useful life on a straight-line basis	Consistent application of depreciation method across assets	No	The length of the life is determined at the point of acquisition or revaluation.	No
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	No	Valuations are made in-line with the CIPFA Code of Practice guidance.	No
Non adjusting events - events after the balance sheet date	The Joint Committee follows the requirements of the CIPFA Code of Practice.	The Treasurer is notified by the Director.	This would be considered on individual circumstances	This would be considered on individual circumstances	No

Appendix A - Continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Measurements are obtained from appropriate sources. The Joint Committee follows the requirements of the CIPFA Code of Practice.	The financial instruments are measured by the Director and the accounts reviewed by the Treasurer .	No	The measurements are based upon the best information held at the current time and are provided by experts in their field.	No
Creditor accruals	Accruals are estimated by reviewing goods and services received prior to the end of the financial year for which an invoice has not been received.	The date of receipt of the goods and services is used in the estimation of the accrual.	No	The use of actual dates of receipt of goods and services gives a low degree of uncertainty.	No
Page 69 60 Person Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Mercers. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Joint Committee responds to queries raised by the administering Joint Committee Shropshire Council.	The Joint Committee are provided with an actuarial report by Mercers (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No
Provisions for liabilities	Provisions are made where an event has taken place that gives the Joint Committee a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense line in the CI&ES in the year that the Joint Committee becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties	Charged in the year that the Joint Committee becomes aware of the obligation	No	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income if it is virtually certain that reimbursement will be received by the Joint Committee	No



Committee and Date

West Mercia Energy Joint
Committee

26th February 2019

Item

10

Public

WEST MERICA ENERGY (WME) INTERNAL AUDIT PERFORMANCE REPORT TO FEBRUARY 2019

Responsible Officer Ceri Pilawski

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Tel: 01743 257739

1. Summary

- 1.1 This report provides members with an update on the work completed by Internal Audit against the approved Internal Audit Plan 2018/19, presented on 26th February 2018.
- 1.2 Work has continued on the 2018/19 Audit Plan with a timetable in place to fully deliver the required plan within the financial year. All audit reports have been completed since the last report, these are Payroll, Creditors, Debtors, Finance, Procurement, Risk Management, and Governance. In addition, consultancy support has been provided in respect of financial evaluations and IT in respect of contract negotiations, these have been met within budget.
- 1.3 The plan remains at 26 Days as agreed in February 2018.

2. Recommendations

- 2.1 The Committee consider and endorse, with appropriate comment, the performance to date against the 2018/19 Audit Plan as set out in this report.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

including requirements in respect of accounting records, internal audit and review of the system of internal control. Specifically:

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

4. Financial Implications

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

5. Background

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

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

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

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

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

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

- 5.4 A total of seven recommendations have been made in the seven final audit reports issued since the last report. A breakdown by area of the seven recommendations issued in this period is shown in the table below.
- 5.5 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. Management are asked for an update of progress made on recommendations 12 months after issue. To date this year no recommendations have been rejected by management.

5.6 **Audit assurance opinions and recommendations delivered 2018/19**

Audit Area	Assurance level	No. of Recommendations made				Total
		Best Practice	Requires Attention	Significant	Fundamental	
Creditors System	Good	0	1	0	0	1
Debtors System	Good	2	0	0	0	2
Finance System	Good	0	0	0	0	0
Governance	Good	0	1	0	0	1
Payroll System	Good	1	1	0	0	2
Procurement	Good	0	1	0	0	1
Risk Management	Good	0	0	0	0	0
Total for the period		3	4	0	0	7
Total to date						
• numbers		3	4	0	0	7
• percentage		43%	57%	0%	0%	100%

- 5.7 Seven good assurance levels have been made, there are no unsatisfactory or limited opinions to report. No significant issues have been identified by the Audits undertaken since the last report.
- 5.8 Copies of the Audit Reports are attached as appendices to this report.

6. Additional Information

6.1 Performance against the plan

The internal audit plan was presented to the Joint Committee in February 2018. There have been minor variations to the plan agreed in February as shown below:

Audit	Original Plan	Variation	Revised Plan
Creditors	2	0	2
Debtors	3	+0.5	3.5
Finance	3	0	3
Governance	2	0	2
IT *	3	0	3
Payroll	2	0	2

Audit	Original Plan	Variation	Revised Plan
Procurement	3	0	3
Risk Management & Business Continuity	2	+0.5	2.5
Engagement Management	5	0	5
Contingency	1	-1	0
Total	26	0	26

* There was no formal separate Audit report issued in respect of IT in 2018/19 with the days spent on consultancy advice in respect of a key contract tender submission. Assurance in respect of IT for 2018/19 will be taken from the testing conducted within the individual system audits.

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

Public Sector Internal Audit Standards.
Accounts and Audit Regulations 2015

Member

Councillor A Hardman of Worcestershire Council (Chair of the Joint Committee)

Appendices

- Appendix A** – Creditors Report 2018/19
- Appendix B** – Debtors Report 2018/19
- Appendix C** – Finance Report 2018/19
- Appendix D** – Governance Report 2018/19
- Appendix E** – Payroll Report 2018/19
- Appendix F** – Procurement Report 2018/19
- Appendix G** – Risk Management 2018/19

SHROPSHIRE COUNCIL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT

WME CREDITORS 2018/19

Assurance Level	Good
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Customer	West Mercia Energy
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Distribution	Jo Pugh, Finance Manager Nigel Evans, Director
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Auditors	Shelley Taylor
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Fieldwork dates	12 th September 2018
Debrief meeting	12 th September 2018
Draft report issued	14 th September 2018
Responses received	18 th September 2018
Final report issued	18 th September 2018

Introduction and Background

1. As part of the approved internal audit plan for 2018/19 Audit Services have undertaken a review of Creditors.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

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

To establish the progress made implementing the recommendation made in the previous audit and carry out a review of the creditor payment process including purchasing cards.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - To ensure that previous recommendations have been implemented.
 - There are appropriate policies and procedures in place for the operation of the creditors system.
 - Orders are placed for all goods.
 - Goods received procedures are defined and operated effectively.
 - Prepayment checks are undertaken before an Invoice is entered on the system.
 - Appropriate input controls are in place and operated effectively.
 - Credit notes are actioned in a timely manner.
 - Payments made are accurate, complete, have not previously been paid and are made at the optimal time.
 - BACS payments are securely controlled.
 - Transactions on purchasing cards are securely controlled and reviewed by an appropriate officer.
 - Management information in respect of payments to creditors is timely and adequate.
6. The audit was delivered on time and within budget.

Audit Opinion

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

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

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

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

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

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

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

Number of recommendations accepted by management at the last audit	6
Recommendations implemented	6
Recommendations partially implemented	-
Recommendations superseded	-
Recommendations not actioned	-

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

Audit Approach

12. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of key controls.
 - Follow up of previous recommendations.
 - Tests of controls to confirm their existence and effectiveness.
 - Evaluation of the controls and identification of weaknesses and potential risks arising from them.
13. Internal Audit report only by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at Appendix 1. A more detailed report covering all of the work undertaken can be provided on request.
14. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action that has been taken to address identified control weaknesses.

Ceri Pilawski
Head of Audit

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ACTION PLAN FOR CREDITORS 2018/19

Fundamental	Significant	Requires Attention	Best Practice
Immediate action required to address a major control weakness which, if not addressed, could lead to material loss.	A recommendation to address a significant control weakness where the system may be working but errors may go undetected.	A recommendation aimed at improving the existing control environment.	Suggested action which aims to improve best value, quality or efficiency.

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
10.1	1	When authorising subsistence allowances for reimbursement Management should annotate the purchasing card transaction log stating they have reviewed the additional spend and confirm it to be reasonable.	Requires Attention	Accepted	Agreed	Nigel Evans	Immediately

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SHROPSHIRE COUNCIL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT

WME DEBTORS 2018/19

Assurance Level	Good
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Customer	West Mercia Energy
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Distribution	Nigel Evans, Director Jo Pugh, Finance Manager
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Auditors	Shelley Taylor
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Fieldwork dates	October 2018
Debrief meeting	N/a
Draft report issued	8 November 2018
Responses received	21 November 2018
Final report issued	21 November 2018

Introduction and Background

1. As part of the approved internal audit plan for 2018/19 Audit Services have undertaken a review of Debtors.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

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

To undertake testing in respect of the reconciliation and monitoring of the debtors and income system and to review progress on the implementation of the recommendations made in the previous audit.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - Previous recommendations have been implemented.
 - There are appropriate policies and procedure notes in place for the operation of the system.
 - Billing information is verified before invoicing customers.
 - There are appropriate arrangements in place to ensure prompt payment of invoices.
 - There are appropriate post opening procedures in place for the control of cash and cheques.
 - There are appropriate arrangements in place for the collection of income by Direct Debit
 - All income received is reconciled to the bank account
 - Refunds are actioned in a timely manner with appropriate authorisation.
 - Write-offs are actioned in a timely manner with appropriate authorisation.
 - Income credited to suspense accounts is reviewed and cleared in a timely manner.
 - Management Information in respect of income is timely and adequate.
6. The audit was delivered on time and within budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon testing and evaluation of the system. This opinion will be reported to the Joint Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There

are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

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

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

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

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

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

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

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

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

Audit Approach

12. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of key controls.
 - Follow up of previous recommendations.
 - Tests of controls to confirm their existence and effectiveness.
 - Evaluation of the controls and identification of weaknesses and potential risks arising from them.
13. Internal Audit report only by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at Appendix 1. A more detailed report covering all of the work undertaken can be provided on request.
14. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action that has been taken to address identified control weaknesses.

Ceri Pilawski
Head of Audit

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ACTION PLAN FOR DEBTORS 2018/19

Fundamental	Significant	Requires Attention	Best Practice
Immediate action required to address a major control weakness which, if not addressed, could lead to material loss.	A recommendation to address a significant control weakness where the system may be working but errors may go undetected.	A recommendation aimed at improving the existing control environment.	Suggested action which aims to improve best value, quality or efficiency.

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
8.1	1	Management should decide whether accounts with credit balances of under £1.00 where no response has been received from the customer should be written off.	Best Practice	Yes	This will be actioned during the six-monthly credit balance reviews.	Jo Pugh, Finance Manager	April 2019
10.1	2	The amount of £40.34 held in the suspense account should be written off.	Best Practice	Yes	Agreed and we propose to write off this amount once it has been held for three years.	Jo Pugh, Finance Manager	February 2020

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SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

FINAL INTERNAL AUDIT REPORT WME FINANCE 2018/19

Assurance Level | **Good**

Audit Data

Customer:	West Mercia Energy
Report Distribution:	Nigel Evans, Director Jo Pugh, Finance Manager
Auditor(s):	Shelley Taylor
Fieldwork Dates:	November 2018
Debrief Meeting:	N/a
Draft Report Issued:	N/a
Responses Received:	N/a
Final Report Issued:	30 November 2018

Assurance

Previous Assurance Level	Current Assurance Level	Direction of Travel
Good	Good	No change to control environment

Introduction and Background

1. As part of the approved internal audit plan for 2018/19 Audit Services have undertaken a review of Finance.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Maintenance of the control environment is the responsibility of Management. The audit process is designed to provide a reasonable chance of discovering material weaknesses in internal controls. It cannot however, guarantee absolute assurance against all weaknesses including overriding of management controls, collusion, and instances of fraud or irregularity.
4. Audit Services would like to thank officers who assisted during the audit.
5. The audit was delivered on time and within budget.

Scope of the Audit

6. The following scope was agreed with key contacts at the beginning of the audit:
To undertake a systems audit of the finance process using established documentation and testing.
7. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved. Objectives with a ✓ demonstrate that appropriate management controls are in place and upon which positive assurance can be given. Objectives with an X are those where the management controls are not being achieved:
 - ✓ There are appropriate Financial Regulations which have been approved by the Joint Committee.
 - ✓ There is an established process for preparation of the annual budget.
 - ✓ The annual budget is approved by Members prior to the start of the financial year.
 - ✓ There is an appropriate reconciliation process to ensure the accuracy of reported information.
 - ✓ Management Accounts are produced in a timely manner for review by senior management and members.
 - ✓ There are appropriate controls over the use of journal entries within the ledger.
 - ✓ There is a bank reconciliation process which is undertaken in a timely manner and reviewed by management.
 - ✓ There are appropriate arrangements in place for the recording and monitoring of VAT.

Assurance Level and Recommendations

8. An opinion is given on the effectiveness of the control environment reviewed

during this audit. The level of assurance given is based upon sample testing and evaluation of the controls in place. This will be reported to the Joint Committee and will inform the Annual Governance Statement which accompanies the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

Audit Services can give the following assurance level on the area audited:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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Audit Approach

9. The approach adopted for this audit included:
 - Review and documentation of the system.
 - Identification of the risks to achieving the business outcomes and associated key controls.
 - Testing of controls to confirm their existence and effectiveness.
 - Identification of weaknesses and potential risks arising from them.
10. A more detailed report covering all the work undertaken can be provided on request.

Ceri Pilawski
Head of Audit

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SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

INTERNAL AUDIT REPORT WME CORPORATE GOVERNANCE 2018/19

Assurance Level | **Good**

Audit Data

Customer:	West Mercia Energy
Report Distribution:	Nigel Evans - Director
Auditor(s):	Mark Seddon
Fieldwork Dates:	November 2018
Debrief Meeting:	29th November 2018
Draft Report Issued:	29th November 2018
Responses Received:	29th November 2018
Final Report Issued:	29th November 2018

Assurance		
Previous Assurance Level	Current Assurance Level	Direction of Travel
Good	Good	No change to control environment

Introduction and Background

1. As part of the approved internal audit plan for 2018/19 Audit Services have undertaken a review of Corporate Governance.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Maintenance of the control environment is the responsibility of Management. The audit process is designed to provide a reasonable chance of discovering material weaknesses in internal controls. It cannot however, guarantee absolute assurance against all weaknesses including overriding of management controls, collusion, and instances of fraud or irregularity.
4. Audit Services would like to thank officers who assisted during the audit.
5. The audit was delivered on time and within budget.

Scope of the Audit

6. The following scope was agreed with key contacts at the beginning of the audit:

To review the Energy, Governance, Accountability, Risk and Reporting Policy (EGARRP) in place to control the buying and selling of gas and electricity and to establish the progress made in implementing the recommendations made in the previous audit.
7. The scope includes a follow up of recommendations made in the 2017/18 audit. Where not implemented fully, these are revisited and the findings included in this report.
8. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved. Objectives with a √ demonstrate that appropriate management controls are in place and upon which positive assurance can be given. Objectives with an X are those where the management controls are not being achieved:
 - √ The recommendations made in the previous audit have been implemented as agreed.
 - √ There is an appropriate policy in place to control the buying and selling of gas and electricity to achieve the business objectives.

Assurance Level and Recommendations

9. An opinion is given on the effectiveness of the control environment reviewed during this audit. The level of assurance given is based upon sample testing and evaluation of the controls in place. This will be reported to the Joint Committee and will inform the Annual Governance Statement which accompanies the Annual Statement of Accounts.

There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

Audit Services can give the following assurance level on the area audited:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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10. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at Appendix 1. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

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

11. A summary of the recommendations, together with the agreed management responses are included at Appendix 1. Implementation of these recommendations will address the risks identified and improve the controls that are currently in place.
12. The status of the recommendations accepted by management at the previous audit has been reviewed and is summarised in the table below:

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

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

Audit Approach

13. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of the risks to achieving the business outcomes and associated key controls.
 - Follow up of previous recommendations.
 - Testing of controls to confirm their existence and effectiveness.
 - Identification of weaknesses and potential risks arising from them.
14. Internal Audit report only by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at Appendix 1. A more detailed report covering all the work undertaken can be provided on request.

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

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ACTION PLAN FOR WME CORPORATE GOVERNANCE 2018/19

Fundamental	Significant	Requires Attention	Best Practice
Immediate action required to address a major control weakness which, if not addressed, could lead to material loss.	A recommendation to address a significant control weakness where the system may be working but errors may go undetected.	A recommendation aimed at improving the existing control environment.	Suggested action which aims to improve best value, quality or efficiency.

Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	Lead Officer	Date to be Actioned
2.1	1	The discussions with Total Gas and Power Limited should be progressed to enable the consideration of purchasing an insurance product to protect against the risk of excessive consumption demand and hence excessive market prices. The cost and benefits should be assessed and any amendments to the risk register and the Energy, Governance, Accountability, Risk and Reporting Policy (EGARRP) should be agreed and actioned as required.	Requires Attention	Agreed.	Gareth Maude	January 2019

SHROPSHIRE COUNCIL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT

WME PAYROLL 2018/19

Assurance Level	Good
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Customer	West Mercia Energy
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Distribution	Nigel Evans, Director Jo Pugh, Finance Manager
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Auditors	Shelley Taylor
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Fieldwork dates	19 th September 2018
Debrief meeting	19 th September 2018
Draft report issued	21 st September 2018
Responses received	26 th September 2018
Final report issued	27 th September 2018

Introduction and Background

1. As part of the approved internal audit plan for 2018/19 Audit Services have undertaken a review of Payroll.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

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

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

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

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - To ensure that previous recommendations have been implemented.
 - There are adequate segregation of duties in place.
 - Payroll data is correctly transferred and accurately processed.
 - Travel and subsistence is appropriately controlled and actioned in a timely manner.
 - Management information is produced in an accurate and timely manner and subject to review.
 - Workforce requirements and costs are appropriate to the tasks undertaken and the policies of the organisation.
6. The audit was delivered on time and within budget.

Audit Opinion

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

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

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

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

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

✓	To ensure that previous recommendations have been implemented.
✓	There are adequate segregation of duties in place.
✓	Payroll data is correctly transferred and accurately processed.
✓	Travel and subsistence is appropriately controlled and actioned in a timely manner.
✓	Management information is produced in an accurate and timely manner and subject to review.
✓	Workforce Requirements and costs are appropriate to the tasks undertaken and the policies of the organisation.

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

Number of recommendations accepted by management at the last audit	4
Recommendations implemented	2
Recommendations partially implemented	-
Recommendations superseded	1
Recommendations not actioned	1

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

Audit Approach

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

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

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

Ceri Pilawski
Head of Audit

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ACTION PLAN FOR PAYROLL 2018/19

Fundamental	Significant	Requires Attention	Best Practice
Immediate action required to address a major control weakness which, if not addressed, could lead to material loss.	A recommendation to address a significant control weakness where the system may be working but errors may go undetected.	A recommendation aimed at improving the existing control environment.	Suggested action which aims to improve best value, quality or efficiency.

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
2.1	1	The Working Hours Policy should be reviewed as soon as possible. If no amendments are necessary a note should be placed on the footer of the document informing the reader that the policy will be valid until further notice. (Updated from the recommendation agreed in 2017/18)	Best Practice	Yes	Agreed	Julie Wassall	Immediately
2.2	2	The following clause should be added to the Hours of Work policy for the avoidance of doubt: Overtime claim forms should be normally be submitted for approval on a monthly basis unless a separate agreement has been reached with	Requires Attention	Yes	Agreed	Julie Wassall	Immediately

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
		your Line Manager. As a maximum, claims must not exceed more than one quarter (three months) before submission.					



SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

INTERNAL AUDIT REPORT WME PROCUREMENT ARRANGEMENTS 2018/19

Assurance Level | **Good**

Audit Data

Customer:	West Mercia Energy
Report Distribution:	Nigel Evans - Director
Auditor(s):	Mark Seddon
Fieldwork Dates:	November 2018
Debrief Meeting:	7th January 2019
Draft Report Issued:	30th November 2018
Responses Received:	7th January 2019
Final Report Issued:	8th January 2019

Assurance		
Previous Assurance Level	Current Assurance Level	Direction of Travel
Good	Good	No change to control environment

Introduction and Background

1. As part of the approved internal audit plan for 2018/19 Audit Services have undertaken a review of Procurement.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Maintenance of the control environment is the responsibility of Management. The audit process is designed to provide a reasonable chance of discovering material weaknesses in internal controls. It cannot however, guarantee absolute assurance against all weaknesses including overriding of management controls, collusion, and instances of fraud or irregularity.
4. Audit Services would like to thank officers who assisted during the audit.
5. The audit was delivered on time and within budget.

Scope of the Audit

6. The following scope was agreed with key contacts at the beginning of the audit:

To review the approved West Mercia Energy Standing Orders for the Regulation of Contracts against the Shropshire Council Contract Procedure Rules and establish the progress made in implementing the recommendation made in the previous audit.
7. The scope includes a follow up of recommendations made in the 2017/18 audit. Where not implemented fully, these are revisited and the findings included in this report.
8. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved. Objectives with a √ demonstrate that appropriate management controls are in place and upon which positive assurance can be given. Objectives with an X are those where the management controls are not being achieved:
 - √ The recommendation made in the previous Procurement Audit has been implemented as agreed.
 - √ The Standing Orders for the Regulation of Contracts are complete and reference is not required to the Contract Procedure Rules of the Lead Authority.

Assurance Level and Recommendations

9. An opinion is given on the effectiveness of the control environment reviewed during this audit. The level of assurance given is based upon sample testing and evaluation of the controls in place. This will be reported to the Joint Committee and will inform the Annual Governance Statement which accompanies the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

Audit Services can give the following assurance level on the area audited:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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10. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at Appendix 1. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

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

11. A summary of the recommendations, together with the agreed management responses are included at **Appendix 1**. Implementation of these recommendations will address the risks identified and improve the controls that are currently in place.
12. The status of the recommendations accepted by management at the previous audit has been reviewed and is summarised in the table below:

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

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

Audit Approach

13. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of the risks to achieving the business outcomes and associated key controls.
 - Follow up of previous recommendations.
 - Testing of controls to confirm their existence and effectiveness.
 - Identification of weaknesses and potential risks arising from them.
14. Internal Audit report only by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at Appendix 1. A more detailed report covering all of the work undertaken can be provided on request.

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

Ceri Pilawski
Head of Audit

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ACTION PLAN FOR WME PROCUREMENT ARRANGEMENTS 2018/19

Fundamental	Significant	Requires Attention	Best Practice
Immediate action required to address a major control weakness which, if not addressed, could lead to material loss.	A recommendation to address a significant control weakness where the system may be working but errors may go undetected.	A recommendation aimed at improving the existing control environment.	Suggested action which aims to improve best value, quality or efficiency.

Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	Lead Officer	Date to be Actioned
2.1	1	Consideration should be given to reviewing the points identified and producing amended Standing Orders with an aim to being able to remove the reference to Shropshire Council from the Standing Orders when there is a matter relating to the regulation of contracts which is not covered by the Standing orders. It should be ensured that advice is obtained from the Shropshire Council Procurement Team, Legal Services and any amendments agreed by the Joint Committee.	Requires Attention	Agreed.	Gareth Maude	February 2019

SHROPSHIRE COUNCIL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT

WME RISK MANAGEMENT 2018/19

Assurance Level	Good
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Customer	West Mercia Energy
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Distribution	Nigel Evans, Director
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Auditors	Shelley Taylor
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Fieldwork dates	October 2018
Debrief meeting	N/A
Draft report issued	N/A
Responses received	N/A
Final report issued	15 October 2018

Introduction and Background

1. As part of the approved internal audit plan for 2018/19 Audit Services have undertaken a review of Risk Management and Insurance.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

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

To review the progress made implementing the recommendation made in the previous audit and to confirm that there are appropriate arrangements in place for the management of risk and insurance during the current financial year.

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

Audit Opinion

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

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

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or instances of fraud or irregularity.
9. The review identified the following areas where appropriate management controls were in place and operating satisfactorily and, upon which, positive assurance can be given:

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

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

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

Good progress has been made in the implementation of previous recommendations. No recommendations remain outstanding following this audit.

Audit Approach

11. The approach adopted for this audit included:
 - Review and documentation of the system.
 - Identification of key controls.
 - Follow up of previous recommendation.
 - Tests of controls to confirm their existence and effectiveness.

- Evaluation of the controls and identification of weaknesses and potential risks arising from them.

12. A more detailed report covering all of the work undertaken can be provided on request. This will be, available in a working paper format.

Ceri Pilawski
Head of Audit

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Committee and Date

West Mercia Energy Joint
Committee

26th February 2019

Item

11

Public

**WEST MERCIA ENERGY (WME)
INTERNAL AUDIT STRATEGIC PLAN 2019/20**

Responsible Officer Ceri Pilawski

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Tel: 01743 257739

1. Summary

- 1.1 This report details the proposed programme of audit work for the year 2019/20 and recommends that members approve the programme, as set out in the report.
- 1.2 Internal Audit Services to West Mercia Energy have continued to be provided by Shropshire Council and a Service Level Agreement is currently being renewed.

2. Recommendations

- 2.1 The Committee are asked to consider and endorse, with appropriate comment, the proposed programme of audits for 2019/20.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Under the Joint Committee's terms of reference, reviewing the risk based audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any other work upon which reliance is placed, is an important responsibility. In considering this plan Members should be assured that it is linked to the West Mercia Energy's key risks and provides sufficient coverage to ensure a reasonable opportunity to identify any weaknesses in the internal control environment. When critical to the business operations these will be reported and rectified where possible and viable.
- 3.2 Areas to be audited within the plan have been considered with the knowledge of risk register information both operational and strategic.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

- 3.4 Provision of the Internal Audit Annual Plan satisfies both the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015, part 2 which sets out the requirements on all relevant authorities in relation to internal control, including requirements in respect of accounting records, internal audit and review of the system of internal control. Specifically:

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

4. Financial Implications

- 4.1 The proposed plan sees a reduction from the 26 days previously delivered to 22 days in 2019/20 and will be met from within the approved Internal Audit budget.

5. Background

- 5.1 The S151 Officer is legally required to maintain sound and proper financial management on behalf of the West Mercia Energy (WME). This includes a responsibility for maintaining internal audit. Internal audit, provided by Shropshire Council, is based on a programme of audits over a rolling four-year period.
- 5.2 Audit priorities and known risks have been examined and a detailed audit plan has been produced for the provision of audit services in the next financial year, for consideration by the Committee.
- 5.3 Each potential audit area has been reviewed with the Director and considered in relation to the strategic risks of the business. Some areas are required to be audited every year, as they are fundamental to sound financial management. Days in respect of fundamental systems have been reduced to reflect the strong control environment, to reflect the stable nature of these areas and to allow additional time to look at the operational and IT issues in respect of the development of the new billing system.
- 5.4 The business is currently undergoing a major restructure in modular format of its bespoke billing system with some modules due to go live in March 2019 and further modules continuing to be developed over the next 12/18 months. This is a major development for the business and under normal circumstances, once the core infrastructure is in place ready for future modular development, a full IT application review would be recommended of eight days to be carried out in 2019/20. The size of the audit is based on industry professional standards and the testing required to provide full independent assurance. The position has been discussed in detail with the Director who has requested that the audit be undertaken over a two-year period to reduce the impact of time upon the small number of staff involved in development of the project. The proposed plan is therefore based on an application review delivered over a two year period, however this means that

in terms of independent assurance that there is an increased risk that any changes to areas reviewed in year one may increase the requirements in year two to ensure all areas are covered and would also require the Head of Audit's year end opinion on IT to be caveated to explain that only part of the application had been reviewed in year one so full assurance cannot be provided to the Committee.

- 5.5 The Director has a full understanding of the three lines of assurance model and has confirmed that he is currently receiving operational assurance from his staff involved in the testing of the system and coding assurance in respect of the development of the system from Telford and Wrekin Council's IT department. Supporting his view that the business would therefore prefer to spread the audit over the life of the project.
- 5.6 The audit programme is shown at **Appendix A**. The proposed plan is presented to Committee for approval to reflect current issues and risks. This will ensure that the audits are timely, appropriate and add value, subject to the comments raised above. It takes account of issues identified by the West Mercia Energy risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the business audited. The proposed plan considers the requirement to produce an annual internal audit opinion and assurance framework. Some minor adjustments may be needed to the plan before it is finalised; if significant, these will be agreed by the Director and reported to the next Joint Committee.

6. Resources and Delivery

WME has provided a budget in 2019/20 to deliver 22 days of audit.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p> <p>Internal audit strategic plan 2016/17 – February 2016 Internal audit strategic plan 2017/18 – February 2017 Internal audit strategic plan 2018/19 – February 2018</p> <p>Member Councillor A Hardman of Worcestershire Council (Chair of the Joint Committee)</p> <p>Appendices</p> <p>Appendix A: West Mercia Energy – Proposed Internal Audit Plan 2019/20</p>
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APPENDIX A**WEST MERCIA ENERGY - AUDIT AREAS**

AUDIT	Including review of:	2019/20 DAYS
PROCUREMENT	Review of changes to contracts as required and undertake review of framework approach to new delivery contract	3
DEBTORS	Review the impact of the new system on the operational aspects of billing	4
FINANCE	A combined audit reviewing the areas of Finance general controls, Payroll general controls and Creditors general controls.	5
IT	Year one of a two-year programme to provide assurance in respect of the application changes to the billing system	4
CORPORATE GOVERNANCE AND RISK MANAGEMENT	Corporate Governance & Risk Management Combined review	2
ENGAGEMENT MANAGEMENT	Previous recommendation follow up, audit management, audit planning, servicing Audit Committee, advisory	4
	Contingency	0
TOTAL		22



Committee and Date

West Mercia Energy Joint
Committee

26 February 2019

Item

12

Public

ANTI-SLAVERY AND HUMAN TRAFFICKING STATEMENT 2018/19

Responsible Officer Nigel Evans

e-mail: nevans@westmerciaenergy.co.uk Tel: 0333101 4353

1. Summary

- 1.1 Following approval in September 2017 of the WME Anti-Slavery and Human Trafficking Policy, the Joint Committee are presented with the draft WME Transparency Statement for 2018/19 for approval.

2. Recommendations

It is recommended that the Joint Committee:

- 2.1 approve the draft WME Transparency Statement for 2018/19
- 2.2, delegate authority to the Director to finalise the WME Transparency Statement and publish it in accordance with section 54 of the Modern Slavery Act 2015.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

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

5. Background

- 5.1 The Modern Slavery Act 2015 is aimed at combating crimes of slavery and human trafficking and recognises that businesses have a role to play in tackling these crimes. Section 54 of the Act requires any commercial organisation with a turnover of over £36m p.a. to publish an annual statement for each financial year to detail what steps the organisation has taken to ensure that human trafficking is not taking place in any of its supply chains or its business (this does not mean the organisation must guarantee the entire supply chain is slavery free); or make a declaration that no such steps have been taken. The aim is to ensure that businesses are transparent about what they are doing to tackle modern slavery and human trafficking.
- 5.2 The WME Anti-Slavery and Human Trafficking Policy was approved by the Joint Committee on 25th September 2017 and this Policy is published on the WME website.
- 5.3 In accordance with section 54 of the Modern Slavery Act 2015, a statement must be published at the end of the relevant financial year and specify the steps taken within the previous financial year to ensure that no slavery or human trafficking is taking place in any part of its business or in its supply chains. Organisations are encouraged to do this within 6 months of the end of the relevant financial year.
- 5.4 The Statement is in draft form as the financial year 2018/19 has not yet ended. No changes are expected to the Statement once the financial year has ended and it is preferable for the Statement to be completed and published prior to the September Joint Committee.
- 5.5 The WME Statement for 2018/19 is attached and the Joint Committee are asked to approve the draft Statement. Once approved the Statement will be published on the WME website.

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

Joint Committee 25th September 2017 – Anti-Slavery and Human Trafficking Policy

Joint Committee 26th February 2018 - Anti-Slavery and Human Trafficking Statement 2017/18

Member

Councillor A Hardman of Worcestershire County Council (chair of the Joint Committee)

Appendices

Appendix A - WME Transparency Statement 2018/19



Modern Slavery Act 2015

West Mercia Energy Transparency Statement 2018/19

This statement is made in pursuant to section 54 of the Modern Slavery Act 2015 (the Act) and relates to actions and activities West Mercia Energy (WME) have undertaken during the financial year 1 April 2018 to 31 March 2019 to understand all potential modern slavery risks related to its business and to put in place steps that are aimed at ensuring that there is no slavery or human trafficking in its own business and supply chains.

WME offers energy procurement and management on behalf of its four Member Authorities and a number of outside bodies. The contracts cover the provision of electricity, natural gas, petroleum fuels and liquid petroleum gas within the UK. WME is opposed to all forms of human trafficking and slavery and takes all necessary steps to ensure the promotion of sound, moral and ethical practices throughout the whole of its business.

During the financial year 1 April 2018 to 31 March 2019 WME have:

- Monitored adherence/compliance with/to our formal Anti-Slavery and Human Trafficking Policy
- Taken steps to ensure that all current suppliers are fully compliant with the Act
- Ensured that all procurement activity identifies compliance with the Act as part of the evaluation criteria
- Ensured that all recruitment activity was undertaken in line with requirements of the Act

During 2019/20 WME will continue to apply our Anti-Slavery and Human Trafficking Policy to all our commercial activities, and to maintain awareness of the Act and its requirements and obligations to all our staff.

WME's Slavery and Human Trafficking Statement has been approved by the WME Joint Committee. It should be read in conjunction with the Modern Slavery Act 2015 and the National Referral Mechanism. This Statement will be reviewed and updated annually.

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