

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 - 4)

To receive the minutes of the Joint Committee meeting held on 29th November 2022.

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 Friday, 11th March 2022.

6 Disclosable Pecuniary Interests

Members are reminded that they must declare their disclosable pecuniary interests and other registrable or non-registrable interests in any matter being considered at the meeting as set out in Appendix B of the Members' Code of Conduct and consider if they should leave the room prior to the item being considered. Further advice can be sought from the Monitoring Officer in advance of the meeting.

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 2021/2022** (Pages 5 - 18)
Report of the Director of West Mercia Energy.
Contact: Nigel Evans (0333101 4353)
- 9 Internal Audit Performance Report to March 2022** (Pages 19 - 44)
Report of the Audit Services Manager.
Contact: Ceri Pilawski (01743 257739)
- 10 Internal Audit Strategic Plan 2022** (Pages 45 - 48)
Report of the Audit Services Manager.
Contact: Ceri Pilawski (01743 257739)
- 11 Anti-Slavery and Human Trafficking Statement - 2021/2022** (Pages 49 - 52)
Report of the Director of West Mercia Energy.
Contact: Nigel Evans (0333101 4353)
- 12 Risk Management Update** (Pages 53 - 62)
Report of the Director of West Mercia Energy.
Contact: Nigel Evans (0333101 4353)
- 13 Distribution of Surplus**
Report of the Treasurer. Report to Follow
Contact: James Walton (01743 258915)
- 14 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.

15 Exempt Minutes (Pages 63 - 66)

To approve the exempt Minutes of the meeting held on 29th November 2021.

16 Annual Business Plan and Budget 2022/23 including review of 2021/22
(Pages 67 - 104)

Exempt Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

17 Date of Next Meeting

The next meeting of the West Mercia Energy Joint Committee will be held on Tuesday, 27th September 2022 at 10.00 a.m.



Committee and Date

West Mercia Energy Joint
Committee

15th March 2022

WEST MERCIA ENERGY JOINT COMMITTEE

Minutes of the meeting held on 29 November 2021

**In the Council Chamber, Shirehall, Abbey Foregate, Shrewsbury, SY2
6ND**

10.00 am - 12.04 pm

Responsible Officer: Emily Marshall

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

Present

Councillor

Councillors Evans, Hardman, Davies, Harvey and Gwilym Butler

104 **Apologies for Absence**

Apologies for absence were received from Councillors Adam Kent, Ed Potter and Lee Carter.

105 **Minutes**

RESOLVED:

That the minutes of the meeting held on 28th September 2021 be approved as a correct record.

106 **Public Questions**

None received.

107 **Disclosable Pecuniary Interests**

None

Due to poor sound quality for remote attendees, there was a short adjournment whilst the meeting moved to The Wilfred Owen Room.

108 **Supplier Contracts**

The Director of West Mercia Energy provided an update on supplier contracts in accordance with Standing Orders, reporting that there had been one new entry into the register since the last meeting. The entry related to the meter operator agreement which had been let in accordance with clause 3.2 where it is considered that service is satisfactory with current supplier Eon.

109 **External Audit - Update Re. 2020/21 Audit**

The Director of West Mercia Energy reported that at the last meeting the External Auditors, W.R. Partners presented their audit finding report, at that time there was a small element of their work which was incomplete before a final audit report could be issued. The Director was pleased to report that this work had now been completed allowing them to complete their audit report.

RESOLVED

That the Independent Auditor's Report be considered and endorsed, with appropriate comment

110 **Risk Management Update**

The Director presented a report which provided a review of the WME Risk Management Strategy.

In response to a question relating to the risks associated with loss of staff, particularly in light of the challenges faced during the pandemic, the Director of West Mercia Energy reported that the absence of staff at the September West Mercia Energy Joint Committee had highlighted this particular risk but it was agreed that this needed more thought about how to mitigate this risk. The target was to reduce the risk to a lower level.

The Committee were content that regular briefings were taking place with S151 Officers and key officer groups, to discuss areas of risk management.

Councillor Harvey stated that as things stood she was not satisfied at the level of risk recorded for risks 1 and 6, outlined in the report and requested that this be recorded in the Minutes, Councillor Harvey added that she may be satisfied as the exempt items were discussed in more detail, later in the agenda.

RESOLVED:

That the medium and high risks presented be considered and endorsed, with appropriate comment

111 **Distribution of Surplus**

The Treasurer presented the report which recommended that the distribution of surplus to the Member Authorities be deferred due to exceptional circumstances. (copy attached to the signed minutes).

RESOLVED:

That the Joint Committee approve the deferral of any distribution of surplus until the next Joint Committee in March.

112 **Exclusion of Public and Press**

RESOLVED:

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

113 Exempt Minutes

RESOLVED:

That the Exempt Minutes of the meeting held on 28th September 2021 be approved as a correct record.

114 Update on Business Plan and Trading Performance to Date 2021/22

The Director presented an exempt report (copy attached to the signed exempt minutes), which provided an update on the West Mercia Energy Annual Business Plan and Trading Performance to Date 2021/22.

RESOLVED:

That the recommendation contained within the exempt report be approved.

115 Green Energy Update

The Director of West Mercia Energy presented the exempt report (copy attached to the signed exempt minutes). The purpose of the report is to update the Joint Committee on the progress of WME in developing suitable support products and services for customers as they look to achieve their net zero targets.

RESOLVED:

That the recommendation contained within the exempt report be approved.

116 Energy Governance, Accountability, Risk and Reporting Policy

The Director presented an exempt report (copy attached to the signed exempt minutes), which presented the updated West Mercia Energy, Energy Governance, Accountability, Risk and Reporting Policy for approval.

RESOLVED:

That the recommendation contained within the exempt report be approved.

117 Date of Next Meeting

It was noted that the next meeting of the West Mercia Energy Joint Committee would take place on Tuesday, 1st March 2022.

Signed (Chairman)

.....

Date:
.....



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	8
15 th March 2022	Public

EXTERNAL AUDIT PLAN 2021/22

Responsible Officer Nigel Evans

e-mail: nevans@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 2021/22 for consideration and approval.

2. Recommendations

It is recommended that the Joint Committee:

- 2.1 approve the draft audit plan for 2021/22 as presented by WR Partners attached at Appendix 1
- 2.2 approve the commissioning of WR Partners 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 WR Partners' 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. It was accepted by the Joint Committee that without an annual external audit process not only would the Joint Committee lose the assurance regarding stewardship of funds but also the other Local Authorities/public entities with which WME trades.

4. Financial Implications

4.1 The fee for the 2021/22 audit is £13,350. This is a £600 rise against the fee for 2020/21 but lower than audit fee for 2019/20 of £14,250.

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 A procurement exercise was conducted in late 2020 with the winning tenderer WR Partners, an audit firm based in Shrewsbury and they conducted their first audit for the 2020/21 financial year last year.

5.3 The attached WR Partners Service Plan sets out the scope of the audit to be undertaken, identifies risks and audit responses to these and outlines materiality levels.

5.4 WR Partners will conduct their main audit work on the WME accounts for 2021/22 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 R Evans of Telford & Wrekin Council (Chair of the Joint Committee)
Appendices Appendix 1 – WR Partners Annual Service Plan for West Mercia Energy (year ended 31 March 2022)

Annual Service Plan

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West Mercia Energy
Year ending 31st March 2022



John Fletcher, E: jfletcher@wrpartners.co.uk
Alex Riley, E: ariley@wrpartners.co.uk



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To the Joint Committee Members of West Mercia Energy

The purpose of this document is to communicate to you our proposed audit and service strategy for the current year, to confirm the scope of our work, and to document the issues we consider, at present, to have the most significant audit impact.

The matters raised in this and other reports that will flow from the audit are only those which will have come to our attention arising from, or relevant to, our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and in particular we cannot be held responsible for reporting all risks in your business or all internal control weaknesses.

This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

WR Partners

1.1 Routine compliance scope

We have been engaged to provide the following services:

- Perform an audit, in compliance with International Standards on Auditing (“ISAs”) (UK), of those year end statutory financial statements
- Prepare a report to management which incorporates a review of internal control and accounting issues arising from our work.

Our respective audit responsibilities and the objectives, procedures and limitations of the audit have been set out in our engagement letter and agreed with management.

1.2 Audit approach

Our audit approach will be risk based. This means that emphasis will be placed on the audit areas considered to be of higher risk. We have highlighted these in section 2.

We will update our knowledge of your systems and controls, and we shall test those controls upon which we intend to place audit reliance. This will be supplemented by substantive tests of detail and/or substantive analytical review procedures.

The benefits of our approach to you are:

- Feedback and assurance in relation to your controls and processes;
- Early identification of issues to avoid “late surprises” in the audit; and
- Suggestions for improvement in the systems and controls where issues are identified.

1.3 Independence

WR Partners has policies and procedures in place which are reviewed on an annual basis to ensure compliance with the APB’s Ethical Standards. Where ethical issues are identified, we are required to communicate these to you.

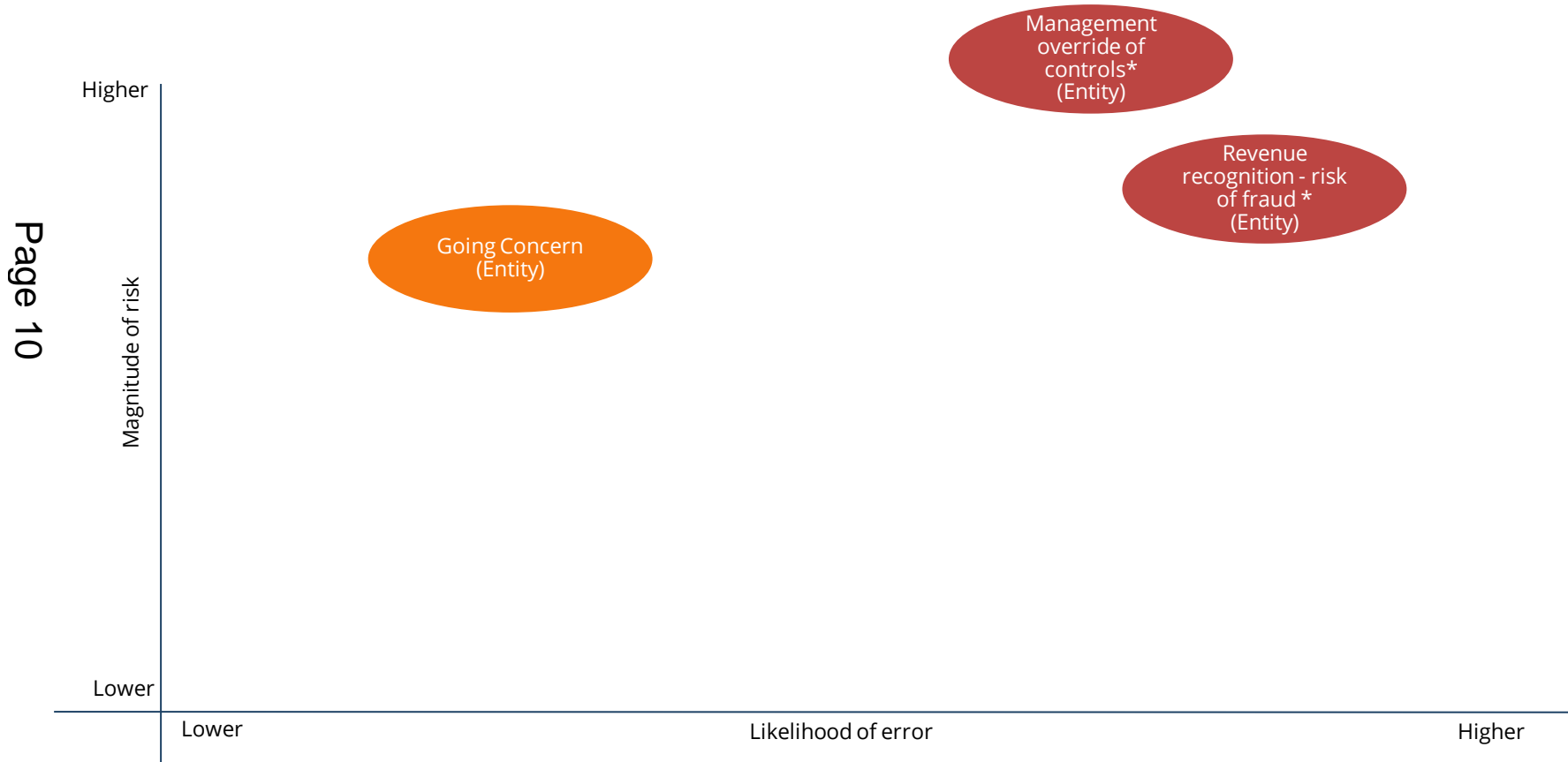
We have not identified any ethical threats arising for the current year audit engagement to identify to you at this stage.

We confirm that, for the purposes of the audit, we are independent from West Mercia Energy.

2. Identified risks & our audit responses

The diagram below illustrates our assessment of the magnitude of risks we have identified and the perceived likelihood of error associated with them.

- Significant risk** - risk of material misstatement that is judged to require special audit consideration due to its potential magnitude **and** likelihood.
- Elevated risk** - risk of material misstatement that is judged to require special audit consideration due to its potential magnitude **or** likelihood.



*ISA 240 requires that the risk of management override of controls and that the risk of fraud in revenue recognition are "significant risks".

2. Identified risks & our audit responses

Audit Risk	Assessment	Audit response
<p>Fraud – Management override of controls <i>Risk of material misstatement in the financial statements due to management override of controls. (ISA 240 requires that the risk of management override of controls is a “significant risk” on all audits)</i></p>	<p>Significant risk</p>	<p>We will:</p> <ul style="list-style-type: none"> Inspect a sample of cashbook transactions throughout the year and post year end Review accounting estimates with particular focus on the assumptions used and the retrospective adequacy and accuracy Inspect a sample of manual journals posted during the year Review unusual transactions outside the usual course of business Review credit notes post year end
<p>Fraud – Revenue recognition <i>Risk of material misstatement of revenue as a result of fraud. (ISA 240 requires that the risk of fraud in revenue recognition is a “significant risk” on all audits unless there is a reason as to why it can be specifically rebutted – such circumstances are considered to be rare)</i></p>	<p>Significant risk</p>	<p>We will:</p> <ul style="list-style-type: none"> Test the operating effectiveness of key controls in the revenue cycle to ensure they are operating as expected throughout the year Perform specific analytical procedures including substantive tests of detail Inspect on a target basis, a sample of manual journals posted to revenue during the year Review accounting policies for revenue recognition Review contract terms with customers Review sales made immediately before and after the year end to ensure correct cut-off
<p>Going Concern <i>The risk that the entity cannot continue trading for the foreseeable future (a minimum of 12 months from the date of signing the accounts).</i></p>	<p>Elevated risk</p>	<p>We will:</p> <ul style="list-style-type: none"> Review management going concern assessment Review budgets and forecasts, challenging the assumptions used Consider the financial position and recent performance of the entity in reviewing the adoption of the going concern principal Review cash/borrowing facilities to ensure they meet the forecasted cash flow requirements Compare actual results to forecasted results pre- and post-year end Discussions with management

3. Other considerations

3.1 Laws and regulations

As part of the audit process we consider the impact on the financial statements of any potential non-compliance with laws and regulations.

The principal laws and regulations we consider relevant to the organisation in performing this assessment are as follows:

Law or regulation	Audit response	Matters arising to date
Code of Practice on Local Authority Accounting Financial statements must be prepared in line with the CIPFA code	Financial statements to be reviewed to ensure all relevant disclosures are included	No matters noted to date.
Employment Law Contracts held with employees must be in line with Employment Law	Contracts to be reviewed within audit procedures, together with procedures in place in relation to employment matters	No matters noted to date.
Health and Safety regulations Regulations must be complied with in respect of employees and visitors	The accident book and board minutes will be reviewed, together with procedures in place in relation to health and safety regulations	No matters noted to date.
GDPR Regulations must be complied with in respect of data held	Discussions to be held with management and review of GDPR compliance to be performed including review of privacy policy	No matters noted to date.

3. Other considerations

3.2 Key accounting estimates

As part of the audit process we consider the key estimates utilised within the preparation of the financial statements for consistency and reasonableness.

The key accounting estimates we consider relevant to the organisation are as follows:

Accounting estimate	Assessment of prior year	Audit implication
Depreciation rates	Depreciation rates deemed reasonable in previous period.	Depreciation proof in total testing will be performed at fieldwork if material.
Bad Debt Provision	The bad debt provision in the prior year was considered appropriate.	After-date cash testing will be performed and a review of old items on the sales ledger for recoverability.
Accruals & Deferred income	Accruals balances were considered reasonable in the previous period.	Accruals and deferred income testing will be performed and a review of items to ensure correct classification.
Pension scheme assumptions	Assumptions used in the pension scheme valuation at year end were considered reasonable.	We will review the pension assumptions used and benchmark against published data to ensure reasonable.

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3.3 Related Parties

Accounting standards require that related party transactions are appropriately disclosed within the financial statements.

The entity is expected to have appropriate systems of controls in place to enable them to:

- identify;
- authorise;
- document; and
- report related party transactions in the financial statements.

To assist management with this task we propose that Joint Committee members and key management complete an annual declaration, which is collated and reviewed by an appropriate person in the Joint Committee and provide us with the details as part of the audit deliverables process.

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The concept of materiality

The concept of materiality applies to the preparation of the financial statements and the audit process and applies to monetary misstatements, disclosure requirements, adherence to acceptable accounting practice and applicable law.

Misstatements, including omissions, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality at the planning stage of the audit

We have determined the financial statement materiality based on the benchmark noted in the below table.

We also design our procedures to detect errors in specific accounts at a lower level of precision. Accordingly, Directors' remuneration and key management personnel remuneration materiality has been reduced to £nil due to it being material by nature.




We revise the materiality levels determined at the planning stage of the audit if, during the course of the audit, we become aware of facts or circumstances that would have caused us to make a different determination of materiality at the planning stage.

Matters we will report to those charged with governance

Our audit procedures are designed to identify misstatements which are material to the financial statements as a whole but we will report to those charged with governance unadjusted misstatements of lesser amounts unless they are deemed 'clearly trivial'. The determination of amounts under which matters are considered to be 'clearly trivial' to the financial statements is disclosed in the below table.

Benchmark	Overall materiality	Clearly trivial
1% of the average turnover of the previous 3 years.	£505,000	£31,500

5. Workflow & audit approach

Phase	Key Dates	Staffing	Focus and Approach	Reporting
Audit Planning 	Planning: - 17 - 19 January 2022	3 days off-site <ul style="list-style-type: none"> • 2 Team Members • Manager review • Partner review 	<ul style="list-style-type: none"> • Planning meeting with you • Discussion of performance and developments • Confirm scope, timetable and audit risks • Preliminary analytical review • Plan audit work and design testing • Confirm systems and controls (procedures) • Controls testing 	Service Plan
Receipt of Draft Accounts  Page 16	27 June 2022	<ul style="list-style-type: none"> • 1 team member • Manager review 	<ul style="list-style-type: none"> • Review of draft accounts to ensure correct disclosures in place 	Accounts review comments
Final Audit 	Final audit: - 4 to 9 July 2022 Audit closing meeting: - July 2022	5 days off-site <ul style="list-style-type: none"> • 2 Team Members • Manager review • Partner review 	<ul style="list-style-type: none"> • Substantive/transactional testing • Balance sheet audit • Close meeting with you to discuss audit findings 	Audit Close Memorandum
Completion	Joint Committee meeting: - September 2022	Off-site	<ul style="list-style-type: none"> • Final completion procedures • Update subsequent events review • Finalise and sign audit report 	Signed Audit Report

Our proposed fees for the provision of our routine compliance services as set out in the scope section of this document are £13,350 (2021: £12,750) exclusive of VAT but inclusive of expenses and disbursements.

	Date	2022 £
Planning	January	4,000
Fieldwork	July	6,750
Completion	September	2,600
Total		13,350

Impact of delays

The support supplied by your team is essential to our ability to deliver an efficient service without compromising quality and effectiveness. Accordingly, if the standard and timeliness of support is not in accordance with the assumptions noted above, we shall draw your attention to this and will need to raise additional fees commensurate to any additional costs incurred by us following appropriate discussions with you.

Our current year fee quote is based on the following assumptions:

- *Audit deliverables* - the accounting records and schedules requested will be made available to us on the dates agreed;
- *Timetable* - the timetables are followed as specified in section 5 to avoid inefficient audit testing and/or additional subsequent events review; and
- *Staff availability* - relevant staff will be available to deal with our queries throughout the process

The fee proposal is based on the above items being prepared by you and provided to us as per the agreed upon information request list.

Flexibility remains key to our working ethos and we would encourage you to advise us as early as possible if, for any reason, it would be challenging to deliver all the information to the agreed timetable. This should enable us to reconsider the timings and possibly reschedule as appropriate with minimum impact on our service and delivery.

Other related services

Advice and services provided outside the scope of our routine compliance services, as set out above, may be the subject of a separate fee. We shall discuss with you the nature and scope of the work and agree an appropriate fee basis prior to the commencement of this work.

As noted within the main body of this plan we require details of all related parties and any transaction with them during the year, as follows:

Type	Name of Related Party
Joint Committee	Councillor Elizabeth Harvey
	Councillor Adrian Hardman
	Councillor Gemma Davies
	Councillor Adam Kent
	Councillor Lee Carter
	Councillor Rae Evans
	Councillor Ed Potter
	Councillor Gwilym Butler
Key Personnel	Nigel Evans
	Jo Pugh

Note the following constitute the majority of related parties:

- Joint Committee members of the entity and their spouses/ long term partners/ children and parents;
- Other entities in which Joint Committee members and their spouses/ long term partners/ children and parents have an interest;
- Key Management of the entity and their spouses/ long term partners/ children and parents;
- Other entities in which Key Management and their spouses/ long term partners/ children and parents have an interest;
- Key Management Personnel and their spouses/ long term partners/ children and parents; and
- Other entities in which key management personnel and their spouses/ long term partners/ children and parents have an interest.



Committee and Date

West Mercia Energy Joint
Committee

15 March 2022

Item

9

Public

WEST MERICA ENERGY (WME) INTERNAL AUDIT PERFORMANCE REPORT TO MARCH 2022

Responsible Officer Ceri Pilawski

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

Tel: 01743 257739

1. Summary

- 1.1 This report provides members with an update on the work completed by Internal Audit against the approved Internal Audit Plan 2021/22, presented on 2nd March 2021.
- 1.2 Three pieces of planned audit work for 2021/22 have been completed. Reviews attracting good assurance are Finance, Debtors, Corporate Governance including Risk Management. The report in respect of Information Technology is in progress and will be reported as part of the next Internal Audit update. No report was issued in respect of Procurement instead, at the request of the Section 151 Officer and in agreement with the Managing Director, a health check on the additional controls put in place to keep the key Financial Officers from the four owning authorities appraised of the trading position due to the extreme fluctuations in the energy market was prepared and presented. Good arrangements were noted in respect of the approach and no recommendations raised.
- 1.3 The plan remains at 22 Days as agreed in March 2021.

2. Recommendations

- 2.1 The Committee consider and endorse, with appropriate comment, the performance to date against the 2021/22 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. Climate Change Appraisal

5.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaptation. However, the work of Internal Audit will look at the aspects relevant to the governance, risk management and control environment. The Committee can seek direct assurance on these matters where required.

6. Background

6.1 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.

6.2 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.
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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.

- 6.3 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, several significant recommendations in a small number of areas would not result in a limited opinion if most 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.
- 6.4 A total of four recommendations have been made in the final audit reports issued since the last report. A breakdown by area of the recommendations issued in this period is shown in the table below.
- 6.5 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. Management is asked for an update of progress made on recommendations 12 months after issue. To date this year no recommendations have been rejected by management.

6.6 Audit assurance opinions and recommendations delivered 2021/22

Audit Area	Assurance level	No. of Recommendations made				Total
		Best Practice	Requires Attention	Significant	Fundamental	
Debtors System	Good	1	1	0	0	2
Finance System	Good	0	1	0	0	1
Corporate Governance and Risk Management	Good	0	1	0	0	1
Procurement	N/A ¹	0	0	0	0	0
Total for the period		1	3	0	0	4
Total to date						
• numbers		1	3	0	0	4
• percentage		25%	75%	0%	0%	100%

- 6.7 There are three good assurance levels in place and no significant issues to bring to the Committee's attention. An action plan is in place to address recommendations within an agreed timeframe.
- 6.8 Copies of the abbreviated Audit Reports are attached as appendices to this report.

¹ No formal opinion was issued in respect of Procurement. Due to the extreme situation in the energy market the time was used to review and prepare a briefing note on the additional controls put in place to keep the key Financial Officers from the four owning authorities apprised of the trading position.

7. Additional Information

7.1 Performance against the plan

The Internal Audit plan was presented to the Joint Committee in March 2021. There has been one variation to the plan agreed in March. Time allocated to procurement was reallocated to review the increased controls in place due to energy market fluctuations. There have been no further changes and there has been no significant impact on audit reviews from the pandemic.

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
Internal Audit Plan 2021/22, 2nd March 2021.

Member

Councillor R Evans of Telford and Wrekin Council (Chair of the Joint Committee)

Appendices

- Appendix 1** – Debtors Report 2021/22
- Appendix 2** – Finance Report 2021/22
- Appendix 3** – Corporate Governance and Risk Management Report 2021/22
- Appendix 4** – Energy Procurement Briefing Note 2021/22



SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

FINAL INTERNAL AUDIT REPORT WME DEBTORS 2021/22

Assurance Level | Good

Audit Data

Customer:	West Mercia Energy
Report Distribution:	Nigel Evans (Director) Jo Pugh (Finance Manager)
Auditor(s):	Kayleigh Griffiths
Fieldwork Dates:	November 2021
Debrief Meeting:	25th November 2021
Draft Report Issued:	01 December 2021
Responses Received:	01 December 2021
Final Report Issued:	01 December 2021

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 2021/22 Audit Services have undertaken a review of Debtors.
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 procedures in respect of the reconciliation and monitoring of the debtors and income system 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 2020/21 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 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.

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. Recommendations are made where control weaknesses, risks or areas for improvement have been identified and are of sufficient importance to merit being reported to you in accordance with auditing standards. There are four categories of recommendation; Best Practice, Requires Attention, Significant and Fundamental. The following table summarises the number of recommendations made in each category:

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

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	
Recommendations superseded	
Recommendations not implemented	

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. As Internal Audit report by exception, only those areas where control weaknesses and/or errors have been identified are included in this report. Your Action Plan is included 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.

Ceri Pilawski
Head of Audit

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ACTION PLAN FOR WME DEBTORS 2021/22

Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	Lead Officer	Date to be Actioned
9.1	1	The bad debt authorisation section of the Credit Management Policy should be updated to reflect the authorisation limits set in the Scheme of Delegation.	Requires Attention	Credit Management Policy now updated to reflect the authorisation limits set in the Scheme of Delegation.	Jo Pugh, Finance Manager	Completed
10.1	2	The two historic amounts within the suspense account should be written off and the account cleared, the amount have been unable to be allocated to the correct accounts due to the lack of reference.	Best Practice	The two historic amounts within the suspense account to be written off.	Jo Pugh, Finance Manager	December 2021



SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

FINAL INTERNAL AUDIT REPORT WME FINANCE 2021/22

Assurance Level | **Good**

Audit Data

Customer:	West Mercia Energy
Report Distribution:	Nigel Evans, Director Jo Pugh, Finance Manager
Auditor(s):	Kayleigh Griffiths
Fieldwork Dates:	November 2021
Debrief Meeting:	22 November 2021
Draft Report Issued:	30 November 2021
Responses Received:	01 December 2021
Final Report Issued:	01 December 2021

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 2021/22 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:
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 and approval of the annual budget.
 - ✓ Management Accounts are accurate and 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.
 - ✓ There is an appropriate process in place to ensure that the Payroll is processed in an accurate and timely manner in line with current legislation.
 - ✓ Permanent and temporary variations to the payroll are valid, appropriately authorised, and processed accurately.
 - ✓ There are appropriate processes in place for the control and operation of the creditors system.
 - ✓ There are appropriate controls to ensure that creditors payments made are accurate, complete, have not previously been paid.

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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9. Recommendations are made where control weaknesses, risks or areas for improvement have been identified and are of sufficient importance to merit being reported to you in accordance with auditing standards. There are four categories of recommendation; Best Practice, Requires Attention, Significant and Fundamental. 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. 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.

Audit Approach

11. 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.
12. As Internal Audit report by exception, only those areas where control weaknesses and/or errors have been identified are included in this report. Your Action Plan is included at **Appendix 1**. A more detailed report covering all the work undertaken can be provided on request.
13. 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 FINANCE 2021/22

Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	Lead Officer	Date to be Actioned
10.1	1	Invoice authorisations should be approved in line with the agreed scheme of delegations, anything over £20,000 should be authorised by the treasurer.	Requires Attention	All invoices over £20,000 will be sent to the treasurer for approval.	Jo Pugh, Finance Manager	Immediately

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SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

FINAL INTERNAL AUDIT REPORT WME CORPORATE GOVERNANCE AND RISK MANAGEMENT 2021/22

Assurance Level | **Good**

Audit Data

Customer:	West Mercia Energy
Report Distribution:	Nigel Evans, Director
Auditor(s):	Kayleigh Griffiths
Fieldwork Dates:	January 2022
Debrief Meeting:	07 February 2022
Draft Report Issued:	08 February 2022
Responses Received:	08 February 2022
Final Report Issued:	11 February 2022

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 2021/22 Audit Services have undertaken a review of Corporate Governance and Risk Management.
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 arrangements for Corporate Governance and Management of Risk during the current financial year.
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 is an appropriate process in place to ensure that Strategic and Operational Risks are recorded in a suitable format in the Risk Register and regularly reported to the Joint Committee.
 - ✓ Satisfactory Corporate Governance arrangements are in place.
 - ✓ A business continuity plan has been prepared which details the actions to be taken to allow recovery from an incident.

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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9. Recommendations are made where control weaknesses, risks or areas for improvement have been identified and are of sufficient importance to merit being reported to you in accordance with auditing standards. There are four categories of

recommendation; Best Practice, Requires Attention, Significant and Fundamental. 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. 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.

Audit Approach

11. 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.
12. As Internal Audit report by exception, only those areas where control weaknesses and/or errors have been identified are included in this report. Your Action Plan is included at **Appendix 1**. A more detailed report covering all the work undertaken can be provided on request.
13. 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 CORPORATE GOVERNANCE AND RISK MANAGEMENT 2021/22

Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	Lead Officer	Date to be Actioned
4.1	1	Progress should continue to be made in the production of an up-to-date Business Continuity Plan, this should include all eventualities which could affect the business including but not limited to staffing, cyber-attack, network loss, once in place this should be formally approved by the owning authorities.	Requires Attention	Agreed.	Gareth Maude	June 2022

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SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

INTERNAL AUDIT BRIEFING NOTE ENERGY PROCUREMENT – WME 2021/22

Assurance Level	N/A
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Audit Data

Customer:	Nigel Evans – Director (West Mercia Energy)
Report Distribution:	James Walton (S151 Officer)
Auditor(s):	Kayleigh Griffiths
Fieldwork Dates:	January 2022
Debrief Meeting:	N/A
Draft Report Issued:	N/A
Responses Received:	N/A
Final Report Issued:	20 January 2022

Background

1. West Mercia Energy (WME), is a public purchasing organisation, specialising in managing energy contracts for the public sector. WME is jointly owned by four local authorities: Shropshire, Telford & Wrekin, Worcestershire, and Herefordshire councils, respectively.
2. As part of the West Mercia Energy programme of audit, assurance is required to cover the area of energy procurement. In the financial year 2021/22, no major tenders were completed. The energy market is currently extremely volatile with energy prices reaching record highs.
3. A global surge in demand for gas, following a cold winter has left stocks low. Alongside this, the closure of a main power cable from France has affected electricity prices. A race to restock supplies prior to colder temperatures has resulted in astronomical price increases.
4. As a result of the price increases, WME have had to undertake regular reviews on their contracted energy prices to maintain stock levels and to try and minimise price increases to customers.
5. Cash out clauses in contracts cause further complication to the provider. Cash out related to the variation in the final unit price paid as a result of balancing secured volumes against those volumes consumed. This could result in either a reduction of increase in costs depending on whether volumes need to be sold back or purchased from the market and the difference between the price volumes hedged and the market price (day ahead).
6. Assurance is sought to ascertain whether WME is responding appropriately and transparently to the volatile market conditions with the agreement of the section 151 officer and all partner agencies, plans are set out, communicated, agreement is sought and regular updates provided.

Scope of work

7. A desktop review was undertaken and relevant documentation considered alongside interviews with key personnel.

Findings

8. Documentation reviewed shows regular, detailed updates are being provided to a Communication Group by the Director of WME. The Communication Group consists of a representative from all Member Organisations.
9. Calls/meeting are scheduled as and when deemed necessary with all parties of the Communication Group attending calls at short notice.
10. The Communication Group are provided with briefing notes/reports to peruse prior to these calls and to give a full understanding of the situation prior to the call.
11. The decisions made at the calls are followed up with notes to the parties from the calls/minutes.
12. The evidence suggests all parties are responding quickly to the changing market, adequate information is being provided to the Communication Groups for guidance and direction to be given to WME. The communications appear transparent and appropriate to response to the changing market.
13. No recommendations have been made.



<u>Committee and Date</u>

West Mercia Energy Joint Committee

15th March 2022

<u>Item</u>

10

Public

WEST MERCIA ENERGY (WME) INTERNAL AUDIT STRATEGIC PLAN 2022/23

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

Tel: 01743 257739

1. Summary

- 1.1 This report details the proposed programme of audit work for the year 2022/23 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.

2. Recommendations

- 2.1 The Committee are asked to consider and endorse, with appropriate comment, the proposed programme of audits for 2022/23.

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 enough 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 remains at 22 days in 2022/23 in line with delivery in 2021/22 and will be met from within the approved Internal Audit budget.

5. Climate Change Appraisal

- 5.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaptation. However, the work of Internal Audit will look at the aspects relevant to the governance, risk management and control environment. The Committee can seek direct assurance on these matters where required.

6. Background

- 6.1 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.
- 6.2 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. COVID has had very little impact on WME’s governance and internal control environment with staff being well established to work from home as required. The present market conditions have been discussed with the Managing Director as part of the planning process and the risks will be evaluated for impact across the relevant audit areas.
- 6.3 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.
- 6.4 The audit programme is shown at **Appendix A**. The proposed plan is presented to Committee for approval to reflect current issues and risks. This will ensure that the audits are timely, appropriate and add value, 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 Internal Audit 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.

7. Resources and Delivery

WME has provided a budget in 2022/23 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 2019/20 – February 2019 Internal audit strategic plan 2020/21 – February 2020 Internal audit strategic plan 2021/22 – March 2021</p>
<p>Member Councillor R Evans of Telford and Wrekin Council (Chair of the Joint Committee)</p>
<p>Appendices</p> <p>Appendix A: West Mercia Energy – Proposed Internal Audit Plan 2022/23</p>

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

AUDIT	Including review of:	2022/23 DAYS
PROCUREMENT	Review of procurement arrangements re the new electricity and liquid fuels contracts	3
DEBTORS	Review the operational aspects of billing and account management	4
FINANCE	A combined audit reviewing the areas of Finance, Payroll and Creditors general controls.	5
IT	Review development of IT controls as required by management and follow up of IT health check audit	4
CORPORATE GOVERNANCE AND RISK MANAGEMENT	Corporate Governance & Risk Management Combined review (including EGARRP)	2
ENGAGEMENT MANAGEMENT	To include follow up of previous recommendations, audit management, audit planning, servicing Audit Committee, advisory	4
	Contingency	0
TOTAL		22

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 2021/22 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 2021/22 is attached and the Joint Committee are asked to approve the draft Statement. Once approved the Statement will be published on the WME website.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p>
<p>Joint Committee 25th September 2017 – Anti-Slavery and Human Trafficking Policy</p>
<p>Joint Committee 2nd March 2021 - Anti-Slavery and Human Trafficking Statement 2020/21</p>
<p>Member</p>
<p>Councillor R Evans of Telford & Wrekin Council (Chair of the Joint Committee)</p>
<p>Appendices</p>
<p>WME Transparency Statement 2021/22</p>



Modern Slavery Act 2015

West Mercia Energy Transparency Statement 2021/22

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 2021 to 31 March 2022 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 2021 to 31 March 2022 WME have:

- Monitored adherence/compliance to/with 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 2022/23 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.

Approved: Nigel Evans, Director, April 2022

West Mercia Energy is jointly owned by the following councils



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<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	12
15 th March 2022	Public

RISK MANAGEMENT UPDATE

Responsible Officer Nigel Evans

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

1. Summary

- 1.1 The Joint Committee annually reviews the WME Risk Management Strategy and at each meeting receive details regarding the key risks identified.

2. Recommendations

The Joint Committee are recommended to:

- 2.1 approve the WME Risk Management Strategy attached at Appendix A;
- 2.2 accept the position 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.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Given the subject matter of this report, the assessment of risk forms a fundamental part of the risk strategy.

4. Financial Implications

- 4.1 The financial implications of each risk are considered when the impact of the risk is assessed.

5. Background

- 5.1 The current WME Risk Management Strategy was approved by the Joint Committee on 2nd March 2021 a copy of which is attached in Appendix A. The WME management team have conducted their annual review of the Strategy document and no changes are being proposed.
- 5.2 The risk register is kept under constant review and is formally reviewed by the management of WME twice a year. The current risk register comprises of eighty-one highlighted risks, up five since the November report.
- 5.3 The majority of the risks within the risk register are operational with controls in place which mitigate the impact of the risks to an acceptable risk level.
- 5.4 The Strategy states that the Joint Committee are to receive details of all medium and high risks at each meeting The table below identifies the ten current high and medium risks. This represents three new risks and the status of two risks being upgraded to medium and high respectively.

Ref	Risk	Risk Owner	L	I	Status	Rank	Rank Change
<i>Current High and Medium Risks</i>							
1	Market conditions pre-pricing leading to less competitive prices / high year on year price rises	Gareth Maude	4	3	12	Medium	No Change
2	Market conditions within year leading to less competitive prices and lost opportunities	Gareth Maude	3	4	12	Medium	Increase
3	Delays in customers completing new contracts resulting in high year on year price rises.	Nigel Evans	5	3	15	High	Increase
4	Breach of product tolerance levels	Gareth Maude	4	5	20	High	No Change
5	Breach of trading risk levels	Gareth Maude	4	5	20	High	No Change
6	Central government policy or Regulative initiative	Nigel Evans	1	5	5	Medium	No Change
7	Loss of key staff	Nigel Evans	3	4	12	Medium	No Change
8	Bad debts / delayed payment as result of increased energy prices	Nigel Evans	2	4	8	Medium	New Risk
9	Member Authority contracting energy outside of WME arrangements	Nigel Evans / Gavin Owen	4	3	12	Medium	New Risk
10	Dealing with suppliers that have ownership or investments within Russia or Belarus	Nigel Evans	5	3	15	Medium	New Risk

L – likelihood of the risk I – impact of the risk

- 5.5 The key driver affecting the increase in rank levels of Risk Ref 2 and 3 and the addition medium risk of Ref 8 are the energy commodity market conditions we have experienced over the last 12 months. Gas and electricity prices have increased significantly since March 21 and have traded at unprecedented levels. Adding to the challenge has been with levels of “in-day” volatility, never seen before. For context, during its peak in late December, market commodity prices for gas for the 21/22 delivery period had risen by over 462% and for electricity by 357%.
- 5.6 The sheer level of volatility within the market means it is much harder to unset positions within the year. As a result, Risk Ref 2 has been upgraded from Low to Medium. Despite a significant market advantage currently, if prices fall rapidly, our traded prices on some contracts could fall away from the market quickly. Unlocking positions has to be considered carefully, as quick upturns in the market could lead to losses.
- 5.7 With energy market prices being at unprecedented levels, all customers will be experiencing price increases from April 22, the level of which will depend on when the customer placed their contracts with WME (Risk Ref 1). To provide a sense of the rises seen in the market for the 22/23 year, the wholesale price of gas rose by over 600% and in excess of 400% for power in late December from the levels seen in March.
- 5.8 Despite advice, some customers have signed contracts very late in the year, with one being signed as late as mid-February. As a result of WME being unable to purchase to provide protection to these customers in a rising market, they are seeing very significant year on year price increases. As a result, Risk Ref 3 is now considered as High.
- 5.9 We have started engaging all customers who have contracts ending in March 23, which is earlier than usual, to try and mitigate this risk next year. Ultimately, we can only advise on this, and the timing and speed of procurement is up to each individual customer.
- 5.10 With the gas Day Ahead prices so high throughout the year, the rank of the risk associated with the gas cash out, Ref 4 in the table above, remains high. Should consumed volumes be greater than those procured (e.g. where the winter is colder than the norm) then these additional volumes would be bought at the Day Ahead rates leading to additional costs. This risk has been closely monitored by the business and mitigated where possible by procuring additional volumes where it is considered necessary. By doing so this does increase the risk of breaching risk levels hence why the risk Ref 5 remains high also.
- 5.11 To mitigate the gas cash out risks above, from April we will be utilising a new gas tolerance product with our supplier. A new risk has been added to the register to cover off this product and is currently considered as a low risk.
- 5.12 The risk relating to the loss of key staff has been reviewed and remains at the medium level. A review of the structure of the business has been completed and recruitment is underway to support this. This will help mitigate this risk, build in greater resilience, and strengthen for further growth.

- 5.13 As a result of significant increases in price across the portfolio, and the addition of two new “Fully Managed” customers we believe that there is an enhance risk of bad debt or delayed payments from customers. This has been mitigated as far as possible through regular budget provisions and will be monitored closely by the Finance Team.
- 5.14 The risk of a Member Authority contracting energy outside of the WME arrangements has been included in the risk register.
- 5.15 In light of the Russian invasion of Ukraine, there is a focus on any suppliers with ownership links to Russia or Belarus. WME have a fixed price DPS framework which services a very small part of our overall portfolio. This framework consists of 17 suppliers; Gazprom is one of these. We have begun the process of seeking legal advice with a view to removing them from this framework and in the meantime will not invite them to tender for any future competition. Additional due diligence will take place in future tenders in accordance with procurement rules and current legislation.

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

Joint Committee 2nd March 2021 – Risk Management Update

Joint Committee 29th November 2021 – Risk Management Update

Member

Councillor R Evans of Telford & Wrekin Council (Chair of the Joint Committee)

Appendices

Appendix A - WME Risk Management Strategy



RISK MANAGEMENT STRATEGY

Introduction

Risk management is an integral part of good management practice and a key part of corporate governance. This strategy statement outlines the arrangements put in place to ensure that WME identifies and deals with the key risks that it faces, ensuring that the right actions are taken at the right time. It involves the dissemination of roles, responsibilities and accountabilities for risks within the organisation and forms part of the corporate governance of WME.

This strategy seeks to set out how WME:

- i) Identifies and measures risk
- ii) Plans and acts to manage or mitigate risk
- lii) Monitors risk on a continual basis

WME recognises that the development of policy, delivery of objectives and management of its operations attracts risks. How successful WME is in dealing with the risks it faces can have a major impact on the achievement of its key strategies, priorities and service delivery to its customers. The risk management strategy helps to support the aim of WME to be a first-class organisation.

Aims & Objectives

Risk Management is about making the most of opportunities (making the right decisions) and about achieving objectives once those decisions are made. This is achieved through transferring risks, controlling risks, living with risks or ceasing the activity that gives rise to the risk. WME aims to ensure that Risk Management becomes a natural component of its management processes.

The objectives of this strategy are to:

- Raise awareness of the need for Risk Management in all areas of service delivery, integrate it into the culture of WME and embed it in the performance management framework
- Manage risk in accordance with best practice
- Anticipate and respond to changing social, financial, environmental, technological and legislative requirements
- Minimise exposure to risk

WME will achieve these objectives by:

- Including Risk Management as an integral part of its management processes and day-to-day operations through corporate, directorate and unit business plans
- Ensuring sound systems of internal control
- Incorporating Risk Management into major service reviews including best value and project management
- Preparing contingency plans in areas where there is a potential for serious adverse effects on service continuity
- Regular monitoring and review of the arrangements
- Ensuring that we respond to and meet our legislative responsibilities in relation to the management of risk

Our Approach to the Governance of Risk Management

Our overall aim is to embed the culture of Risk Management throughout the organisation.

Risks are managed every day as part of normal business activity. Risk Management is not just about eliminating risk but about dealing with and reducing the circumstances in terms of their impact and probability (likelihood). A critical success factor in embedding a risk management culture is the commitment of the Director, Senior Managers and the Joint Committee Members.

Roles and Responsibilities

The full integration of Risk Management into the culture of the organisation can only be achieved through the full commitment and understanding of all stakeholders. These stakeholders can be defined as follows:

- WME Joint Committee
- Director
- Senior Managers
- WME employees

All these stakeholders have a role to play in the control environment within which WME operates, whether in connection with the setting of policy and decision making, the challenge process of accountability, the implementation of WME's objectives, the setting of internal controls or the provision of a safe working environment.

WME's responsibilities need to be clearly understood and have been defined as:

- Development, monitoring and review of the Risk Management Strategy and Risk Register
- Identification, analysis and monitoring of principal risks
- Champion and raise awareness of Risk Management and to ensure that the process becomes embedded in the culture of the organisation
- Ensure synergy with other "risk" systems, e.g. Health and Safety, Business Continuity and project management
- Ensure regular updating of the Risk Register
- Monitor and review Risk Registers and Risk Action Plans

Joint Committee responsibilities:

- Review the Risk Management Strategy on an annual basis.
- Receive details of all medium and high risks at each meeting.

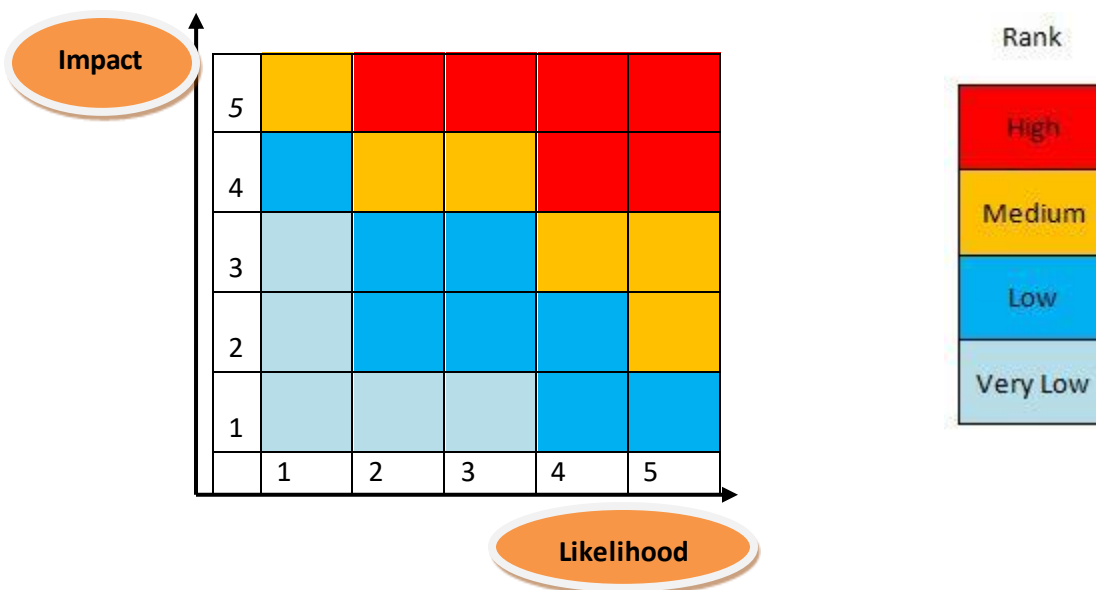
Each identified risk will be allocated an owner, responsible for the management and monitoring of that risk.

The Director will have a responsibility to ensure that Senior Managers analyse risks and produce appropriate information for inclusion in the Risk Register and Risk Action Plans specific to their sectors; whilst making the necessary connections to issues that have an organisation wide effect.

Risk Appetite

WME evaluates risks on the basis of the likelihood of them occurring and the impact of the consequences if they do. A standard set of evaluation criteria is used to evaluate both likelihood and impact and the resultant risks are then plotted on the maps, as depicted below.

Risk Matrix



Risks are treated in accordance with the WME ‘risk appetite’, that is the level of risk the organisation deems to be acceptable. While all risks should be judged on their own merit, managers also have the responsibility to manage their risks as they see fit. Nevertheless, good practice suggests that any risk classified as high should be deemed to require immediate management attention with the aim of treating it, either to reduce the level of threat or maximise the opportunity that may arise from it.

Identification and Categorisation of Risk

The focus of good risk management is the identification and treatment of risks. It increases the probability of success and reduces the likelihood of failure and the uncertainty of achieving objectives. Risk management should be a continuous and evolving process that runs throughout the strategies and service delivery of the organisation.

Learning lessons from past activities helps inform current and future decisions by reducing threats and optimizing the uptake of opportunities. Celebrating and communicating successful risk management in turn encourages a more daring but calculated approach.

The Director and Senior Managers have a clear responsibility to set the overall framework and establish and monitor the Risk Register. Strategic risks are those that might impact on the high level, medium to long-term, goals and objectives of WME together with those cross cutting issues that have potential to impact significantly on service delivery, business continuity and profit generation.

At operational level the monitoring and identification of risk lies with sector managers and forms part of their service planning process. These are the risks that will be encountered as a result of daily activity. Due consideration must be given to the need to involve other sectors in decision making processes in order to mitigate risk.

Risks should be identified by considering the threats to the successful delivery of each of the objectives and activities of the organisation. These risks have been categorised as follows within the Risk Register:

- Business continuity
- Operational
- Systems
- Trading
- Strategic

Benchmark test for significance

Likelihood	Score	Risk Likelihood Definition
Rare	1	Risk may occur in exceptional circumstances
Possible	2	Risk may occur within the next three financial years
Likely	3	Risk is likely to occur within this financial year
Almost Certain	4	Indication of imminent occurrence
Certain	5	Risk has occurred and will continue to do so without immediate action being taken

Impact	Score	Risk Impact Definition
Negligible	1	<ul style="list-style-type: none"> • Negligible loss, delay or interruption to services • Can be easily and quickly remedied • Financial impact less than 2½% of annual WME budgeted net profit
Minor	2	<ul style="list-style-type: none"> • Minor loss, delay or interruption to services • Short term impact on operational efficiency and performance • Financial loss of between 2½ - 10% of annual WME budgeted net profit • Failure to meet internal standards. • Affects only one group of stakeholders • No external interest • Isolated complaints
Significant	3	<ul style="list-style-type: none"> • Significant loss, delay or interruption to services.

		<ul style="list-style-type: none"> • Medium term impact on operational efficiency and performance. • Financial loss of between 10 - 20% of annual WME budgeted net profit • Failure to meet recommended best practice. • Affects more than one group of stakeholders. • May attract short-term attention of legislative or regulatory bodies. • Significant complaints.
Major	4	<ul style="list-style-type: none"> • Major loss, delay or interruption to services. • One off events which could de-stabilise the organisation. • Widespread medium to long term impact on operational efficiency, performance and reputation. • Financial loss of between 20 - 50% of annual WME budgeted net profit for one year. • Financial loss of between 15 - 30% of annual WME budgeted net profit for more than one year. • Breach of legal or contractual obligation. • Affects more than one group of stakeholders. • Will attract medium-term attention of legislative or regulatory bodies. • Significant adverse media interest.
Critical	5	<ul style="list-style-type: none"> • Total sustained loss or disruption to critical services. • Long term impact on operational efficiency, performance and reputation. • Financial loss of 50%+ of annual WME budgeted net profit for one year. • Financial loss of 30%+ of annual WME budgeted net profit for more than one year. • Serious breach of legal or contractual obligation. • Affects all groups of shareholders. • National impact with rapid intervention of legislative or regulatory bodies. • Extensive adverse media interest. • Loss of credibility.

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