The Audit Plan for West Mercia Energy

Year ended 31 March 2017

27 February 2017

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Purpose

We are pleased that you have engaged us to perform the audit of West Mercia Energy for the Year ended 31 March 2017.

We summarise on the following pages the key aspects of our proposed 31 March 2017 audit plan, for the purposes of communication to those charged with governance, in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Engagement objectives	• Audit the financial statements of West Mercia Energy • Challenge the judgements made by management and provide a robustly independent view to the Joint Committee on key financial statement risk areas − the findings of which will be presented to the Joint Committee in our Audit Findings report • Draw to your attention any identified significant deficiencies in internal control and potential areas for improvement to the control environment • Provide comfort to the Joint Committee that key judgements taken by management are appropriate and in accordance with the relevant accounting standards
Audit approach to key risk areas	In summary, our audit approach is focused on key risk areas as follows: • Fraud in revenue recognition • Management override of controls • Occurrence of revenue from the sale of utilities • Valuation of expenditure from the purchase of utilities Further information in relation to our risk assessment and the audit procedures we will undertake is set out on pages 5 and 6.
Other required communications	• We are required by the ISA's to communicate any factors that may threaten our independence; this is set out in page 8.

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

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The 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. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements We have determined planning materiality based on professional judgment in the context of our knowledge of West Mercia Energy. In line with previous years, we have calculated financial statement materiality based on a proportion of the total revenues of the Joint Committee. For purposes of planning the audit we have determined overall materiality to be £1,264k (being 2% of revenue in the prior year). Our assessment of materiality is kept under review throughout the audit process and will be updated at period end in sight of draft current year figures.

Under ISA (UK & Ireland) 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £63,200.

ISA (UK and Ireland) 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k It should be noted however, errors identified by testing will be assessed individually, with due regard given to the concept of materiality to both West Mercia Energy and its related parties.
Disclosures of senior manager salaries and allowances in the remuneration report	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k

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.; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	**Work planned:** • Review and testing of revenue recognition policies. • Testing material revenue streams.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	**Work planned:** • Review of accounting estimates, judgments and decisions made by management. • Updating of our understanding of the journals control environment and testing of journal entries. • Review of unusual significant transactions.
Valuation of pension fund net liability	The Joint Committee's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.	**Work planned:** • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Other risks identified

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

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

Other risks	Description	Audit Approach
Turnover – Utility Revenue	Existence/Occurrence Contract accounting not consistent with terms.	**Work planned:** • We will document the processes and controls in place around the accounting for Turnover – Utility Revenue and carry out walkthrough tests to confirm operation of controls. • Tests of detail on utility revenue included in the financial statements including testing on a sample of utility revenue transactions.
Cost of Goods Sold – Utility Expenditure	Valuation – Gross. Costs not accounted for property.	**Work planned:** • We will document the processes and controls in place around the accounting for Cost of Goods Sold – Utility Expenditure and carry out walkthrough tests to confirm operation of controls. • Tests of detail on utility expenditure included in the financial statements including testing on a sample of utility expenditure transactions.
Cost of Goods Sold – Utility Expenditure	Valuation – Net. Activity variation adjustments to expenditures not correct.	**Work planned:** • We will document the processes and controls in place around the accounting for Cost of Goods Sold – Utility Expenditure and carry out walkthrough tests to confirm operation of controls. • Tests of detail on utility expenditure included in the financial statements including testing on a sample of utility expenditure transactions.

Logistics and our team

The audit cycle

Our team

Engagement Leader

Manager

Executive

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Date	Activity
20th March	Interim audit
14th August	Fieldwork commences
18th August	Close out meeting
TBC	Issue Audit Findings
25 September	Joint Committee meeting

Fees and independence

Fees

Company	£
Joint Committee audit	13,000
Total	**13,000**

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- You will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

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

Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton network member Firms will be included in our Audit Findings report at the conclusion of the audit.

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

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the Joint Committee's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		✓
Non-compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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

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

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Appendix A – Early Closure of Accounts

The Accounts and Audit Regulations 2015

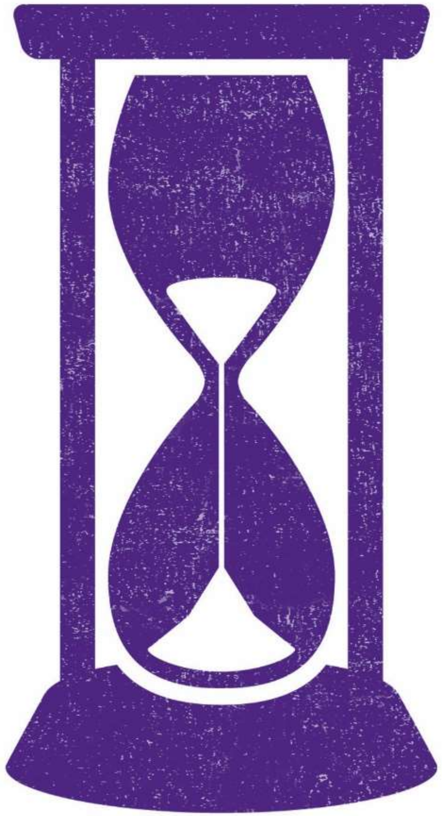
In line with the Accounts and Audit Regulations 2015, principal authorities must approve and publish the following by 31st July immediately following the financial year end:

- The statement of accounts together with any certificate or opinion, entered by the local auditor in accordance with section 20(2) of the Act;
- The annual governance statement approved in accordance with regulation 6(2); and
- The narrative statement prepared in accordance with regulation 8.

This requirement applies to the member authorities of the Joint Committee for the period commencing 1 April 2017. However, the Joint Committee itself is outside of the scope of the regulations and there is no such mandate on it to meet this requirement.

As the member authorities bring forward the closure of the accounts and completion of their audits by two months, consideration needs to be given to the timing of the Joint Committee audit from 2017/18 as audited information relating to West Mercia Energy may be required by member authorities.

We suggest that the timing of our audit is determined by the level of assurance required by member authorities in consolidating the performance of West Mercia Energy for the financial year. This should be discussed at committee level and agreed for 2017/18 and subsequent years.



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