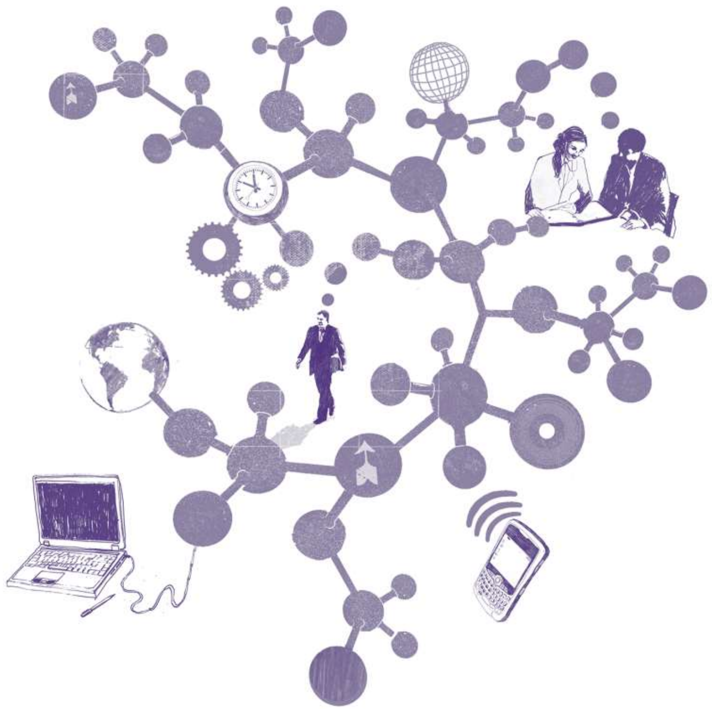
The Audit Findings for West Mercia Energy

Year ended 31 March 2017

25 September 2017



Richard Percival
Associate Director
T 0121 232 5434
E Richard.d.Percival@uk.gt.com

Jim McLarnon
Manager
T 0121 232 5219
E james.a.mclarnon@uk.gt.com

David Rowley
Executive
T 0121 232 5225
E david.m.Rowley@uk.gt.com

Contents

Grant Thornton

Private and Confidential

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

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

T +44(0)121 212 4000
www.grant-thornton.co.uk

25 September 2017

Dear Members of the Joint Committee

Audit Findings for West Mercia Energy for the year ending 31 March 2017

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

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely,

Richard Percival

Engagement lead

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of West Mercia Energy ('the Joint Committee') and the preparation of the Joint Committee's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260,

From the 1 April 2015 the implementation of the Local Audit and Accountability Act 2014 ('the Act') means that joint committees are no longer required to have their accounts separately prepared and audited. West Mercia Energy has decided to continue to prepare accounts and have them audited. It has adopted the CIPFA Code of Practice on Local Authority Accounting as the appropriate accounting framework. We have audited the 2016/17 accounts against this framework and in accordance with the applicable Code of Audit Practice.

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

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

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 27 February 2017.

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

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

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

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Joint Committee's reported financial position. The draft financial statements for the year ended 31 March 2017 recorded a net operating surplus of £1.037 million; the audited financial statements are unchanged.

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

Other financial statement responsibilities
As well as an opinion on the financial statements, we give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Narrative Report and Annual Governance Statement (AGS) is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Joint Committee's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

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

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

Findings
Our work has identified one control weaknesses concerning journal entries which we wish to highlight for your attention. Further details are provided within section two of this report.

Acknowledgement

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

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

Grant Thornton UK LLP

September 2017

Section 2: Audit findings

Materiality

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

At the audit planning stage, we determined overall materiality to be £1,264k (being 2% of gross revenue in the prior year). We have considered whether this level remained appropriate during the course of the audit and have updated this to take in to account 2016/17 draft financial statements figures with a revised materiality of £1,135k (being 2% of gross revenue).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £57k.

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

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of senior employees' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£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
Disclosure of related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k

Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**The revenue cycle includes fraudulent transactions** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	As part of our audit work we have: • reviewed and tested revenue recognition policies • substantively tested material revenue streams • completed revenue cut-off testing to ensure income has been recorded in the correct financial period	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management over-ride of controls** Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	As part of our audit work we have: • reviewed entity level controls • carried out detailed testing of large and unusual journal entries • reviewed accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions	Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our detailed testing of journal entries has not identified any significant issues. We have however raised a point in relation to the control environment for the attention of those charged with governance. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against significant risks (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**Valuation of the pension fund net liability** The Joint Committee's pension fund assets and liabilities as reflected in the balance sheet represent a significant material estimate in the financial statements	As part of our audit work we have: • reviewed the control environment in place and assurance provided by the pension fund auditor • assessed the competence, expertise and objectivity of the actuary Mercer • reviewed the assumptions applied in the calculation of the defined benefit liability and considered their reasonableness • carried out consistency checks of disclosures made in the financial statements to actuarial reports	Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Turnover – Utility Revenue	Existence/Occurrence (Contract accounting not consistent with terms)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • carried out substantive testing of an attribute sample of utility revenue transactions including agreement to supporting evidence and receipt of income	Our audit work has not identified any significant issues in relation to the risk identified.
Cost of Goods Sold – Utility Expenditure	Valuation – Gross. (Costs not accounted for property)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • carried out substantive testing of an attribute sample of utility expenditure including agreement to supporting evidence and remittance of payment	Our audit work has not identified any significant issues in relation to the risk identified.
Cost of Goods Sold – Utility Expenditure	Valuation – Net. (Activity variation adjustments to expenditures not correct)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • carried out substantive testing of an attribute sample of utility expenditure including agreement to supporting evidence and remittance of payment	Our audit work has not identified any significant issues in relation to the risk identified.

Matters discussed with management

	Matter	Commentary
1.	**Reserves** The CIPFA Code of Practice stipulates that an authority classify reserves balances between those which are usable i.e. those reserves that an authority may use to provide services, subject to the need to maintain a prudent level of reserves and unusable reserves. The second category are those than an authority is unable to use to provide services and are required for statutory purposes.	We discussed with management the application of the concept of usable and unusable reserves to the Joint Committee accounts. Unusable reserves are only applicable to bodies within the scope of the Capital Financing Regulations and are therefore not applicable to the Joint Committee. Following our discussion the accounts were amended to remove reference to usable reserves and the distinction between usable and unusable reserves does not apply to the Joint Commttee.

Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Revenue and capital transactions are accounted for on an accruals basis meaning revenue income is recorded when the debt has been established rather than when money has been received.	We have concluded that: • The revenue recognition policy is appropriate under the relevant accounting framework • The policy has been applied consistent with the prior period and we have identified no issues from substantive testing performed • The accounting policy is adequately disclosed in the financial statements	●
Judgements and estimates	• Key estimates and judgements include: – Useful life of PPE – Accruals – Valuation of pension fund net liability	We have concluded that: • Accounting policies for key estimates and judgements are appropriate under the relevant accounting framework • The extent of judgement involved is limited and therefore reduces the risk of management override of controls • The potential financial statement impact of different assumptions in the valuation of the pension fund deficit would not be material • Estimates and judgements made by management have been benchmarked against industry practice and are deemed to be reasonable	●
Going concern	The Director has a reasonable expectation that the services provided by the Joint Committee will continue for the foreseeable future. Members concur with this view. For this reason, the Joint Committee continues to adopt the going concern basis in preparing the financial statements.	We have reviewed the Joint Committee's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	●
Other accounting policies		We have reviewed the Joint Committee's policies against the requirements of the CIPFA Code of Practice. The Joint Committee's accounting policies are appropriate and consistent with previous years.	●

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Joint Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation has been requested from the Joint Committee.
5.	**Confirmation requests from third parties**	• We requested from management permission to send a confirmation request to NatWest. This permission was granted and the requests were sent and returned with positive confirmation.
6.	**Disclosures**	• Our review found no material omissions in the financial statements.
7.	**Matters on which we report by exception**	• We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Joint Committee acquired in the course of performing our audit, or otherwise misleading. It should be noted that we requested management enhance the Narrative Report however this was not due to material omissions or inconsistencies and therefore we will not report on this matter.

Internal controls

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

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

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

	Assessment	Issue and risk	Recommendations
1.	●	Our review of the journals control environment has identified that the Director of the Joint Committee has the ability to post journal entries. We would not expect senior financial reporting personnel to have this level of access as it increases the risk of management override of controls.	We acknowledge that there are compensating controls in place to ensure all journals posted by the Director are reviewed and counter authorised by the Treasurer and that in practice no such postings have occurred in 2016/17 However, we bring to the attention of those charged with governance this weakness in the control environment and recommend that journals access levels are reviewed to ensure only the appropriate individuals have the authority to prepare and post journal entries **Management Response** In the absence of the Finance Manager, the Director would be required to process journals to allow the production of management accounts. All such transactions will continue to be authorised by the Treasurer of the Joint Committee. Every six months the Finance Manager will extract from the finance system a report detailing the journals posted over the six month period. This report will include reference to the person posting the journal and will be issued directly by the Finance Manager to the Treasurer

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

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

Adjusted misstatements

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

Unadjusted misstatements

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

Misclassifications and disclosure changes

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

	Adjustment type	Value £'000	Reference	Impact on the financial statements
1	Disclosure	N/A	Reserves	The distinction between usable and unusable reserves has been removed from the accounts and reserves per the balance sheet split out in to individual funds
2	Disclosure	N/A	Accounting Policies	In relation to the above, accounting policy 1.9 has been updated to state that unusable reserves are statutory reserves that are not applicable to the Joint Committee
3	Disclosure	N/A	Critical Judgments in applying Accounting Policies	Narrative has been enhanced to clarify that the Joint Committee comply with the CIPFA Code of Practice where practicable however where this does not apply judgments are made on the presentation of the accounts
4	Disclosure	N/A	Audit Costs	The term 'statutory' has been removed from the title of this note to reflect the fact that the Joint Committee is no longer required to undertake an external audit under statute

Section 4: Fees, non-audit services and independence

We confirm below our final fees charged for the audit.

Fees

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

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

Independence and ethics

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

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

Section 6: Communication of audit matters

Communication to those charged with governance

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

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

Respective responsibilities

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Joint Committee's key risks when reaching our conclusions under the Code.

It is the responsibility of the Joint Committee to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Joint Committee is fulfilling these responsibilities.

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

Appendices

Appendix A: Audit opinion

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

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

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

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

Respective responsibilities of the Treasurer and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

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

Opinion on other matters

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

Matters on which we are required to report by exception

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

We have nothing to report in these respects.

Certificate

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

Signature – to be added

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

Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Date – to be added

Grant Thornton

grant-thornton.co.uk