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Grant Thornton

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

External Audit Plan

Year ending 31 March 2019

West Mercia Energy Joint Committee

26 February 2019

Contents

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Introduction & headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

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

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

The audit of the financial statements does not relieve management or the Joint Committee of your responsibilities. It is the responsibility of the Joint Committee to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Joint Committee is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of West Mercia Energy's business and is risk based.

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Income from utility revenue • Management override of controls • Going concern disclosures • Valuation of the pension fund net liability. We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £1.2 million (PY £1.247 million), which equates to 1.9% of prior year gross revenue for the year. We report uncorrected omissions or misstatements, other than those which are 'clearly trivial', to those charged with governance. Clearly trivial has been set at £0.06 million (PY £0.062 million).
Audit logistics	Our planning and interim visit will took place in January and our final visit will take place in July Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our agreed fee for the audit will be £13,500 (PY: £13,000). This is subject to meeting our delivery requirements set out on page 10.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Significant risks identified

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

	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. For WME we have concluded that the greatest risk of material misstatement relates to utility income. WME procures energy in bulk from a market where prices are highly volatile and outcomes depend on detailed contractual terms. In particular, activities near the period end are more likely to be based on subjective criteria determined by management. There is a greater audit risk to ensure recognised contract conditions have been satisfied We have therefore identified the occurrence and accuracy of utility income as a significant risk of material misstatement.	We will: • evaluate the accounting policy for recognition of income from utilities for appropriateness; • gain an understanding of the system for accounting for income from utilities and evaluate the design of the associated controls; • agree, on a sample basis, amounts recognised as income from utility in the financial statements to ensure that accurately accounted for in line with contract terms and that income is appropriately recognised.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Joint Committee agrees a target financial contribution from WME and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Going concern disclosures	As auditors, we are required to "obtain sufficient appropriate audit evidence" about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern. WME is dependent on being able to trade on favourable terms within the existing energy market. There are heightened risks for trading due to Brexit outcomes uncertainties. We therefore identified the adequacy of disclosures relating to going concern in the financial statements as a significant risk.	We will: ▪ discuss the financial standing with officers and in particular how the impacts of Brexit uncertainties have been considered ▪ evaluate management's assessment of going concern assumptions and supporting information, including budgets and cash flow forecasts ▪ examine the terms of available cash support facilities ▪ evaluate the completeness and accuracy of disclosures on any material uncertainties with regard to going concern in the financial statements.
Valuation of the pension fund net liability	The pension fund net liability, is a highly material estimate in the financial statements which is sensitive to changes in the key assumptions. We therefore identified valuation of the pension fund net liability as a significant risk.	We will: ▪ update our understanding of the processes and controls in place to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls ▪ evaluate the instructions issued by management to the actuary and the scope of the actuary's work ▪ assess the competence, capabilities and objectivity of the actuary ▪ assess the accuracy and completeness of the information provided to the actuary to estimate the net pension liability ▪ test the consistency of the pension fund asset and liabilities and disclosures in the financial statements with the actuarial report ▪ undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary and performing any additional procedures suggested within the report ▪ obtain assurances from the auditor of Shropshire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund, and the fund assets valuation in the pension fund financial statements.

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

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

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

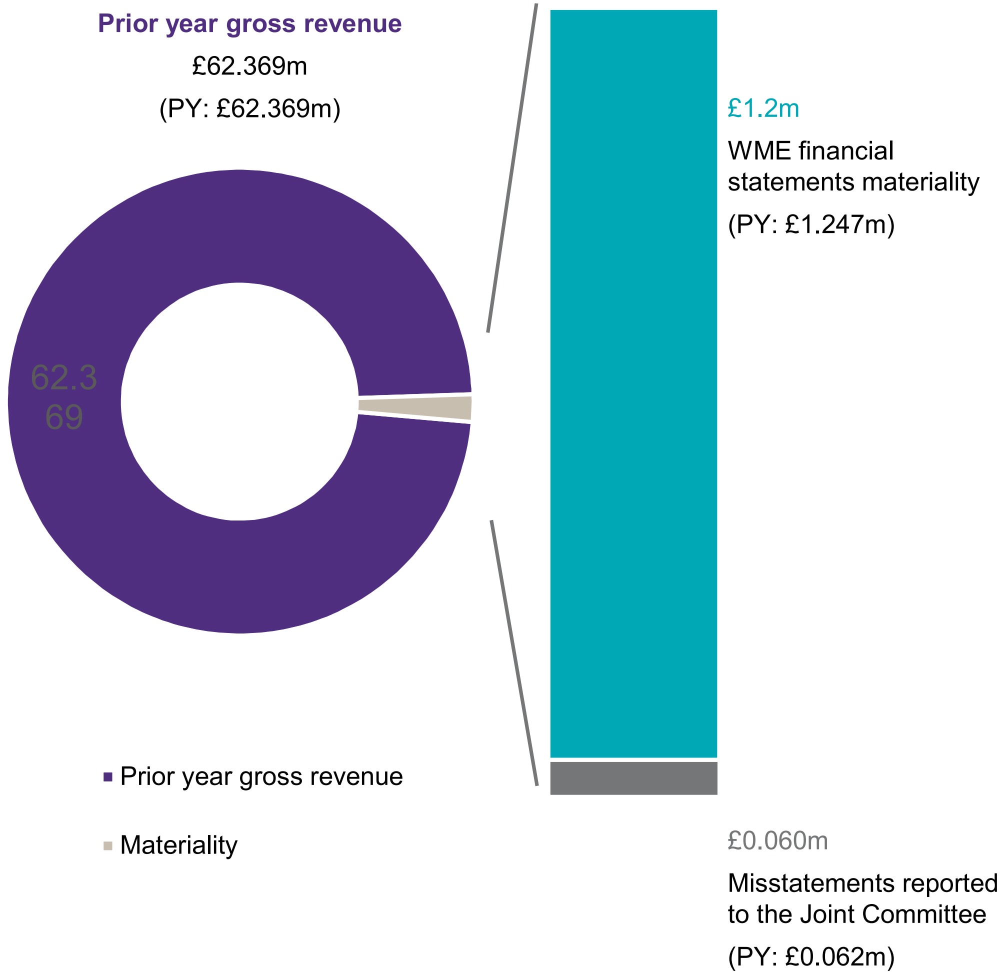
Senior officer remuneration materiality has been reduced to £50,000 due to its sensitive nature and public interest.

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

Matters we will report to the Joint Committee

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

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



Audit logistics, team & fees

Planning and risk assessment

Interim audit
January 2019

Joint committee
26th February 2019

Audit Plan

Year end audit
w/c 15th July 2019

Audit Findings Report

Joint committee
24th September 2019

Audit opinion

Richard Percival, Engagement Lead

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

Dave Rowley, Audit Manager

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

Allison Thomas, Audit Incharge

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

Audit fees

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

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

Our requirements

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

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

In return, we will ensure that:

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

Independence & non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Other services provided by Grant Thornton

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

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