

# The Audit Plan for West Mercia Energy Joint Committee

---

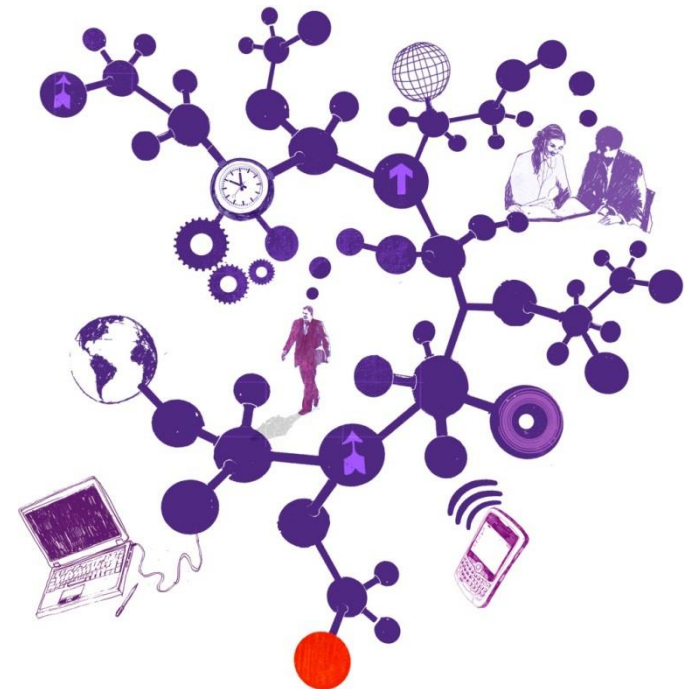
**Year ended 31 March 2015**

16th February 2015

**Jon Roberts**  
Partner  
T 0121 232 5410  
E [jon.roberts@uk.gt.com](mailto:jon.roberts@uk.gt.com)

**Andrew Davies**  
Manager  
T 0121 232 5417  
E [andrew.davies@uk.gt.com](mailto:andrew.davies@uk.gt.com)

**James McLarnon**  
In-charge Auditor  
T 0121 232 5219  
E [james.a.mclarnon@uk.gt.com](mailto:james.a.mclarnon@uk.gt.com)



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 the Joint Committee 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.

---

# Contents

<b>Section</b>	<b>Page</b>
1. Understanding your business	4
2. Developments relevant to your business and the audit	5
3. Our audit approach	6
4. Significant risks identified	7
5. Other risks	8
6. Value for Money	9
7. Results of interim work	10
8. Key dates	11
9. Fees and independence	12
10. Communication of audit matters with those charged with governance	13

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Joint Committee is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Financial performance pressures

- The Joint Committee faces challenges in future years and beyond. Maintaining and increasing its customer base at this time of austerity measures in local government.



### 2. Financial planning

- The focus on Financial Planning is intensified in times of difficult markets. The events in Ukraine have further intensified this.



### 3. Joint working

- The Joint Committee continues to be provided by services from Shropshire Council, it's lead authority.
- Agreements have been extended to 31<sup>st</sup> March 2020 incorporating the Localism Act 2011. This opens up the potential for trading with non-designated public bodies.



### 4. Finance Team

- The accounts are prepared by the Director of Finance and reviewed by the Treasurer. The Joint Committee receives technical accounting support from Shropshire Council.



## Our response

- We will review the Joint Committee's financial performance for the year against budget and monitor performance through discussions with officers and review of Joint Committee papers.

- As part of our work on review of governance arrangements and understanding the financial statements we will review the Joint Committee's arrangements for financial planning.

- As part of our work on review of governance arrangements and understanding the financial statements we will review the Joint Committee's arrangements for joint working including the incorporation of the Localism Act 2011.

- We will provide a detailed working paper schedule for the audit prior to the preparation of the accounts. We will monitor delivery of the accounts and consider any impact on the audit process.

# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

## Developments and other requirements

### 1. Financial reporting

- Changes to the CIPFA Code of Practice.

### 2. Legislation

- The Local Audit and Accountability Act 2014 no longer includes joint committees in the schedule of bodies requiring a statutory audit under the Act.

### 3. Corporate governance

- Annual Governance Statement (AGS).
- Explanatory foreword.

### 5. Financial Pressures

- Managing and retaining the Committee's customer base against the assumptions in its business plan will be a significant challenge in this time of austerity in Local Government as Member Authorities of the Joint Committee and much of its client base are impacted by the finance settlement.

## Our response

Whilst the key changes to the 2014/15 Code are not applicable to the Joint Committee, we will ensure that:

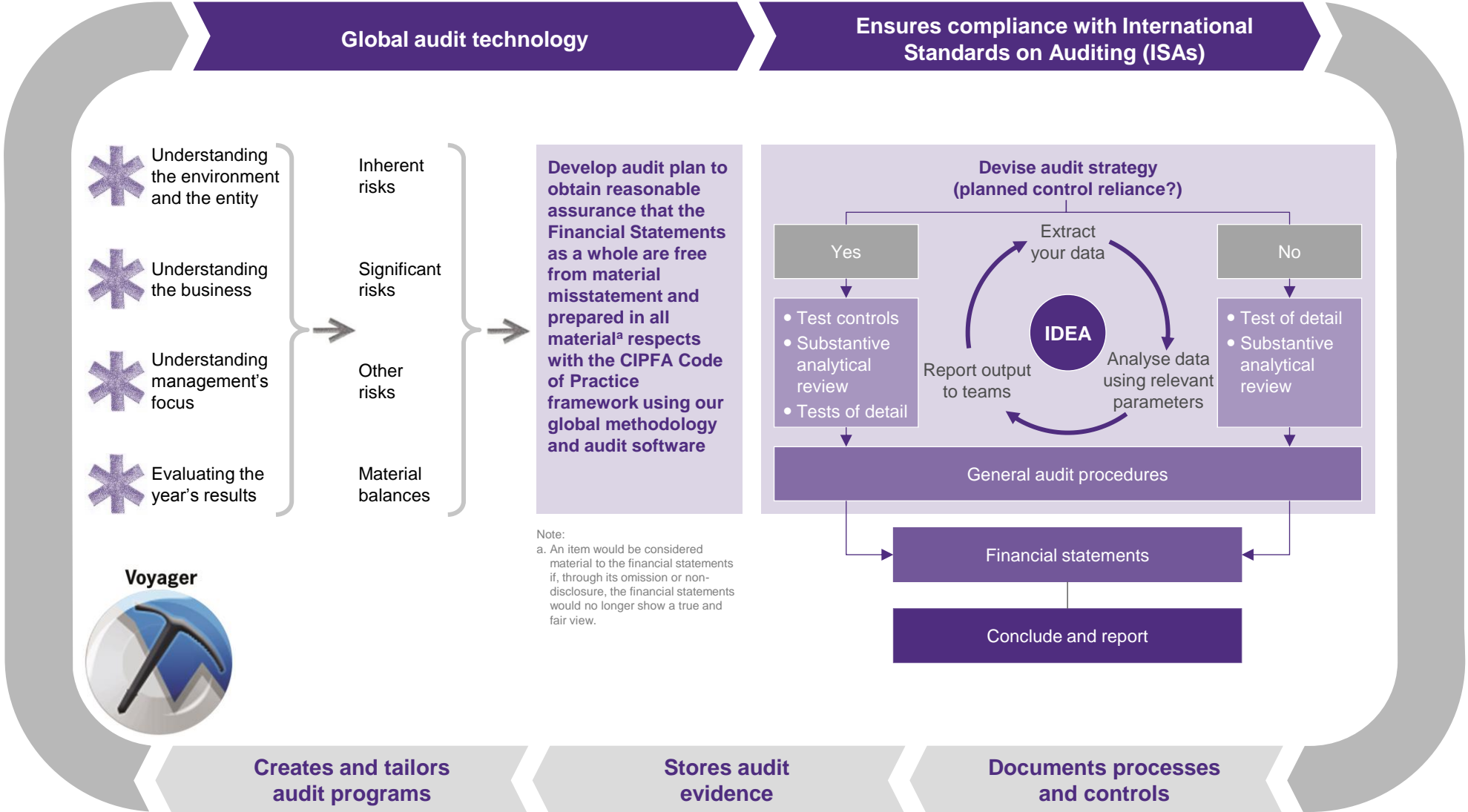
- the Joint Committee complies with the on-going requirements of the CIPFA Code of Practice through discussions with management and our substantive testing.

- We will engage with the Joint Committee on future risks/assurance needs following this change.

- We will review the arrangements the Joint Committee has in place for the production of the AGS.
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.

- We will review the Joint Committee's financial performance for the year against budget and monitor performance through discussions with officers and review of Joint Committee papers.

# Our audit approach



# 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.	<b>Work planned:</b> <ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies.</li><li>• Testing material revenue streams.</li></ul>
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<b>Work planned:</b> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management.</li><li>• Updating of our understanding of the journals control environment and testing of journal entries.</li><li>• Review of unusual significant transactions.</li></ul>

# 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.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>Tests of detail on utility revenue included in the financial statements including testing on a sample of utility revenue transactions.</li> </ul>
Cost of Goods Sold – Utility Expenditure	Valuation – Gross. Costs not accounted for property.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>Tests of detail on utility expenditure included in the financial statements including testing on a sample of utility expenditure transactions.</li> </ul>
Cost of Goods Sold – Utility Expenditure	Valuation – Net. Activity variation adjustments to expenditures not correct.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>Tests of detail on utility expenditure included in the financial statements including testing on a sample of utility expenditure transactions.</li> </ul>



---

# Value for money

## **Value for money**

The Code requires us to issue a conclusion on whether the Joint Committee has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Review of the annual governance statement for indications of any matters of concern relating to proper arrangements which are defined by the Audit Commission as corporate performance management and financial management arrangements that form a key part of the system of internal control;
- Consider the work of the Audit Commission and other relevant regulatory bodies or inspectorates;
- Undertake a risk assessment and consider any significant risks relating to your proper arrangements for securing economy, efficiency and effectiveness.

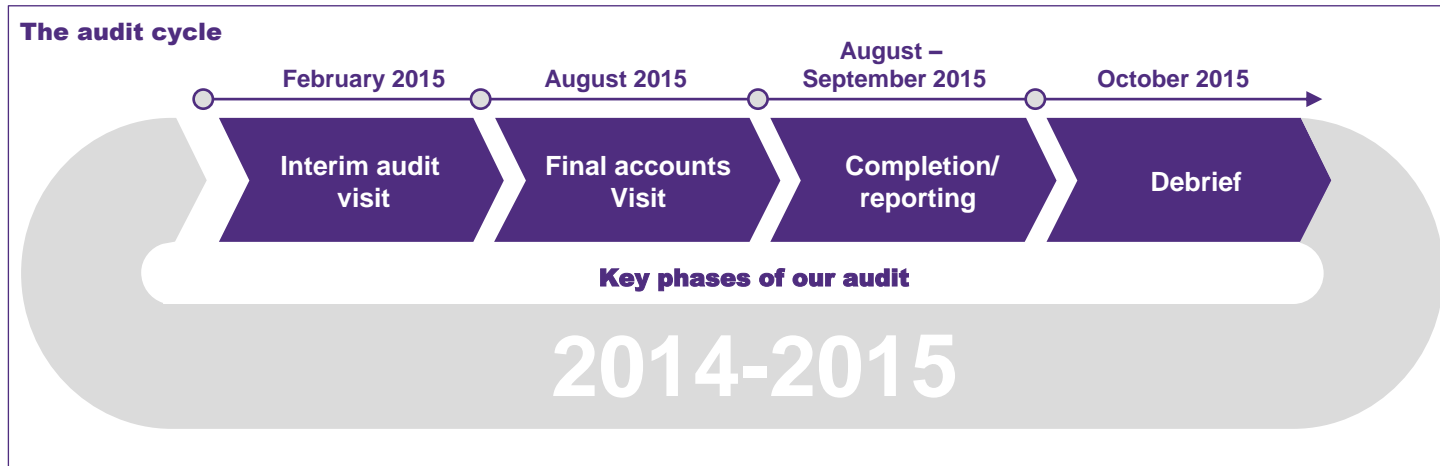
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Joint Committee on a review-by-review basis.

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
<b>Internal audit</b>	<p>We have undertaken a high level review of Internal Audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have reviewed the plan of work for Internal audit to identify areas where there may be potential for us to rely on Internal Audit work.</p> <p>We also reviewed internal audit's work on the Joint Committee' key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Joint Committee and that internal audit work contributes to an effective internal control environment at the Committee. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Walkthrough testing</b>	<p>We are completing walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work to date has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Joint Committees financial statements.</p>

# Key dates



<b>Date</b>	<b>Activity</b>
January 2015	Planning
February 2015	Interim site visit
February 2015	Presentation of audit plan to the Joint Committee
August 2015	Year end fieldwork
August 2015	Audit findings clearance meeting with Director of Finance
September 2015	Report audit findings to the Joint Committee
September 2015	Sign financial statements opinion

# Fees and independence

## Fees

	£
Joint Committee audit	18,386
<b>Total fees (excluding VAT)</b>	<b>18,386</b>

### Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Joint Committee and its activities, have not changed significantly
- The Joint Committee will make available management and accounting staff to help us locate information and to provide explanations

## Fees for other services

Service	Fees £
None	Nil

### Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### 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.

Full details of all fees charged for audit and non-audit services 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

International Standards on Auditing (ISA) 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.

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 a report to the Joint Committee.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Joint Committee's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. 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.

	Audit plan	Audit findings
<b>Our communication plan</b>		
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 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 others 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		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires.

Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

**[grant-thornton.co.uk](http://grant-thornton.co.uk)**