



The Audit Plan for West Mercia Energy Joint Committee

Year ended 31 March 2014

10 February 2014

Grant Patterson

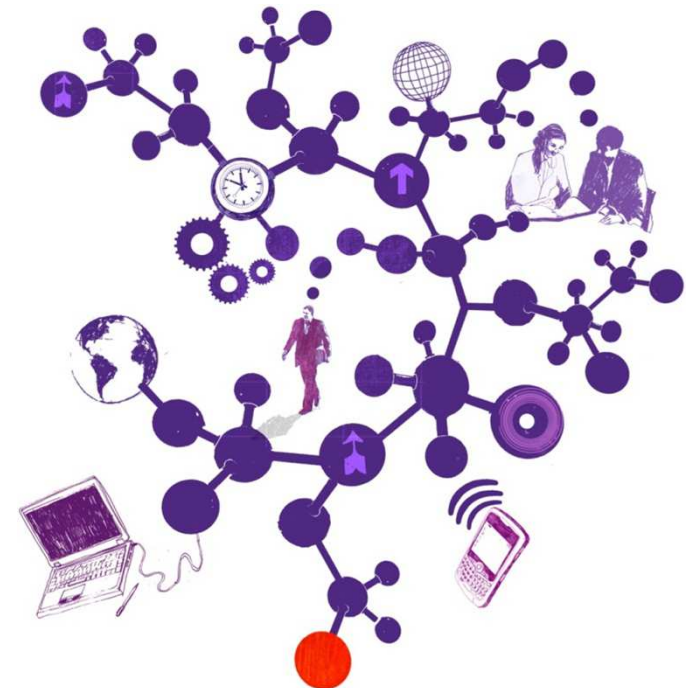
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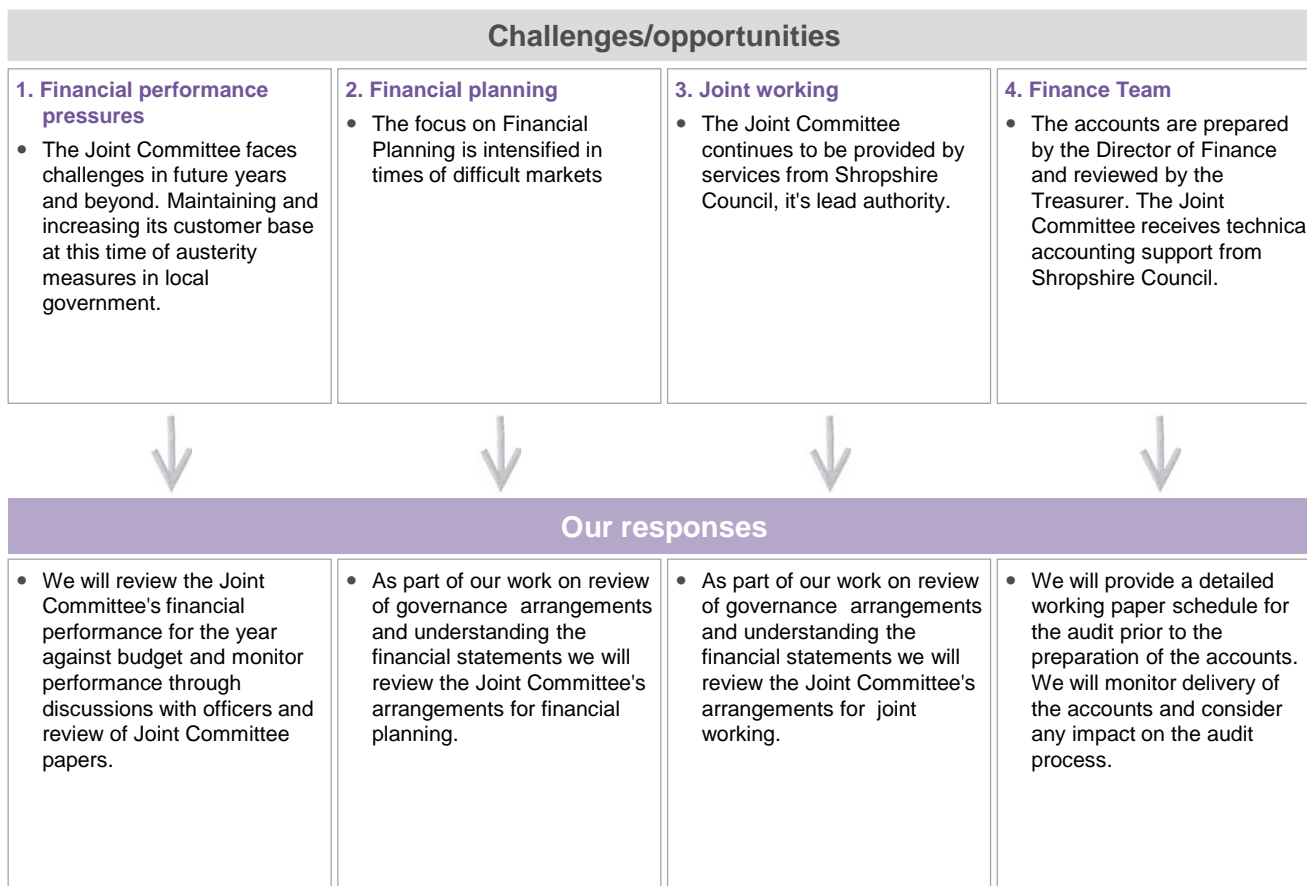
The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible 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.

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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.



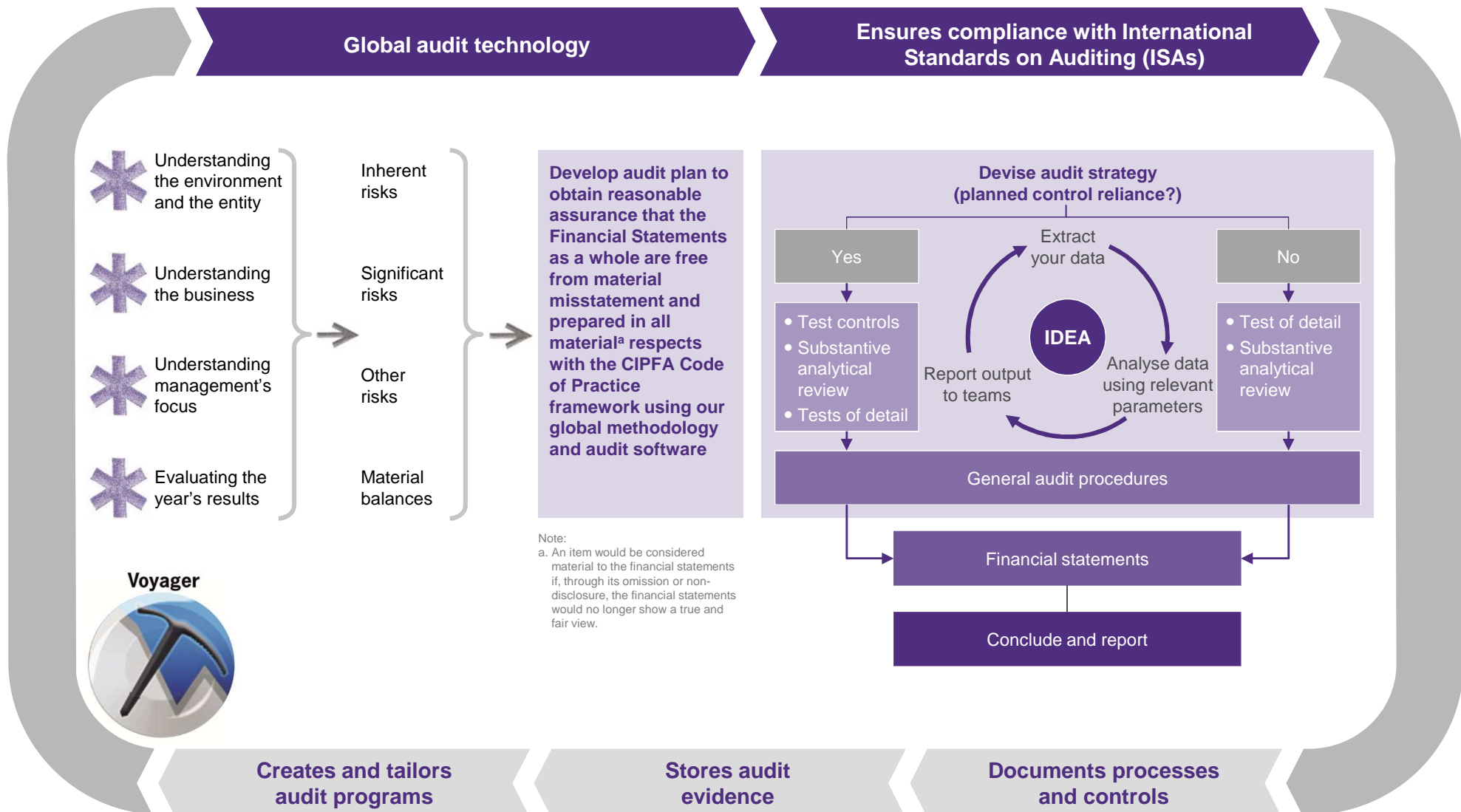
Developments relevant to your business and the audit

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 and associated guidance.

Developments and other requirements					
<p>1. Financial reporting</p> <ul style="list-style-type: none"> Changes to the CIPFA Code of Practice, including those related to pension cost disclosures. 	<p>2. Legislation</p> <ul style="list-style-type: none"> Local Government Finance settlement 2013/14 impacts on both the owners of the Joint Committee and much of its client base. 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> Annual Governance Statement (AGS) Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> The requirement for auto enrolment has come in during 2013/14 and significant structural changes (i.e. introduction of career weighted average) for the Local Government Pension Scheme (LGPS) will come into force in 2014/15. 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> 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. 	<p>6. Other requirement</p> <ul style="list-style-type: none"> The owners of the Joint Committee signed an updated Joint Agreement. This agreement changed the name of the Joint Committee to West Mercia Energy Joint Committee to reflect the changes in its operations. There were no substantive changes to the ownership arrangements.

Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> the Joint Committee complies with the requirements of the CIPFA Code of Practice as part of our work on the financial statements through discussions with management and through our audit testing. 	<ul style="list-style-type: none"> We will discuss the impact of the legislative changes with the Joint Committee through our regular meetings with senior management and those charged with governance, providing a view where appropriate. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> We will review how the Joint Committee dealt with the impact of the 2013/14 changes and has planned for the 2014/15 changes through our meetings with senior management. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> We have continued to discuss any potential impact of the change in the Joint Agreement on the audit arrangements for through our regular meetings with senior management. We have been notified that the Audit Commission has changed the name of the Joint Committee in its records and therefore we are of the view that our audit appointment is unaffected.

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.	Work planned: <ul style="list-style-type: none">• Review and testing of revenue recognition policies• Testing material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	Work planned: <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions

Other risks

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).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Turnover – Utility Revenue	Contract accounting not consistent with terms	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for Turnover – Utility Revenue and carried out walkthrough tests to confirm operation of controls. 	Tests of detail on utility revenue included in the financial statements including: <ul style="list-style-type: none"> Testing on a sample of utility revenue transactions
Cost of Goods Sold – Utility Expenditure	Costs not accounted for property	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for Cost of Goods Sold – Utility Expenditure and carried out walkthrough tests to confirm operation of controls. 	Tests of detail on utility expenditure included in the financial statements including: <ul style="list-style-type: none"> Testing on a sample of utility expenditure transactions
Debtors (long & short term) – Utility revenue	Recorded debtors not valid	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for Trade debtors and prepayments and carried out walkthrough tests to confirm operation of controls. 	Tests of detail on trade debtors and prepayments in the financial statements including: <ul style="list-style-type: none"> Review of calculation of significant prepayments and other items. Review of payments after the year end.
Creditors (long & short term) – Utility expenditure	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for Trade creditors and accruals and carried out walkthrough tests to confirm operation of controls. 	Tests of detail on trade creditors and accruals in the financial statements including: <ul style="list-style-type: none"> Review of calculation of significant accruals and other items. Review of payments after the year end.

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	Conclusion/ Summary
Internal audit	<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 service to the Joint Committee.</p> <p>We can take assurance from Internal Audit work in contributing positively to the internal control environment and overall governance arrangements at the Joint Committee.</p> <p>Our review to date of Internal Audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed the walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements -</p> <ul style="list-style-type: none"> • Utility revenue –existence/occurrence • Utility expenditure – valuation (gross and net) 	<p>From the work completed to date our work has not identified any weaknesses which impact on our audit approach.</p>

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Journal entry controls	<p>We are in the process of reviewing the Joint Committee's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>As part of this work we will follow up the significant deficiency in controls identified in the prior year. This weakness was in regard to the lack of segregation of duties in the authorisation and posting of journals. Following this finding management agreed to implement an additional review by the Treasurer of journals not subjected to segregation of duties.</p>	<p>From the work completed to date our work has not identified any weaknesses which impact on our audit approach.</p>
Value for Money conclusion	<p>We have undertaken an initial risk assessment.</p>	<p>No significant risks have been identified from the work completed to date.</p>

Value for Money

Introduction

The Code of Audit Practice 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.

2013/14 VfM conclusion

Our Value for Money conclusion will be based on key areas we are required to consider as specified by the Audit Commission. These key areas are:

- 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.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Joint Committee's priority areas and can be used as a source of assurance for members. Currently we do not anticipate the need to undertake specific reviews to support our VfM conclusion. However, if this position changes we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

The results of all our local VfM audit work and key messages 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.

Code criteria

Review of the annual governance statements; 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 in its use of resources

We will consider whether the Joint Committee is performing in line with its approved budget

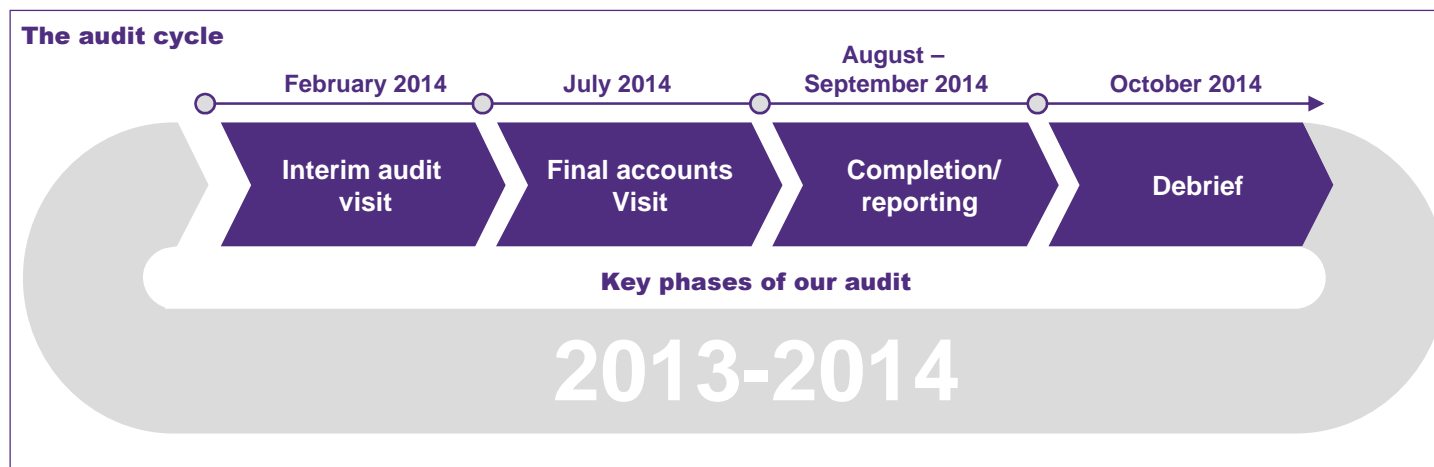
Work to be undertaken

Risk-based work focusing on review of the annual governance statements; work of the Audit Commission and other relevant regulatory bodies or inspectorates.

Specifically we will:

- Continue to monitor the Joint Committee's progress and delivery of outturn against budget to the end of the financial year

Key dates



Date	Activity
January 2014	Planning meeting
February 2014	Interim site visit
February 2014	Presentation of Audit Plan to Audit Committee
July 2014	Year end fieldwork
August 2014	Audit findings clearance meeting with Director of Finance
September 2014	Report audit findings to the Joint Committee
September 2014	Sign financial statements opinion and value for money conclusion
October 2014	Issue Annual Audit letter

Fees and independence

Fees

	£
Joint Committee audit	18,386
Total	18,386

Fees for other services

Service	Fees £
None	Nil

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
- 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

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).

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.

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 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		✓



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