



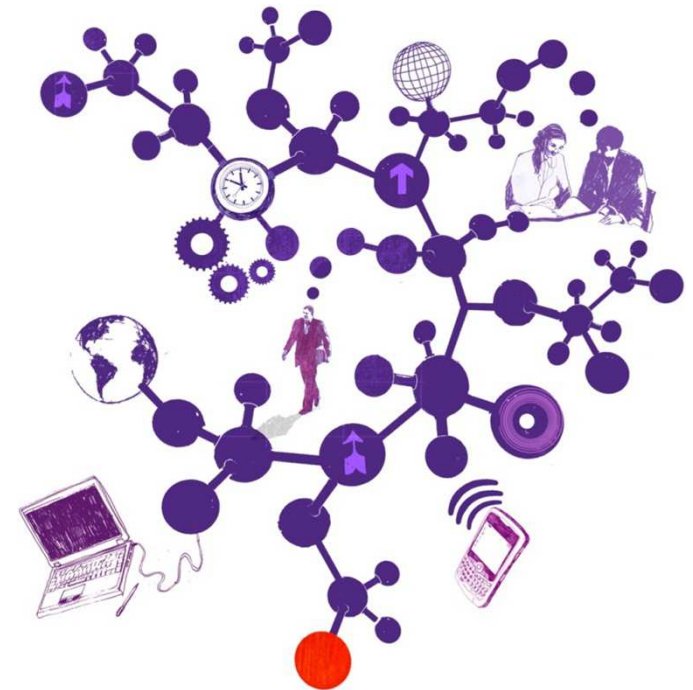
The Audit Plan for West Mercia Supplies Joint Committee

Year ended 31 March 2013

12 June 2013

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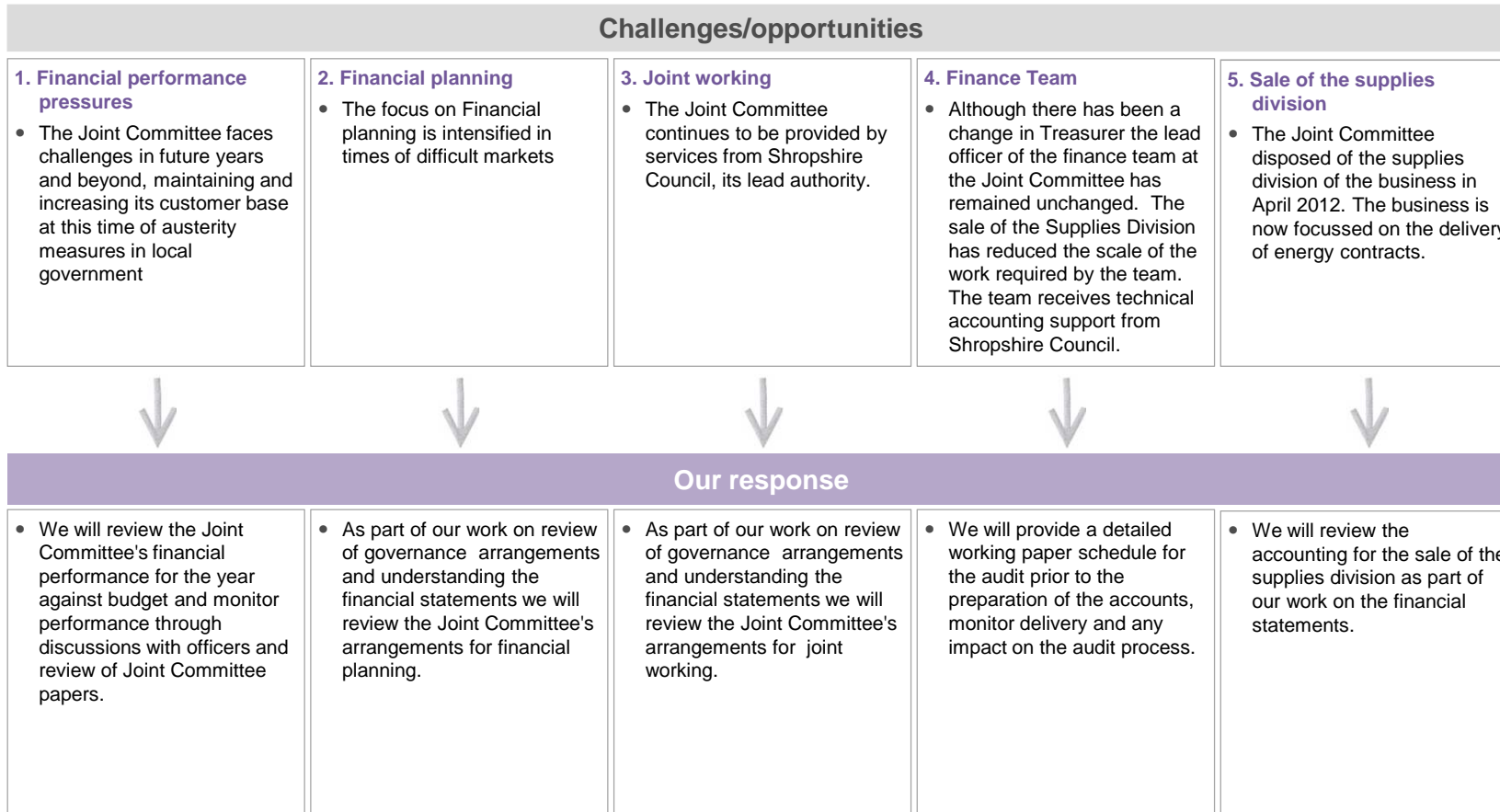
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Understanding your business

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.



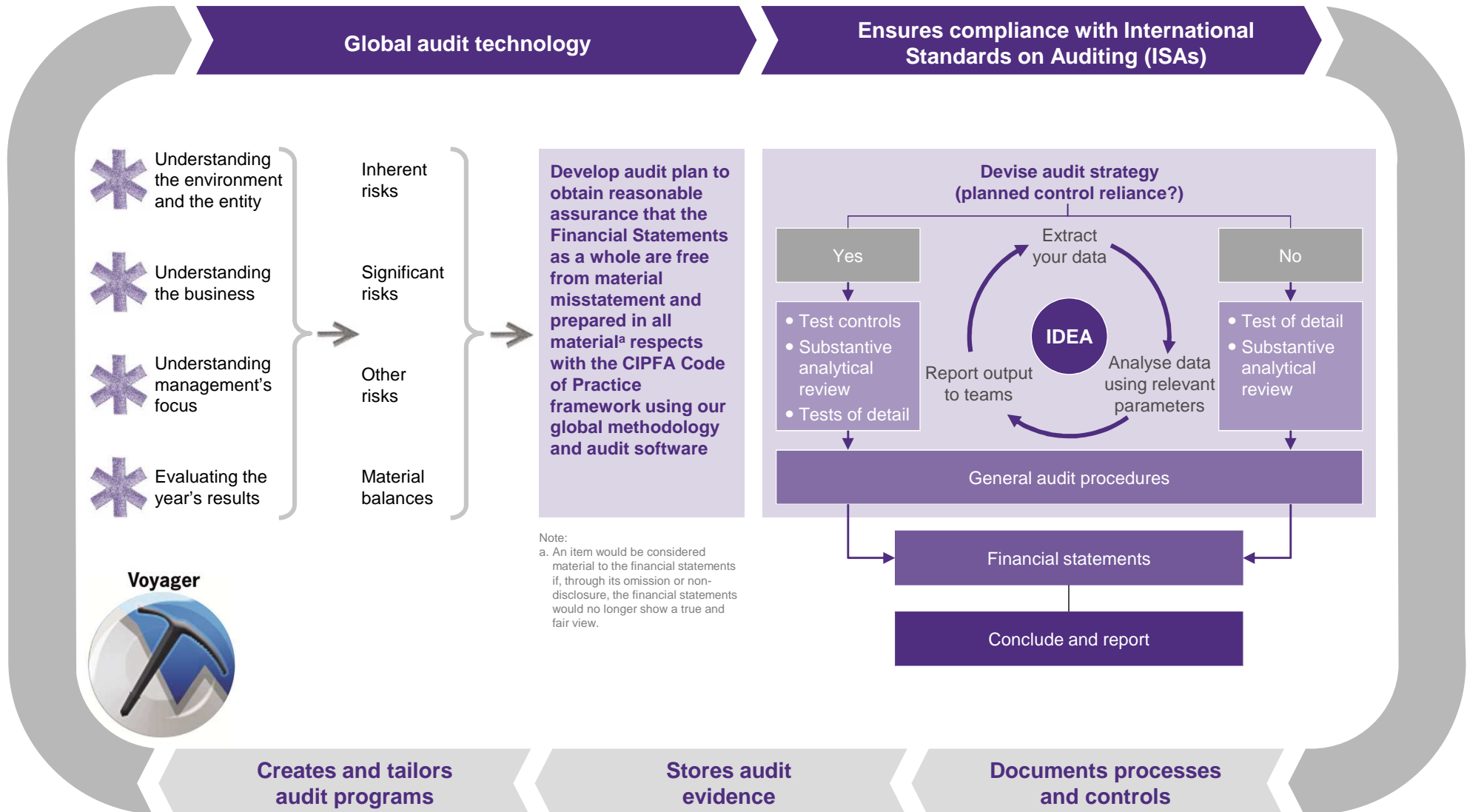
Developments relevant to your business and the audit

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 	<p>2. Legislation</p> <ul style="list-style-type: none"> Local Government Finance settlement 2012/13 impacts on the owners of the Joint Committee 	<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"> Planning for the impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> Managing and maintaining the customer base against plan 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 are in the process of signing an updated joint agreement. The agreement changes the name of the Joint Committee to West Mercia Energy Joint Committee.

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 	<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 discuss how the Joint Committee is planning to deal with the impact of the 2013/14 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 will discuss the impact of the change in name of the Joint Committee on arrangements for audit through our regular meeting with senior management and those charged with governance.

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
CONTINUING OPERATIONS						
Turnover – Utility Revenue	Yes	Utility revenue	Medium	Other	Contract accounting not consistent with terms	✓
Cost of Goods Sold – Utility Expenditure	Yes	Utility expenditure	Medium	Other	Costs not accounted for properly	✓
Other Trading Operation Income	No	Other revenues	Low	None		×
Cost of services - operating expenses	No	Operating expenses	Low	None		×
Cost of services – employee remuneration	No	Employee remuneration	Low	None		×
Interest payable and similar charges	No	Borrowings	Low	None		×
Pension interest cost	No	Employee remuneration	Low	None		×
Return on Pension assets	No	Employee remuneration	Low	None		×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest & investment income	No	Investments	Low	None		×
Surplus or deficit on discontinued operations	Yes	Discontinued Operations – see Significant risk	Medium	Other	Proceeds of sale incorrectly allocated	✓
Distribution to Member authorities	Yes	Operating expenses	Low	None		×
Actuarial (gains)/losses on pension fund assets & liabilities	No	Employee Remuneration	Low	None		×
DISCONTINUED OPERATIONS						
Turnover – Supplies Revenue	No	Supplies Revenues	Low	None		×
Cost of goods sold – Supplies Expenditure	No	Supplies Expenditure	Low	None		×
Operating expenses – Supplies	No	Operating Expenditure – Supplies	Low	None		×
Operating expenses – Employee remuneration – supplies	No	Operating Expenditure – Employee remuneration - Supplies	Low	None		×
(Gain)/Loss on disposal of non current assets	No	Property, plant and equipment	Low	None		×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Low	None		✓
Intangible assets	No	Intangible assets	Low	None		✗
Debtors (long & short term)	Yes	Utility Revenue & supplies revenue	Medium	Other	Recorded debtors not valid	✓
Assets held for sale	Yes	Property, Plant & Equipment	Low	None		✓
Inventories	Yes	Inventories	Low	None		✓
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓
Creditors (long & Short term)	Yes	Utility expenditure and Operating expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

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.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review and testing of revenue recognition policies <p>Further work planned:</p> <ul style="list-style-type: none"> Performance of attribute testing on material revenue streams Review and testing of revenue recognition policies
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.	<p>Work planned:</p> <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
Disposal of Supplies Division	The Joint committee has disposed of its supplies division for a significant value. There is a risk that the proceeds of sale are incorrectly allocated and accounted for in accordance with the Cipfa Code.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of judgments and decisions made management Review of proposed accounting treatment and provided early view on these <p>Further work planned:</p> <ul style="list-style-type: none"> Performance of substantive testing on the receipt of the proceeds Testing of the Completion statement entries for the sale of the division agreed with the purchaser
Implementation of a new General Ledger system	The Joint committee has implemented a new General Ledger system.	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have undertaken a high level review of the GL package We have gained an understanding of the arrangements for the transfer of balances from the previous general ledger <p>Further work planned:</p> <ul style="list-style-type: none"> Review of the initial entries into the General ledger for accuracy and completeness

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"> Performance of attribute 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"> Performance of attribute testing on a sample of utility expenditure transactions
Debtors (long & short term)	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)	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

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have :

- considered the effectiveness of the internal audit function
- considered internal audit's work on the Joint Committee's key financial systems
- undertaken walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- undertaken a high level review of Information Technology (IT) controls

	Work performed	Conclusion/ Summary
Internal audit	<p>We have undertaken a high level review of internal audit's overall arrangements.</p> <p>We have reviewed the plan of work for Internal audit and discussed with them our proposed testing strategy to identify areas where there may be potential for us to rely on Internal Audit work.</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>
Walkthrough testing	<p>Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements -</p> <ul style="list-style-type: none"> • Utility revenue –existence/occurrence • Utility expenditure – valuation 	<p>No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.</p>

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Review of information technology (IT) controls	Our information systems specialist has performed a high level remote view of the general IT control environment, as part of the overall review of the internal controls system. The Joint committee has implemented a new General Ledger system and we have gained an understanding of the arrangements for the transfer of balances from the previous general ledger.	We concluded that, from the work undertaken to date, we have not identified any material weaknesses which are likely to adversely impact on the Joint Committee's financial statements.
Journal entry controls	We have reviewed the Joint committee's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Joint committee's control environment or financial statements.	No issues have been identified from the work completed to date in relation to journal entry controls.

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.

2012/13 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
- Review the Joint Committee's assessment of Value for Money for the sale of the supplies division
- Take account of evidence already available

Logistics and our team

The audit cycle



Date	Activity
January 2013	Planning meeting
Feb – March 2013	Interim site work
24 June 2013	The audit plan presented to Audit Committee
July 2013	Year end fieldwork commences
August 2013	Audit findings clearance meeting
September 2013	Audit Committee meeting to report our findings
September 2013	Sign financial statements and VfM conclusion
October 2013	Issue Annual Audit Letter

Our team

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Fees and independence

Fees

	£
Joint Committee audit (Note 1 below provides additional detail)	23,386
Total	23,386

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

Note 1 The scale fee from the Audit Commission is £18,386. The Audit Commission have approved a fee variation of £5,000 for the additional work arising on two matters not envisaged at the time of the setting of the scale fee. These matters being the sale of the supplies division and disclosures required for a discontinued operation together with the implementation of a new general ledger system.

Fees for other services

Service	Fees £
None	Nil

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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