

Annual Audit Letter

West Mercia Supplies Joint Committee

Audit 2011/12



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Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from my 2011/12 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit outputs	My findings	Conclusion
Unqualified audit opinion	I issued an unqualified opinion on the Joint Committee's financial statements on 26 September 2012.	
Proper arrangements to secure value for money (VFM)	In accordance with Audit Commission guidance I have reviewed your Annual Governance Statement. I have not identified any issues that I am required to bring to your attention and on 26 September I therefore formally concluded that there were no matters arising from my VFM work that I needed to report.	
Conclusion of the audit	On 26 September 2012 I certified the 2011/12 audit closed.	Not Applicable

Current and future performance

Financial Statements and Annual Governance Statement

On 26 September 2012 I provided an unqualified opinion on your financial statements as I considered them to be true and fair, and presented without material misstatement. The processes for preparing the financial statements and the support provided to external audit throughout the audit were good. My audit identified no material errors and the small number of non-trivial errors and disclosure changes identified were corrected.

Testing of the significant risk identified in my Audit Plan did not identify any significant issues. In my Annual Governance report presented to you on the 24 September 2012 I highlighted two matters. The prior period adjustment (PPA) included in the unaudited financial statements in respect of the removal of the land upon which the Bicton Heath warehouse was sited with a gross value of £600K was reversed. Secondly, the reduction in the valuation of the warehouse and land identified as part of the sale of the supplies business on the 19 April 2012 had not been considered as part of the preparation of the 2011/12 financial statements. The incorporation of this resulted in an impairment being accounted for partly through the revaluation reserve of £75K and the remaining £528K through the Comprehensive Income and Expenditure Statement (CIES). This reduced the surplus for the year which in turn reduced the amount of performance related pay to employees to be reflected in the 2012/13 financial statements by £32K.

Financial Performance and Governance Arrangements

The supplies business was sold in April 2012 for £6.74m and the remaining part named West Mercia Energy to reflect the nature of the ongoing business. The turnover in 2012/13 for the continuing organisation is budgeted to be £55.9m (£50.1m in 2011/12 for the continuing components; £66.9m in total in 2011/12 for the Joint Committee). At the end of August 2012 the reported surplus was £290k ahead of budget.

The Joint Committee has considered its financial position in the approval process of its distribution of the surplus generated in 2011/12, from the sale of the supplies business and retained revenue reserves in line with prior years' practice. The continued close monitoring of the Joint Committee's ongoing financial position is therefore an important element of your governance arrangements.

Representatives of the four owning authorities have considered future governance arrangements for the organisation. They have concluded that a Joint Committee remains an appropriate form of governance for West Mercia Energy. As the existing Joint Agreement was developed to manage the activities of a warehousing and distribution operation for the purchase and supply of office and educational products the owners have agreed the agreement is no longer fit for purpose and it is necessary to conclude an updated Joint Agreement. A new Joint Agreement has been drafted which will be recommended to all four Cabinets of the owning authorities this autumn with the anticipation that the new agreement will be concluded by the end of 2012 and run until 31 March 2016, but may be extended by agreement between the four owning authorities. Completing this work within the agreed timescales will be a key objective for the Joint Committee and the associated Councils.

Under the going concern assumption as set out in auditing standards (*ISA (UK&I) 570 - Going concern*) an entity is viewed as continuing in business for the foreseeable future. Financial statements are therefore prepared on a going concern basis unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern but in other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. For local government bodies, given their funding regime and tax raising powers, it is not usual practice to see formal assessments and going concern is only an issue in exceptional circumstances.

Nevertheless, since the going concern assumption is a fundamental principle in the preparation of financial statements management has a responsibility to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so. My responsibility is to evaluate the appropriateness of management's use of the going concern assumption even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Through my audit there are no specific going concern issues I wish to bring to your attention. But, given the nature of the Joint Committee's business transactions in my Annual Governance Report I invited the Audit Committee to consider whether undertaking a formal going concern review could enhance the overall governance arrangements. As a new Joint Arrangement is being produced, as noted above, and governance arrangements are to be reviewed the Treasurer will consider this as part of this work and report back to the Audit Committee.

Future Audit Arrangements and Fees

On 28 July 2011 Ministers set out their decision to outsource all the audits currently undertaken by the in-house practice to the private sector. On 5 March 2012 the Audit Commission announced that Grant Thornton (UK) LLP had been awarded the contract for the Audit Commission's West Midlands audit work. The change of audit provider was effective from 1 September 2012 and will cover the 2012/13 audit year onwards. All staff currently employed by the Audit Commission on your audit will transfer to Grant Thornton under TUPE arrangements from 1 November 2012.

Following the outsourcing the total fees charged are expected to reduce by 40% to around £18,386 for 2012/13 based on scale fee information published by the Audit Commission.

Closing remarks

I have discussed and agreed this letter with the Treasurer and Director. It will be presented to Members of the Audit Committee at its next meeting in February 2013.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit Plan	February 2012
Annual Governance Report	September 2012
Audit opinion and value for money conclusion	September 2012

While this has been another challenging year for the Joint Committee I wish to thank the finance staff for their positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Audit Committee for their support and co-operation during the audit.

Grant Patterson
District Auditor

5 October 2012

Appendix 1 - Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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