

The Audit Findings for West Mercia Energy Joint Committee

Year ended 31 March 2015

28 September 2015

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28 September 2015

Dear Members of the Joint Committee

Audit Findings for West Mercia Energy Joint Committee for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Jon Roberts

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of West Mercia Energy Joint Committee (Joint Committee) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Joint Committees financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Joint Committee has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 16 February 2015.

Our audit is substantially complete although we are finalising our work in the following areas:

- receipt of assurances from the appointed auditor of the Shropshire County Pension Fund
- review of the final version of the financial statements

- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable. The working papers supporting key figures in the financial statements were provided before the audit commenced. This allowed for samples to be selected in advance ensuring the audit ran smoothly.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

We have identified no adjustments affecting the Joint Committees reported financial position. The draft financial statements for the year ended 31 March 2015 recorded a net gain of £86k; the audited financial statements continue to show a net gain of £86k. We have identified a number of adjustments to improve the presentation of the financial statements.

There are no significant issues arising from our audit of the Joint Committee's financial statements.

Further details are set out in section two of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Joint Committee arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section three of this report.

Controls

Roles and responsibilities

The Joint Committee's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Joint Committee.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

The way forward

Our audit work found very few issues and therefore no specific recommendations have been made.

As reported in our audit plan dated 16 February 2015 the Local Audit and Accountability Act 2014 no longer includes provision for Joint Committees in the schedule of bodies requiring a statutory audit under the Act.

West Mercia Energy is a £70 m business that generates a distribution for each of the members. Going forward the Joint Committee will need to consider the assurance it requires on the financial statements.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit. The quality of working papers and timeliness of responses contributed heavily towards a smooth running audit.

Section 2: Audit findings

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Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Joint Committee on 16 February 2015 . We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 16 February 2015.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

"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 (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies. • testing of material revenue streams. • review of unusual significant transactions. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management. • Updating of our understanding of the journals control environment and testing of journal entries. • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>



Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Turnover – Utility Revenue	Existence/Occurrence 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 these controls. We carried out testis of detail on utility revenue disclosed in the financial statements, including testing a sample of utility revenue transactions. 	Our audit work has not identified any significant issues in relation to the risk identified.
Cost of Goods Sold – Utility Expenditure	Valuation – Gross. Costs not accounted for property.	<ul style="list-style-type: none"> We have documented the process and controls in place around the accounting for Cost of Goods Sold – Utility Expenditure and carried out walkthrough tests to confirm operation of these controls. We carried out tests of detail on utility expenditure disclosed in the financial statements, including testing a sample of utility expenditure transactions. 	Our audit work has not identified any significant issues in relation to the risk identified.
Cost of Goods Sold – Utility Expenditure	Valuation – Net. Activity variation adjustments to expenditure not correct.	<ul style="list-style-type: none"> We have documented the process and controls in place around the accounting for Cost of Goods Sold – Utility Expenditure and carried out walkthrough tests to confirm operation of these controls. We carried out tests of detail on utility expenditure disclosed in the financial statements, including testing a sample of utility expenditure transactions. 	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Joint Committee's financial statements.



Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue transactions are accounted for on an accruals basis. This means that all revenue income is recorded when the debt has been established rather than when money has been received. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention. 	 (Green)
Estimates and judgements	<ul style="list-style-type: none"> Key estimates and judgements include : <ul style="list-style-type: none"> – pension fund valuations and liabilities. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention. 	 (Green)

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	Management have a reasonable expectation that the Joint Committee will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed managements' assessment and are satisfied with this assessment that the going concern basis is appropriate for the 2014/15 financial statements.	 (Green)
Other accounting policies	We have reviewed the Joint Committee's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	 (Green)

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Joint Committee.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no non-trivial omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmation from the Royal Bank of Scotland in respect of cash balances.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Turnover (Utilities Revenue) and Cost of Goods Sold (Utilities Expenditure) as set out on page 10 above.

The controls were found to be operating effectively and we have no matters to report to the Joint Committee.

Adjusted misstatements

We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. There were no such misstatements that were identified during the audit.

Unadjusted misstatements

There were no unadjusted misstatements identified during the audit.

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	-	Going Concern	The accounting policies were updated to provide a more detailed explanation of managements judgment when preparing the statements on a going concern basis.
2 Disclosure	-	Leases	In year the Joint Committee entered into a lease for the new premises in Abbey Lawn. Whilst the value of the lease was trivial over the three years until the break clause, disclosure has been added to show that there is an obligation and that the organisation has re-located.
3 Disclosure	-	Earmarked pensions reserve	The explanation of the earmarked pensions reserves was updated to make the purpose of the reserve clearer.
4 Disclosure	-	Plant and Equipment additions	Note 22 of the statements was updated to set out what the additions in year were comprised of.
5 Disclosure	-	Miscellaneous	A number of other minor disclosure amendments have been made due to matters identified during the course of the audit . None of these are considered individually significant to warrant further disclosure.

Section 3: Value for Money

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Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Joint Committees responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion on whether the Joint Committee has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The key areas we are required to consider as specified by the Audit Commission 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 relevant regulatory bodies or inspectorates, where applicable. No reports from the Audit Commission or other relevant regulatory bodies or inspectorates have been issued to the Joint committee in respect of the 2014-15 year to date;
- Undertake a risk assessment and consider any significant risks relating to your proper arrangements for securing economy, efficiency and effectiveness.

We have undertaken a review of the annual governance statement and have not identified any matters of concern relating to the Joint Committee's corporate performance management arrangements.

We identified that the Joint Committee's budget was approved at its February 2015 meeting and management accounts have been provided to the Joint Committee during the year. We have not identified any matters of concern relating to the Joint Committee's financial management arrangements.

We have completed a risk assessment for our work and have not identified any risks relating to your proper arrangements for securing economy, efficiency and effectiveness.

Overall Vfm conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Joint Committee has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Section 4: Fees, non-audit services and independence

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Fees, non-audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Joint Committee Audit	18,386	18,386
Total audit fees	18,386	18,386

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 Financial Reporting Council's Ethical Standards and therefore we 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 Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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 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 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 issues 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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Joint Committee should consider their assurance needs following changes set out in the Local Audit and Accountability Act 2014.	High	A paper will be presented at the Joint Committee of 28 th September recommending the continuation of an external audit by the Treasurer.	Treasurer and Sept 2015 .

Priority
High, Medium or Low

Appendix B: Audit opinion

We anticipate we will provide the Joint Committee with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST MERCIA ENERGY JOINT COMMITTEE

Opinion on the Joint Committee financial statements

We have audited the financial statements of West Mercia Energy Joint Committee for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of West Mercia Joint committee in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Joint Committee and the Joint Committee's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Joint Committee's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of West Mercia Energy Joint Committee as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Joint Committee to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on Joint Committee's arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Joint Committee has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the audited body has put in place such arrangements.

We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in October 2014, we have considered the results of the following:

- our review of the annual governance statement.

As a result, we have concluded that there are no matters to report.

Certificate

We certify that we have completed the audit of the financial statements of West Mercia Energy Joint Committee in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

JD Roberts

Partner

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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September 2015



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