



Shropshire Council
Legal and Democratic Services
Shirehall
Abbey Foregate
Shrewsbury
SY2 6ND

Date: 16th February 2017

Committee:
West Mercia Energy Joint Committee

Date: Monday, 27 February 2017

Time: 10.00 am

Venue: Ludlow Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND

You are requested to attend the above meeting.
The Agenda is attached

Claire Porter
Head of Legal and Democratic Services (Monitoring Officer)

Members of West Mercia Energy Joint Committee

<i>Herefordshire Council</i>	D Harlow P Price (Chairman)
<i>Shropshire Council</i>	S Charmley M Wood
<i>Telford & Wrekin Council</i>	L Carter A England
<i>Worcestershire County Council</i>	J Smith A Blagg (Vice-Chairman)

Your Committee Officer is:

Emily Marshall Committee Officer
Tel: 01743 257717
Email: emily.marshall@shropshire.gov.uk

AGENDA

1 Election of Chairman

To elect a Chairman of the West Mercia Energy Joint Committee for the ensuing year.

2 Apologies for Absence

To receive apologies for absence.

3 Appointment of Vice Chairman

To appoint a Vice-Chairman of the West Mercia Energy Joint Committee for the ensuing year.

4 Minutes (Pages 1 - 6)

To receive the minutes of the Joint Committee meeting held on 26th September 2016.

Copy attached marked 4.

5 Public Questions

To receive any public questions or petitions from the public, notice of which has been given in accordance with Procedure Rule 14. The deadline for this meeting is 5 p.m. on Wednesday, 22nd February 2017.

6 Disclosable Pecuniary Interests

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

7 Supplier Contracts

The Director of West Mercia Energy will provide a verbal update in line with the WME Standing Orders.

8 External Audit - Audit Plan 2016/17 (Pages 7 - 20)

Report of the External Auditor.

Contact: Richard Percival/James McLarnon (0121 212 4000)

9 External Audit - Informing the Audit Risk Assessment 2016/17 (Pages 21 - 46)

Report of the External Auditor is attached, marked 9.

Contact: Richard Percival/James McLarnon (0121 212 4000)

10 Internal Audit - Performance Reports to February 2017 (Pages 47 - 92)

The reports of the Audit Services Manager.

Appendix A – Creditors

Appendix B – Debtors

Appendix C – Finance

Appendix D – Corporate Governance

Appendix E – IT Controls

Appendix F – Payroll

Appendix G – Risk Management

Contact: Ceri Pilawski (01743 257739)

11 Internal Audit - Strategic Plan 2017/18 (Pages 93 - 96)

Report of the Audit Services Manager.

Contact: Ceri Pilawski (01743 257739)

12 Internal Audit - Quality Assurance Improvement Programme External Assessment (Pages 97 - 120)

Report of the Audit Services Manager.

Contact: Ceri Pilawski (01743 257739)

13 Financial Regulations (Pages 121 - 134)

Report of the Director of West Mercia Energy.

Contact: Nigel Evans (01743 231 101)

14 Exclusion of Press and Public

To consider a resolution under Section 100 (A) of the Local Government Act 1972 that the proceedings in relation to the following items shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the provisions of Schedule 12A of the Act.

15 Exempt Minutes (Pages 135 - 138)

To approve the exempt minutes of the meeting held on 26th September 2016.

Contact: Emily Marshall (01743 257717)

16 Annual Business Plan and Budget 2017/18 Including a Review of 2016/17
(Pages 139 - 180)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (01743 231101)

17 Minutes of the Flexible Energy Management Panel (Pages 181 - 192)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (01743 231101)

18 Risk Management Update (Pages 193 - 208)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (01743 231101)

19 Date of Next Meeting

The next meeting of the West Mercia Energy Joint Committee will be held on Monday 25th September 2017 at 10.00 a.m. in the Wilfred Owen Room, Shirehall, Shrewsbury.



Committee and Date

West Mercia Energy Joint
Committee

27th February 2017

WEST MERCIA ENERGY JOINT COMMITTEE

Minutes of the meeting held on 26 September 2016

In the Wilfred Owen Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND

10.00 - 11.40 am

Responsible Officer: Emily Marshall

Email: emily.marshall@shropshire.gov.uk Tel: 01743 257717

Present

Councillor P. Price (Herefordshire – Chairman)

Councillors Michael Wood (Shropshire), J. Smith (Worcestershire) and A. Blagg (Worcestershire - Vice Chairman)

22 Apologies for Absence

Apologies for absence were received from Councillors Steve Charmley (Shropshire Council), Lee Carter (Telford and Wrekin), Arnold England (Telford and Wrekin) and David Harlow (Herefordshire).

23 Named Substitutes

There were no named substitutes in attendance.

24 Disclosable Pecuniary Interests

Members were reminded that they must not participate in the discussion or voting on any matter in which they had a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

25 Minutes

In response to a question, the Director confirmed that the suggestion to circulate minutes of the Flexible energy management panel as soon as they were finalised, as detailed on page 4 of the Minutes had been implemented.

RESOLVED:

That the Minutes of the West Mercia Energy Joint Committee held on 29th February 2016 be approved as a correct record.

26 Supplier Contracts

In accordance with Standing Orders, Mr N. Evans, Director of West Mercia Energy provided an update on Supplier Contracts.

The Director reported that there was one entry on the register to make the Joint Committee aware of. The entry related to the oil contract where under Standing Orders post tender negotiation had been conducted with the preferred bidder to clarify certain elements of their bid and to achieve cost savings.

RESOLVED:

That the update on supplier contracts by the Director of West Mercia Energy be noted.

27 Statement of Accounts 2015/16 and Annual Governance Statement 2015/16

Mr J. Walton, Treasurer (WME) presented the Letter of Representation, the Statement of Accounts 2015/16 and the Annual Governance Statement 2015/16 for the West Mercia Energy Joint Committee, commenting that overall he documents were in line with expectations.

In response to comments raised by Members, the Treasurer provided a brief explanation of the figures relating to the pensions deficit. The Committee were satisfied with the explanation and felt reassured that the audit process also examined this area.

RESOLVED:

1. That the Letter of Representation be signed by the Chairman and submitted by the Treasurer.
2. That the finalised Statement of Accounts 2015/16 be signed by the Chairman and the Treasurer.
3. That the Annual Governance Statement 2015/16 be approved.

28 External Audit: Audit Findings Report 2015/16

Mr R. Percival (External Auditor – Grant Thornton) presented the West Mercia Energy Joint Committee Audit Findings Report 2015/16 (copy attached to the signed minutes).

The External Auditor informed the Joint Committee that the audit had been conducted in line with the Local Audit and Accountability Act 2014. There were no significant issues to raise with the Joint Committee, the accounts were very well presented with no adjustments to be made.

RESOLVED:

That the West Mercia Energy Joint Committee Audit Findings Report 2015/16 be noted.

29 Internal Audit Annual Report 2015/2016

C. Pilawski, Audit Service Manager introduced Internal Audit Annual report 2015/16 (copy attached to the signed minutes).

RESOLVED:

1. That Performance against the Audit Plan for the year ended 31 March 2016 be endorsed.
2. To note that the system of governance, risk management and internal control is operating effectively and can be relied upon when considering the Annual Governance Statement for 2015/16.
3. That the Audit Service Manager's positive year end opinion on West Mercia Energy's governance, risk management and internal control environment for 2015/16 on the basis of the work undertaken and management responses received be noted.

30 Internal Audit Quality Assurance Improvement Programme

C. Pilawski, Audit Service Manager (Shropshire Council) presented the Internal Audit Quality Assurance Improvement Programme (copy attached to the signed minutes)

RESOLVED:

That the report be noted.

31 Exclusion of Press and Public

RESOLVED:

That under Section 100(A)(A4) of the Local Government Act 1972, the public be excluded during the consideration of the following items of business on the grounds that they might involve the likely disclosure of exempt information as defined in Schedule 12(A) of the Act.

32 Exempt Minutes

RESOLVED:

That the Exempt Minutes of the meeting held on 29th February 2016 be approved as a correct record.

33 Distribution of Surplus

The Treasurer presented an exempt report (copy attached to the signed exempt minutes), which recommended the level of distribution of surplus to Member Authorities.

RESOLVED:

That the recommendations contained within the exempt report be approved.

34 Joint Agreement - West Mercia Energy Joint Committee

The Director presented an exempt report (copy attached to the signed exempt minutes), which provided an update on the revised provisions of the Joint Agreement between the West Mercia Energy member authorities.

RESOLVED:

That the recommendation contained within the exempt report be approved.

35 Financial Regulations

The Director presented an exempt report (copy attached to the signed exempt minutes), which presented updated Financial Regulations to the Committee for approval. The Director drew the Committee's attention to some minor amendments to the Regulations.

RESOLVED:

That the recommendation contained within the exempt report be approved subject to further consultation with Herefordshire Council.

36 Standing Orders - West Mercia Energy Joint Committee

The Director presented an exempt report (copy attached to the signed exempt minutes), which presented updated Standing Orders for approval.

RESOLVED:

That the recommendation contained within the exempt report be approved.

37 Scheme of Delegation - West Mercia Energy Joint Committee

The Director presented an exempt report (copy attached to the signed exempt minutes), which presented the Joint Committee Scheme of Delegation for approval.

RESOLVED:

That the recommendation contained within the exempt report be approved.

38 Energy Governance, Accountability, Risk and Reporting Policy

The Director presented an exempt report (copy attached to the signed exempt minutes), which presented the updated West Mercia Energy Governance, Accountability, Risk and Reporting Policy for approval.

RESOLVED:

That the recommendation contained within the exempt report be approved.

39 Update on Business Plan and Trading Performance to Date 2016//17

The Director presented an exempt report (copy attached to the signed exempt minutes), which presented an update on the West Mercia Energy Annual Business Plan and Budget 2016/17.

RESOLVED:

That the recommendation contained within the exempt report be approved.

40 Minutes of the Flexible Energy Advisory Panel

The Director presented an exempt report (copy attached to the signed exempt minutes), which presented the minutes of the Flexible Energy Management/Advisory Panel meetings that had been held since the last meeting of the Joint Committee.

RESOLVED:

That the recommendation contained within the exempt report be approved.

41 Risk Management Update

The Director presented an exempt report (copy attached to the signed exempt minutes), which provided an update on risk management.

RESOLVED:

That the recommendation contained within the exempt report be approved.

42 Date of Next Meeting

It was noted that the next meeting would take place on Monday, 27th February 2017 at 10.00 a.m. in the Shrewsbury Room, Shirehall, Shrewsbury

Signed (Chairman)

Date:

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<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	8
27 February 2017	<u>Public</u>

EXTERNAL AUDIT PLAN 2016/17

Responsible Officer Nigel Evans

e-mail: nevans@westmerciaenergy.co.uk Tel: 0333 1014353

1. Summary

- 1.1 It has been previously agreed for the Joint Committee to continue with an external audit to provide the Joint Committee the necessary continued assurance regarding stewardship of funds. This report enables the Joint Committee to consider the audit plan for 2016/17.

2. Recommendations

- 2.1 The Joint Committee are asked to consider and endorse, with appropriate comment, the audit plan for 2016/17 as presented by Grant Thornton.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Grant Thornton's audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.
- 3.4 The risks associated with not conducting an external audit including an audit opinion were considered when the decision was made to continue with an external audit.

4. Financial Implications

- 4.1 The quoted audit fee for 2016/17 is £13,000 which is consistent to the fee for 2015/16. These fees are a reduction of £5,386 (29%) compared to the fee for 2014/15 of £18,386.

5. Background

- 5.1 At the September 2015 Joint Committee, members were advised of the changes to the statutory audit requirements for Joint Committees effective from 1 April 2015. At this Joint Committee, it was agreed to continue with an annual external audit to provide the Joint Committee the necessary continued assurance regarding stewardship of funds.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Joint Committee 28 September 2015 – Local Audit and Accountability Act 2014

Member

Councillor P Price of Herefordshire Council (chair of the Joint Committee)

Appendices

Appendix A - Grant Thornton Audit Plan for West Mercia Energy (year ended 31 March 2017)

The Audit Plan for West Mercia Energy

Year ended 31 March 2017

27 February 2017

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Purpose

We are pleased that you have engaged us to perform the audit of West Mercia Energy for the Year ended 31 March 2017.

We summarise on the following pages the key aspects of our proposed 31 March 2017 audit plan, for the purposes of communication to those charged with governance, in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Page 11	
Engagement objectives	<ul style="list-style-type: none">• Audit the financial statements of West Mercia Energy• Challenge the judgements made by management and provide a robustly independent view to the Joint Committee on key financial statement risk areas – the findings of which will be presented to the Joint Committee in our Audit Findings report• Draw to your attention any identified significant deficiencies in internal control and potential areas for improvement to the control environment• Provide comfort to the Joint Committee that key judgements taken by management are appropriate and in accordance with the relevant accounting standards
Audit approach to key risk areas	<p>In summary, our audit approach is focused on key risk areas as follows:</p> <ul style="list-style-type: none">• Fraud in revenue recognition• Management override of controls• Occurrence of revenue from the sale of utilities• Valuation of expenditure from the purchase of utilities <p>Further information in relation to our risk assessment and the audit procedures we will undertake is set out on pages 5 and 6.</p>
Other required communications	<ul style="list-style-type: none">• We are required by the ISA's to communicate any factors that may threaten our independence; this is set out in page 8.

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 your West Mercia Energy 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.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements. We have determined planning materiality based on professional judgment in the context of our knowledge of West Mercia Energy. In line with previous years, we have calculated financial statement materiality based on a proportion of the total revenues of the Joint Committee. For purposes of planning the audit we have determined overall materiality to be £1,264k (being 2% of revenue in the prior year). Our assessment of materiality is kept under review throughout the audit process and will be updated at period end in sight of draft current year figures.

Under ISA (UK & Ireland) 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £63,200.

ISA (UK and Ireland) 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k It should be noted however, errors identified by testing will be assessed individually, with due regard given to the concept of materiality to both West Mercia Energy and its related parties.
Disclosures of senior manager salaries and allowances in the remuneration report	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

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 the presumption 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.• Updating of our understanding of the journals control environment and testing of journal entries.• Review of unusual significant transactions.
Valuation of pension fund net liability	The Joint Committee's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.	Work planned: <ul style="list-style-type: none">• We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.• We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.• We will undertake procedures to confirm the reasonableness of the actuarial assumptions made.• We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

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.

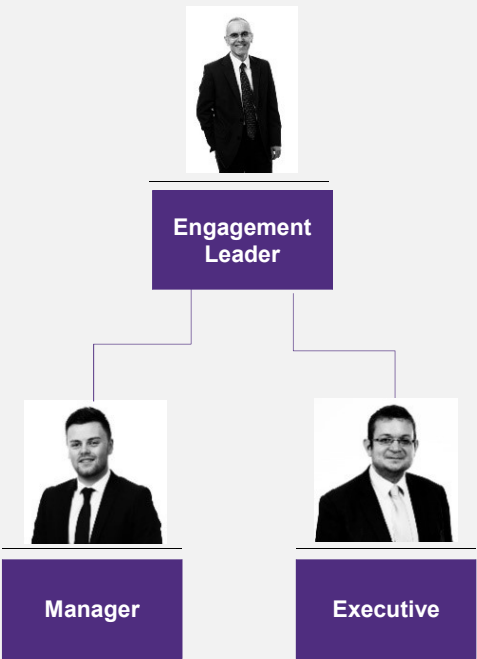
Other risks	Description	Audit Approach
Turnover – Utility Revenue	Existence/Occurrence Contract accounting not consistent with terms.	Work planned: <ul style="list-style-type: none">We will document the processes and controls in place around the accounting for Turnover – Utility Revenue and carry out walkthrough tests to confirm operation of controls.Tests of detail on utility revenue included in the financial statements including testing on a sample of utility revenue transactions.
Cost of Goods Sold – Utility Expenditure	Valuation – Gross. Costs not accounted for property.	Work planned: <ul style="list-style-type: none">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.Tests of detail on utility expenditure included in the financial statements including testing on a sample of utility expenditure transactions.
Cost of Goods Sold – Utility Expenditure	Valuation – Net. Activity variation adjustments to expenditures not correct.	Work planned: <ul style="list-style-type: none">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.Tests of detail on utility expenditure included in the financial statements including testing on a sample of utility expenditure transactions.

Logistics and our team

The audit cycle



Our team



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Date	Activity
20 th March	Interim audit
14 th August	Fieldwork commences
18 th August	Close out meeting
TBC	Issue Audit Findings
25 September	Joint Committee meeting

Fees and independence

Fees

Company	£
Joint Committee audit	13,000
Total	13,000

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
- You will make available management and accounting staff to help us locate information and provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditor 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 by Grant Thornton UK LLP and by Grant Thornton network member Firms 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

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 Joint Committee'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 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		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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

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 an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and 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.

Appendix A – Early Closure of Accounts

The Accounts and Audit Regulations 2015

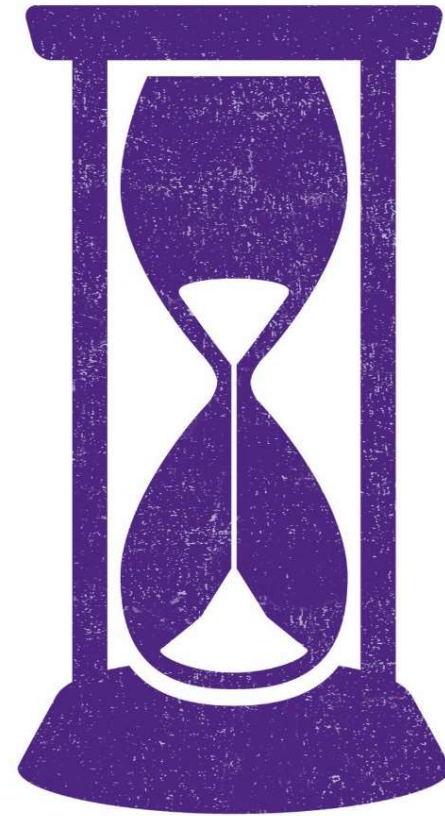
In line with the Accounts and Audit Regulations 2015, principal authorities must approve and publish the following by 31st July immediately following the financial year end:

- The statement of accounts together with any certificate or opinion, entered by the local auditor in accordance with section 20(2) of the Act;
- The annual governance statement approved in accordance with regulation 6(2); and
- The narrative statement prepared in accordance with regulation 8.

This requirement applies to the member authorities of the Joint Committee for the period commencing 1 April 2017. However, the Joint Committee itself is outside of the scope of the regulations and there is no such mandate on it to meet this requirement.

As the member authorities bring forward the closure of the accounts and completion of their audits by two months, consideration needs to be given to the timing of the Joint Committee audit from 2017/18 as audited information relating to West Mercia Energy may be required by member authorities.

We suggest that the timing of our audit is determined by the level of assurance required by member authorities in consolidating the performance of West Mercia Energy for the financial year. This should be discussed at committee level and agreed for 2017/18 and subsequent years.





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<u>Committee and Date</u>

West Mercia Energy Joint Committee

27 February 2017

<u>Item</u>

9

<u>Public</u>

INFORMING THE AUDIT RISK ASSESSMENT 2016/17

Responsible Officer Nigel Evans

e-mail: nevans@westmerciaenergy.co.uk Tel: 0333 1014353

1. Summary

- 1.1 The purpose of this report is to contribute towards the effective two-way communication between the Joint Committee's external auditors (Grant Thornton) and the Joint Committee, as those charged with governance.

2. Recommendations

- 2.1 The Joint Committee are asked to consider whether the management responses contained in the attached report are consistent with its understanding and whether there are any further comments it wishes to make.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Grant Thornton's audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

4. Financial Implications

- 4.1 There are no direct financial implications arising from this report.

5. Background

- 5.1 The report attached from Grant Thornton covers some important areas of the auditors' risk assessment where they are required to make inquiries of the Joint Committee under auditing standards.
- 5.2 As part of their risk assessment procedures Grant Thornton are required to obtain an understanding of management processes and the Joint Committee's oversight of the following areas:
- fraud
 - laws and regulations
 - going concern
 - related parties
 - accounting estimates
- 5.3 The attached report is sectioned by the five categories detailed above and details the questions raised and the corresponding management response.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

None

Member

Councillor P Price of Herefordshire Council (chair of the Joint Committee)

Appendices

Appendix A - Informing the audit risk assessment for the West Mercia Energy Joint Committee (year ended 31 March 2017)

Informing the audit risk assessment for West Mercia Energy Joint Committee

Year ended

31 March 2017

Richard Percival

Associate Director

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Jim McLarnon

Manager

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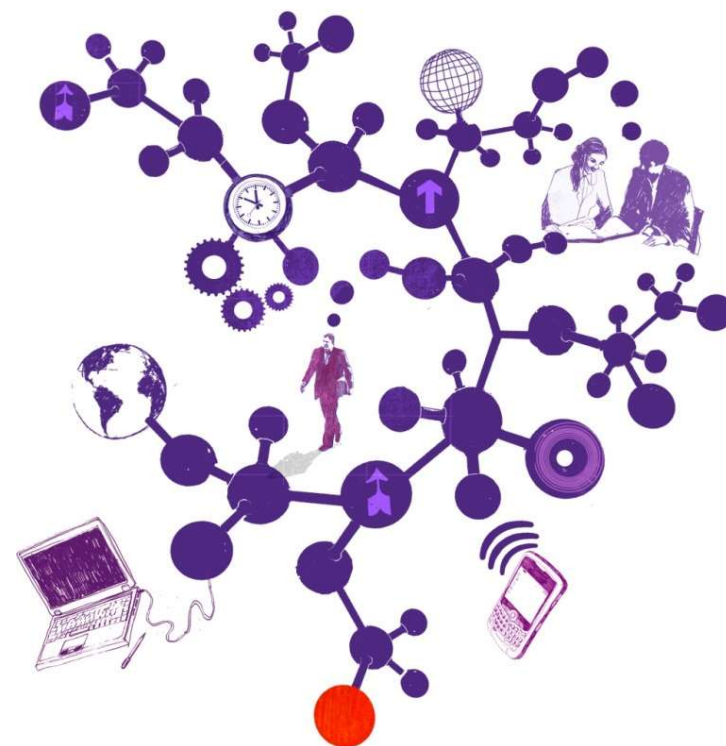
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David Rowley

Executive

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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 your business 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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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Joint Committee's external auditors and the Joint Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Joint Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Joint Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Joint Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Joint Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Joint Committee and supports the Joint Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Joint Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- related parties
- accounting estimates.

This report includes a series of questions on each of these areas and the response we have received from the Joint Committee's management. The Joint Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Joint Committee and management. Management, with the oversight of the Joint Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Joint Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Joint Committee's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Joint Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Joint Committee oversees the above processes. We are also required to make inquiries of both management and the Joint Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Joint Committee's management.

Fraud risk assessment

Question	Management response
<p>Has the Joint Committee assessed the risk of material misstatement in the financial statements due to fraud or error?</p> <p>What are the results of this process?</p>	<p>Yes –</p> <p>By the establishment of control systems to reduce the risk through financial regulations, standing orders and scheme of delegation.</p> <p>By employing staff within the finance function with the appropriate professional qualifications.</p> <p>By the regular production of management accounts and comparison to annual budgets.</p>
<p>How are the Joint Committee satisfied that the overall control environment is robust. In particular what processes does the Joint Committee have in place to identify and respond to risks of fraud?</p>	<p>Fraud risks are identified by Internal Audit in their audit planning process; in identifying key controls to be assessed as part of an audit; in targeted fraud prevention work and by raising awareness of the potential for fraud with staff, members and people working and involved with WME. This is done through the Anti-Fraud and Corruption Strategy and speaking up about Wrongdoing Policy.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>No areas with a high risk of fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively?</p> <p>If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Yes</p>

Fraud risk assessment (continued)

Question	Management response
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets) ?	No areas considered to be high risk.
How does the Joint Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?	<p>Reliance is taken from the annual work performed by Internal Audit who regularly report on their findings to the Joint Committee. The Internal Audit plan is approved by Joint Committee at regular intervals.</p> <p>In addition the Joint Committee receives updates on governance arrangements to provide assurance that the intended controls are working e.g. Risk management updates and the Annual Governance Statement.</p>
What arrangements are in place to report fraud issues and risks to the Joint Committee?	Collaboration between the Director, Internal Audit and the Treasurer. A Staff Whistleblowing Policy is in place.

Fraud risk assessment (continued)

Question	Management response
How does the Joint Committee communicate and encourage ethical behaviour of its staff and contractors?	Staff are encouraged to report their concerns about fraud as set out in the Speaking up about wrongdoing (whistleblowing) policy and the Joint Committee's Anti-Corruption Strategy.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported ?	The Joint Committee has a Whistleblowing Policy in place to enable staff to raise concerns regarding malpractice. No issues have been reported.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud ?	No.
Are you aware of any instances of actual, suspected or alleged fraud, either within the Joint Committee as a whole or within specific departments since 1 April 2016?	No.
Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2016? If so, how has the Joint Committee responded to these ?	No.

Laws and regulations

Issue
<p>Matters in relation to laws and regulations</p> <p>ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.</p> <p>Management, with the oversight of the Joint Committee, is responsible for ensuring that the Joint Committee's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.</p> <p>As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Joint Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.</p> <p>Risk assessment questions have been set out below together with responses from management.</p>

Impact of laws and regulations

Question	Management response
<p>What arrangements does the Joint Committee have in place to prevent and detect non-compliance with laws and regulations ?</p>	<p>The Joint Committee has appointed a Monitoring Officer and a Treasurer, both of whom are responsible for ensuring all applicable statutes and regulations are complied with. The Monitoring Officer will report to the Joint Committee if he/she considers any proposal or decision to be unlawful.</p> <p>The Treasurer is required to report to the Joint Committee if a decision has been made or is about to be made that involves incurring unlawful expenditure or any unlawful action in relation to the financial accounts.</p> <p>The Treasurer and the Director are professionally qualified in finance with appropriate levels of experience. The Treasurer reports directly to the Joint Committee.</p> <p>Assurance also gained from Internal Audit work for 2016-17.</p> <p>The Joint Committee has a Whistleblowing Policy in place to enable staff to raise concerns regarding malpractice. In addition, the Joint Committee's constitution incorporates Financial Regulations, Standing Orders, and Scheme of Delegation to ensure business is conducted in compliance with existing law and regulations.</p>

Impact of laws and regulations (continued)

Question	Management response
How does management gain assurance that all relevant laws and regulations have been complied with ?	<p>The Joint Committee has a Annual Governance Statement which highlights the scope of responsibility which determines sound system of internal controls and management of risk. A risk register is kept and in the event of any incident, risks are reviewed to ensure controls, mitigation measures and scores are appropriate.</p> <p>The Monitoring Officer and Treasurer provide advice to the Director on compliance with relevant laws and regulations.</p> <p>Internal Audit examine, evaluate and report on arrangements to ensure compliance with legislation and regulations, recommending to management any arrangements to address weaknesses, as necessary.</p>

Impact of laws and regulations (continued)

Question	Management response
<p>How is the Joint Committee provided with assurance that all relevant laws and regulations have been complied with ?</p>	<p>The Monitoring Officer and Treasurer provide advice to the Joint Committee on compliance with relevant laws and regulations.</p> <p>The Joint Committee is responsible for the approval of the Annual Governance Statement and the review of the related assurances which set out the system of internal control and detail the policies and procedures in place. This provides the assurance that management arrangements are in place for identifying and responding to changes in law and regulations and highlights any significant governance issues arising as a result of such changes.</p> <p>Internal Auditors' reports to the Joint Committee incorporate issues relating to compliance with legislation and regulations, where appropriate.</p>
<p>Have there been any instances of non-compliance or suspected non-compliance with laws and regulations since 1 April 2016, or earlier with an on-going impact on the Joint Committee's 2016/17 financial statements ?</p>	<p>No.</p>

Impact of laws and regulations (continued)

Question	Management response
What arrangements does the Joint Committee have in place to identify, evaluate and account for litigation or claims ?	<p>The Treasurer has responsibility to account for litigation or claims in the annual accounts that are considered by Joint Committee and subject to external audit.</p> <p>Given the relatively small size of the organisation, the Director would be aware of or be made aware of by his team of any issues.</p>
Is there any actual or potential litigation or claims that would affect the 2016/17 financial statements ?	No.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance ?	No.

Going Concern

Issue
<p data-bbox="85 352 2029 406">Matters in relation to going concern</p> <p data-bbox="85 446 2029 534">ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.</p> <p data-bbox="85 566 2029 686">The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.</p> <p data-bbox="85 718 2029 758">Going concern considerations have been set out below and management has provided its response.</p>

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Going concern considerations

Question	Management response
Does the Joint Committee have procedures in place to assess the Joint Committee's ability to continue as a going concern ?	A detailed Business Plan for the Joint Committee is approved in February each year. Regular management reporting is produced for the Joint Committee indicating the positive trading performance of the business.
Is management aware of the existence of events or conditions that may cast doubt on the Joint Committee's ability to continue as a going concern ?	No.
Are arrangements in place to report the going concern assessment to the Joint Committee ?	The WME Business Plan for 2017/18 contains financial projections for 2017/18 and the Business Plan constitutes a going concern assessment where factors affecting future profitability have been considered. The Joint Agreement has been extended to 31 st March 2020 and has recently been updated further. Management regularly report to the Flexible Energy Advisory Panel in terms of future trading performance and contractual positions.
Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the Joint Committee's Business Plan and the financial information provided to the Joint Committee throughout the year ?	Yes.
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern ?	Yes.

Going concern considerations (continued)

Question	Management response
Have there been any significant issues raised with the Joint Committee during the year which could cast doubts on the assumptions made ? (Examples include adverse comments raised by internal audit regarding financial performance or significant weaknesses in systems of financial control).	No.
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow ?</p> <p>If so, what action is being taken to improve financial performance ?</p>	No.
<p>Does the Joint Committee have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Joint Committee's objectives ?</p> <p>If not, what action is being taken to obtain those skills ?</p>	Yes.

Related Parties

Issues

Matters in relation to Related Parties

Local Government bodies are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Joint Committee (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the Joint Committee that gives it significant influence over the Joint Committee;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Joint Committee, or of any entity that is a related party of the Joint Committee.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Joint Committee perspective but material from a related party viewpoint then the Joint Committee must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Question

What controls does the Joint Committee have in place to identify, account for and disclose related party transactions and relationships ?

Management response

Members and chief officers complete annually a Related Party Transactions Declaration Form.

At the formal tender stage of contracts, the tenderer is required to complete a declaration of any connection with officers or elected members of WME.

Accounting estimates

Issue

Matters in relation to accounting estimates

Local government bodies apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Joint Committee identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Joint Committee is using as part of its accounts preparation; these are detailed in Appendix A to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Joint Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Question	Management response
Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable ?	Yes.
How is the Joint Committee provided with assurance that the arrangements for accounting estimates are adequate ?	By obtaining the necessary input of the Treasurer, Director and Internal Audit as required.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of Property Plant and Equipment and Motor Vehicles	Assets are assigned to asset categories with appropriate asset lives.	Consistent asset lives applied to each asset category.	No	The useful lives of equipment are recorded in accordance with the adopted accounting policy of the Joint Committee	No
Depreciation	Depreciation is provided for on property plant and equipment and motor vehicles with a finite useful life on a straight-line basis	Consistent application of depreciation method across assets	No	The length of the life is determined at the point of acquisition or revaluation.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	No	Valuations are made in-line with the CIPFA Code of Practice guidance.	No
Non adjusting events - events after the balance sheet date	The Joint Committee follows the requirements of the CIPFA Code of Practice.	The Treasurer is notified by the Director.	This would be considered on individual circumstances	This would be considered on individual circumstances	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Measurements are obtained from appropriate sources. The Joint Committee follows the requirements of the CIPFA Code of Practice.	The financial instruments are measured by the Director and the accounts reviewed by the Treasurer .	No	The measurements are based upon the best information held at the current time and are provided by experts in their field.	No
Prepaid creditor accruals	Accruals are estimated by reviewing goods and services received prior to the end of the financial year for which an invoice has not been received.	The date of receipt of the goods and services is used in the estimation of the accrual.	No	The use of actual dates of receipt of goods and services gives a low degree of uncertainty.	No
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Mercers. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Joint Committee responds to queries raised by the administering Joint Committee Shropshire Council.	The Joint Committee are provided with an actuarial report by Mercers (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are made where an event has taken place that gives the Joint Committee a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense line in the CI&ES in the year that the Joint Committee becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties	Charged in the year that the Joint Committee becomes aware of the obligation	No	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income if it is virtually certain that reimbursement will be received by the Joint Committee	No

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Committee and Date

West Mercia Energy Joint
Committee

27th February 2017

Item

10

Public

WEST MERICA ENERGY (WME) INTERNAL AUDIT PERFORMANCE REPORT TO FEBRUARY 2017

Responsible Officer Ceri Pilawski

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Tel: 01743 257739

1. Summary

- 1.1 This report provides members with an update on the work completed by Internal Audit against the approved Internal Audit Plan 2016/17, presented on 29th February 2016.
- 1.2 Work has continued on the 2016/17 Audit Plan with a timetable in place to fully deliver the required audits within the financial year. All seven reports have been completed since the last report, these are Payroll, Creditors, Debtors, Finance, Risk Management, Governance and IT. In addition, consultancy support has been provided in respect of IT connectivity within budget.
- 1.3 The overall plan remains at 26 Days as agreed in February 2016.

2. Recommendations

- 2.1 The Committee consider and endorse, with appropriate comment, the performance to date against the 2016/17 Audit Plan as set out in this report.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.
- 3.2 Provision of the Internal Audit Annual Plan satisfies both the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015, part 2 which sets out the requirements on all relevant authorities in relation to internal control,

including requirements in respect of accounting records, internal audit and review of the system of internal control. Specifically:

‘A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

4. Financial Implications

- 4.1 The proposed plan will be met from within the approved Internal Audit budget.

5. Background

- 5.1 Audit assurance opinions are delivered on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Company to high risks that should have been managed.

- 5.2 Audit recommendations are an indicator of the effectiveness of the Company's internal control environment and are rated according to their priority:

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

- 5.3 Recommendations are rated in relation to the audit area rather than the Company's control environment: for example, a control weakness deemed serious in one audit area which results in a significant or fundamental recommendation may not necessarily affect the Company's overall control environment. Similarly, a number of significant recommendations in a small number of areas would not result in a limited

opinion if the majority of areas examined were sound. Consequently, the number of significant recommendations in the table below will not necessarily correlate directly with the number of limited assurance opinions issued. Any fundamental recommendations resulting from a control weakness in the Company's control environment would be reported in detail to the Joint Committee.

5.4 A total of fifteen recommendations have been made in the seven final audit reports issued since the last report. A breakdown by area of the fifteen recommendations issued in this period is shown in the table below.

5.5 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. Management are asked for an update of progress made on recommendations 12 months after issue. To date this year no recommendations have been rejected by management.

5.6 **Audit assurance opinions and recommendations delivered 2016/17**

Audit Area	Assurance level	No. of Recommendations made				
		Best Practice	Requires Attention	Significant	Fundamental	Total
Creditors System	Good	0	1	0	0	1
Debtors System	Good	0	4	0	0	4
Finance System	Good	0	1	0	0	1
Governance	Good	0	1	0	0	1
IT General	Reasonable	0	4	0	0	4
Payroll System	Good	1	2	0	0	3
Risk Management	Good	0	1	0	0	1
Total for the period		1	14	0	0	15
Total to date						
• numbers		1	14	0	0	15
• percentage		7%	93%	0%	0%	100%

5.7 Six good and one reasonable assurance levels have been made, there are no unsatisfactory or limited opinions to report. There are no significant or fundamental recommendations to report from the seven audits completed to date. This reflects a strong internal control environment.

5.8 Copies of the Audit Reports are attached as appendices to this report.

6. **Additional Information**

6.1 **Performance against the plan**

The internal audit plan was presented to the Joint Committee in February 2016. There have been minor variations to the plan agreed in February as shown below:

Audit	Original Plan	Variation	Revised Plan
Creditors	2	0	2
Debtors	3	+1	4
Finance	3	+1	4
Governance	2	0	2

Audit	Original Plan	Variation	Revised Plan
IT General (including connectivity consultancy)	5	0	5
Payroll	2	0	2
Risk Management	2	0	2
Engagement Management	5	0	5
Contingency	2	-2	0
Total	26	0	26

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Public Sector Internal Audit Standards.
Accounts and Audit Regulations 2015

Member

Councillor P Price of Herefordshire Council (Chair of the Joint Committee)

Appendices

Appendix A – Creditors Report 2016/17

Appendix B – Debtors Report 2016/17

Appendix C – Finance Report 2016/17

Appendix D – Governance Report 2016/17

Appendix E – IT Report 2016/17

Appendix F – Payroll Report 2016/17

Appendix G – Risk Management 2016/17

SHROPSHIRE COUNCIL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT

CREDITORS 2016/17

Assurance Level	Good
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Customer	West Mercia Energy
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Distribution	Nigel Evans - Director
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Auditors	Emily Swinnerton
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Fieldwork dates	13 th and 14 th September 2016
Debrief meeting	14 th September 2016
Draft report issued	28 th September 2016
Responses received	13 th October 2016
Final report issued	13 th October 2016

Introduction and Background

1. As part of the approved internal audit plan for 2016/17 Audit Services have undertaken a review of Creditors.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.

To establish the progress made implementing recommendations made in the previous audit and carry out a review of the creditor payment process including purchasing cards.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - To ensure that previous recommendations have been implemented.
 - There are appropriate policies and procedures in place for the operation of the creditors system.
 - Orders are placed for all goods.
 - Goods received procedures are defined and operated effectively.
 - Prepayment checks are undertaken before an invoice is entered on the system.
 - Appropriate input controls are in place and operated effectively.
 - Credit notes are actioned in a timely manner.
 - Payments made are accurate, complete, have not previously been paid and are made at the optimal time.
 - BACS payments are securely controlled.
 - Transactions on purchasing cards are securely controlled and reviewed by an appropriate officer.
 - Management information in respect of payments to creditors is timely and adequate.
6. The audit was delivered on time and within budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon testing and evaluation of the system. This opinion will be reported to the Joint Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas

examined, from work undertaken Audit Services are able to give the following assurance opinion:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or instances of fraud or irregularity.
9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at **Appendix 1**. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
1	0	0	1	0

10. The review identified the following areas where appropriate management controls were in place and operating satisfactorily and, upon which, positive assurance can be given:

✓	To ensure that previous recommendations have been implemented.
✓	There are appropriate policies and procedures in place for the operation of the creditors system.
✓	Orders are placed for all goods.
✓	Goods received procedures are defined and operated effectively.
✓	Prepayment checks are undertaken before an invoice is entered on the system.
✓	Appropriate input controls are in place and operated effectively.
✓	Credit notes are actioned in a timely manner.
✓	Payments made are accurate, complete, have not previously been paid and are made at the optimal time.
✓	BACS payments are securely controlled.
✓	Transactions on purchasing cards are securely controlled and reviewed by an appropriate officer.
✓	Management information in respect of payments to creditors is timely and adequate.

11. Recommendations accepted by management at the previous audit have been reviewed and are detailed below:

Number of recommendations accepted by management at the last audit	2
Recommendations implemented	2
Recommendations partially implemented	0
Recommendations superseded	0
Recommendations not actioned	0

Good progress has been made in the implementation of previous recommendations. No recommendations remain outstanding.

Audit Approach

12. The approach adopted for this audit included:
 - Review and documentation of the system.
 - Identification of key controls.
 - Follow up of previous recommendations.
 - Tests of controls to confirm their existence and effectiveness.
 - Evaluation of the controls and identification of weaknesses and potential risks arising from them.
13. Internal Audit report by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and/or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at **Appendix 1**. A more detailed report covering all of the work undertaken can be provided on request. This will be, available in a working paper format.
14. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action that has been taken to address identified control weaknesses.

Ceri Pilawski
Head of Audit

ACTION PLAN FOR CREDITORS 2016/17

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
3.1	1	Purchase orders should be raised for all relevant goods and services. These should be authorised by officers in accordance with the Scheme of Delegation.	Requires Attention	Yes	Agreed	Nigel Evans	13/10/16

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SHROPSHIRE COUNCIL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT

DEBTORS 2016/17

Assurance Level	Good
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Customer	West Mercia Energy
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Distribution	Nigel Evans - Director
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Auditors	Emily Swinnerton
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Fieldwork dates	13 th and 14 th December 2016
Debrief meeting	14 th December 2016
Draft report issued	11 th January 2017
Responses received	24 th January 2017
Final report issued	24 th January 2017

Introduction and Background

1. As part of the approved internal audit plan for 2016/17 Audit Services have undertaken a review of Debtors.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.

To undertake testing in respect of the reconciliation and monitoring of the Debtors and Income System and to review progress on the implementation of the recommendations made in the previous audit.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - Previous recommendations have been implemented.
 - There are appropriate policies and procedure notes in place for the operation of the system.
 - Billing information is verified before invoicing customers.
 - There are appropriate arrangements in place to ensure prompt payment of invoices.
 - There are appropriate post opening procedures in place for the control of cash and cheques.
 - There are appropriate arrangements in place for the collection of income by direct debit
 - All income received is reconciled to the bank account
 - Refunds are actioned in a timely manner with appropriate authorisation.
 - Write-offs are actioned in a timely manner with appropriate authorisation.
 - Income credited to suspense accounts is reviewed and cleared in a timely manner.
 - Management information in respect of income is timely and adequate.
6. The audit was delivered on time and within budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon testing and evaluation of the system. This opinion will be reported to the Joint Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas examined, from work undertaken Audit Services are able to give the following assurance opinion:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or instances of fraud or irregularity.
9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at **Appendix 1**. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
4	0	0	4	0

10. The review identified the following areas where appropriate management controls were in place and operating satisfactorily and, upon which, positive assurance can be given:

✓	Previous recommendations have been implemented.
✓	There are appropriate policies and procedure notes in place for the operation of the system.
✓	Billing information is verified before invoicing customers.
✓	There are appropriate arrangements in place to ensure prompt payment of invoices.
✓	There are appropriate post opening procedures in place for the control of cash and cheques.
✓	There are appropriate arrangements in place for the collection of income by direct debit
✓	All income received is reconciled to the bank account
✓	Refunds are actioned in a timely manner with appropriate authorisation.
✓	Write-offs are actioned in a timely manner with appropriate authorisation.
✓	Income credited to suspense accounts is reviewed and cleared in a timely manner.
✓	Management information in respect of income is timely and adequate.

11. Recommendations accepted by management at the previous audit have been reviewed

and are detailed below:

Number of recommendations accepted by management at the last audit	3
Recommendations implemented	1
Recommendations partially implemented	1
Recommendations superseded	1
Recommendations not actioned	0

Reasonable progress has been made in the implementation of previous recommendations. Recommendations which remain outstanding are included in the attached Exception Report and Action Plan.

Audit Approach

12. The approach adopted for this audit included:
 - Review and documentation of the system.
 - Identification of key controls.
 - Follow up of previous recommendations.
 - Tests of controls to confirm their existence and effectiveness.
 - Evaluation of the controls and identification of weaknesses and potential risks arising from them.
13. Internal Audit report only by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at **Appendix 1**. A more detailed report covering all of the work undertaken can be provided on request, but this is only available in a working paper note format.
14. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action that has been taken to address identified control weaknesses.

Ceri Pilawski
Head of Audit

ACTION PLAN FOR DEBTORS 2016/17

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
3.1	1	Supplier statement reconciliations should be performed on a quarterly basis, and any differences identified should be investigated.	Requires Attention	Yes	These have not been performed due to staffing issues and the complexities around moving to a new supplier. Further work has now been performed with IT to resolve issues and the reconciliations will be completed by year end.	John Morris	April 2017
4.1	2	The debt recovery process as stated in the Credit Management Policy should be adhered to. Where it is identified that a customer has failed to respond to payment reminders, this should be raised with management in order to ascertain the appropriate course of action.	Requires Attention	Yes	Agreed	Jo Pugh	March 2017
8.1	3	The contacting of customers with credit balances on their accounts should be completed on a more frequent basis.	Requires Attention	Yes	Whilst this point is accepted, this is a lower priority than chasing outstanding debt and is somewhat dependent on the available	Jo Pugh	March 2017

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
					resource (e.g. the level of positive debt to chase). All customers receive a monthly statement of account which would detail any credit balances. A summary of all credit balances over 90 days are produced monthly and actively reviewed.		
9.1	4	Write offs should be authorised in accordance with the Scheme of Delegation.	Requires Attention	Yes	Agreed	Nigel Evans	Immediately

SHROPSHIRE COUNCIL AUDIT SERVICES

INTERNAL AUDIT REPORT

FINANCE 2016/17

Assurance Level	Good
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Customer	West Mercia Energy
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Distribution	Nigel Evans- Director
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Auditor	Mark Seddon
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Fieldwork dates	10 th October 2016 and 11 th October 2016
Debrief meeting	25 th October 2016
Draft report issued	25 th October 2016
Responses received	7 th November 2016
Final report issued	9 th November 2016

Introduction and Background

1. As part of the approved internal audit plan for 2016/17 Audit Services have undertaken a review of Finance.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.

To follow up the implementation of the recommendations made in the previous audit and to undertake a systems audit of the finance process using established documentation and testing.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - The recommendations made in the previous audit have been implemented.
 - There are appropriate financial regulations which have been approved by the Joint Committee.
 - There is an established process for preparation of the annual budget.
 - The annual budget is approved by Members prior to the start of the financial year.
 - There is an appropriate reconciliation process to ensure the accuracy of reported information.
 - Management accounts are produced in a timely manner for review by senior management and members.
 - There are appropriate controls over the use of journal entries within the ledger.
 - There is a bank reconciliation process which is undertaken in a timely manner and reviewed by management.
 - There are appropriate arrangements in place for the recording and monitoring of VAT.
6. The audit was delivered on time and within budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon testing and evaluation of the system. This opinion will be reported to the Joint Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas examined, from work undertaken Audit Services are able to give the following assurance opinion:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or instances of fraud or irregularity.
9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at **Appendix 1**. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
1	0	0	1	0

10. The review identified the following areas where appropriate management controls were in place and operating satisfactorily and, upon which, positive assurance can be given:

✓	The recommendations made in the previous audit have been implemented.
✓	There are appropriate financial regulations which have been approved by the Joint Committee.
✓	There is an established process for preparation of the annual budget.
✓	The annual budget is approved by Members prior to the start of the financial year.
✓	There is an appropriate reconciliation process to ensure the accuracy of reported information.
✓	Management accounts are produced in a timely manner for review by senior management and members.
✓	There are appropriate controls over the use of journal entries within the ledger.
✓	There is a bank reconciliation process which is undertaken in a timely manner and reviewed by management.
✓	There are appropriate arrangements in place for the recording and monitoring of VAT.

11. Recommendations accepted by management at the previous audit have been reviewed and are detailed below:

Number of recommendations accepted by management at the last audit	2
Recommendations implemented	2
Recommendations partially implemented	0
Recommendations superseded	0
Recommendations not actioned	0

Good progress has been made in the implementation of previous recommendations.

Audit Approach

12. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of key controls.
 - Follow up of previous recommendations.
 - Tests of controls to confirm their existence and effectiveness.
 - Evaluation of the controls and identification of weaknesses and potential risks arising from them.
13. Internal Audit report by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and/or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at **Appendix 1**. A more detailed report covering all of the work undertaken can be provided on request. This will be, available in a working paper format.
14. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action that has been taken to address identified control weaknesses.

Ceri Pilawski
Head of Audit

ACTION PLAN FOR FINANCE 2016/17

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
5.1	1	It should be ensured that the totals by type of purchase or sale in the 'Upload Review' spreadsheet reconciliations of purchases and sales from the Utility Billing System to Sage are correct in all cases and checked as correct to the totals in the 'Utility Review' spreadsheet.	Requires Attention	Yes	Agreed. Although it is the individual category totals that are transferred to the Management Accounts, it is agreed that for completeness and as an additional check the totals by type of purchase or sale should be also checked.	Jo Pugh	Immediately

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SHROPSHIRE COUNCIL AUDIT SERVICES

INTERNAL AUDIT REPORT

CORPORATE GOVERNANCE 2016/17

Assurance Level	Good
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Customer	West Mercia Energy
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Distribution	Nigel Evans - Director
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Auditor	Mark Seddon
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Fieldwork dates	21 st October 2016
Debrief meeting	25 th October 2016
Draft report issued	31 st October 2016
Responses received	18 th November 2016
Final report issued	18 th November 2016

Introduction and Background

1. As part of the approved internal audit plan for 2016/17 Audit Services have undertaken a review of Corporate Governance.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.

To assess the progress made in implementing the recommendation made in the previous audit and to carry out a review of the requirements within the Joint Agreement.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - The recommendation made in the previous audit has been implemented.
 - There is an appropriate and approved Joint Agreement between the West Mercia Energy Member Authorities.
6. The audit was delivered on time and within budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon testing and evaluation of the system. This opinion will be reported to the Joint Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas examined, from work undertaken Audit Services are able to give the following assurance opinion:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or instances of fraud or irregularity.

9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at **Appendix 1**. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
1	0	0	1	0

10. The review identified the following areas where appropriate management controls were in place and operating satisfactorily and, upon which, positive assurance can be given:

✓	The recommendation made in the previous audit has been implemented.
✓	There is an appropriate and approved Joint Agreement between the West Mercia Energy Member Authorities.

11. Recommendations accepted by management at the previous audit have been reviewed and are detailed below:

Number of recommendations accepted by management at the last audit	1
Recommendations implemented	1
Recommendations partially implemented	0
Recommendations superseded	0
Recommendations not actioned	0

Good progress has been made in the implementation of the previous recommendation.

Audit Approach

12. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of key controls.
 - Follow up of previous recommendations.
 - Tests of controls to confirm their existence and effectiveness.
 - Evaluation of the controls and identification of weaknesses and potential risks arising from them.
13. Internal Audit report by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and/or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at **Appendix 1**. A more detailed report covering all of the work undertaken can be provided on request. This will be, available in a working paper format.

14. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action that has been taken to address identified control weaknesses.

Ceri Pilawski
Head of Audit

ACTION PLAN FOR CORPORATE GOVERNANCE 2016/17

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
2.1	1	It should be ensured that the policies highlighted in section five of the Joint Agreement are reviewed to ensure that all are available and have been approved and adopted by the Joint Committee.	Requires Attention	Yes	Agreed	Nigel Evans	March 2017

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SHROPSHIRE COUNCIL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT

IT 2016/17

Assurance Level	Reasonable
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Customer	Nigel Evans - Director
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Distribution	Neil Marston – IT Manager
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Auditors	Barry Hanson
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Fieldwork dates	December 2016
Debrief meeting	19 January 2017
Draft report issued	12 January 2017
Responses received	19 January 2017
Final report issued	20 January 2017

Introduction and Background

1. As part of the approved internal audit plan for 2016/17 Audit Services have undertaken a review of IT controls in place at West Mercia Energy.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.

To follow up the recommendations made in the 2015-16 audit and to complete a high level review covering IT related contracts and documentation/procedures in respect of IT administration and the billing system.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - To ensure that the recommendations made in the 2015-16 Audit have been implemented as per the original management response.
 - Appropriate IT support contracts are in place covering WME critical business operations.
 - Appropriate documentation exists in respect of IT administration support and IT procedures for the billing system.
 - Appropriate IT contingency arrangements and service continuity processes are in place.
6. The audit was delivered on time and within budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon testing and evaluation of the system. This opinion will be reported to the Joint Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas examined, from work undertaken Audit Services are able to give the following assurance opinion:

Reasonable	There is generally a sound system of control in place but there is evidence of non-compliance with some of the controls
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or instances of fraud or irregularity.
9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at **Appendix 1**. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
4	0	0	4	0

10. The review identified the following areas where appropriate management controls were in place and operating satisfactorily and, upon which, positive assurance can be given:

✓	To ensure that the recommendations made in the 2015-16 Audit have been implemented as per the original management response.
✓	Appropriate IT support contracts are in place covering the WME critical business operations.
✓	Appropriate documentation exists in respect of IT administration support and IT procedures for the Billing system.
✓	Appropriate IT contingency arrangements and service continuity processes are in place.

Audit work revealed control weaknesses which, whilst not deemed to be fundamental or significant, limit the level of assurance in the following areas:

- To ensure that the recommendations made in the 2015-16 Audit have been implemented as per the original management response.
- Appropriate documentation exists in respect of IT administration support and IT procedures for the Billing system.

11. Recommendations accepted by management at the previous audit have been reviewed and are detailed below:

Number of recommendations accepted by management at the last audit	2
Recommendations implemented	1
Recommendations partially implemented	1
Recommendations superseded	0
Recommendations not actioned	0

Reasonable progress has been made in the implementation of previous recommendations. Recommendations which remain outstanding are included in the attached Exception Report and Action Plan.

Audit Approach

12. The approach adopted for this audit included:
 - Review and documentation of the system.
 - Identification of key controls.
 - Follow up of previous recommendations.
 - Tests of controls to confirm their existence and effectiveness.
 - Evaluation of the controls and identification of weaknesses and potential risks arising from them.
13. Internal Audit report only by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at **Appendix 1**. A more detailed report covering all of the work undertaken can be provided on request, but this is only available in a working paper note format.
14. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action that has been taken to address identified control weaknesses.

Ceri Pilawski
Head of Audit

ACTION PLAN FOR IT AUDIT 2016/17

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
1.1	1	Open issues on the IT Issues log should be reviewed and closed down as soon as possible.	Requires Attention	Yes	Agreed – all new issues will be logged via the Telford and Wrekin (T&W) hosted Self-Serve portal. With regards the issues on the Issues Log spreadsheet, these will be closed where appropriate and for those still outstanding updated comments will be added.	Neil Marston	Jan 2017
3.1	2	Procedures and reference documentation supporting business IT operations should be reviewed and updated as appropriate. This should be recorded along with a future review date. As part of this process, a check should be undertaken to ensure that any new or recently added services or processes are appropriately documented.	Requires Attention	Yes	WME and T&W ICT working together to update and improve documentation.	Neil Marston	June 2017
3.2	3	All WME domain user accounts	Requires	Yes	WME will contact	Neil	March 2017

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
		should be reviewed. Appropriate parameters should be applied to force password changes in line with the default domain security policy. All higher privilege account passwords should be changed as a priority.	Attention		Shropshire Council to change the admin accounts, service user accounts and firewall under the current service level agreement arrangements. WME to liaise with Microsoft regarding changes to passwords for Office365. The parameters in active directory will be updated once the procedure is in place.	Marston	
3.3	4	Procedures and reference documentation supporting the billing system should be reviewed and updated as appropriate. This should be recorded along with a future review date. As part of this process, a check should be undertaken to ensure that any new or recently added services or processes are appropriately documented.	Requires Attention	Yes	WME and T&W ICT working together to update and improve documentation.	Neil Marston	June 2017

SHROPSHIRE COUNCIL AUDIT SERVICES

FINAL INTERNAL AUDIT REPORT

PAYROLL 2016/17

Assurance Level	Good
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Customer	West Mercia Energy
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Distribution	Nigel Evans - Director
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Auditors	Emily Swinnerton
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Fieldwork dates	13 th and 14 th September 2016
Debrief meeting	14 th September 2016
Draft report issued	28 th September 2016
Responses received	13 th October 2016
Final report issued	13 th October 2016

Introduction and Background

1. As part of the approved internal audit plan for 2016/17 Audit Services have undertaken a review of Payroll.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.

Follow up of the previous recommendations and audit of the payroll control process, including overtime claims, travel and subsistence expenses and the reconciliation process in place for transferring payroll costs into the Sage nominal ledger, using established documentation and testing.

The Payroll and Human Resources function within West Mercia Energy is an administrative and authorisation process with the actual payroll calculations, statutory deductions and payment being carried out by Shropshire Council and recharged on a monthly basis.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - To ensure that previous recommendations have been implemented.
 - There are adequate segregation of duties in place.
 - Payroll data is correctly transferred and accurately processed.
 - Permanent and temporary variations to the payroll are valid, appropriately authorised, and processed accurately.
 - Travel and subsistence is appropriately controlled and actioned in a timely manner.
 - Management information is produced in an accurate and timely manner and subject to review.
 - Workforce requirements and costs are appropriate to the tasks undertaken and the policies of the organisation.
6. The audit was delivered on time and within budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon testing and evaluation of the system. This opinion will be reported to the Audit Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There

are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas examined, from work undertaken Audit Services are able to give the following assurance opinion:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or instances of fraud or irregularity.
9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at **Appendix 1**. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
3	0	0	2	1

10. The review identified the following areas where appropriate management controls were in place and operating satisfactorily and, upon which, positive assurance can be given:

✓	To ensure that previous recommendations have been implemented.
✓	There are adequate segregation of duties in place.
✓	Payroll data is correctly transferred and accurately processed.
✓	Permanent and temporary variations to the payroll are valid, appropriately authorised, and processed accurately.
✓	Travel and subsistence is appropriately controlled and actioned in a timely manner.
✓	Management information is produced in an accurate and timely manner and subject to review.
✓	Workforce requirements and costs are appropriate to the tasks undertaken and the policies of the organisation.

11. Recommendations accepted by management at the previous audit have been reviewed and are detailed below:

Number of recommendations accepted by management at the last audit	2
Recommendations implemented	1
Recommendations partially implemented	0
Recommendations superseded	0
Recommendations not actioned	1

Reasonable progress has been made in the implementation of previous recommendations. Recommendations which remain outstanding are included in the attached Exception Report and Action Plan.

Audit Approach

12. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of key controls.
 - Follow up of previous recommendations.
 - Tests of controls to confirm their existence and effectiveness.
 - Evaluation of the controls and identification of weaknesses and potential risks arising from them.
13. Internal Audit report by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and/or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at **Appendix 1**. A more detailed report covering all of the work undertaken can be provided on request. This will be, available in a working paper format.
14. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action that has been taken to address identified control weaknesses.

Ceri Pilawski
Head of Audit

ACTION PLAN FOR PAYROLL 2016/17

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
2.1	1	Individual policies within the staff handbook should be dated as approved, include appropriate version control and include a date for update and review. (Updated from recommendation made and agreed in 2013/14 and 2015/16).	Requires Attention	Yes	Agreed - the three policies highlighted, which were marked with a last updated date, have now also a version number.	Julie Wassall	Completed
2.2	2	Claims for additional hours should be completed and submitted by employees in a timely manner.	Requires Attention	Yes	Agreed	Nigel Evans	13/10/2016
3.1	3	Copies of all payroll forms should be held on personnel files, in the event of a query at a later date.	Best Practice	Yes	Agreed	Jo Pugh	13/10/2016

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SHROPSHIRE COUNCIL AUDIT SERVICES

INTERNAL AUDIT REPORT

RISK MANAGEMENT 2016/17

Assurance Level	Good
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Customer	West Mercia Energy
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Distribution	Nigel Evans - Director
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Auditor	Mark Seddon
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Fieldwork dates	19 th October 2016
Debrief meeting	25 th October 2016
Draft report issued	31 st October 2016
Responses received	18 th November 2016
Final report issued	18 th November 2016

Introduction and Background

1. As part of the approved internal audit plan for 2016/17 Audit Services have undertaken a review of Risk Management.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.

To review the progress made to implement the recommendation made in the previous audit. To ensure that there are systems in place for the identification, assessment, recording, control and monitoring of risk.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - The recommendation made in the previous audit has been implemented as agreed.
 - Risks arising from business strategies and activities are identified and prioritised and management and the board have determined the level of risk acceptable to the organisation.
 - Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels that were determined to be acceptable to management and the board.
 - Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.
 - The board and management received periodic reports of the results of the risk management process.
6. The audit was delivered on time and within budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon testing and evaluation of the system. This opinion will be reported to the Joint Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas examined, from work undertaken Audit Services are able to give the following assurance opinion:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or instances of fraud or irregularity.
9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at **Appendix 1**. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
1	0	0	1	0

10. The review identified the following areas where appropriate management controls were in place and operating satisfactorily and, upon which, positive assurance can be given:

✓	Risks arising from business strategies and activities are identified and prioritised and management and the board have determined the level of risk acceptable to the organisation.
✓	Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels that were determined to be acceptable to management and the board.
✓	Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.
✓	The board and management received periodic reports of the results of the risk management process.

11. Recommendations accepted by management at the previous audit have been reviewed and are detailed below:

Number of recommendations accepted by management at the last audit	1
Recommendations implemented	0
Recommendations partially implemented	0
Recommendations superseded	0
Recommendations not actioned	1

No progress has been made in the implementation of the previous recommendation. The recommendation which remains outstanding is included in the attached Exception Report and Action Plan.

Audit Approach

12. The approach adopted for this audit included:
 - Review and documentation of the system.
 - Identification of key controls.
 - Follow up of the previous recommendation.
 - Tests of controls to confirm their existence and effectiveness.
 - Evaluation of the controls and identification of weaknesses and potential risks arising from them.
13. Internal Audit report by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and/or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at **Appendix 1**. A more detailed report covering all of the work undertaken can be provided on request. This will be, available in a working paper format.
14. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action that has been taken to address identified control weaknesses.

Ceri Pilawski
Head of Audit

ACTION PLAN FOR RISK MANAGEMENT 2016/17

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
2.1	1	All positive risks or opportunities should be identified and included in the risk register to ensure that there is review and mitigation of the risks to the Company as a result of the potential growth of the business. (Updated from the previous recommendation made and agreed and originally recommended in 2013/14).	Requires Attention	Yes	Agreed	Nigel Evans	March 2017

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Committee and Date

West Mercia Energy Joint
Committee

27th February 2017

Item

11

Public

WEST MERCIA ENERGY (WME) INTERNAL AUDIT STRATEGIC PLAN 2017/18

Responsible Officer Ceri Pilawski

e-mail: ceri.pilawski@shropshire.gov.uk

Tel: 01743 257739

1. Summary

- 1.1 This report details the proposed programme of audit work for the year 2017/18 and recommends that members approve the programme, as set out in the report.
- 1.2 Internal Audit Services to West Mercia Energy have continued to be provided by Shropshire Council and a Service Level Agreement is currently being renewed.

2. Recommendations

- 2.1 The Committee are asked to consider and endorse, with appropriate comment, the approval of the proposed programme of audits for 2017/18.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Under the Joint Committee's terms of reference, reviewing the risk based audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any other work upon which reliance is placed, is an important responsibility. In considering this plan Members should be assured that it is linked to the Company's key risks and provides sufficient coverage to ensure a reasonable opportunity to identify any weaknesses in the internal control environment. When critical to the Company's operations these will be reported and rectified where possible and viable.
- 3.2 Areas to be audited within the plan have been considered with the knowledge of risk register information both operational and strategic.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

- 3.4 Provision of the Internal Audit Annual Plan satisfies both the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015, part 2 which sets out the requirements on all relevant authorities in relation to internal control, including requirements in respect of accounting records, internal audit and review of the system of internal control. Specifically:

‘A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

4. Financial Implications

- 4.1 The proposed plan will be met from within the approved Internal Audit budget.

5. Background

- 5.1 The S151 Officer is legally required to maintain sound and proper financial management on behalf of the West Mercia Energy (WME). This includes a responsibility for maintaining internal audit. Internal audit, provided by Shropshire Council, is based on a programme of audits over a rolling four-year period, which has been in effect from WME’s formation in April 2012.
- 5.2 Audit priorities and known risks have been examined and a detailed audit plan has been produced for the provision of audit services in the next financial year, for consideration by the Committee.
- 5.3 Each potential audit area has been reviewed with the Director and considered in relation to the strategic risks of the Company. Some areas are required to be audited every year, as they are fundamental to sound financial management.
- 5.4 The audit programme is shown at **Appendix A**. The proposed plan is presented to Committee for approval to reflect current issues and risks. This will ensure that the audits are timely, appropriate and add value. It takes account of issues identified by the Company’s risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the company audited. The proposed plan takes into account the requirement to produce an annual internal audit opinion and assurance framework. Some minor adjustments may be needed to the plan before it is finalised; if significant, these will be agreed by the Director and reported to the next Joint Committee.

6. Resources and Delivery

WME has provided a budget in 2017/18 to deliver 26 days of audit including a small contingency.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Internal audit strategic plan 2012/13 to 2015/16 – February 2013

Internal audit strategic plan 2013/14 - June 2013

Internal audit strategic plan 2014/15 – February 2014

Internal audit strategic plan 2015/16 – February 2015

Internal audit strategic plan 2016/17 – February 2016

Member

Councillor P Price of Herefordshire Council (Chair of the Joint Committee)

Appendices

Appendix A: West Mercia Energy – Proposed Internal Audit Plan 2017/18

APPENDIX A**WEST MERCIA ENERGY - AUDIT AREAS**

AUDIT	Including review of:	2017/18 DAYS
PAYROLL	Starters and leavers, overtime, travel, subsistence and performance related pay.	2
PROCUREMENT	Review of changes to contracts	1
CREDITORS	Orders, payments, credit notes, purchase cards	2
DEBTORS	Billing, collection, refunds, write-offs, rebates (to cover gas, electricity, oil and new business areas on a rolling basis)	3
FINANCE	Budgetary control, journals and control accounts reconciliation, bank control and reconciliation, exception reporting and reconciliation, VAT	3
IT	Follow-up of the recommendations made in the 2016/17 general IT controls review and the IT Connectivity Issues consultancy review and to undertake additional in depth work on those areas identified arising from the work	5
CORPORATE GOVERNANCE AND RISK MANAGEMENT	Corporate governance	2
	Risk management	2
ENGAGEMENT MANAGEMENT	Previous recommendation follow up, audit management, audit planning, servicing Audit Committee, advisory	5
	Contingency	1
TOTAL		26



Committee and Date

West Mercia Energy Joint
Committee

27th February 2017

Item

12

Public

INTERNAL AUDIT QUALITY ASSURANCE IMPROVEMENT PROGRAMME EXTERNAL ASSESSMENT

Responsible Officer Ceri Pilawski

e-mail: ceri.pilawski@shropshire.gov.uk

Tel: 01743 257739

1. Summary

Shropshire Council Internal Audit Service complies with the Public Sector Internal Audit Standards (PSIAS). As part of these standards the service must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity.

This programme is designed to enable an evaluation of the service's conformance with the definition of internal auditing, the standards and whether auditors apply the code of ethics (PSIAS). The programme assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. Under the PSIAS an external assessment has to be conducted every five years and 2016 was the first opportunity for such an assessment at Shropshire. This report provides members with an update following the external assessment conducted by the Chartered Institute of Public Finance and Accountancy (CIPFA) in November 2016.

CIPFA concluded from the evidence reviewed as part of the external quality assessment: 'no areas of non-compliance with the standards have been identified that would affect the overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance. ***On this basis, it is our opinion that Shropshire Council Audit Services generally conforms to the requirements of the Public Sector Internal Audit Standards. It is also our opinion that they generally conform to the requirements of the Local Government Application Note***'.

An action plan has been agreed to further improve the controls already in place and this is contained in **Appendix A**, page 14, along with the full report from CIPFA.

2. It is recommended that:

The Committee consider and endorse, with appropriate comment, the information set out in this report.

3. Risk assessment and opportunities appraisal

- 3.1 It is a requirement of the PSIAS to have an external assessment, the results of which can be used to demonstrate the Service's quality to all clients.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015. There are no direct environmental, equalities or climate change consequences of this proposal.

4. Financial implications

There is no financial implication to West Mercia Energy in respect of the review.

5. Background

- 5.1 An external assessment of the Audit's team's compliance with the PSIAS must be completed every five years by a qualified, independent assessor or assessment team. Members will recall, as reported at their September meeting, that following a tender process, the contract to conduct the assessment was awarded to CIPFA. CIPFA set the internal audit standard within local government and have a deep knowledge of the impact of the PSIAS on the wider public sector. Ray Gard, FCCA, CFIIA, CPFA, DMS, conducted the review on behalf of CIPFA.
- 5.3 The review was carried out between the 21st and 25th of November 2016 through a process of interviews with employees of Shropshire Council's Audit Services (SCAS), key officers and members within the Council, and our main external clients, plus a document review. With regard to the latter, Internal Audit made a comprehensive range of documents available for examination during the review. This included their own robust self-assessment and quality assurance and improvement plan (QAIP); the audit manual and guidance for employees; individual audit reports; and a range of reports and communications that demonstrate the flow of information between Internal Audit and the audit committees of the Council and their main clients.
- 5.4 From the evidence reviewed, CIPFA found no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance. On this basis, CIPFA concluded: ***that Shropshire Council Audit Services generally conforms to the requirements of the Public Sector Internal Audit Standards. It is also our opinion that they generally conform to the requirements of the Local Government Application Note.***
- 5.5 Two areas of partial compliance were identified under standard 1000, Purpose authority and responsibility and 1100, Independence and objectivity. The agreed action plan at Appendix 1 of **Appendix A** sets out some recommendations (R) to address these issues and improve conformity with the standards. Both require slight adjustments to the Audit Charter and year-end report to achieve this. In addition, CIPFA made some suggestions (S), in areas where there are opportunities for

improvement and development to enhance operations and learn from current best practice. These have been included in the action plan at Appendix 1 to their report.

- 5.6 The Head of Audit has committed to implementing the recommendations and suggestions within agreed timescales as reported in **Appendix A**

List of Background Papers

Public Sector Internal Audit Standards (PSIAS).
CIPFA's Local Government Application Note (LGAN)
Accounts and Audit Regulations 2015

Appendices:

Appendix A: CIPFA's Final Report: External Quality Assessment of Shropshire Council Audit Services against the Public Sector Internal Audit Standards (2016)

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External Quality Assessment of Shropshire Council Audit Services against the Public Sector Internal Audit standards (2016)

Final Report

Lead Associate: Ray Gard, CPFA, FCCA, CFIIA, DMS

Internal QA: Diana Melville FCPFA, Governance Advisor, CIPFA

21st December 2016

Review of Shropshire Council Audit Services (SCAS) - November 2016

Introduction

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013 (revised April 2016). The standards require periodic self-assessments and an assessment by an external person every five years.

Background

Shropshire Council Audit Services (SCAS) are based at Shirehall in Shrewsbury and provide internal audit services to Shropshire Council, Shropshire Fire and Rescue Service, Shropshire Towns and Rural Housing Ltd, West Mercia Energy, Shropshire Pension Fund, and Oswestry Town Council. SCAS has 9.4 full time equivalent staff and access to the Staffordshire framework contract for internal audit, which is used to supplement the in-house resources.

Now that SCAS has been operating under PSIAS for over three years, this was deemed a good time for their first external review and validation of their self-assessment against the standards and the local government application note (LAGN) produced by CIPFA.

Review Process

The review was carried out between the 21st and 25th of November 2016 through a process of interviews with employees of SCAS, key officers and members within the Council, and the main external clients, and document review. With regard to the latter, SCAS provided a comprehensive range of documents that were available for examination during this review. This included SCAS's own robust self-assessment and quality assurance and improvement plan (QAIP); the audit manual and guidance for employees; individual audit reports; and a range of reports and communications that demonstrate the flow of information between SCAS and the audit committees for the Council and their main clients.

Whilst all of the above documents contributed to the review, certain documents are regarded as fundamental to the review process. These documents include:-

- the audit charter and audit committee terms of reference ;
- progress reports to the audit committee for the Council and the main external clients;
- Head of audit's annual report and opinion to the audit committee;
- audit plans and covering report to the audit committee;
- audit manual;
- staff declarations of interest; and
- staff training and development strategy.

Conclusion and Opinion

From the evidence reviewed as part of the external quality assessment, no areas of non-compliance with the standards have been identified that would affect the

overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance.

On this basis, it is our opinion that Shropshire Council Audit Services generally conforms to the requirements of the Public Sector Internal Audit Standards. It is also our opinion that they generally conform to the requirements of the Local Government Application Note.

Two areas of partial compliance have been identified. The agreed action plan at appendix 1 sets out some practical and pragmatic recommendations (R) to address these issues and improve conformity with the standards.

In addition, SCAS are looking for opportunities to enhance operations and learn from current best practice with public sector internal audit. With this in mind some areas where there are opportunities for improvement and development have also been identified, some of which have already been identified by SCAS and included in their QAIP. These areas have not been included in the action plan as this is unlikely to add any further value to the quality assurance and improvement programme. Some practical and pragmatic suggestions (S) have been made for the other opportunities for improvement and development and these have also been included in the action plan at appendix 1 to this report.

A list of the individuals interviewed during the review is included as appendix 2.

The Head of Audit has been provided with a list of the areas where there is scope to enhance conformity with the standard.

Ray Gard, CPFA, FCCA, FCIIA, DMS

Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and Suggestions	No
Attribute standards				
1000 Purpose, authority and responsibility	Partially Conforms	<p>The purpose, authority, and responsibility of SCAS internal audit activity is formally defined in the internal audit charter, and on the whole is consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.</p> <p>SCAS do not produce a separate strategic statement on internal audit setting out how the internal audit service will be delivered, but is instead partly covered by the audit charter.</p> <p>However, the audit charter does not provided details on how the internal audit service will be delivered, although this information can be found in the annual audit plan report to the audit committee.</p> <p>Nonetheless, PSIAS expects this information to appear in the audit charter (or a supporting strategic statement). As such, the section on internal audit planning (paragraphs 27 & 28) should be expanded to provide more detail on how the internal audit service will be resourced and delivered, perhaps using some of the detail in paragraph 5.7 in the audit plan report.</p>	<p>Paragraphs 27 & 28 in the audit charter should be expanded to provide more information on how the audit plan will be resourced and delivered.</p> <p>The definition for assurance in Annex A to the audit charter could be enhanced to provide greater clarity to the reader.</p>	<p>R1</p> <p>R2</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		PSIAS requires the audit charter to contain definitions for "assurance and consultancy" activities and these can be found in Annex A to the audit charter. The definition for consultancy activity is informative and clear, whereas the definition for assurance is less so and does not actually explain what is meant or covered by the term assurance. There is scope to enhance this section of Annex A to provide greater clarity to the reader, perhaps by following the model used to explain consultancy activity, and by incorporating some of the wording used else where in the audit charter, for example in paragraphs 9 and 12.		
1100 Independence and objectivity	Partially Conforms	<p>Independence and objectivity are well managed by SCAS and this underpins their reputation. All interviewees emphasised the importance of these aspects of audit behaviour. Reporting lines are set out in the audit charter.</p> <p>They are free from interference and this is defined in the audit charter and the terms of reference for the audit committee.</p> <p>Whilst it is apparent from the qualified audit opinions during the past few years that the service has been able to maintain its independency and objectivity, the Head of Audit's annual report and opinion does</p>	<p>The Head of Audit includes a statement confirming that the services has been free from interference throughout the year in her annual report to the audit committee.</p> <p>A section is added to the audit charter stating that to ensure integrity and objectivity are not impaired, auditors will not audit areas of previous responsibility for a period of at least twelve months after the responsibility ended</p> <p>The section on consulting activity</p>	<p>R3</p> <p>R4</p> <p>R5</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>not contain a statement confirming this and that the service has been free from interference throughout the year.</p> <p>Whilst SCAS' working practices ensure that auditors do not audit activities that they have previously been responsible for (by using different in-house auditors or buying in resources) the approach that will be taken to avoid any potential conflicts is not set out in the audit charter. There is scope to expand paragraph 17 to cover this point</p> <p>PSIAS requires approval is sought from the audit committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement. The section on consulting activity in Annex A to the audit charter does not make reference to seeking approval from the audit committee. Whilst it is acknowledged that audit committees only meet around four times a year and this may not coincide with the urgency requirements of the consulting assignments, the audit charter should nonetheless be enhanced to include a paragraph regarding seeking approval.</p>	in Annex A to the audit charter is strengthened to include seeking approval from the audit committee for additional significant consulting assignments that are not already included in the annual audit plan	
1200 Proficiency and due professional	Generally Conforms	It was clear from the evidence examined, and the quality assurances processes that audit work is carried out with proficiency and due professional care.	No recommendations or suggestions have been made for this standard	

Standard	Compliance	Findings	Recommendations and Suggestions	No
care		<p>Senior staff review and sign off all work at every stage of the audit process.</p> <p>SCAS's employees are well qualified and experienced, with good access to training and development.</p>		
1300 Quality assurance and improvement programme	Generally Conforms	<p>The Head of Audit carries out an annual self-assessment against PSIAS and develops and maintains a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP is reported annually to the audit committee.</p> <p>SCAS' compliance with the PSIAS is included in the annual QAIP report and the audit charter.</p> <p>The format for the external quality assessment (EQA) was agreed with the Director of Finance (S 151 Officer) and the audit committee. Once the EQA is completed, the final report will be shared with the Director of Finance and will form part of the annual QAIP report to the audit committee.</p>	No recommendations or suggestions have been made for this standard	
Performance standards				
2000 Managing the internal audit activity	Generally Conforms	<p>SCAS has a robust risk based planning process in place for all of its clients. Individual client audit plans are based on the risk registers, assurance frameworks, recommendations made from previous audit activity, and discussions with senior</p>	See recommendation R1 above under standard 1000	

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>managers</p> <p>The audit committee agrees the audit plan for the Council. The same applies to the external clients where the respective audit committees or management boards agree the audit plan. The audit plan is presented to the committee and accompanied by a comprehensive report that sets out how the plan was produced and will be delivered, and what will not be covered by the audit plan.</p> <p>PSIAS however requires public sector internal audit services to provide an explanation on how the audit service will be delivered in the audit charter, or to provide a strategic statement on internal audit to support the audit charter, neither of which are currently in place at SCAS. This point has been covered under standard 1000 and recommendation R1 above.</p> <p>SCAS use standard documentation and processes for all of their clients, the majority of which are automatically produced by the MK Insight audit application.</p> <p>Audit reports follow a uniform template and the same standard audit opinions and recommendation prioritisations are used for all of SCAS's clients.</p>		

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>Reporting protocols are clearly defined for each client. Internal audit activities are reported to management and to each Audit Committee or management board during the year.</p> <p>All audit work is supervised and reviewed by a senior member of SCAS's team and no reports are sent to clients unless a Senior member of SCAS's team has signed them off.</p>		
2100 Nature of work	Generally Conforms	<p>The work carried out by SCAS is designed to enable the Head of Audit to come to an informed opinion on the adequacy of the control, risk, and governance arrangements, and contributes to the organisation's annual governance statement (AGS). This includes annual audits of the corporate governance and risk management processes.</p> <p>SCAS applies a systematic and disciplined approach to their audits, underpinned by robust procedures and methodologies, and performed by experienced and qualified auditors. The Head of Audit does not shy away from delivering unpalatable messages to management and has qualified her annual opinion for a number of consecutive years.</p>	No recommendations or suggestions have been made for this standard	

Standard	Compliance	Findings	Recommendations and Suggestions	No
2200 Engagement planning	Generally Conforms	Comprehensive engagement plans are completed for each audit assignment in the MK Insight audit management application and these conform to PSIAS. The engagement planning process includes a detailed risk assessment for each assignment. The same methodology is applied to the assignments for the external clients and to consulting assignments where these involve more than just providing advice.	No recommendations or suggestions have been made for this standard	
2300 Performing the engagement	Generally Conforms	SCAS have robust processes and procedures in place, underpinned by an audit manual that cover this area in detail. All aspects of the audit processes are subject to management review and sign off within the MK Insight audit management application. Conclusions are based on the findings and supported by relevant evidence.	No recommendations or suggestions have been made for this standard	
2400 Communicating the results	Generally Conforms	<p>Audit reports are on the exceptions basis and follow the standard format set up in MK Insight. They are clear and reflect the work undertaken, and include conclusions, recommendations, an action plan and an opinion on the governance, risk and control arrangements that have been reviewed.</p> <p>All reports are quality checked and signed off by a senior member of the team prior to issue. Reports are disseminated to</p>	<p>It is suggested that a paragraph is included in the standard audit report template regarding the limitations on distribution and the use of the results by external parties.</p> <p>It is suggested that the Head of Audit routinely includes greater detail on the audits with limited and no assurance opinions in the progress reports to the audit</p>	<p>S1</p> <p>S2</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>appropriate recipients.</p> <p>Internal audit reports do not however contain a statement regarding the limitations on distribution and the use of the results by external parties. It is suggested that such a statement is added to the standard audit report template</p> <p>Information on individual audits in the progress reports provided to the audit committee is quite limited and mainly focussed on the numbers and categories of recommendations that have been made. The lack of detail, particularly on those audits where a negative assurance opinion has been issued, is likely to be hindering the audit committee's ability to challenge officers effectively.</p> <p>Whilst it is appreciated that the audit committee does not routinely ask for more detailed information, nonetheless it would enhance their role and improve their effectiveness if they were provided with more detail on the audits with limited or no assurance opinions. The amount of information that should be provided is very much a local issue, but as the minimum should at least include a summary of the control, risk and governance issues identified during the audits, the risks and potential consequences of not rectifying the shortcomings, and the</p>	committee.	

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>recommendations that have been agreed with management.</p> <p>The audit committee will however ask for more information on very serious matters, such as the ongoing issues with the Council's ICT infrastructure, which have led to the Head of Audit issuing a qualified annual audit opinion for four consecutive years.</p>		
2500 Monitoring progress	Generally Conforms	Follow up processes are in place and effective, although this is continually under development. All recommendations are recorded in the MK Insight audit management application and used to inform future audit plans. Where appropriate revised audit opinions are issued once all of the recommendations have been implemented.	No recommendations or suggestions have been made for this standard	
2600 Communicating the acceptance of risks	Generally Conforms	There are sound processes in place regarding the communication of the acceptance of risks and these generally conform to the requirements of PSIAS. Where a manager accepts a level of risk that is greater than the organisation's risk appetite the Head of Audit raises the matter with senior management and the audit committee and sets out the potential consequences of this course of action.	No recommendations or suggestions have been made for this standard	

Standard	Compliance	Findings	Recommendations and Suggestions	No
Code of Ethics	Generally Conforms	<p>SCAS fully conforms with the integrity, confidentiality, and competency elements of the code of ethics, although staff are not currently required to sign an annual declaration that they have complied with the codes of ethics and the Committee on Standards of Public Life <i>Seven Principles of Public Life</i>.</p> <p>However, SCAS adopts a proactive approach to supporting management by participating in working groups and project boards for transformation programmes, system developments etc, where they provide advice and guidance on controls, risks, and governance matters. They firmly believe this adds value to the organisation and is more cost effective than raising issues once the programme or system has been implemented. The senior managers interviewed during this review supported this view.</p> <p>The Head of Audit is fully aware that there is a risk that SCAS's objectivity may be impaired by adopting this approach. She has put measures in place to protect their objectivity by ensuring different auditors provide assurance to those that provided the advice, or by buying in audit resources from the Staffordshire frame contract to provide the assurance.</p> <p>The Head of Audit has included this issue</p>	It is suggested that the annual declaration of gifts, hospitality and interests forms completed by every member of SCAS' team is expanded to include sections relating to compliance with the relevant codes of ethics or Committee on Standards of Public Life <i>Seven Principles of Public Life</i>	S3

Standard	Compliance	Findings	Recommendations and Suggestions	No
		in SCAS QAIP. As such, any further recommendations on this matter are unlikely to add further value to SCAS operations.		
Mission	Generally Conforms	The audit charter includes the mission statement as required by PSIAS	No recommendations or suggestions have been made for this standard	
Core principles of internal audit	Generally Conforms	SCAS conforms to the core principles of internal audit and as such the Head of Audit could include this in her annual report and opinion to the audit committee.	No recommendations or suggestions have been made for this standard	

Appendix 1: action plan

Recommendations

No	Recommendation	Response	Responsible Person	Action date
R1	Paragraphs 27 & 28 in the audit charter should be expanded to provide more information on how the audit plan will be resourced and delivered.	Accept The Charter will include a statement that <i>resources are from a mix of internal employees or contractors dependent on available budgets and resource needs.</i>	Ceri Pilawski	November 2017
R2	The definition for assurance in Annex A to the audit charter could be enhanced to provide greater clarity to the reader	Accept The Charter definition of Assurance will be updated to read: Overall Assurance is provided on the organisation's risk management, governance and internal control processes to confirm that they are operating effectively. <i>Opinions take into account the expectations of senior managers, the board and other stakeholders and are supported by sufficient, reliable, relevant and useful information.</i> Audit assurance opinions for engagements are awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in	Ceri Pilawski	November 2017

No	Recommendation	Response	Responsible Person	Action date
		place and <i>consideration of the engagement results and their significance.</i>		
R3	The Head of Audit includes a statement specifically confirming that the service has been free from interference throughout the year in her annual report to the audit committee.	Accept: This will be incorporated in the year-end report	Ceri Pilawski	June 2017
R4	A section is added to the audit charter stating that to ensure integrity and objectivity are not impaired, auditors will not audit areas of previous responsibility for a period of at least twelve months after the responsibility ended	Accept: This will be incorporated in the next planned review of the Audit Charter	Ceri Pilawski	November 2017
R5	The section on consulting activity in Annex A to the audit charter is strengthened to include seeking approval from the audit committee for additional significant consulting assignments that are not already included in the annual audit plan	Accept: The Charter section on consultancy will be updated to read 'Any auditor asked to provide consultancy services or undertake a consultancy-style activity should consult their manager or the Head of Internal Audit before agreeing to provide such services. <i>For any significant additional consulting services not already included in the plan, approval will be sought from the Audit Committee prior to accepting the engagement</i> '. In practice any significant change to the plan would be covered in	Ceri Pilawski	November 2017

No	Recommendation	Response	Responsible Person	Action date
		<p>the quarterly reporting to Audit Committee and so would always be reported.</p> <p>Consultancy work by its very nature at times requires an instant response to an assurance request. To allow for this there are approved contingencies in place in the plan: unplanned, general advice, and counter fraud. In addition, to ensure transparency, codes are set up for jobs that require more time.</p>		

Suggestions

No	Suggestion	Response	Responsible Person	Action date
S1	It is suggested that a paragraph is included in the standard audit report template regarding the limitations on distribution and the use of the results by external parties.	<p>Accept</p> <p>The next review of the standard report template will consider this.</p>	Ceri Pilawski	May 2017
S2	It is suggested that the Head of Audit routinely includes greater detail on the audits with limited and no assurance opinions in the progress reports to the audit committee.	<p>Accept</p> <p>Audit will consider a greater level of detail in an appendix to performance reports.</p>	Ceri Pilawski	February 2017

No	Suggestion	Response	Responsible Person	Action date
S3	It is suggested that the annual declaration of gifts, hospitality and interests forms completed by every member of SCAS' team is expanded to include sections relating to compliance with the relevant codes of ethics or Committee on Standards of Public Life <i>Seven Principles of Public Life</i>	Accept. This will be adopted for 2017/18	Ceri Pilawski	May 2017

Appendix 2: Interviewees

Person	Position	Organisation
Ceri Pilawski	Head of Audit	Shropshire Council Audit Services
Clive Wright	Chief Executive	Shropshire Council
Angela Beachy	Risk and Insurance Manager	Shropshire Council
Justin Bridges	Treasury and Pensions Manager	Shropshire Council
Cheryl Sedgely	Head of Finance (Deputy S151)	Shropshire Council
Rod Thompson	Director of Public Health	Shropshire Council
Chris Mathews	Commissioner for Education Improvement and Efficiency	Shropshire Council
Sarah Wilkins	Service Manager Early Help and commissioning	Shropshire Council
Michele Leith	Head of Human Resources and Development	Shropshire Council
Peter Voogt	Interim Head of ICT	Shropshire Council
George Chandler	Director of Place	Shropshire Council
Tim Smith	Head of Business Enterprise and Commercial Services	Shropshire Council
Chris Edwards	Head of Infrastructure and Communities	Shropshire Council
James Walton	Director of Finance – S151 Officer	Shropshire Council
Claire Porter	Monitoring Officer	Shropshire Council
Barry Hanson	Principal Auditor (IT)	Shropshire Council Audit Services
Joanne Wooley	Auditor (IT)	Shropshire Council Audit Services
Peter Chadderton	Principal Auditor	Shropshire Council Audit Services
Mark Seddon	Auditor	Shropshire Council Audit Services
Emily Swinnerton	Auditor	Shropshire Council Audit Services
Shelley Taylor	Auditor	Shropshire Council Audit Services
Tim Barker	Chair Audit Committee	Shropshire Council
Brian Williams	Past Chair of Audit Committee	Shropshire Council
John Cadwallader	Vice Chair of Audit Committee	Shropshire Council
Chris Mellings	Audit Committee Member	Shropshire Council
David Turner	Audit Committee Member	Shropshire Council
Emily Mayne	External Audit Manager	Grant Thornton
Nigel Evans	Director	West Mercia Energy
Joanne Coadey	Head of Finance	Shropshire Fire and Rescue Service
Steve Ogram	Finance Director	Shropshire Towns and Rural Housing Ltd (ALMO)

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<u>Committee and Date</u>

West Mercia Energy Joint Committee

27 February 2017

<u>Item</u>

13

<u>Public</u>

FINANCIAL REGULATIONS

Responsible Officer Nigel Evans

e-mail: nevans@westmerciaenergy.co.uk Tel: 0333 1014353

1. Summary

- 1.1 This report is to present to the Joint Committee the updated Financial Regulations for WME for approval.

2. Recommendations

- 2.1 The Joint Committee are asked to:

A) approve the updated WME Financial Regulations appended to this Report;

B) approve an update to the EGARRP Policy to ensure consistency with paragraphs 55 to 57 of the updated Financial Regulations (relating to the EGARRP Policy).

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

4. Financial Implications

- 4.1 There are no direct financial implications arising from this report.

5. Background

- 5.1 The current Financial Regulations of WME were approved by the Joint Committee on 26th September 2016.
- 5.2 The attached Appendix details the changes made. These changes address some points which weren't picked up in time for the previous Joint Committee meeting. The changes made are not substantial changes with the main amendment relating to clarifying a point regarding the Flexible Energy Advisory Panel not being a decision making body.
- 5.3 The updated paragraphs at paragraphs 55 to 57 relate to the operation of the EGARRP Policy and clarify how amendments may be made. The original wording of these paragraphs was taken from the EGARRP Policy and the EGARRP Policy will need to be updated to ensure consistency with the revised wording in the Financial Regulations.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Joint Committee 26th September 2016 – Financial Regulations

Member

Councillor P Price of Herefordshire Council (chair of the Joint Committee)

Appendices

Financial Regulations



FINANCIAL REGULATIONS

FINANCIAL REGULATIONS

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FINANCIAL REGULATIONS

Introduction

1. These Regulations are made in pursuance and for the purposes of Section 151 of the Local Government Act 1972, as augmented by the Local Government Finance Act 1988, the Accounts and Audit Regulations 2015 and other relevant legislation and regulations. They are made further to the Joint Agreement between the Member Authorities of West Mercia Energy (WME) for the efficient and proper operation of the Joint Committee.
2. The statutory duties associated with, inter alia, s.151 of the Local Government Act 1972, the Local Government Finance Act 1988 and the Accounts and Audit Regulations Act 2015 remain with each Member Authority. The Treasurer for the time being appointed to the WME Joint Committee shall liaise with the section 151 Officers of the Member Authorities to enable those officers to comply with their responsibilities. The Treasurer shall be responsible for ensuring the sound administration of the financial affairs of the Joint Committee.
3. The Director shall be responsible for the operation of the financial procedures within WME; shall ensure that adequate operational controls are in place; and shall ensure that staff employed on behalf of WME are aware of and comply with Financial Regulations.
4. The Director shall issue a standard set of financial procedures, which have been approved by the Treasurer, to assist staff in carrying out their responsibilities. The financial procedures will be reviewed and updated on a regular basis. Any departure from standard financial procedures must be clearly documented.
5. Financial procedures will make provision for:
 - a) the form and content of any document dealing with financial matters;
 - b) the disclosure of information to the Treasurer;
 - c) accountancy and financial procedures to be used in relation to particular financial activities;
6. References in these Regulations to the Director shall be deemed to include a reference to any other officer of WME authorised or nominated by the Director, in writing, to undertake any of the functions of the Director.

Best Value

7. The Director shall ensure that best value is pursued in the delivery of all services and shall continuously seek improvement in the quality, efficiency and effectiveness of services.

Administration

8. The Treasurer, as the Joint Committee's financial adviser, shall give information and advice as appropriate, with respect to the Joint Committee's finances, the financial implications of future policies, plans and programmes, financial performance and the financial aspects of their activities. The Director shall consult the Treasurer in respect of any such matter before submitting any report to the Joint Committee. Similarly, the Treasurer will consult the Director before submitting a report to the Joint Committee.
9. The Treasurer shall participate in all financial negotiations with Government departments, local or public authorities, except to the extent that the Treasurer indicates otherwise. For clarity, the Treasurer would not expect to participate in negotiations in respect of trading or purchasing activity agreed as part of the Business Plan.
10. The Treasurer may require to be involved in any matter which appears to the Treasurer to involve questions relating to the proper administration of the Joint Committee's financial affairs.

Accounting Systems / Accounting Records

11. All accounting systems, procedures and supporting accounting records shall be in a form approved by the Treasurer.
12. The written approval of the Treasurer shall be required before the implementation of any new systems or procedures for the maintenance of financial records or records of assets and liabilities; or any changes to such systems.
13. The Director shall ensure that accounting systems and procedures approved by the Treasurer are observed.
14. Financial records and records of assets and liabilities shall be retained by the Director for such period as the Treasurer may prescribe and defined within a retention policy.
15. The Director shall ensure that adequate records for the calculation and evidencing of VAT are held in line with HMRC requirements.

Internal Audit

16. The Accounts and Audit Regulations 2015 require every relevant authority to undertake an effective internal audit to evaluate the effectiveness of its risk management control and governance processes taking into account public sector internal auditing standards and guidance. The Joint Committee's responsibilities under Regulation 6 of The Accounts and Audit Regulations 2015, are delegated to the Treasurer. The Treasurer shall maintain an adequate and effective system of internal audit, and

such persons nominated by the Treasurer to carry out any audit shall have authority for such purpose:

- a) to access at reasonable times any land, building, vehicle or plant owned on behalf of or used by WME;
 - b) to have access at all reasonable times to all premises or land, assets, records, documents, correspondences and control systems except for those from which they are statutorily prevented;
 - c) to possess or to take copies of any record, document or correspondence;
 - d) to require any information and explanation considered necessary concerning any matter under discussion from any elected member of the Joint Committee or member of staff employed on behalf of WME;
 - e) to require any employee of WME to account for cash or any other WME property under his/her control and produce for inspection if required;
 - f) to access records belonging to third parties, such as contractors, when required; and
 - g) to have direct reporting access to the Joint Committee, as the Chief Internal Auditor deems appropriate.
17. The Director, or any other member of staff or member of the Joint Committee, shall immediately inform the Chief Internal Auditor of any loss or financial irregularity or suspected irregularity, or of any circumstances which may suggest the possibility of such loss or irregularity, including any affecting cash, stores or other property of WME. The Treasurer, having been consulted by the Chief Internal Auditor, shall then determine the action to be taken.

Budget Responsibilities

18. In accordance with the Joint Agreement, the Joint Committee shall approve an Annual Business Plan and an Annual Budget. The Annual Business Plan and the Annual Budget shall be recommended to the Joint Committee by the Chief Executives of the Member Authorities.
19. The Annual Budget shall be prepared by the Director, in consultation with the Treasurer.
20. The Director shall be responsible for managing budgets identified in accordance with Financial Regulations 18 and 19 above and shall be accountable to the Joint Committee for the allocated resources.
21. The Director may delegate budgets to staff within WME. Such delegations shall be detailed within the WME Scheme of Delegation. Delegation of budgets may only be made in a manner which reflects the delegation of

management and decision making responsibilities. Notwithstanding, the Director will remain accountable for the entire budget delegated to him.

22. The Director shall make arrangements to monitor and manage budgets for which he is accountable. The Treasurer shall monitor the arrangements made by the Director for implementing budgetary control and shall ensure that there are sound systems of budgetary control.
23. The Director must report regularly to the Treasurer and the Joint Committee on the financial performance of WME against the annual budget. This report will include any necessary significant variances from budget.

Budget Preparation

24. The Annual Budget shall be prepared in accordance with a timetable and format determined by the Treasurer.

Procurement of Works, Goods, Materials and Services.

25. The procurement of works, goods, materials and services shall be made in accordance with the WME Standing Orders.
26. The Director shall not have authority to enter on behalf of the Joint Committee any contract involving a finance or operating lease or a hire purchase arrangement without the approval of the Treasurer.
27. An official order form, approved by the Treasurer, shall be used when entering any contract (as defined by Standing Orders), except where the nature of the transaction makes it inappropriate to do so. The Director shall maintain lists of officers approved to authorise orders, specifying any limits on the level or scope of the approval.

Payment for Works, Goods, Materials and Services.

28. The Director shall make arrangements for the examination, verification and certification of invoices and other vouchers for payment. The Director shall maintain a list of the names of officers permitted to authorise such documents.
29. The Director shall maintain a list of all officers authorised to make payments from the bank account.
30. The Director will ensure that the Lead Authority's fiduciary insurance covers all officers authorised to make payments on behalf of WME

Payments to Employees and Former Employees

31. Payment to all employees and former employees of all salaries, wages, pensions, allowances, gratuities, emoluments, and any sums payable upon the termination of employment, including any redundancy payment, shall be effected through arrangements determined by the Treasurer.
32. The Director shall notify the Treasurer (in the form and to the timetable prescribed) of all appointments, terminations of employment, absences and any other changes or variations which may affect the pay or pension of present and past employees.

Income

33. The Director shall control the arrangements for the proper recording of all sums due to WME and for the prompt and proper accounting for all cash, including its collection, custody, control and deposit.
34. All official receipt forms, receipt books, tickets and other documents of a similar nature shall be ordered, controlled and issued by the Director.
35. No amount due to WME, once established, shall be discharged otherwise than by payment in full, or by writing off the whole amount due, or an unpaid portion thereof. No amount due shall be written off except with the approval of the Treasurer after consultation with the Director or in line with the WME Scheme of Delegation. Any such approval shall be shown in the accounting records of the Joint Committee.
36. The Director shall maintain a register of all debts written off in pursuance of this Regulation which will be available for inspection by Members and appropriate officers of the Joint Committee.
37. Where any amount recoverable in any court is due to the Joint Committee and remains unpaid after payment has been formally demanded in writing the Director may instruct the Secretary to institute proceedings without further reference to the Joint Committee unless the Director, the Treasurer or the Secretary wishes the matter to be referred to the Joint Committee.

Banking

38. Banking arrangements shall be made by the Treasurer and all accounts will be held in the name of WME. No other bank, building society or similar accounts may be operated without the express authority the Treasurer. A list of all officers authorised to make payments from the bank account will be maintained as per clause 29.

Borrowings, Other Capital Financing and Investments

39. The Joint Committee shall not effect any borrowings. Any borrowing effected on behalf of WME shall be in the name of one or more Member Authority and by arrangements determined by the Treasurer.
40. All executive decisions and determinations on borrowings, investments or financing shall be taken in accordance with the policies of the member authority effecting the borrowing.
41. All money within the jurisdiction of the Joint Committee shall be aggregated, and may be aggregated with those under the jurisdiction of the Lead Authority for the purposes of treasury management and be under the control of the Chief Finance Officer of the Lead Authority, except as procedures issued under these Regulations may from time to time provide.

Assets

42. The Director shall be responsible for the security of all assets under the control of WME.
43. Assets include land, property, money, stocks, stores, furniture, equipment and electronic data.
44. Records of these assets, including their disposal (which shall be dealt with in accordance with the lead authorities standing orders), shall be maintained in an electronic fixed asset register.

Risk Management

45. All organisations, whether they are in the private or public sectors, face risks to people, property and continued operations. Risk is defined as the chance or possibility of loss, damage or injury caused by an unwanted or uncertain action or event. Risk management is the planned and systematic approach to the identification, evaluation and control of risk.
46. Insurance has been the traditional means of risk transfer and protecting against loss, but this cannot be seen as the complete answer. By reducing or even preventing the incidence of losses (whether they result from crime or accident), WME will benefit from reduced costs of providing insurance cover and will also avoid the disruption and wasted time caused by losses and insurance claims.
47. It is the overall responsibility of the Joint Committee to approve the WME Risk Management Strategy, and to promote a culture of risk management awareness throughout the WME. Monitoring of, and reporting on, the effectiveness of the strategy is an essential part of the process.
48. The Director will ensure:

- The development, monitoring and review of the Risk Management Strategy and risk register
 - Identification, analysis and monitoring of principal risks
 - Ensure regular updating and monitoring of the risk register
 - Ensure that senior managers at WME analyse risks and produce appropriate information for inclusion in the risk register and risk action plans specific to their sectors; whilst making the necessary connections to issues that have an organisation wide effect.
49. It is the responsibility of the Director to ensure that the Joint Committee:
- Reviews the Risk Management Strategy on an annual basis.
 - Reviews the full risk register on an annual basis.
 - Receives details of all medium and high risks at each meeting and to consider mitigation process in place.

Insurance

50. The Treasurer shall effect, or authorise the effect of, all insurance cover, maintain a register of such insurance and, except to the extent that the Treasurer deems otherwise, in writing, submit, negotiate and settle all claims made by or against WME in pursuance of such cover.
51. The Director shall promptly notify the Treasurer of the extent and nature of all new insurable risks or assets and any alterations affecting existing insurable risks or assets.
52. Except to the extent that the Treasurer indicates otherwise, the Director shall inform the Treasurer as soon as practicable of any fire, explosion, flood, accident, loss, or other occurrence affecting the property of WME or property held by WME and shall, if required, arrange for an estimated cost of making good the damage caused thereby.
53. Except to the extent that the Treasurer indicates otherwise, the Director shall inform the Treasurer of any occurrence involving:
- a) death of, or injury to, any employee of WME, any Councillor, or any contractor or sub-contractor of WME, whilst on WME business;
 - b) the death of, or injury to, any person where such death or injury occurred on any property owned or used by WME, or was occasioned by the conducting of WME's undertaking;
 - c) any loss, liability, damage or event likely to lead to a claim against WME:

and shall complete any necessary documentation as required by the Treasurer.

Preparation of Statutory Financial Statements

54. The Treasurer shall make the necessary arrangements to facilitate the prompt preparation and completion of the final accounts of the Joint Committee at the end of each financial year. The Director will assist the Treasurer by ensuring compliance with those arrangements.

Energy Governance, Accountability, Risk and Reporting Policy (EGARRP)

55. WME's principal energy procurement policies are contained in the EGARRP document. The EGARRP document consists of the main document and certain appendices which contain operational or factual information that may require regular updating. ~~Items which may require regular updating appear as appendices.~~ Changes to the main body of the EGARRP document and policies contained therein will require authorisation from the Joint Committee following any recommendations made by the Flexible Energy Advisory Panel. The Director may update or amend the content of the appendices ~~The appendices may be updated or amended to reflect changing circumstances as agreed by~~ following consultation with the Flexible Energy Advisory Panel.
56. The EGARRP policy will be kept under review by WME and amendments made as circumstances dictate and in accordance with paragraph 55 above. Such circumstances include but are not limited to: material changes or shocks in the market, material changes in corporate conditions or the macro-economy, organisational or resources changes, where exceptions or modifications are recommended~~sought~~ by the Flexible Energy Advisory Panel, where a significant relaxation has been made on an emergency basis, or where any provision within this policy and its associated documentation proves to be unworkable in practice.
57. Responsibility for ensuring that these policies are observed lies with the Joint Committee as advised by the Flexible Energy Advisory Panel.

General

58. In the absence of any specific guidance, the financial rules of the Lead Authority will be adopted in the short term for any matter which is not specifically covered within this document.

Glossary of Terms

Annual Business Plan	the comprehensive statement of the business aims and proposed actions of the Joint Committee for the ensuing financial year
Annual Budget	the financial trading performance budgeted of the Joint Committee for the ensuing financial year
Chief Executive	shall mean the Head of Paid Service of each Member Authority or such other officer as each Member Authority determine
Chief Internal Auditor	shall mean the officer who oversees the internal audit function of the Lead Authority
Director	shall mean the officer with delegated authority for the day to day running of WME
Flexible Energy Advisory Panel	the panel that acts as an advisory panel to the Joint Committee and Director of WME.
Joint Agreement	means the agreement between the Member Authorities establishing the Joint Committee for West Mercia Energy and setting out the Joint Committee's governance arrangements
Joint Committee	shall mean the Joint Committee established by the Member Authorities pursuant to the Joint Agreement
Lead Authority	shall mean Shropshire Council or such other replacement Member Authority as may be appointed under the Joint Agreement
Member Authority	shall mean a local authority member of the Joint Committee.
Risk Management Strategy	shall mean the document which defines the risk management arrangements of the Joint Committee
Secretary	means the officer of the Lead Authority responsible for the provision of committee services and legal advice to the Joint Committee in accordance with the Joint Agreement
Scheme of Delegation	shall mean a written record of any delegations made by the Joint Committee or any permitted onward delegations
Standing Orders	shall mean the document providing for the regulation of the procurement and letting of contracts by WME
Treasurer	Means the officer of the Lead Authority responsible for the provision of advice on financial matters to the

	Joint Committee in accordance with the Joint Agreement
West Mercia Energy or "WME"	shall mean West Mercia Energy business operated under the authority of the Joint Committee.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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