



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

Date: 15<sup>th</sup> February 2018

**Committee: West Mercia Energy Joint Committee**

**Date: Monday, 26 February 2018**

**Time: 10.00 am**

**Venue: Wilfred Owen 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>	N Laurens R Macey
---------------------------	----------------------

<i>Telford &amp; Wrekin Council</i>	L Carter R Overton
-------------------------------------	-----------------------

<i>Worcestershire County Council</i>	J Smith A Hardman
--------------------------------------	----------------------

Your Committee Officer is:

**Emily Marshall** Committee Officer

Tel: 01743 257717

Email: [emily.marshall@shropshire.gov.uk](mailto: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 for the ensuing year.

## **4 Minutes (Pages 1 - 4)**

To receive the minutes of the Joint Committee meeting held on 25<sup>th</sup> September 2017.

Copy attached marked 4.

## **5 Public Question Time**

To receive any questions or petitions from the public, notice of which has been given in accordance with Procedure Rule 14. The deadline for this meeting is 10.00 a.m. on Friday, 23<sup>rd</sup> February 2018.

## **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 2017/2018 (Pages 5 - 18)**

Report of the External Auditor.

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

**9 External Audit - Informing the Audit Risk Assessment 2017/2018 (Pages 19 - 40)**

Report of the External Auditor is attached, marked 9.

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

**10 Internal Audit - Performance Reports to February 2018 (Pages 41 - 90)**

The reports of the Audit Services Manager.

Appendix A – Creditors

Appendix B – Debtors

Appendix C – Finance

Appendix D – Corporate Governance

Appendix E – IT Audit – Follow Up

Appendix F – Payroll

Appendix G – Procurement

Appendix H – Risk Management and Business Continuity

Contact: Ceri Pilawski (01743 257739)

**11 Internal Audit - Strategic Plan 2018/2019 (Pages 91 - 94)**

Report of the Audit Services Manager.

Contact: Ceri Pilawski (01743 257739)

**12 Anti-Slavery and Human Trafficking Statement 2017/2018 (Pages 95 - 98)**

Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

**13 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.*

**14 Exempt Minutes** (Pages 99 - 100)

To approve the exempt Minutes of the meeting held on 25<sup>th</sup> September 2017.

Contact: Emily Marshall (01743 257717)

**15 Annual Business Plan and Budget 2018/19 including a Review of 2017/18**  
(Pages 101 - 142)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

**16 Minutes of the Flexible Energy Advisory Panel** (Pages 143 - 152)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

**17 Risk Management Update** (Pages 153 - 184)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

**18 Date of Next Meeting**

The next meeting of the West Mercia Energy Joint Committee will be held on Monday 24<sup>th</sup> September 2018 at 10.00 a.m. in the Shrewsbury Room, Shirehall.



## Committee and Date

West Mercia Energy Joint  
Committee

26<sup>th</sup> February 2018

## **WEST MERCIA ENERGY JOINT COMMITTEE**

**Minutes of the meeting held on 25 September 2017**

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

**10.00 - 11.25 am**

**Responsible Officer:** Emily Marshall

Email: [emily.marshall@shropshire.gov.uk](mailto:emily.marshall@shropshire.gov.uk) Tel: 01743 257717

### **Present**

Councillor Price (Chairman)

Councillors Nic Laurens and Robert Macey

### **20 Apologies for Absence**

Apologies for absence were received from Councillors A. Hardman and J. Smith (Worcestershire), L. Carter and R. Overton (Telford and Wrekin) and D. Harlow (Herefordshire).

### **21 Named Substitutes**

There were no named substitutes present.

### **22 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.

### **23 Minutes**

#### **RESOLVED:**

That the Minutes of the West Mercia Energy Joint Committee held on 27<sup>th</sup> February 2017 be approved as a correct record and signed by the Chairman.

### **24 Statement of Accounts 2016/17 and Annual Governance Statement 2016/17**

Mr J. Walton, Treasurer (WME) presented the Letter of Representation, the Statement of Accounts 2016/17 and the Annual Governance Statement 2016/17 for the West Mercia Energy Joint Committee.

For the benefit of new Joint Committee members, the Treasurer provided an explanation on the pension deficit, an update on the next valuation, the Shropshire County Pension Fund and how contributions were calculated.

Members of the Joint Committee agreed that a longer term plan was needed to reduce the deficit as there was some concern that it may impact on WME. It was agreed that each representative take these issues back to their respective Chief Executives requesting that they examine the area in more detail and to try to come up with a longer term solution. In response, the Treasurer explained that WME mostly dealt with public sector who understood the accounting practices used.

**RESOLVED:**

1. That the Letter of Representation be approved and signed by the Chairman and submitted by the Treasurer.
2. That the finalised Statement of Accounts 2016/17 be approved and signed by the Chairman and the Treasurer.
3. That the Annual Governance Statement 2016/17 be approved.

**25 Distribution of Surplus**

The Treasurer presented the report which recommended the level of distribution of surplus held at 31 March 2017 to the Member Authorities.

The Director reported that future levels would fall slightly, however this was in line with expectations.

**RESOLVED:**

1. That the retention of accumulated surplus of £ 0.600 million be approved.
2. That the distribution of accumulated surplus of £1.139 million, in accordance with the provisions of the Joint Agreement, be approved.

**26 External Audit - Audit Findings Report 2016/17**

Mr R. Percival (External Auditor – Grant Thornton) presented the West Mercia Energy Joint Committee Audit Findings Report 2016/17 (copy attached to the signed minutes).

The External Auditor informed the Joint Committee that the accounts had been delivered on time and to a very high standard. The Director and his team were thanked for preparing well presented accounts. Members' attention was drawn to page 71 where one control issue was highlighted, however the issue was long standing and a reflection of the size of the organisation.

**RESOLVED:**

That the West Mercia Energy Joint Committee Audit Findings Report 2016/17 be noted.

## **27 Internal Audit - Annual Report 2016/17**

C. Pilawski, Audit Service Manager introduced Internal Audit Annual report 2016/17 (copy attached to the signed minutes).

### **RESOLVED:**

1. That performance against the Audit Plan for the year ended 31 March 2017 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 2016/17.
3. That the Head of Audit's positive year end opinion on West Mercia Energy's governance, risk management and internal control environment for 2016/17 on the basis of the work undertaken and management responses received be noted.

## **28 Anti-Slavery and Human Trafficking Policy**

N. Evans, Director presented the WME Anti-Slavery and Human Trafficking Policy (copy attached to the signed minutes).

The Committee stressed the importance of the Policy and ensuring that the processes were embedded within the organisation.

### **RESOLVED:**

That the West Mercia Energy Anti-Slavery and Human Trafficking Policy be approved.

## **29 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.

## **30 Exempt Minutes**

### **RESOLVED:**

That the Exempt Minutes of the meeting held on 27<sup>th</sup> February 2017 be approved as a correct record.

## **31 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.

**32 Update on Business Plan and Trading Performance to Date**

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.

**33 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.

**34 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.

**35 Date of Next Meeting**

It was noted that the next meeting would take place on Monday, 26<sup>th</sup> February 2018 at 10.00 a.m. at Shirehall, Shrewsbury.

Signed ..... (Chairman)

Date: .....





<u>Committee and Date</u>
---------------------------

West Mercia Energy Joint Committee
------------------------------------

26 February 2018
------------------

<u>Item</u>
-------------

8
---

<u>Public</u>
---------------

## EXTERNAL AUDIT PLAN 2017/18

**Responsible Officer** Nigel Evans

e-mail: [nevans@westmerciaenergy.co.uk](mailto: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 2017/18.

### 2. Recommendations

- 2.1 The Joint Committee are asked to consider and endorse, with appropriate comment, the audit plan for 2017/18 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 International Standards on Auditing (ISAs) (UK).
- 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 2017/18 is £13,000 which is consistent to the fees charged for 2015/16 and 2016/17. 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 2018)

# The Audit Plan for West Mercia Energy

Year Ending 31 March 2018

26 February 2018

**Richard Percival**

Associate Director

T 0121 232 5434

E [richard.d.Percival@uk.gt.com](mailto:richard.d.Percival@uk.gt.com)

**Jim McLarnon**

Manager

T 0121 232 5219

E [james.a.mclarnon@uk.gt.com](mailto:james.a.mclarnon@uk.gt.com)

**Allison Thomas**

Executive

T 0121 232 5278

E [allison.a.Thomas@uk.gt.com](mailto:allison.a.Thomas@uk.gt.com)



West Mercia Energy  
Chapter House South  
Abbey Foregate  
Shrewsbury  
SY2 5DE  
26 February 2018

**Grant Thornton UK LLP**

The Colmore Building  
20 Colmore Circus  
Birmingham  
B4 6AT

T +44 (0)121 212 4000  
[www.grantthornton.co.uk](http://www.grantthornton.co.uk)

Dear Members of the Joint Committee

**Audit Plan for West Mercia Energy for the year end 31 March 2018**

As auditor we are responsible for performing the audit of the financial statements of West Mercia Energy for the year end 31 March 2018 in accordance with International Standards on Auditing (ISAs) (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of financial statements which give a true and fair view.

This Audit Plan presents an overview of the planned scope and timing of the audit for the benefit of those charged with governance, as required by ISA (UK) 260. Its contents have been discussed with management. Another report, the Audit Findings report, will be issued prior to approval of the financial statements and will present our observations arising from the audit that are significant and relevant to the responsibility of those charged with governance to oversee the financial reporting process. We will also communicate any significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis, through a written report.

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 planning process. It is not a comprehensive record of all the relevant matters, and may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect your business or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted or copied 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.

We look forward to working with you during the course of the audit.

Richard Percival

Associate Director  
For Grant Thornton UK LLP

**Chartered Accountants**

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

---

# Contents

Section	Page
1. Materiality	7
2. Significant risks identified	8
3. Other risks identified	9
4. Audit logistics and team	10
5. Fees and related matters	11
6. Independence and non-audit services	12
7. Communication of audit matters with those charged with governance	13

# Materiality

## The concept of materiality

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. 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.

## Materiality for planning purposes

We propose to calculate financial statement materiality based on a proportion of the gross revenue of the Joint Committee. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £1.135m, which equates to 2% of your recorded gross revenue for the year 2016/17. We design our procedures to detect errors in specific accounts at a lower level of precision.

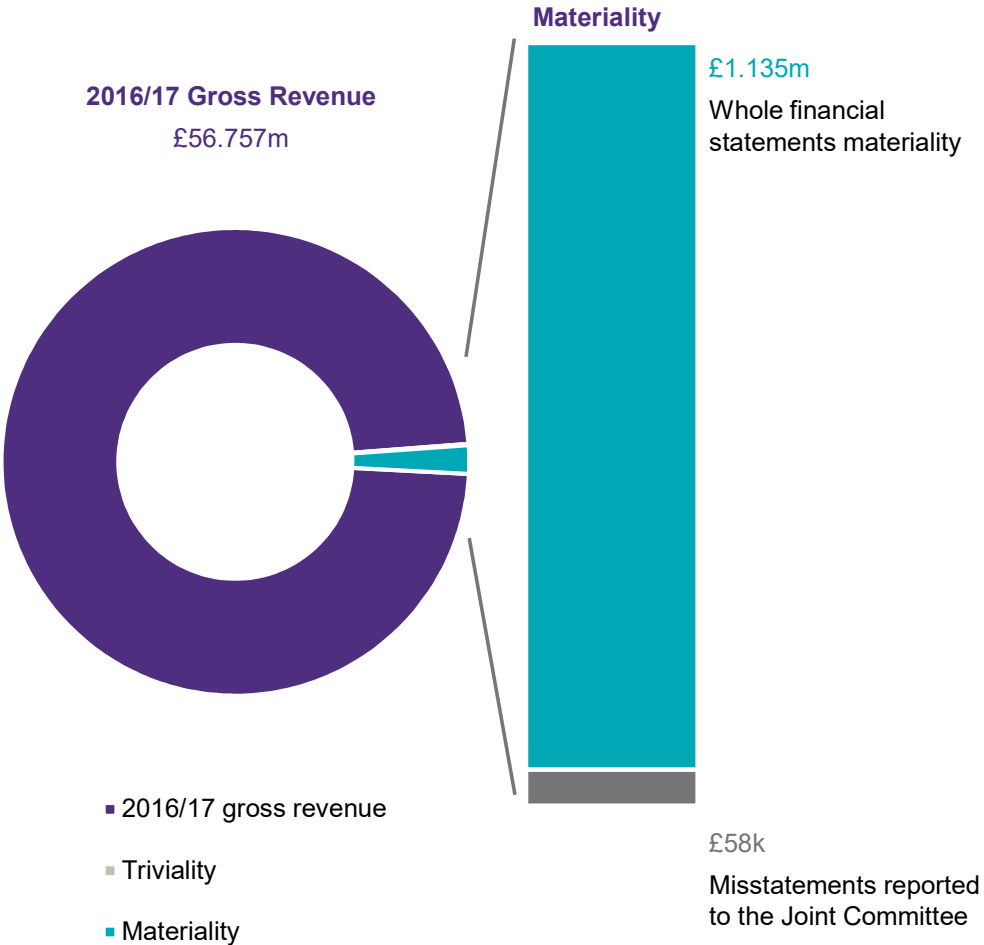
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Materiality has been reduced for remuneration disclosures to £50k due to its sensitive nature and public interest.

## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Accounts Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £58,000.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Accounts Committee to assist it in fulfilling its governance responsibilities.



# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	<ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies</li><li>• Performance of attribute testing on material revenue streams</li></ul>
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	<ul style="list-style-type: none"><li>• Review of accounting estimates, judgements and decisions made by management</li><li>• Updating our understanding of the journals control environment and testing of journals entries</li><li>• Review of unusual significant transactions</li></ul>
Variation of pension fund liability	The defined benefit pension fund (LGPS) liability as reflected in the balance sheet represents a significant financial statements estimate.	<ul style="list-style-type: none"><li>• Gain assurance on the data provided to the actuary including, but not confined to, the auditor of the pension fund</li><li>• Review the assumptions made by the actuary</li><li>• Agree amounts disclosed in primary statements and notes to actuary's statement</li><li>• Review PwC report (as auditors expert) and perform any additional procedures suggested in the report</li><li>• Complete an ISA driven estimates working paper</li></ul>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK) 315)

In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK) 550)

# Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Other reasonably possible risks	Description	Planned audit procedures
<b>Turnover – Utility Revenue</b>	Existence/Occurrence - Contract accounting not consistent with terms.	<ul style="list-style-type: none"> <li>We will document the processes and controls in place around the accounting for utility revenue and carry out walkthrough tests to confirm operation of controls.</li> <li>Tests of detail on utility revenue included in the financial statements including testing on a sample of utility revenue transactions.</li> </ul>
<b>Cost of Goods Sold – Utility Expenditure</b>	Valuation – Gross - Costs not accounted for property.	<ul style="list-style-type: none"> <li>We will document the processes and controls in place around the accounting for utility expenditure and carry out walkthrough tests to confirm operation of controls.</li> <li>Tests of detail on utility expenditure included in the financial statements including testing on a sample of utility expenditure transactions.</li> </ul>
<b>Cost of Goods Sold – Utility Expenditure</b>	Valuation – Net - Activity variation adjustments to expenditure not correct.	<ul style="list-style-type: none"> <li>We will document the processes and controls in place around the accounting for utility expenditure and carry out walkthrough tests to confirm operation of controls.</li> <li>Tests of detail on contracts with supplier rebates or significant activity variation to ensure expenditure has been recorded appropriately</li> </ul>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK) 315)



# Audit logistics and team



## **Richard Percival, Engagement Lead**

Richard will be the main point of contact for the Chair, Director and Committee members. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Richard will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit. Richard will sign your audit opinion.



## **Jim McLarnon, Audit Manager**

Jim will work with the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. He will attend Joint Committees with Richard, and supervise Allison in leading the on-site team. Jim will undertake reviews of the team's work and draft clear, concise and understandable reports.



## **Allison Thomas, Audit Incharge**

Allison will be the day to day contact for the audit, organising our visits and liaising with WME staff. She will lead the on-site team and will monitor deliverables, manage our query log ensuring that any significant issues and adjustments are highlighted to management as soon as possible.

# Fees and related matters

## Fees

Company	£
Joint Committee audit	13,000
<b>Total</b>	<b>13,000</b>

### Our fee assumptions include:

- Our fees are exclusive of VAT and out of pocket expenses
- 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 to provide explanations

### What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feedback on your systems and processes, and identifying potential risks, opportunities and savings
- Constructive feedback on your people, your processes and your business plan
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas

---

# Independence and non-audit services

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We have not performed any non-audit services in respect of West Mercia Energy.

# 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 including significant risks and Key Audit Matters	•	
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	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), 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, findings 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), 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.



**This page is intentionally left blank**



<u>Committee and Date</u>
---------------------------

West Mercia Energy Joint Committee
------------------------------------

26 February 2018
------------------

<u>Item</u>
-------------

9
---

<u>Public</u>
---------------

## EXTERNAL AUDIT - INFORMING THE AUDIT RISK ASSESSMENT 2017/18

**Responsible Officer** Nigel Evans

e-mail: [nevans@westmerciaenergy.co.uk](mailto: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 International Standards on Auditing (ISAs) (UK).

### 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 West Mercia Energy 2017/18



# Informing the audit risk assessment for West Mercia Energy 2017/18

Page 21



# Agenda

Purpose	3
Fraud	4
Fraud risk assessment	5-6
Laws and regulations	7
Impact of laws and regulations	8-10
Going concern	11
Going concern considerations	12-13
Related parties	14-15
Accounting estimates	16-17
Appendix A – Accounting estimates	18

# Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the West Mercia Energy 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 West Mercia Energy 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

## 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 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 West Mercia Energy management.

# Fraud risk assessment

Question	Management response
Has the Joint Committee assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?	Yes – By the establishment of control systems to reduce the risk through financial regulations, standing orders and scheme of delegation. By employing staff within the finance function with the appropriate professional qualifications. By the regular production of management accounts and comparison to annual budgets.
How is 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?	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.
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.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	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.
Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?	Yes

# Fraud risk assessment

Question	Management response
How does the Joint Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What arrangements are in place to report fraud issues and risks to the Joint Committee?	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.  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. Collaboration between the Director, Internal Audit and the Treasurer. A Staff Whistleblowing Policy is in place.
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 2017?	No
Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2017? If so how does the Joint Committee respond to these?	No

# Laws and regulations

## Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Joint Committee, is responsible for ensuring that the West Mercia Energy's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

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 noncompliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
What arrangements does the Joint Committee have in place to prevent and detect non-compliance with laws and regulations?	<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 2017-18.</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

Question	Management response
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<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>
<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>

# Impact of laws and regulations

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with law and regulations since 1 April 2017, or earlier with an on-going impact on the 2017/18 financial statements?	No
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 financial statements?	No
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate noncompliance?	No

# Going concern

## Matters in relation to laws and regulations

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.

Going concern is a fundamental principle in the preparation of financial statements. Under the going concern assumption, West Mercia Energy is viewed as continuing in operation for the foreseeable future with no necessity of liquidation or ceasing trading. Accordingly, the Joint Committee's assets and liabilities are recorded on the basis that assets will be realised and liabilities discharged in the normal course of business.

Page 31

Below are key questions on the going concern assumption which we would like the Audit & Governance Committee to consider.

# 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 other 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? How has the Joint Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?	The WME Business Plan for 2018/19 contains financial projections for 2018/19 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 <sup>st</sup> 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
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 and external audit regarding financial performance or significant weaknesses in systems of financial control).	No



# Going concern considerations

Question	Management response
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	No
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? If not, what action is being taken to obtain those skills?	Yes

# Related parties

## 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.

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.

Related party considerations have been set out below and management has provided its response.

# Related parties

Question	Management response
What controls does the Joint Committee have in place to identify, account for, and disclose related party transactions and relationships?	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.
Who have the Joint Committee identified as related parties?	See response as above. Also within the annual accounts transactions for the financial year between WME and each of the Member Authorities are disclosed.

# Accounting estimates

## Matters in relation to accounting estimates

Local Government bodies need to 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 material estimates that the CCG 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.

Accounting estimates considerations have been set out below and management has provided its response.



# Accounting estimates

Question	Management response
Are management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	No
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
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 - 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
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
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





<u>Committee and Date</u>
---------------------------

West Mercia Energy Joint Committee
---------------------------------------

26 <sup>th</sup> February 2018
--------------------------------

<u>Item</u>
-------------

10
----

<u>Public</u>
---------------

## **WEST MERICA ENERGY (WME) INTERNAL AUDIT PERFORMANCE REPORT TO FEBRUARY 2018**

**Responsible Officer** Ceri Pilawski

e-mail: [ceri.pilawski@shropshire.gov.uk](mailto:ceri.pilawski@shropshire.gov.uk)

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 2017/18, presented on 27<sup>th</sup> February 2017.
- 1.2 Work has continued on the 2017/18 Audit Plan with a timetable in place to fully deliver the required plan within the financial year. All eight audit reports have been completed since the last report, these are Payroll, Creditors, Debtors, Finance, Procurement, Risk Management, Governance and IT. In addition, consultancy support has been provided in respect of financial evaluations and General Data Protection Regulations (GDPR) within budget.
- 1.3 The overall plan remains at 26 Days as agreed in February 2017.

### **2. Recommendations**

- 2.1 The Committee consider and endorse, with appropriate comment, the performance to date against the 2017/18 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:

<b>Good</b>	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.
<b>Reasonable</b>	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.
<b>Limited</b>	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.
<b>Unsatisfactory</b>	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:

<b>Best Practice (BP)</b>	Proposed improvement, rather than addressing a risk.
<b>Requires Attention (RA)</b>	Addressing a minor control weakness or housekeeping issue.
<b>Significant (S)</b>	Addressing a significant control weakness where the system may be working but errors may go undetected.
<b>Fundamental (F)</b>	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 seventeen recommendations have been made in the eight final audit reports issued since the last report. A breakdown by area of the seventeen 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 2017/18**

Audit Area	Assurance level	No. of Recommendations made				
		Best Practice	Requires Attention	Significant	Fundamental	Total
Creditors System	Reasonable	0	6	0	0	6
Debtors System	Good	0	3	0	0	3
Finance System	Good	0	0	0	0	0
Governance	Good	0	2	0	0	2
IT Follow Up	Good	0	0	0	0	0
Payroll System	Good	0	4	0	0	4
Procurement	Good	0	1	0	0	1
Risk Management	Reasonable	0	0	1	0	1
<b>Total for the period</b>		<b>0</b>	<b>16</b>	<b>1</b>	<b>0</b>	<b>17</b>
<b>Total to date</b>						
• numbers		<b>0</b>	<b>16</b>	<b>1</b>	<b>0</b>	<b>17</b>
• percentage		<b>0%</b>	<b>94%</b>	<b>6%</b>	<b>0%</b>	<b>100%</b>

- 5.7 Six good and two reasonable assurance levels have been made, there are no unsatisfactory or limited opinions to report. One significant issue was identified by the Audits undertaken since the last report leading to the following recommendation:

<b>Risk Management &amp; Business Continuity</b>	
--	--

The Business Continuity Management Policy and the Business Recovery Plan should be progressed and finalised with sufficient details and information including plans for various emergencies and critical and non-critical failures.

The Policy and Plan should be approved by the Joint Committee and circulated to all Officers. It should be ensured that the completion and management of both the Policy and Plan are consistent with the Annual Governance Statement and Risk Register.

The Business Recovery Plan should be regularly tested and reviewed and any findings as a result should be reflected in the Plan.

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 2017. There have been minor variations to the plan agreed in February as shown below:

Audit	Original Plan	Variation	Revised Plan
Creditors	2	+1	3
Debtors	3	0	3
Finance	3	+1	4
Governance	2	0	2
IT Follow Up	5	-2	3
Payroll	2	0	2
Procurement	1	0	1
Risk Management & Business Continuity	2	0	2
Engagement Management	5	0	5
Contingency	1	0	1
<b>Total</b>	<b>26</b>	<b>0</b>	<b>26</b>

#### 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 2017/18



**Appendix B** – Debtors Report 2017/18

**Appendix C** – Finance Report 2017/18

**Appendix D** – Governance Report 2017/18

**Appendix E** – IT Report 2017/18

**Appendix F** – Payroll Report 2017/18

**Appendix G** – Procurement Report 2017/18

**Appendix H** – Risk Management 2017/18

**This page is intentionally left blank**

# SHROPSHIRE COUNCIL AUDIT SERVICES

## FINAL INTERNAL AUDIT REPORT

### CREDITORS 2017/18

<b>Assurance Level</b>	<b>Reasonable</b>
------------------------	-------------------

<b>Customer</b>	<b>West Mercia Energy</b>
-----------------	---------------------------

<b>Distribution</b>	<b>Jo Pugh – Finance Manager Nigel Evans – Director</b>
---------------------	---

<b>Auditors</b>	<b>Mark Seddon Mark Young</b>
-----------------	-----------------------------------

<b>Fieldwork dates</b>	<b>1<sup>st</sup> November 2017</b>
<b>Debrief meeting</b>	<b>30<sup>th</sup> November 2017</b>
<b>Draft report issued</b>	<b>30<sup>th</sup> November 2017</b>
<b>Responses received</b>	<b>5<sup>th</sup> December 2017</b>
<b>Final report issued</b>	<b>6<sup>th</sup> December 2017</b>

## **Introduction and Background**

1. As part of the approved internal audit plan for 2017/18 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 the recommendation 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:

<b>Reasonable</b>	There is generally a sound system of control in place but there is evidence of non-compliance with some of the controls.
-------------------	--

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:

<b>Total</b>	<b>Fundamental</b>	<b>Significant</b>	<b>Requires Attention</b>	<b>Best Practice</b>
6	0	0	6	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	1
Recommendations implemented	0
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 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

This report is produced solely for the use of West Mercia Energy. Its contents should not be shared, copied, quoted or referred to in whole or in part without our prior written consent except as required by law. Shropshire Council will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purposes.

**ACTION PLAN FOR CREDITORS 2017/18**

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
3.1	1	It should be ensured that purchase orders and invoices are authorised by Officers in accordance with the delegated limits stated in the Scheme of Delegation.  (Updated from the recommendation made and agreed in the 2016/17 audit).	Requires Attention	Yes	Agreed	Jo Pugh	Completed
3.2	2	The Terms and Conditions on stated on the reverse of the Purchase Orders should be reviewed and updated to reflect that they are in respect of 'West Mercia Energy' and not the 'Council'.	Requires Attention	Yes	Agreed, now corrected.	Jo Pugh	Completed
7.1	3	The supplier payment procedures should be reviewed to consider the actions to be taken where the expected turnover with a supplier will not allow a credit note to be taken immediately. Consideration should be given to the circumstances in which a refund would be requested as opposed to waiting a period of time	Requires Attention	Yes	This situation is not common, but is dealt with as arises, usually when a contract expires with a supplier. The procedure notes will be updated to say that if an invoice to cover the credit amount is not	Jo Pugh	December 2017

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
		for the credit note to be cleared.			expected imminently, consideration should be given to requesting a refund.		
10.1	4	It should be ensured that VAT is always reclaimed where a valid VAT receipt is available in respect of purchasing card transactions.	Requires Attention	Yes	Agreed	Jo Pugh	December 2017
10.2	5	It should be ensured that receipts are obtained for all purchasing card transactions in accordance with the Purchasing Card Agreement.	Requires Attention	Yes	Agreed	Nigel Evans	December 2017
10.3	6	All purchasing card transactions should adhere to the financial approval limits set out in the Scheme of Delegation.	Requires Attention	Yes	Agreed	Nigel Evans	December 2017



# SHROPSHIRE COUNCIL AUDIT SERVICES

## FINAL INTERNAL AUDIT REPORT

### DEBTORS 2017/18

<b>Assurance Level</b>	<b>Good</b>
------------------------	-------------

<b>Customer</b>	<b>West Mercia Energy</b>
-----------------	---------------------------

<b>Distribution</b>	<b>Nigel Evans, Director</b>
---------------------	------------------------------

<b>Auditors</b>	<b>Shelley Taylor</b>
-----------------	-----------------------

<b>Fieldwork dates</b>	November 2017
<b>Debrief meeting</b>	N/a
<b>Draft report issued</b>	7 November 2017
<b>Responses received</b>	14 November 2017
<b>Final report issued</b>	14 November 2017

## **Introduction and Background**

1. As part of the approved internal audit plan for 2017/18 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 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:

<b>Good</b>	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
-------------	--

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:

<b>Total</b>	<b>Fundamental</b>	<b>Significant</b>	<b>Requires Attention</b>	<b>Best Practice</b>
3	0	0	3	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	4
Recommendations implemented	1
Recommendations partially implemented	2
Recommendations superseded	-
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

This report is produced solely for the use of West Mercia Energy. Its contents should not be shared, copied, quoted or referred to in whole or in part without our prior written consent except as required by law. Shropshire Council will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purposes.

**ACTION PLAN FOR DEBTORS 2017/18**

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.  (As previously recommended and agreed in 2016/17).	Requires Attention	Yes	The billing and finance teams are now fully resourced, so the aim is to complete full suppliers statement reconciliations on a quarterly basis.	John Morris	December 2017
4.1	2	The debt recovery process as stated in the Credit Management Policy should be reviewed to ensure that it is operationally effective. If it is decided that the current activity is sufficient the policy should be updated to reflect this. If management feel that following review, the current policy would further improve performance then the current processes should be reviewed to ensure compliance with the policy.  (Updated from recommendation made and agreed in 2016/17).	Requires Attention	Yes	The finance team is now fully resourced, and the level of 60 day debt will be reviewed weekly with necessary action taken.  The Credit Management Policy may require review as the SAGE reporting on outstanding debts does not identify debt at 45 days old but simply by period.	Jo Pugh	Immediately

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
8.1	3	<p>Management should consider the following actions to improve the active monitoring of credit balances.</p> <p>1) Priority is given to credit balances over £1,000.00  2) Writing off small credit balances on dormant accounts where customers have failed to respond to initial contact.  3) Ensuring all dormant or former customers have been contacted at least once.</p> <p>If the process is updated the Credit Policy should be amended to reflect the process.</p> <p>(Updated from recommendation made and agreed in 2016/17).</p>	Requires Attention	Yes	<p>As noted previously, whilst this point is accepted, this is always a lower priority than chasing outstanding debt.</p> <p>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 as part of the management accounts process and actively reviewed and followed up where necessary.</p> <p>The finance team is now fully resourced, and the intention is that credit balances be reviewed quarterly with necessary action taken, which is in line with the Credit Management Policy.</p>	Jo Pugh	December 2017

# SHROPSHIRE COUNCIL AUDIT SERVICES

## FINAL INTERNAL AUDIT REPORT

### FINANCE 2017/18

<b>Assurance Level</b>	<b>Good</b>
------------------------	-------------

<b>Customer</b>	<b>West Mercia Energy</b>
-----------------	---------------------------

<b>Distribution</b>	<b>Nigel Evans, Director</b>
---------------------	------------------------------

<b>Auditors</b>	<b>Shelley Taylor</b>
-----------------	-----------------------

<b>Fieldwork dates</b>	November 2017
<b>Debrief meeting</b>	N/A
<b>Draft report issued</b>	N/A
<b>Responses received</b>	N/A
<b>Final report issued</b>	13 <sup>th</sup> November 2017

## **Introduction and Background**

1. As part of the approved internal audit plan for 2017/18 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:

<b>Good</b>	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
-------------	--

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. 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.

10. 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	-
Recommendations superseded	-
Recommendations not actioned	-

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

### **Audit Approach**

11. 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.

12. Internal Audit report by exception a more detailed report covering all of the work undertaken can be provided on request. This will be available in a working paper format.

Ceri Pilawski  
Head of Audit

This report is produced solely for the use of West Mercia Energy. Its contents should not be shared, copied, quoted or referred to in whole or in part without our prior written consent except as required by law. Shropshire Council will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purposes.

# **SHROPSHIRE COUNCIL AUDIT SERVICES**

## **INTERNAL AUDIT REPORT**

### **CORPORATE GOVERNANCE 2017/18**

<b>Assurance Level</b>	<b>Good</b>
------------------------	-------------

<b>Customer</b>	<b>West Mercia Energy</b>
-----------------	---------------------------

<b>Distribution</b>	<b>Nigel Evans - Director</b>
---------------------	-------------------------------

<b>Auditor</b>	<b>Mark Seddon</b>
----------------	--------------------

<b>Fieldwork dates</b>	November 2017
<b>Debrief meeting</b>	30 <sup>th</sup> November 2017
<b>Draft report issued</b>	30 <sup>th</sup> November 2017
<b>Responses received</b>	4 <sup>th</sup> January 2018
<b>Final report issued</b>	4 <sup>th</sup> January 2018

## **Introduction and Background**

1. As part of the approved internal audit plan for 2017/18 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 review the current Corporate Governance arrangements.

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.
  - The Company has an up to date Constitution.
  - Terms of Reference are in place for sub-committees which are suitable for current practices and are reviewed and adopted on an annual basis.
  - Meetings of the Board are held in accordance with the Constitution.
  - Meetings of the Board are quorate.
  - Board meetings follow a defined order of business.
  - There are signed declarations of interest for all members.
  - Disclosure of Information.
  - There is an induction program for all new members.
  - There is a member's handbook which is up to date, informative and readily accessible to members.
  - All members can access training to meet their needs and ensure that skills and competencies are kept up to date.
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:

<b>Good</b>	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
-------------	--

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:

<b>Total</b>	<b>Fundamental</b>	<b>Significant</b>	<b>Requires Attention</b>	<b>Best Practice</b>
2	0	0	2	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 Company has an up to date Constitution.
✓	Terms of Reference are in place for sub-committees which are suitable for current practices and are reviewed and adopted on an annual basis.
✓	Meetings of the Board are held in accordance with the Constitution.
✓	Meetings of the Board are quorate.
✓	Board meetings follow a defined order of business.
✓	There are signed declarations of interest for all members.
✓	Disclosure of Information.
✓	There is an induction program for all new members.
✓	There is a member's handbook which is up to date, informative and readily accessible to members.
✓	All members can access training to meet their needs and ensure that skills and competencies are kept up to date.

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 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 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

This report is produced solely for the use of West Mercia Energy. Its contents should not be shared, copied, quoted or referred to in whole or in part without our prior written consent except as required by law. Shropshire Council will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purposes.

**ACTION PLAN FOR CORPORATE GOVERNANCE 2017/18**

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
1.1	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.  (As previously recommended and agreed in the 2016/17 audit)	Requires Attention	Yes	Agreed. The Director will conduct a review of each of the areas highlighted in section five of the Joint Agreement and will report back initially to Internal Audit as to the current status of each area. Following this, the Director will consider any areas that need to be approved by the Joint Committee (either due to changes since last approved by the Joint Committee or where not previously presented and approved).	Nigel Evans	Initial review February 2018 with any necessary Joint Committee approvals sought in September 2018.
6.1	2	It should be ensured that a Vice-Chair is appointed annually by the Joint Committee in accordance with the	Requires Attention	Yes	Agreed.	Nigel Evans in liaison with	February 2018.

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
		requirements of the Joint Agreement.				Committee Services.	



# SHROPSHIRE COUNCIL AUDIT SERVICES

## FINAL INTERNAL AUDIT REPORT

### IT FOLLOWUP 2017/18

<b>Assurance Level</b>	<b>Good</b>
------------------------	-------------

<b>Customer</b>	<b>Nigel Evans – Director</b>
-----------------	-------------------------------

<b>Distribution</b>	<b>Neil Marston – IT Lead</b>
---------------------	-------------------------------

<b>Auditors</b>	<b>Barry Hanson</b>
-----------------	---------------------

<b>Fieldwork dates</b>	December 2017
<b>Debrief meeting</b>	TBC
<b>Draft report issued</b>	N/A
<b>Responses received</b>	N/A
<b>Final report issued</b>	19 December 2017

## **Introduction and Background**

1. As part of the approved internal audit plan for 2017/18 Audit Services have undertaken a follow-up IT Audit.
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.
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 previous audits in relation to following areas have been implemented as per the original management responses:

- 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 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:

<b>Good</b>	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
-------------	--

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. 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 2016-17 audit have been implemented as per the original management response.
---	---

10. 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	4
Recommendations implemented	4

Recommendations partially implemented	0
Recommendations superseded	0
Recommendations not actioned	0

Good 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**

11. The approach adopted for this audit included:
  - Follow up of previous recommendations.
12. 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

This report is produced solely for the use of West Mercia Energy. Its contents should not be shared, copied, quoted or referred to in whole or in part without our prior written consent except as required by law. Shropshire Council will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purposes.

# SHROPSHIRE COUNCIL AUDIT SERVICES

## FINAL INTERNAL AUDIT REPORT

### PAYROLL 2017/18

<b>Assurance Level</b>	<b>Good</b>
------------------------	-------------

<b>Customer</b>	<b>West Mercia Energy</b>
-----------------	---------------------------

<b>Distribution</b>	<b>Jo Pugh – Finance Manager Nigel Evans – Director</b>
---------------------	---

<b>Auditors</b>	<b>Mark Seddon Mark Young</b>
-----------------	-----------------------------------

<b>Fieldwork dates</b>	November 2017
<b>Debrief meeting</b>	30 <sup>th</sup> November 2017
<b>Draft report issued</b>	30 <sup>th</sup> November 2017
<b>Responses received</b>	5 <sup>th</sup> December 2017
<b>Final report issued</b>	6 <sup>th</sup> December 2017

## **Introduction and Background**

1. As part of the approved internal audit plan for 2017/18 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 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:

<b>Good</b>	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
-------------	--

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:

<b>Total</b>	<b>Fundamental</b>	<b>Significant</b>	<b>Requires Attention</b>	<b>Best Practice</b>
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 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	3
--	---

Recommendations implemented	2
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

This report is produced solely for the use of West Mercia Energy. Its contents should not be shared, copied, quoted or referred to in whole or in part without our prior written consent except as required by law. Shropshire Council will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purposes.



**ACTION PLAN FOR PAYROLL 2017/18**

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
2.1	1	The Service Level Agreement with Shropshire Council should be pursued and agreed as soon as possible.	Requires Attention	Yes	Agreed. This has been requested on several occasions and is currently with the s151 Officer of Shropshire Council	Nigel Evans	December 2017 (but dependent on Shropshire Council)
2.2	2	All policies should include a review clause.	Requires Attention	Yes	Agreed	Julie Wassall	March 2018
2.3	3	The additional hours payment claims forms should be completed fully to include a detailed record of hours worked on particular days between certain times. Alternatively, the employee time keeping spreadsheets should clearly and in detail record the additional hours worked and should be attached to the overtime claims as a supporting document.	Requires Attention	Yes	These are held on the system, but going forward these will be printed and attached to the overtime claim forms.	Jo Pugh	December 2017
2.4	4	The overtime claim forms should be submitted for payment at the end of	Requires Attention	Yes	Noted and claims will be made at the end of the	Jo Pugh	December 2017

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
		the month in which the work was carried out to ensure payment the following month. (Updated from the previous recommendation made and agreed in the 2016/17 audit).			month when the overtime was performed, where possible.		

# SHROPSHIRE COUNCIL AUDIT SERVICES

## INTERNAL AUDIT REPORT

### PROCUREMENT 2017/18

<b>Assurance Level</b>	<b>Good</b>
------------------------	-------------

<b>Customer</b>	<b>West Mercia Energy</b>
-----------------	---------------------------

<b>Distribution</b>	<b>Nigel Evans – Director Jo Pugh – Finance Manager</b>
---------------------	---

<b>Auditor</b>	<b>Mark Seddon</b>
----------------	--------------------

<b>Fieldwork dates</b>	<b>31<sup>st</sup> October 2017</b>
<b>Debrief meeting</b>	<b>15<sup>th</sup> November 2017</b>
<b>Draft report issued</b>	<b>15<sup>th</sup> November 2017</b>
<b>Responses received</b>	<b>4<sup>th</sup> January 2018</b>
<b>Final report issued</b>	<b>4<sup>th</sup> January 2018</b>

## **Introduction and Background**

1. As part of the approved internal audit plan for 2017/18 Audit Services have undertaken a review of Procurement.
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 and give assurance that tendering and contract procurement in respect of the gas contract are operated in accordance with legislation and the West Mercia Energy Contract Procedure Rules.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
  - Contract Procedure Rules are in place and are available to officers who procure goods, works and services.
  - There is an appropriate evaluation process prior to the project being tendered.
  - There is a satisfactory system to ensure tender documents are completed in accordance with Contract Procedure Rules.
  - There is an adequate system of tender appraisal so that selection is based on an accurate evaluation of the tender information.
  - Successful and unsuccessful tenderers are notified promptly; unsuccessful tenders are retained in case of default / re-negotiation / for future information.
  - Contract documents are completed on a timely basis and include key conditions to protect West Mercia Energy from liability in respect of contractor's actions.
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:

<b>Good</b>	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
-------------	--

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:

<b>Total</b>	<b>Fundamental</b>	<b>Significant</b>	<b>Requires Attention</b>	<b>Best Practice</b>
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:

✓	Contract Procedure Rules are in place and are available to officers who procure goods, works and services.
✓	There is an appropriate evaluation process prior to the project being tendered.
✓	There is a satisfactory system to ensure tender documents are completed in accordance with Contract Procedure Rules.
✓	There is an adequate system of tender appraisal so that selection is based on an accurate evaluation of the tender information.
✓	Successful and unsuccessful tenderers are notified promptly; unsuccessful tenders are retained in case of default / re-negotiation / for future information.
✓	Contract documents are completed on a timely basis and include key conditions to protect West Mercia Energy from liability in respect of contractor's actions.

### **Audit Approach**

11. The approach adopted for this audit included:
- Review and documentation of the system.
  - Identification of key controls.
  - Tests of controls to confirm their existence and effectiveness.
  - Evaluation of the controls and identification of weaknesses and potential risks arising from them.
12. 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.

13. 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

This report is produced solely for the use of West Mercia Energy. Its contents should not be shared, copied, quoted or referred to in whole or in part without our prior written consent except as required by law. Shropshire Council will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purposes.

**ACTION PLAN FOR PROCUREMENT 2017/18**

<b>Rec Ref.</b>	<b>Rec No.</b>	<b>Recommendation</b>	<b>Rec Rating</b>	<b>Accepted Yes/No/ Partially</b>	<b>Management Response</b>	<b>Lead Officer</b>	<b>Date to be Actioned</b>
4.1	1	It should be ensured that a credit reference report is obtained and formal financial evaluation carried out in respect of the contracted suppliers in accordance with the Shropshire Council Contract rules.	Requires Attention	Yes	Agreed.	Gareth Maude	Immediately

**This page is intentionally left blank**



# SHROPSHIRE COUNCIL AUDIT SERVICES

## INTERNAL AUDIT REPORT

### RISK MANAGEMENT AND BUSINESS CONTINUITY 2017/18

<b>Assurance Level</b>	<b>Reasonable</b>
------------------------	-------------------

<b>Customer</b>	<b>West Mercia Energy</b>
-----------------	---------------------------

<b>Distribution</b>	<b>Director – Nigel Evans</b>
---------------------	-------------------------------

<b>Auditors</b>	<b>Mark Seddon</b>
-----------------	--------------------

<b>Fieldwork dates</b>	November 2017
<b>Debrief meeting</b>	30 <sup>th</sup> November 2017
<b>Draft report issued</b>	30 <sup>th</sup> November 2017
<b>Responses received</b>	4 <sup>th</sup> January 2018
<b>Final report issued</b>	4 <sup>th</sup> January 2018

## **Introduction and Background**

1. As part of the approved internal audit plan for 2017/18 Audit Services have undertaken a review of Risk Management and Business Continuity.
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 implementing the recommendation made in the previous audit and to confirm that there are appropriate arrangements in place for the management of risk and business continuity during the current financial year.

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.
  - There is a process to identify the critical service areas which if not delivered would cause disruption to operations.
  - A business continuity plan has been prepared which details the actions to be taken to allow recovery from an incident.
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:

<b>Reasonable</b>	There is generally a sound system of control in place but there is evidence of non-compliance with some of the controls.
-------------------	--

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:

<b>Total</b>	<b>Fundamental</b>	<b>Significant</b>	<b>Requires Attention</b>	<b>Best Practice</b>
1	0	1	0	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 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.
✓	There is a process to identify the critical service areas which if not delivered would cause disruption to operations.

11. The audit work identified one significant issue leading to the following recommendation:
  - The Business Continuity Management Policy and the Business Recovery Plan should be progressed and finalised with sufficient details and information including plans for various emergencies and critical and non-critical failures.

The Policy and Plan should be approved by the Joint Committee and circulated to all Officers. It should be ensured that the completion and management of both the Policy and Plan are consistent with the Annual Governance Statement and Risk Register.

The Business Recovery Plan should be regularly tested and reviewed and any findings as a result should be reflected in the Plan.

12. 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 previous recommendations. Recommendations which remain outstanding are included in the attached Exception Report and Action Plan.

### **Audit Approach**

13. 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.
14. 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.
15. 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

This report is produced solely for the use of West Mercia Energy. Its contents should not be shared, copied, quoted or referred to in whole or in part without our prior written consent except as required by law. Shropshire Council will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purposes.

**ACTION PLAN FOR RISK MANAGEMENT AND BUSINESS CONTINUITY 2017/18**

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/ Partially	Management Response	Lead Officer	Date to be Actioned
7.1	1	<p>The Business Continuity Management Policy and the Business Recovery Plan should be progressed and finalised with sufficient details and information including plans for various emergencies and critical and non-critical failures.</p> <p>The Policy and Plan should be approved by the Joint Committee and circulated to all Officers. It should be ensured that the completion and management of both the Policy and Plan are consistent with the Annual Governance Statement and Risk Register.</p> <p>The Business Recovery Plan should be regularly tested and reviewed and any findings as a result should be reflected in the Plan.</p>	Significant	Yes	Agreed. The Business Recovery Plan was presented to the Joint Committee in June 2013 and whilst the changes to the plan since then have not been significant it is agreed that it is sensible for the Joint Committee to agree the current policy and plan.	Nigel Evans	February 2018.



## Committee and Date

West Mercia Energy Joint  
Committee

26<sup>th</sup> February 2018

## Item

11

Public

### **WEST MERCIA ENERGY (WME) INTERNAL AUDIT STRATEGIC PLAN 2018/19**

**Responsible Officer** Ceri Pilawski

e-mail: [ceri.pilawski@shropshire.gov.uk](mailto:ceri.pilawski@shropshire.gov.uk)

Tel: 01743 257739

## **1. Summary**

- 1.1 This report details the proposed programme of audit work for the year 2018/19 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 2018/19.

## **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 2018/19 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

Internal audit strategic plan 2017/18 – February 2017

### **Member**

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

### **Appendices**

**Appendix A:** West Mercia Energy – Proposed Internal Audit Plan 2018/19

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

<b>AUDIT</b>	<b>Including review of:</b>	<b>2018/19 DAYS</b>
<b>PAYROLL</b>	Starters and leavers, overtime, travel, subsistence and performance related pay.	2
<b>PROCUREMENT</b>	Review of changes to contracts and mapping exercise re terms and conditions to ensure that all Shropshire Terms and conditions have been incorporated.	3
<b>CREDITORS</b>	Orders, payments, credit notes, purchase cards.	2
<b>DEBTORS</b>	Billing, collection, refunds, write-offs, rebates (to cover gas, electricity, oil and new business areas on a rolling basis). Position in respect of new supplier framework for fixed price contracts will be considered for review dependent upon level of take up.	3
<b>FINANCE</b>	Budgetary control, journals and control accounts reconciliation, bank control and reconciliation, exception reporting and reconciliation, VAT	3
<b>IT</b>	IT health check and review of progress on contingency arrangements with Telford and Wrekin Council.	3
<b>CORPORATE GOVERNANCE AND RISK MANAGEMENT</b>	Corporate governance	2
	Risk management & Insurance	2
<b>ENGAGEMENT MANAGEMENT</b>	Previous recommendation follow up, audit management, audit planning, servicing Audit Committee, advisory	5
	Contingency	1
<b>TOTAL</b>		<b>26</b>



## Committee and Date

West Mercia Energy Joint  
Committee

26 February 2018

## Item

12

Public

## **ANTI-SLAVERY AND HUMAN TRAFFICKING STATEMENT 2017/18**

**Responsible Officer** Nigel Evans

e-mail: [nevans@westmerciaenergy.co.uk](mailto:nevans@westmerciaenergy.co.uk) Tel: 0333101 4353

### **1. Summary**

- 1.1 Following approval in September 2017 of the WME Anti-Slavery and Human Trafficking Policy, the Joint Committee are presented with the WME Transparency Statement for 2017/18 for approval.

### **2. Recommendations**

- 2.1 The Joint Committee are asked to approve the WME Transparency Statement for 2017/18, in accordance with section 54 of the Modern Slavery Act 2015, and for publication of the Statement.

## **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 Modern Slavery Act 2015 is aimed at combating crimes of slavery and human trafficking and recognises that businesses have a role to play in tackling these crimes. Section 54 of the Act requires any commercial organisation with a turnover of over £36m p.a. to publish an annual statement for each financial year to detail what steps the organisation has taken to ensure that human trafficking is not taking place in any of its supply chains or its business (this does not mean the organisation must guarantee the entire supply chain is slavery free); or make a declaration that no such steps have been taken. The aim is to ensure that businesses are transparent about what they are doing to tackle modern slavery and human trafficking.
- 5.2 The WME Anti-Slavery and Human Trafficking Policy was approved by the Joint Committee on 25<sup>th</sup> September 2017 and this Policy is published on the WME website.
- 5.3 In accordance with section 54 of the Modern Slavery Act 2015, a statement must be published at the end of the relevant financial year and specify the steps taken within the previous financial year to ensure that no slavery or human trafficking is taking place in any part of its business or in its supply chains. Organisations are encouraged to do this within 6 months of the end of the relevant financial year.
- 5.4 The WME Statement for 2017/18 is attached and the Joint Committee are asked to approve the Statement. Once approved the Statement will be published on the WME website.

<p><b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b></p> <p>Joint Committee 25<sup>th</sup> September 2017 – Anti-Slavery and Human Trafficking Policy</p> <p><b>Member</b> Councillor P Price of Herefordshire Council (chair of the Joint Committee)</p> <p><b>Appendices</b> WME Transparency Statement 2017/18</p>
--



## Modern Slavery Act 2015

### West Mercia Energy Transparency Statement 2017/18

This statement is made in pursuant to section 54 of the Modern Slavery Act 2015 (the Act) and relates to actions and activities West Mercia Energy (WME) have undertaken during the financial year 1 April 2017 to 31 March 2018 to understand all potential modern slavery risks related to its business and to put in place steps that are aimed at ensuring that there is no slavery or human trafficking in its own business and supply chains.

WME offers energy procurement and management on behalf of its four Member Authorities and a number of outside bodies. The contracts cover the provision of electricity, natural gas, petroleum fuels and liquid petroleum gas within the UK. WME is opposed to all forms of human trafficking and slavery and takes all necessary steps to ensure the promotion of sound, moral and ethical practices throughout the whole of its business.

During the financial year 1 April 2017 to 31 March 2018 WME have:

- Developed and implemented a formal Anti-Slavery and Human Trafficking Policy
- Taken steps to ensure that all current suppliers are fully compliant with the Act
- Ensured that all procurement activity identifies compliance with the Act as part of the evaluation criteria
- Ensured that all recruitment activity was undertaken in line with requirements of the Act
- Conducted risk awareness training with all members of staff

During 2018/19 WME will continue to apply our Anti-Slavery and Human Trafficking Policy to all our commercial activities, and to maintain and raise awareness of the Act and its requirements and obligations to all our staff.

WME's Slavery and Human Trafficking Statement has been approved by the WME Joint Committee. It should be read in conjunction with the Modern Slavery Act 2015 and the National Referral Mechanism. This Statement will be reviewed and updated annually.

---

West Mercia Energy is jointly owned by the following councils



**This page is intentionally left blank**

Document is Restricted

**This page is intentionally left blank**



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

Document is Restricted

**This page is intentionally left blank**

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

**Document is Restricted**

**This page is intentionally left blank**

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

Document is Restricted

**This page is intentionally left blank**

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

**Document is Restricted**

**This page is intentionally left blank**



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

**Document is Restricted**

**This page is intentionally left blank**

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

Document is Restricted

**This page is intentionally left blank**

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

**Document is Restricted**

**This page is intentionally left blank**

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

**Document is Restricted**

**This page is intentionally left blank**



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

**Document is Restricted**

**This page is intentionally left blank**

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

**Document is Restricted**

**This page is intentionally left blank**

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

**Document is Restricted**

**This page is intentionally left blank**