



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

Date: 17th February 2020

Committee:
West Mercia Energy Joint Committee

Date: Tuesday, 25 February 2020

Time: 10.00 am

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

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

Claire Porter
Director of Legal and Democratic Services

Members of West Mercia Energy Joint Committee

<i>Herefordshire Council</i>	L Harvey G Davies
<i>Shropshire Council</i>	P Nutting (Chairman) R Macey
<i>Telford & Wrekin Council</i>	L Carter R Evans
<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

AGENDA

1 Election of Chairman

To elect a Chairman 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 - 6)

To receive the minutes of the Joint Committee meeting held on 24th September 2019.

Copy attached marked 4.

5 Public Questions

To receive any question 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, 21st February 2020.

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 West Mercia Energy Standing Orders.

8 External Audit Plan 2019/2020 (Pages 7 - 22)

Report of the External Auditor

Contact: Richard Percival (0121 212 4000)

9 External Audit - Informing the Audit Risk 2019/2020 (Pages 23 - 54)

Report of the External Auditor is attached, marked 9.

Contact: Richard Percival (0121 212 4000)

10 Internal Audit Performance Reports to February 2020 (Pages 55 - 92)

The reports of the Audit Services Manager.

Appendix 1 - Debtors

Appendix 2 - Finance

Appendix 3 – Corporate Governance

Appendix 4 – Procurement

Appendix 5 – IT

Contact: Ceri Pilawski (01743 257739)

11 Internal Audit Strategic Plan 2020/21 (Pages 93 - 96)

Report of the Audit Services Manager.

Contact: Ceri Pilawski (01743 257739)

12 Anti-Slavery and Human Trafficking Statement 2019/20 (Pages 97 - 100)

Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

13 Equality Policy (Pages 101 - 114)

Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

14 Transfer of the WMS Pension Liability (Pages 115 - 118)

Report of the Treasurer.

Contact: James Walton (01743 258915)

15 Risk Management Update (Pages 119 - 126)

Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

16 Minutes of the Flexible Energy Advisory Panel (Pages 127 - 136)

Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

17 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.

18 Exempt Minutes (Pages 137 - 140)

To approve the exempt Minutes of the meeting held on 24th September 2019.

Contact: Emily Marshall (01743 257717)

**19 Annual Business Plan and Budget 2020/21 including a Review of 2019/20
(Pages 141 - 178)**

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

20 Date of Next Meeting

The next meeting of the West Mercia Energy Joint Committee will be held on Tuesday, 29th September 2020 at 10.00 a.m. in the Shrewsbury Room, Shirehall.



Committee and Date

West Mercia Energy Joint
Committee

25th February 2020

WEST MERCIA ENERGY JOINT COMMITTEE

Minutes of the meeting held on 24 September 2019

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

10.00 - 11.46 am

Responsible Officer: Emily Marshall

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

Present

Councillor Peter Nutting

Councillors Evans, Davies, May and Harvey

20 Apologies for Absence

Apologies for absence were received from Councillor Carter, Hardman (Substitute Councillor May), Macey and Smith.

It was reported that Councillor Nutting would be joining the meeting late and it was agreed that Councillor Evans would chair the meeting until he arrived.

21 Minutes

RESOLVED:

That the Minutes of the West Mercia Energy Joint Committee held on 26th February 2019 be approved as a correct record and signed by the Chairman.

22 Public Questions

There were no public questions or petitions.

23 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.

Councillor Davies stated that she worked for Wye Valley NHS Trust, but had no pecuniary interest to disclose.

24 Supplier Contracts

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

With regards to the supplier of petroleum fuels, the Director reported that in accordance with Standing Order 5.3 he would be entering into post tender negotiations to clarify certain elements of their bid.

RESOLVED:

That the update on supplier contracts be noted.

25 Statement of Accounts 2018/2019 and Annual Governance Statement 2018/2019

Mr J. Walton, Treasurer (WME) presented the Letter of Representation, the Statement of Accounts 2018/19 and the Annual Governance Statement 2018/19 for the West Mercia Energy Joint Committee (copy attached to the signed minutes).

RESOLVED:

1. That the Letter of Representation be noted and signed by the Chairman and submitted by the Treasurer.
2. That the finalised Statement of Accounts 2018/19 be approved and signed by the Chairman and the Treasurer.
3. That the Annual Governance Statement 2018/19 be approved.

26 External Audit - Audit Findings Report 2018/2019

Mr R. Percival and Mr D. Rowley (External Auditors – Grant Thornton) presented the West Mercia Energy Joint Committee Audit Findings Report 2018/19 (copy attached to the signed minutes).

RESOLVED:

That the West Mercia Energy Joint Committee Audit Findings Report 2018/19 be noted.

27 Internal Audit - Annual Report 2018/2019

C. Pilawski, Head of Audit 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 2019 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 2018/19.
3. That the Head of Audit's positive year end opinion on West Mercia Energy's governance, risk management and internal control environment for 2018/19 on the basis of the work undertaken and management responses received be noted.

28 Distribution of Surplus

The Treasurer presented the report which recommended the level of distribution of surplus held at 31 March 2019 to the Member Authorities (copy attached to the signed minutes).

In response to a question the Treasurer outlined how the surplus was calculated and that this formula was set out in the WME Joint Agreement.

In response to a question relating to incentives for energy efficiency, the Treasurer explained that while it could be possible to incorporate an incentivisation scheme into the surplus calculation, it would need careful consideration and the implications would need exploring. The Treasurer suggested an alternative option where the distribution received from WME by the Member Authorities could be ring fenced to support energy efficiency projects and this would be considered further.

RESOLVED:

1. That the retention of accumulated surplus of £0.717 million be approved.
2. That the distribution of accumulated surplus of £0.704 million, in accordance with the provisions of the Joint Agreement, be approved.

29 Treatment of the WMS Pension Liability

The Treasurer presented the report which detailed proposals for the treatment of the West Mercia Supplies pension deficit (copy attached to the signed minutes).

The Treasurer outlined the history and the options that had been considered for the benefit of new members of the Committee. It was explained that the WME Risk Register had identified a potential risk in bidding for future contracts while carrying the liability for the former WMS employees on its balance sheet as potential customers would consider the financial position of WME in assessing their bid. The proposal that was being considered would result in the removal of the WMS Pension Liability from the West Mercia Energy balance sheet by transferring the responsibility for the liability to the four owning authorities.

Councillor May joined the meeting at this point.

The Treasurer stressed that in order to achieve implementation by April 2020, all four authorities had to agree on the same option for it to be taken forward and that he would make this clear in his report to the respective Cabinets.

Councillor Peter Nutting joined the meeting at this point

RESOLVED:

1. That a proposal to the four WME Owning Authorities of Shropshire Council, Telford & Wrekin Council, Herefordshire Council and Worcestershire County Council for them to take direct responsibility for the pension deficit liability relating to former WMS employees (including Compensatory Added Years Benefits) and WME with effect from 1st April 2020 be agreed; and
2. That, subject to the formal decisions to be taken by the four WME Owning Authorities in recommendation 2.1 of the report, the removal of the pension deficit liability relating to former WMS employees (including Compensatory Added Years Benefits) and WME from the WME Balance Sheet from 1 April 2020 be agreed.

30 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.

31 Exempt Minutes

RESOLVED:

That the Exempt Minutes of the meeting held on 26th February 2019 be approved as a correct record.

32 Minutes of the Flexible Energy Advisory Panel

The Director presented an exempt report (copy attached to the signed exempt minutes), which presented the exempt 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.

33 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.

34 Update on Business Plan and Trading Performance to Date 2019/2020

The Director presented an exempt report (copy attached to the signed exempt minutes), which provided an update on the West Mercia Energy Annual Business Plan and Budget 2019/20.

RESOLVED:

That the recommendation contained within the exempt report be approved.

35 Fixed Price Supply Contract Arrangements

The Director presented an exempt report (copy attached to the signed exempt minutes), which detailed the development of enhanced arrangements for fixed term energy supply contracts.

RESOLVED:

That the recommendation contained within the exempt report be approved.

36 Date of Next Meeting

It was noted that the next meeting would take place on Tuesday, 25th February 2020 at 10.00 a.m. in the Shrewsbury Room, Shirehall, Shrewsbury.

Signed (Chairman)

Date:

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<u>Committee and Date</u>

West Mercia Energy Joint Committee

25 February 2020

<u>Item</u>

8

<u>Public</u>

EXTERNAL AUDIT PLAN 2019/20

Responsible Officer Nigel Evans

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

1. Summary

- 1.1 It has been previously agreed for the Joint Committee to continue with an external audit to provide the Joint Committee the necessary continued assurance regarding stewardship of funds.
- 1.2 This report provides the Joint Committee with the proposed external audit plan for 2019/20 for consideration and approval.

2. Recommendations

It is recommended that the Joint Committee:

- 2.1 approve the draft audit plan for 2019/20 as presented by Grant Thornton attached at Appendix 1
- 2.2 approve the commissioning of Grant Thornton to undertake the audit in accordance with the audit plan.

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 in September 2015 to continue with an external audit. It was accepted by the Joint Committee that without an annual External Audit process not only would the Joint Committee lose the assurance regarding stewardship of funds but also the other Local Authorities/public entities with which WME trades.

4. Financial Implications

- 4.1 The quoted audit fee for 2019/20 is £14,250, an increase of £750 on the £13,500 in 2018/19. The fee stood at £13,000 for 2015/16 – 2017/18 after a reduction from the 2014/15 rate 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.
- 5.2 The scope of the audit to be undertaken is set out in Grant Thornton's proposal and the 'significant risks' identified for special audit consideration are identified on pages 5 to 7 of the plan.
- 5.3 Grant Thornton will conduct their main audit work on the WME accounts for 2019/20 at a time to be agreed during the summer and will bring their report to the September Joint Committee.

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 Nutting of Shropshire Council (Chair of the Joint Committee)
Appendices Appendix 1 - Grant Thornton The Audit Plan for West Mercia Energy (year ended 31 March 2020)

The Audit Plan for West Mercia Energy

Year ending 31 March 2020

February 2020

Richard Percival

Director

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Manager

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction & headlines

Purpose

- This document provides an overview of the planned scope and timing of the statutory audit of West Mercia Energy Joint Committee ('the Joint Committee') for those charged with governance.

Respective responsibilities

- The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed engagement letter. We draw your attention to both of these documents.

Scope of our audit

- The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :
 - Joint Committee's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Joint Committee to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Joint Committee is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Joint Committee's business and is risk based. The significant risks identified for the 19/20 audit and our proposed approach are set out in the table below and in further detail later in this document.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Income from utility revenue
- Management override of controls
- Valuation of the pension fund net liability
- Going concern disclosures

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report in September 2020.

Materiality

We have determined planning materiality to be £1.325m (PY £1.2m) for the Joint Committee, which equates to 2% of your prior year gross revenue for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.066m (PY £0.06m). Further details of our approach to materiality are outlined at page 9.

Audit logistics

Our audit planning session took place in January and our final visit will take place in July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is outlined overleaf.

We have agreed a staged increase of our fee to £15,000. Our fee for the 2019/20 audit will be £14,250 (PY: £13,500) for the Joint Committee, subject to the Joint Committee meeting our requirements set out on page 10.

Independence

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.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement 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	Further work planned
The revenue cycle includes fraudulent transactions – income from utility revenue	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For West Mercia Energy Joint Committee we have concluded that the greatest risk of material misstatement relates to utility income. The Joint Committee procures energy in bulk from a market where prices are highly volatile and outcomes depend on detailed contractual terms. In particular, activities near the period end are more subject to subjective criteria determined by management and there is a greater risk to ensure recognised contract conditions have been satisfied</p> <p>We have therefore identified the occurrence and accuracy of utility income as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>We have rebutted this presumed risk for the other revenue streams of the Joint Committee because:</p> <ul style="list-style-type: none"> opportunities to manipulate revenue recognition are very limited. 	<p>We will:</p> <ul style="list-style-type: none"> evaluate the Joint Committee's accounting policy for recognition of income from utilities for appropriateness; gain an understanding of the Joint Committee's system for accounting for income from utilities, evaluate the design of the associated controls and observe them in operation; Agree, on a sample basis amounts recognised as income from utility in the financial statements to ensure that accurately accounted for in line with contract terms, that income is appropriately recognised and that there is appropriate evidence of receipt of funds.
Management over-ride of controls	<p>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. The Joint Committee faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> evaluate the design effectiveness of management controls over journals analyse the journals listing and determine the criteria for selecting high risk unusual journals test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified (continued)

Significant risk	Description	Further work planned
Valuation of the pension fund net liability	<p>The Joint Committee's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£6 million in the Joint Committee's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Joint Committee's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Joint Committee's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Joint Committee's pension fund valuation; • assess the accuracy and completeness of the information provided by the Joint Committee to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Shropshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Significant risks identified (continued)

Significant risk	Description	Further work planned
Going concern disclosures	<p>As auditors, we are required to “obtain sufficient appropriate audit evidence” about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern.</p> <p>WME is dependent on being able to trade on favourable terms within the existing energy market. There are heightened risks for trading due to Brexit outcomes uncertainties.</p> <p>We therefore identified the adequacy of disclosures relating to going concern in the financial statements as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▪ discuss the financial standing with officers and in particular how the impacts of Brexit uncertainties have been considered ▪ evaluate management's assessment of going concern assumptions and supporting information, including budgets and cash flow forecasts ▪ examine the terms of available cash support facilities ▪ evaluate the completeness and accuracy of disclosures on any material uncertainties with regard to going concern in the financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in September 2020.

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

Other matters

Other work

- In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:
- We read your Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.

Other material balances and transactions

- Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

New accounting standards

- As of 1 April 2020, local government bodies will be required to apply the new accounting standard IFRS 16 with regard to leases. Our assessment based on initial discussions with the client and our knowledge of the Joint Committee is that we do not anticipate that this will create a material issue and therefore should not entail a significant amount of additional audit work in this instance.
- We will continue to monitor the situation and will report to the Committee again in our Audit Findings Report on this issue if required.

Going concern

- As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Joint Committee's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.
- During planning procedures, we have carefully considered the implications of the UK's upcoming withdrawal from the European Union. Per page 7 of this report, we deem going concern to be a significant risk for the Joint Committee and will carry out a program of work as detailed earlier in the report to determine whether appropriate assurance can be given over this risk.

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

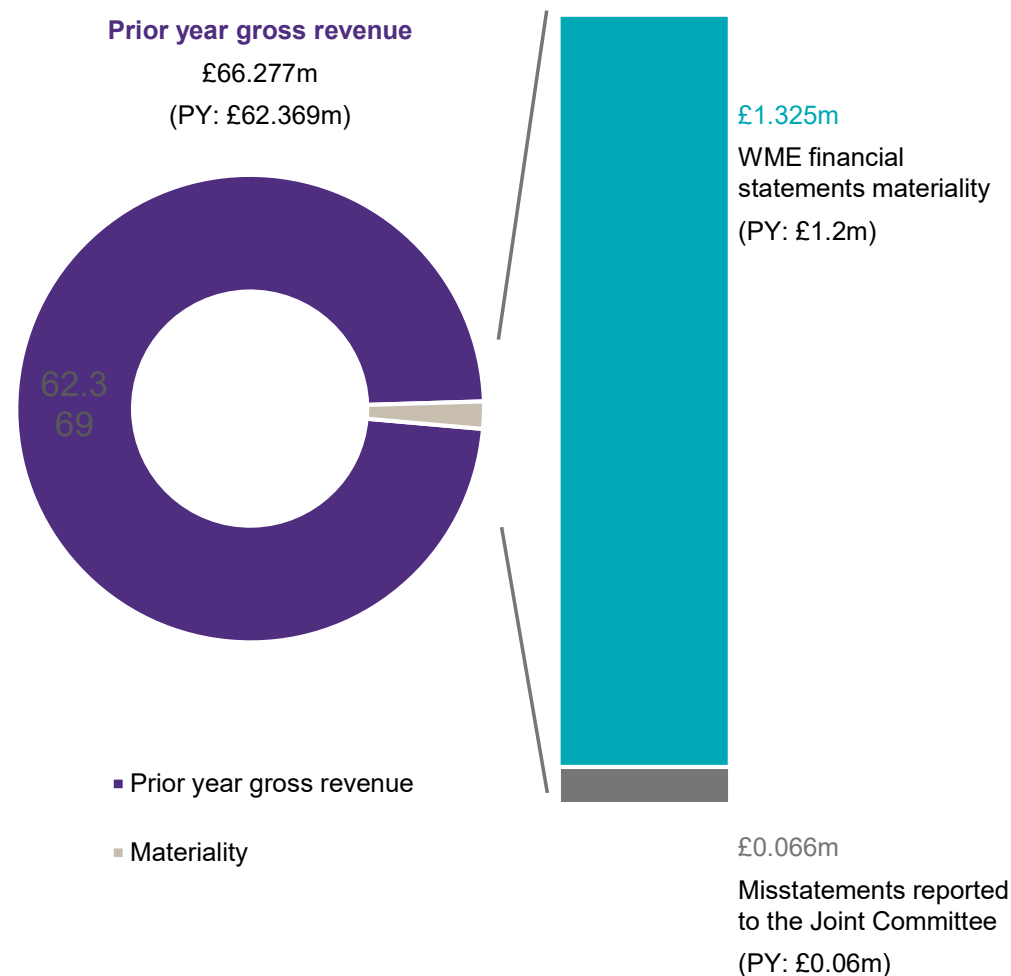
We have determined financial statement materiality based on a proportion of the gross revenue of the Joint Committee for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.325 million (PY £1.2 million), which equates to 2% of your prior year gross revenue for the year. We design our procedures to detect errors in specific accounts at a lower level of precision. Accordingly, senior officer remuneration materiality has been reduced to £50,000 due to its sensitive nature and public interest.

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.

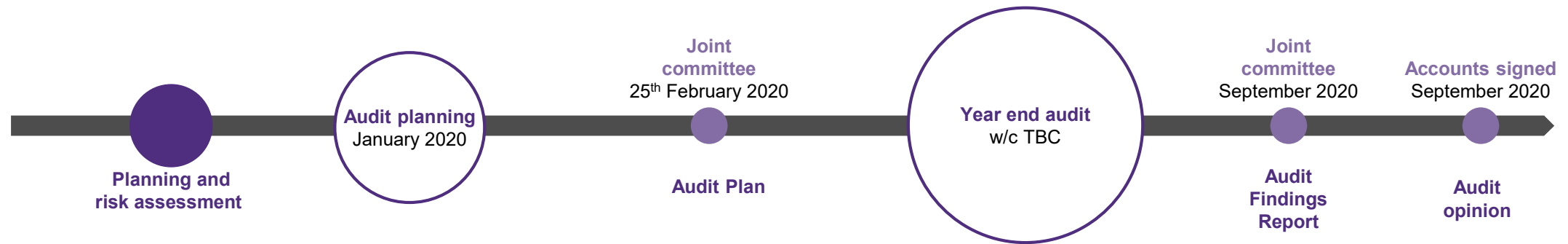
Matters we will report to the Joint Committee

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 Joint 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 WME, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £66,000 (PY £60,000).

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



Audit logistics, team & fees



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.



David Rowley, Audit Manager

David will work with the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. He will attend Joint Committee with Richard, and supervise Allison in leading the on-site team. David 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.

Audit fees

- The planned audit fees are £14,250 (PY: £13,500) for the financial statements audit completed in line with the terms of our engagement. In setting your fee, we have assumed that the scope of the audit, and the Joint Committee and its activities, do not significantly change.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- supply supporting schedules to all figures in the accounts by the agreed dates and in accordance with the agreed upon information request list
- make all appropriate staff available during the period of the audit to help locate information and to provide explanations.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff and that you are kept informed of progress during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Fees and independence

Fees

	£
Joint Committee audit	14,250
Total	14,250

Fees for other services

Service	Fees £
None	Nil

We have agreed a staged increase in our audit fee to £15,000 for the 2020/21 audit

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Joint Committee and its activities have not changed significantly
- The Joint Committee will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.



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<u>Committee and Date</u>

West Mercia Energy Joint Committee

25 February 2020

<u>Item</u>

9

<u>Public</u>

EXTERNAL AUDIT - INFORMING THE AUDIT RISK ASSESSMENT 2019/20

Responsible Officer Nigel Evans

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

1. Summary

- 1.1 The purpose of this report is to contribute towards the effective two-way communication between the Joint Committee's external auditors (Grant Thornton) and the Joint Committee, as those charged with governance.
- 1.2 The report attached at Appendix 1 identifies the queries and proposed management responses for consideration by Members to ensure they are consistent with Members' understanding and provide opportunity for any further comments.

2. Recommendations

It is recommended that the Joint Committee:

- 2.1 having considered the proposed management responses contained in the report at Appendix 1, approve the submission of these management responses to the queries raised 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).

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 report attached as Appendix 1 is sectioned by the five categories detailed above and details the questions raised by Grant Thornton and the corresponding management responses proposed.

5.4 The proposed responses have been drafted on behalf of the Joint Committee by the WME Director. This has been conducted by a review of the assessment report from 2018/19, the responses made at that time and consideration if the response is still valid or needs amendment. Furthermore the WME Director clarified some areas of the report with Grant Thornton before drafting the management responses.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Joint Committee 26 February 2019 – Informing the audit risk assessment for West Mercia Energy 2018/19
Member Councillor P Nutting of Shropshire Council (Chair of the Joint Committee)
Appendices Appendix 1 - Informing the audit risk assessment for West Mercia Energy 2019/20



Grant Thornton

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Informing the audit risk assessment for West Mercia Energy 2019/20

Page 25

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between West Mercia Energy's external 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) (ISA(UK)) auditors have specific responsibilities to communicate with the Joint Committee. ISA(UK) 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:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

Purpose

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

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	There are no key events or issues that will have a significant impact on the statements although energy commodity prices throughout the year can impact on final reported results.
2. Have you considered the appropriateness of the accounting policies adopted by West Mercia Energy? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes - no necessity to change or adopt new accounting policies
3. Is there any use of financial instruments, including derivatives?	No
4. Is Are you aware of any significant transaction outside the normal course of business?	No

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by West Mercia Energy during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Wace Morgan Solicitors, Shrewsbury. Only used minimally for debt collection issues and no open cases at present.
9. Have any of the WME's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Schneider – energy procurement Cornwall Energy – market analysis

Fraud

Issue

Matters in relation to fraud

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

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

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Joint Committee regarding its processes for identifying and responding to risks of fraud, and
- 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 WME's management.

Fraud risk assessment

Question	Management response
<p>1. Have WME assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do WMEs risk management processes link to financial reporting?</p>	<p>Yes –</p> <p>By the establishment of control systems to reduce the risk through financial regulations, standing orders and scheme of delegation.</p> <p>By employing staff within the finance function with the appropriate professional qualifications.</p> <p>By the regular production of management accounts and comparison to annual budgets.</p> <p>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.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>No areas with a high risk of fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within WME as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No</p> <p>Fraud risks are identified by Internal Audit in their audit planning process; in identifying key controls to be assessed as part of an audit; in targeted fraud prevention work and by raising awareness of the potential for fraud with staff, members and people working and involved with WME. This is done through the Anti-Fraud and Corruption Strategy and speaking up about Wrongdoing Policy.</p>

Fraud risk assessment

Question	Management response
4. Have you identified any specific fraud risks?	No
Do you have any concerns there are areas that are at risk of fraud?	No
Are there particular locations within WME where fraud is more likely to occur?	No
5. What processes do WME have in place to identify and respond to risks of fraud?	<p>The establishment of control systems to reduce the risk through financial regulations, standing orders and scheme of delegation.</p> <p>Employing staff within the finance function with the appropriate professional qualifications.</p> <p>The regular production of management accounts and comparison to annual budgets.</p> <p>Annual work is performed by Internal Audit who regularly report on their findings to the Joint Committee. The Internal Audit plan is approved by Joint Committee at regular intervals.</p>
6. How would you assess the overall control environment for WME, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?	The overall control environment for WME is assessed by the annual work performed by Internal Audit who regularly report on their findings to the Joint Committee.
If not where are the risk areas and what mitigating actions have been taken?	
What other controls are in place to help prevent, deter or detect fraud?	
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.

Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	No areas with a potential for misreporting have been identified.
8. How do WME communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	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. The Joint Committee has a Whistleblowing Policy in place to enable staff to raise concerns regarding malpractice. No issues have been reported.
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	No areas considered to be high risk. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	No Procurement is conducted in accordance with set procedures.

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Joint Committee?</p> <p>How does the Joint Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Reliance is taken from the annual work performed by Internal Audit who regularly report on their findings to the Joint Committee. The Internal Audit plan is approved by Joint Committee at regular intervals.</p> <p>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.</p> <p>A Staff Whistleblowing Policy is in place.</p> <p>There have been no issues arising so far for the current year.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	No
<p>13. Have any reports been made under the Bribery Act?</p>	No

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 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 WME'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 non-compliance 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
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does WME have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to WME's regulatory environment that may have a significant impact on WME's financial statements?</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>No</p>
<p>2. How is the Joint Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer and Treasurer provide advice to the Joint Committee on compliance with relevant laws and regulations.</p> <p>The Joint Committee is responsible for the approval of the Annual Governance Statement and the review of the related assurances which set out the system of internal control and detail the policies and procedures in place. This provides the assurance that management arrangements are in place for identifying and responding to changes in law and regulations and highlights any significant governance issues arising as a result of such changes.</p> <p>Internal Auditors' reports to the Joint Committee incorporate issues relating to compliance with legislation and regulations, where appropriate.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does WME 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>
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Going Concern

Issue

Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for WME? What was the outcome of that assessment?	Regular management reporting is produced for the Joint Committee indicating the positive trading performance of the business.
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with WME's Business Plan and the financial information provided to the Joint Committee throughout the year?	Yes A detailed Business Plan for the Joint Committee is approved in February each year.

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	Yes
4. 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
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No

Going concern considerations

Question	Management response
6. Does WME have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of WME's objectives? If not, what action is being taken to obtain those skills?	Yes
7. Does WME have procedures in place to assess their ability to continue as a going concern?	Yes
8. Is management aware of the existence of events or conditions that may cast doubt on WMEs ability to continue as a going concern?	No

Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Joint Committee ?</p> <p>How has the Joint Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>A detailed Business Plan for the Joint Committee is approved in February each year.</p> <p>Regular management reporting is produced for the Joint Committee indicating the positive trading performance of the business.</p>

Related Parties

Issue

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 WME;
- associates;
- joint ventures;
- an entity that has an interest in WME that gives it significant influence over WME;
- 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 WME, or of any entity that is a related party of WME.

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

ISA (UK) 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.

Relating Parties

Question	Management response
1. What controls does WME and 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.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

Local government bodies apply appropriate estimates in the preparation of their financial statements. ISA (UK) 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 West Mercia Energy identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

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

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

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

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
3. 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 & 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 and Amortisation	<p>Depreciation is provided for on property plant and equipment and motor vehicles with a finite useful life on a straight-line basis.</p> <p>Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.</p>	Consistent application of depreciation method across assets	No	<p>Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.</p> <p>The length of the life is determined at the point of acquisition or revaluation.</p>	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	No	Valuations are made in-line with the CIPFA Code of Practice guidance.	No.
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

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are made where an event has taken place that gives the Joint Committee a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense line in the CI&ES in the year that the Joint Committee becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
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.
Non Adjusting events – events after the balance sheet date	The Joint Committee follows the requirements of the CIPFA Code of Practice	The Treasurer is notified by the Director.	This would be considered on individual circumstances	This would be considered on individual circumstances	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
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 body - 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.



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<u>Committee and Date</u>

West Mercia Energy Joint Committee

25 th February 2020

<u>Item</u>

10

<u>Public</u>

WEST MERICA ENERGY (WME) INTERNAL AUDIT PERFORMANCE REPORT TO FEBRUARY 2020

Responsible Officer Ceri Pilawski

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Tel: 01743 257739

1. Summary

- 1.1 This report provides members with an update on the work completed by Internal Audit against the approved Internal Audit Plan 2019/20, presented on 26th February 2019.
- 1.2 All audit planned work for 2019/20 has been completed since the last report. Completed reviews attracting good assurance are Finance, Debtors, Procurement, Corporate Governance and Risk Management. In addition, a review of IT has attracted limited assurance with management agreeing to an action plan to improve controls for compliance with data protection policies; continuity processes to ensure system availability; procedures for the authorisation of changes and the security, efficiency and effectiveness of interfaces with the system.
- 1.3 The plan remains at 22 Days as agreed in February 2019.

2. Recommendations

- 2.1 The Committee consider and endorse, with appropriate comment, the performance to date against the 2019/20 Audit Plan as set out in this report.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

sets out the requirements on all relevant authorities in relation to internal control, including requirements in respect of accounting records, internal audit and review of the system of internal control. Specifically:

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

4. Financial Implications

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

5. Background

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

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

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

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

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

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

- 5.4 A total of twenty one recommendations have been made in the final audit reports issued since the last report. A breakdown by area of the 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 2019/20**

Audit Area	Assurance level	No. of Recommendations made				Total
		Best Practice	Requires Attention	Significant	Fundamental	
Debtors System	Good	0	4	0	0	4
Finance System	Good	0	2	0	0	2
Corporate Governance and Risk Management	Good	0	1	0	0	1
Procurement	Good	0	1	0	0	1
IT	Limited	0	8	5	0	13
Total for the period		0	16	5	0	21
Total to date						
• numbers		0	16	0	0	21
• percentage		0%	76%	24%	0%	100%

- 5.7 There are four good assurance levels and one limited opinion to report. There are five significant issues identified in the IT audit review that cover improved controls for compliance with data protection policies; continuity processes to ensure system availability; procedures for the authorisation of changes and the security, efficiency and effectiveness of interfaces with the system. An action plan is in place to address these issues within an agreed timeframe.
- 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 2019. There have been no variations to the plan agreed in February

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
Internal Audit Plan 2019/20, 26th February 2019.

Member

Councillor Peter Nutting of Shropshire Council (Chair of the Joint Committee)

Appendices

Appendix 1 – Debtors Report 2019/20

Appendix 2 – Finance Report 2019/20

Appendix 3 – Corporate Governance and Risk Management Report 2019/20

Appendix 4 – Procurement Report 2019/20

Appendix 5 - IT Report 2019/20



SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

INTERNAL AUDIT REPORT WME DEBTORS/INCOME COLLECTION 2019/20

Assurance Level	Good
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Audit Data

Customer:	West Mercia Energy
Report Distribution:	Nigel Evans- Director Jo Pugh – Finance Manager
Auditor(s):	Mark Seddon
Fieldwork Dates:	October 2019
Debrief Meeting:	5th November 2019
Draft Report Issued:	25th October 2019
Responses Received:	5th November 2019
Final Report Issued:	5th November 2019

Assurance

Previous Assurance Level	Current Assurance Level	Direction of Travel
Good	Good	No change to control environment

Introduction and Background

1. As part of the approved internal audit plan for 2019/20 Audit Services have undertaken a review of Debtors.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Maintenance of the control environment is the responsibility of Management. The audit process is designed to provide a reasonable chance of discovering material weaknesses in internal controls. It cannot however, guarantee absolute assurance against all weaknesses including overriding of management controls, collusion, and instances of fraud or irregularity.
4. Audit Services would like to thank officers who assisted during the audit.
5. The audit was delivered on time and within budget.

Scope of the Audit

6. The following scope was agreed with key contacts at the beginning of the audit:
To review the procedures in respect of the reconciliation and monitoring of the debtors and income system and to establish the progress made in implementing the recommendations made in the previous audit.
7. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved. Objectives with a ✓ demonstrate that appropriate management controls are in place and upon which positive assurance can be given. Objectives with an X are those where the management controls are not being achieved:
 - ✓ The 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.

Assurance Level and Recommendations

8. An opinion is given on the effectiveness of the control environment reviewed during this audit. The level of assurance given is based upon sample testing and evaluation of the controls in place. This will be reported to the Joint Committee and will inform the

Annual Governance Statement which accompanies the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

Audit Services can give the following assurance level on the area audited:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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9. Recommendations are made where control weaknesses, risks or areas for improvement have been identified and are of sufficient importance to merit being reported to you in accordance with auditing standards. There are four categories of recommendation; Best Practice, Requires Attention, Significant and Fundamental.. The following table summarises the number of recommendations made in each category:

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

10. A summary of the recommendations, together with the agreed management responses are included at **Appendix 1**. Implementation of these recommendations will address the risks identified and improve the controls that are currently in place.
11. The status of the recommendations accepted by management at the previous audit has been reviewed and is summarised in the table below:

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

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

Audit Approach

12. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of the risks to achieving the business outcomes and associated key controls.
 - Follow up of previous recommendations.
 - Testing of controls to confirm their existence and effectiveness.
 - Identification of weaknesses and potential risks arising from them.
13. As Internal Audit report by exception, only those areas where control weaknesses and/or errors have been identified are included in this report. Recommendations to improve controls or enhance existing practice are detailed against each finding and the associated risk. Your Action Plan is included at **Appendix 1**. A more detailed report covering all the work undertaken can be provided on request.
14. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action taken to address

identified control weaknesses.

Ceri Pilawski
Head of Audit

INTERNAL AUDIT EXCEPTION REPORT FOR WME DEBTORS/INCOME COLLECTION 2019/20

Fundamental	Significant	Requires Attention	Best Practice
Immediate action required to address a major control weakness which, if not addressed, could lead to material loss.	A recommendation to address a significant control weakness where the system may be working but errors may go undetected.	A recommendation aimed at improving the existing control environment.	Suggested action which aims to improve best value, quality or efficiency.

Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	Lead Officer	Date to be Actioned
3.1	1	The billing procedures should be updated. It should be ensured that the updated procedures are detailed enough to be followed by someone unfamiliar with the process and they should be dated, and version controlled.	Requires Attention	Billing procedures notes to be updated once the utilities system upgrade is completed.	John Morris	Once the utilities system upgrade is completed.
3.2	2	The energy supplier should continue to be pursued to provide the customer account balances at a time to allow the reconciliations to be carried out. The reconciliations from the supplier customer balances to the West Mercia Energy customer account balances should be carried out each quarter and any adjustments processed on a timely basis.	Requires Attention	Due to new account manager at supplier there were delays in the customer account balances being prepared and submitted to WME. These will continue to be pursued quarterly and, once received, quarterly reconciliations will be performed.	John Morris	Immediately
6.1	3	It should be ensured that all direct debit mandates are carefully filed and are readily available.	Requires Attention	As per recommendation.	Jo Pugh	Immediately

Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	Lead Officer	Date to be Actioned
9.1	4	The write off, of debtor amounts should be posted, where applicable, net of VAT to the ledger.	Requires Attention	As per recommendation.	Jo Pugh	Immediately

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SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

FINAL INTERNAL AUDIT REPORT WME FINANCE 2019/20

Assurance Level | **Good**

Audit Data

Customer:	West Mercia Energy
Report Distribution:	Nigel Evans, Director Jo Pugh, Finance Manager
Auditor(s):	Kayleigh Griffiths
Fieldwork Dates:	07 – 10 October 2019
Debrief Meeting:	10 October 2019
Draft Report Issued:	25 October 2019
Responses Received:	05 November 2019
Final Report Issued:	05 November 2019

Assurance

Previous Assurance Level	Current Assurance Level	Direction of Travel
Good	Good	No change to control environment

Introduction and Background

1. As part of the approved internal audit plan for 2019/20 Audit Services have undertaken a review of Finance.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Maintenance of the control environment is the responsibility of Management. The audit process is designed to provide a reasonable chance of discovering material weaknesses in internal controls. It cannot however, guarantee absolute assurance against all weaknesses including overriding of management controls, collusion, and instances of fraud or irregularity.
4. Audit Services would like to thank officers who assisted during the audit.
5. The audit was delivered on time and within budget.

Scope of the Audit

6. The following scope was agreed with key contacts at the beginning of the audit:
To undertake a systems audit of the finance, payroll and creditors processes using established documentation and testing.
7. The scope includes a follow up of recommendations made in the 2018/19 Payroll and Creditors Audits. Where not implemented fully, these are revisited and the findings included in this report.
8. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved. Objectives with a ✓ demonstrate that appropriate management controls are in place and upon which positive assurance can be given. Objectives with an X are those where the management controls are not being achieved:
 - X The recommendations made in the previous finance, payroll and creditors audits have been implemented.
 - ✓ There are appropriate Financial Regulations which have been approved by the Joint Committee.
 - ✓ There is an established process for preparation and approval of the annual budget.
 - ✓ Management Accounts are accurate and 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.
 - ✓ There is an appropriate process in place to ensure that the Payroll is processed in an accurate and timely manner in line with current legislation.
 - ✓ Permanent and temporary variations to the payroll are valid, appropriately authorised, and processed accurately.
 - ✓ There are appropriate processes in place for the control and operation of the creditors system.

- √ There are appropriate controls to ensure that creditors payments made are accurate, complete, have not previously been paid.

Assurance Level and Recommendations

9. An opinion is given on the effectiveness of the control environment reviewed during this audit. The level of assurance given is based upon sample testing and evaluation of the controls in place. This will be reported to the Audit Committee and will inform the Annual Governance Statement which accompanies the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

Audit Services can give the following assurance level on the area audited:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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10. Recommendations are made where control weaknesses, risks or areas for improvement have been identified and are of sufficient importance to merit being reported to you in accordance with auditing standards. There are four categories of recommendation; Best Practice, Requires Attention, Significant and Fundamental. The following table summarises the number of recommendations made in each category:

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

11. A summary of the recommendations, together with the agreed management responses are included at **Appendix 1**. Implementation of these recommendations will address the risks identified and improve the controls that are currently in place.
12. The status of the recommendations accepted by management at the previous audit has been reviewed and is summarised in the table below:

Number of recommendations accepted by management at the last audits	3
Recommendations implemented	2
Recommendations partially implemented	0
Recommendations superseded	0
Recommendations not implemented	1

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

Audit Approach

13. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of the risks to achieving the business outcomes and associated key controls.
 - Follow up of previous recommendations.
 - Testing of controls to confirm their existence and effectiveness.

- Identification of weaknesses and potential risks arising from them.
14. As Internal Audit report by exception, only those areas where control weaknesses and/or errors have been identified are included in this report. Recommendations to improve controls or enhance existing practice are detailed against each finding and the associated risk. A more detailed report covering all the work undertaken can be provided on request.
 15. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action taken to address identified control weaknesses.

Ceri Pilawski
Head of Audit

INTERNAL AUDIT EXCEPTION REPORT FOR WME FINANCE 2019/20

Fundamental		Significant	Requires Attention		Best Practice	
Immediate action required to address a major control weakness which, if not addressed, could lead to material loss.		A recommendation to address a significant control weakness where the system may be working but errors may go undetected.	A recommendation aimed at improving the existing control environment.		Suggested action which aims to improve best value, quality or efficiency.	
Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	Lead Officer	Date to be Actioned
1.1	1	When authorising subsistence allowances for reimbursement Management should annotate the purchasing card transaction log stating they have reviewed the additional spend and confirm it to be reasonable.	Requires Attention	As per recommendation	Nigel Evans	Immediately
8.1	2	WME should continue to pursue Shropshire Council for an SLA for signature.	Requires Attention	As per recommendation	Nigel Evans	Immediately



SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

FINAL INTERNAL AUDIT REPORT WME CORPORATE GOVERNANCE AND RISK MANAGEMENT 2019/20

Assurance Level	Good
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Audit Data

Customer:	West Mercia Energy
Report Distribution:	Nigel Evans, Director
Auditor(s):	Shelley Taylor
Fieldwork Dates:	7 & 8 October 2019
Debrief Meeting:	8 October 2019
Draft Report Issued:	10 October 2019
Responses Received:	7 November 2019
Final Report Issued:	7 November 2019

Assurance		
Previous Assurance Level	Current Assurance Level	Direction of Travel
Good	Good	No change to control environment

Introduction and Background

1. As part of the approved internal audit plan for 2019/20 Audit Services have undertaken a review of Corporate Governance and Risk Management.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Maintenance of the control environment is the responsibility of Management. The audit process is designed to provide a reasonable chance of discovering material weaknesses in internal controls. It cannot however, guarantee absolute assurance against all weaknesses including overriding of management controls, collusion, and instances of fraud or irregularity.
4. Audit Services would like to thank officers who assisted during the audit.
5. The audit was delivered on time and within budget.

Scope of the Audit

6. The following scope was agreed with key contacts at the beginning of the audit:
To review the arrangements for Corporate Governance and Management of Risk during the current financial year.
7. The scope includes a follow up of recommendations made in the Corporate Governance audit 2018/19 audit. Where not implemented fully, these are revisited, and the findings included in this report.
8. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved. Objectives with a ✓ demonstrate that appropriate management controls are in place and upon which positive assurance can be given. Objectives with an X are those where the management controls are not being achieved:
 - ✓ The recommendations made in the previous Governance and Risk Management audits have been implemented.
 - ✓ There is an appropriate process in place to ensure that Strategic and Operational Risks are recorded in a suitable format in the Risk Register and regularly reported to the Joint Committee.
 - ✓ Satisfactory Corporate Governance arrangements are in place.

Assurance Level and Recommendations

9. An opinion is given on the effectiveness of the control environment reviewed during this audit. The level of assurance given is based upon sample testing and evaluation of the controls in place. This will be reported to Joint Committee and will inform the Annual Governance Statement which accompanies the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

Audit Services can give the following assurance level on the area audited:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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10. Recommendations are made where control weaknesses, risks or areas for improvement have been identified and are of sufficient importance to merit being reported to you in accordance with auditing standards. There are four categories of recommendation; Best Practice, Requires Attention, Significant and Fundamental. The following table summarises the number of recommendations made in each category:

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

11. A summary of the recommendations, together with the agreed management responses are included at **Appendix 1**. Implementation of these recommendations will address the risks identified and improve the controls that are currently in place.
12. The status of the recommendations accepted by management at the previous audit has been reviewed and is summarised in the table below:

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

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

Audit Approach

13. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of the risks to achieving the business outcomes and associated key controls.
 - Follow up of previous recommendations.
 - Testing of controls to confirm their existence and effectiveness.
 - Identification of weaknesses and potential risks arising from them.
14. As Internal Audit report by exception, only those areas where control weaknesses and/or errors have been identified are included in this report. Recommendations to improve controls or enhance existing practice are detailed against each finding and the associated risk. Your Action Plan is included at **Appendix 1**. A more detailed report covering all the work undertaken can be provided on request.
15. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action taken to address identified control weaknesses.

Ceri Pilawski
Head of Audit

INTERNAL AUDIT EXCEPTION REPORT FOR WME CORPORATE GOVERNANCE AND RISK MANAGEMENT 2019/20

Fundamental	Significant	Requires Attention	Best Practice
Immediate action required to address a major control weakness which, if not addressed, could lead to material loss.	A recommendation to address a significant control weakness where the system may be working but errors may go undetected.	A recommendation aimed at improving the existing control environment.	Suggested action which aims to improve best value, quality or efficiency.

Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	Lead Officer	Date to be Actioned
3.1	1	The Equality in Employment policy should be updated to the (Shropshire Council) Equality Policy and approved by the Joint Committee.	Requires Attention	Agreed. We will liaise with Shropshire Council to ensure the current policy is reflected in the WME Staff Handbook and presented to the next Joint Committee.	Nigel Evans, Director	February 2020

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SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

FINAL INTERNAL AUDIT REPORT WME PROCUREMENT 2019/20

Assurance Level	Good
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Audit Data

Customer:	West Mercia Energy
Report Distribution:	Nigel Evans, Director Jo Pugh, Finance Manager
Auditor(s):	Shelley Taylor
Fieldwork Dates:	October 2019
Debrief Meeting:	N/a
Draft Report Issued:	10 th October 2019
Responses Received:	7 th November 2019
Final Report Issued:	7 th November 2019

Assurance		
Previous Assurance Level	Current Assurance Level	Direction of Travel
Good	Good	No change to control environment

Introduction and Background

1. As part of the approved internal audit plan for 2019/20 Audit Services have undertaken a review of Procurement.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Maintenance of the control environment is the responsibility of Management. The audit process is designed to provide a reasonable chance of discovering material weaknesses in internal controls. It cannot however, guarantee absolute assurance against all weaknesses including overriding of management controls, collusion, and instances of fraud or irregularity.
4. Audit Services would like to thank officers who assisted during the audit.
5. The audit was delivered on time and within budget.

Scope of the Audit

6. The following scope was agreed with key contacts at the beginning of the audit:
To review the procurement arrangements for the electricity and liquid fuels contracts to ensure compliance with Financial Regulations, Standing Orders and Contract Orders.
7. The scope includes a follow up of recommendations made in the 2018/19 procurement audit. Where not implemented fully, these are revisited, and the findings included in this report.
8. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved. Objectives with a ✓ demonstrate that appropriate management controls are in place and upon which positive assurance can be given. Objectives with an X are those where the management controls are not being achieved:
 - X The recommendation made in the previous procurement audit has been implemented.
 - ✓ 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.

Assurance Level and Recommendations

9. An opinion is given on the effectiveness of the control environment reviewed during this audit. The level of assurance given is based upon sample testing and evaluation of the controls in place. This will be reported to the Joint Committee and will inform the

Annual Governance Statement which accompanies the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

Audit Services can give the following assurance level on the area audited:

Good	There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.
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10. Recommendations are made where control weaknesses, risks or areas for improvement have been identified and are of sufficient importance to merit being reported to you in accordance with auditing standards. There are four categories of recommendation; Best Practice, Requires Attention, Significant and Fundamental. Detailed findings and a definition of the recommendation categories are included in the Exception Report at **Appendix 1**. The following table summarises the number of recommendations made in each category:

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

11. A summary of the recommendations, together with the agreed management responses are included at **Appendix 1**. Implementation of these recommendations will address the risks identified and improve the controls that are currently in place.
12. Audit work revealed control weaknesses which, whilst not deemed to be fundamental or significant, limit the level of assurance in the following areas:
The recommendation made in the previous procurement audit has been implemented.
13. The status of the recommendations accepted by management at the previous audit has been reviewed and is summarised in the table below:

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

No progress has been made in the implementation of previous recommendations. Recommendations which remain outstanding are repeated in the Exception Report and Action Plan.

Audit Approach

14. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of the risks to achieving the business outcomes and associated key controls.
 - Follow up of previous recommendations.
 - Testing of controls to confirm their existence and effectiveness.
 - Identification of weaknesses and potential risks arising from them.
15. As Internal Audit report by exception, only those areas where control weaknesses

and/or errors have been identified are included in this report. Recommendations to improve controls or enhance existing practice are detailed against each finding and the associated risk. Your Action Plan is included at **Appendix 1**. A more detailed report covering all the work undertaken can be provided on request.

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

Ceri Pilawski
Head of Audit

INTERNAL AUDIT EXCEPTION REPORT FOR WME PROCUREMENT 2019/20

Fundamental	Significant	Requires Attention	Best Practice
Immediate action required to address a major control weakness which, if not addressed, could lead to material loss.	A recommendation to address a significant control weakness where the system may be working but errors may go undetected.	A recommendation aimed at improving the existing control environment.	Suggested action which aims to improve best value, quality or efficiency.

Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	Lead Officer	Date to be Actioned
1.1	1	<p>Further work should be performed to produce amended Standing Orders with an aim to being able to remove the reference to Shropshire Council from the Standing Orders when there is a matter relating to the regulation of contracts which is not covered by the Standing orders. It should be ensured that advice is obtained from the Shropshire Council Procurement Team, Legal Services and any amendments agreed by the Joint Committee.</p> <p>(Updated from recommendation made in 2018/19).</p>	Requires Attention	Agreed. This will be incorporated into the next general review of the WME Standing Orders.	Nigel Evans, Director	Nov 2020



SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

FINAL INTERNAL AUDIT REPORT WME - IT AUDIT 2019/20

Assurance Level | **Limited**

Audit Data

Customer:	Nigel Evans – Director of WME
Report Distribution:	As above
Auditor:	Joanne Woolley
Fieldwork Dates:	December 2019
Debrief Meeting:	15 January 2020
Draft Report Issued:	16 January 2020
Responses Received:	24 January 2020
Final Report Issued:	28 January 2020

Introduction and Background

1. As part of the approved internal audit plan for 2019/20 Audit Services have undertaken a review of the IT arrangements for West Mercia Energy's Utilities and Billing System.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Maintenance of the control environment is the responsibility of Management. The audit process is designed to provide a reasonable chance of discovering material weaknesses in internal controls. It cannot however, guarantee absolute assurance against all weaknesses including overriding of management controls, collusion, and instances of fraud or irregularity.
4. Audit Services would like to thank officers who assisted during the audit.
5. The audit was delivered on time and within budget.

Scope of the Audit

6. The following scope was agreed with key contacts at the beginning of the audit:
To ensure that IT applications are operating in compliance with internal and external policies and procedures.
7. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved. Objectives with a ✓ demonstrate that appropriate management controls are in place and upon which positive assurance can be given. Objectives with an X are those where the management controls are not being achieved:
 - X The system complies with all external legislation and policies.
 - ✓ The application is secure.
 - ✓ Parameter Data is correct, updated in a timely manner and access is restricted.
 - X There are continuity processes in place to ensure system availability.
 - ✓ Management/Audit trails are in place.
 - X Clear procedures are in place for the authorisation of changes and system changes are applied by appropriately qualified staff.
 - X Interfaces with the system are secure, efficient and effective.

Assurance Level and Recommendations

8. An opinion is given on the effectiveness of the control environment reviewed during this audit. The level of assurance given is based upon sample testing and evaluation of the controls in place. This will be reported to the Audit Committee and will inform the Annual Governance Statement which accompanies the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

Audit Services can give the following assurance level on the area audited:

Limited	Whilst there is basically a sound system of control in place, the system contains weaknesses which leave some risks unaddressed and there is evidence of non-compliance with some key controls.
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9. Recommendations are made where control weaknesses, risks or areas for improvement have been identified and are of sufficient importance to merit being reported to you in accordance with auditing standards. There are four categories of recommendation; Best Practice, Requires Attention, Significant and Fundamental. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
13	0	5	8	0

10. A summary of the recommendations, together with the agreed management responses are included at **Appendix 1**. Implementation of these recommendations will address the risks identified and improve the controls that are currently in place.
11. The audit work identified a number of significant issues leading to the following recommendations:
- To ensure that, in line with the WME Data Protection Policy, staff who manage and handle personal information are appropriately trained to do so, Data Protection training should be undertaken.
 - An impact assessment to determine the effect of a short, medium- and long-term loss of the utilities and billing system on the organisation should be undertaken and a plan to address these effects developed.
 - Recovery testing should be undertaken to ensure that, in the event of a disaster the utilities and billing system can be successfully retrieved.
 - A full review of the Business Continuity Policy and Recovery Plan should be undertaken to ensure that both documents are up to date and reflect current systems, working practices and recovery arrangements.
 - A formal change control process should be documented and approved. This should include the procedure for emergency changes to the utilities and billing system.

Audit Approach

12. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of the risks to achieving the business outcomes and associated key controls.
 - Testing of controls to confirm their existence and effectiveness.
 - Identification of weaknesses and potential risks arising from them.
13. As Internal Audit report by exception, only those areas where control weaknesses and/or errors have been identified are included in this report. Recommendations to improve controls or enhance existing practice are detailed against each finding and the associated risk. Your Action Plan is included at **Appendix 1**. A more detailed report covering all the work undertaken can be provided on request.
14. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action taken to address identified control weaknesses.

Ceri Pilawski
Head of Audit

ACTION PLAN FOR WME - IT AUDIT 2019/20 APPENDIX 1

Fundamental		Significant	Requires Attention		Best Practice	
Immediate action required to address a major control weakness which, if not addressed, could lead to material loss.		A recommendation to address a significant control weakness where the system may be working but errors may go undetected.	A recommendation aimed at improving the existing control environment.		Suggested action which aims to improve best value, quality or efficiency.	
Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	Lead Officer	Date to be Actioned
1.1	1	To ensure that, in line with the WME Data Protection Policy, staff who manage and handle personal information are appropriately trained to do so, Data Protection training should be undertaken.	Significant	It is agreed that it would be beneficial to obtain more formal training and we will look to secure this through Shropshire Council arrangements.	Nigel Evans	March 2020
1.2	2	The Information Security Policy should be reviewed and updated at the earliest opportunity to ensure that it is relevant and provides officers with up to date information security guidance.	Requires Attention	Agreed.	Neil Marston	June 2020
1.3	3	A software inventory that records the organisations applications should be maintained and kept up to date.	Requires Attention	Agreed.	Neil Marston	June 2020
4.1	4	An impact assessment to determine the effect of a short, medium- and long-term loss of the utilities and billing system on the organisation should be undertaken and plan to	Significant	Agreed.	Nigel Evans	June 2020

		address these effects developed.				
4.2	5	Recovery testing should be undertaken to ensure that, in the event of a disaster the utilities and billing system can be successfully retrieved.	Significant	Agreed but should be noted that as part of redevelopment of the billing system through the test environment, the recovery of data from backups has been successful.	Neil Marston	March 2020
4.3	6	A full review of the Business Continuity Policy and Recovery Plan should be undertaken to ensure that both documents are up to date and reflect current systems, working practices and recovery arrangements.	Significant	Agreed.	Nigel Evans	June 2020
5.1	7	The system log should be used proactively to review activity and provide assurance that no inappropriate or unauthorised access or changes have been made to the system and system data.	Requires Attention	Agreed and this will be conducted on the new elements of the billing system.	Neil Marston	June 2020
5.2	8	A retention policy for the utilities/billing system data should be established to ensure that information is retained but only for the required periods and in line with GDPR.	Requires Attention	We will review and update our general Data Retention Policy as necessary.	Nigel Evans	June 2020
6.1	9	A formal change control process should be documented and approved. This should include the procedure for emergency changes to the utilities and billing system.	Significant	Agreed.	Neil Marston	April 2020

7.2	10	Documentation detailing the export interface between the utilities and billing system and SAGE should be completed at the earliest opportunity.	Requires Attention	Agreed.	Neil Marston	Feb 2020
7.3	11	Testing of interfaces and changes to interfaces should be documented in a test plan. This plan should be retained along with test results.	Requires Attention	Agreed although it should be noted that the current format of interface files flowing in and out of the billing system will be replicated under the new development. Verification of the interfaces will be conducted in the same manner as currently.	Neil Marston	March 2020
7.4	12	Details of exceptions and action taken to resolve these should be retained and shared with senior officers to confirm that the exceptions have been dealt with appropriately and promptly.	Requires Attention	The IT Manager notifies senior officers where exceptions occur and going forward details will be retained.	Neil Marston	January 2020
7.5	13	A review of access to interface filed before, during and following process should be undertaken to ensure that arrangements are appropriate, and the risk of unauthorised changes being made to data is minimised.	Requires Attention	Supplier billing files are currently issued by email and we will liaise with the supplier to receive these files by SFTP.	Neil Marston	June 2020



Committee and Date

West Mercia Energy Joint
Committee

25th February 2020

Item

11

Public

WEST MERCIA ENERGY (WME) INTERNAL AUDIT STRATEGIC PLAN 2020/21

Responsible Officer Ceri Pilawski
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Tel: 01743 257739

1. Summary

- 1.1 This report details the proposed programme of audit work for the year 2020/21 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.

2. Recommendations

- 2.1 The Committee are asked to consider and endorse, with appropriate comment, the proposed programme of audits for 2020/21.

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 West Mercia Energy's key risks and provides enough coverage to ensure a reasonable opportunity to identify any weaknesses in the internal control environment. When critical to the business 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 for a second year sees a reduction from the 26 days previously delivered to 22 days in 2020/21 and 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.
- 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 business. Some areas are required to be audited every year, as they are fundamental to sound financial management. Days in respect of fundamental systems have been reduced to reflect the strong control environment, to reflect the stable nature of these areas and to allow additional time to look at the operational and IT issues in respect of the development of the new billing system.
- 5.4 The business restructured in modular format its bespoke billing system, modules went live in March 2019 and further modules continue to be developed over the following 12/18 months. This is a major development for the business and under normal circumstances, once the core infrastructure is in place ready for future modular development, a full IT application review would be recommended of eight days to be carried out in 2019/20. The size of the audit is based on industry professional standards and the testing required to provide full independent assurance. Members will recall from last year that the position had been discussed in detail with the Director who requested that the audit be undertaken over a two-year period to reduce the impact of time upon the small number of employees involved in development of the project. The Head of Audit's year end opinion on IT will be caveated to

reflect, that only part of the application has been reviewed, so assurance that the full system is operating effectively in practice cannot be provided to the Committee in 2019/20.

- 5.5 The Director has a full understanding of the three lines of assurance model and has confirmed that he continues to receive operational assurance from his staff involved in the testing of the system and coding assurance in respect of the development of the system from Telford and Wrekin Council's IT department. This continues to support the business request to spread the audit over the life of the project.
- 5.6 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, subject to the comments raised above. It takes account of issues identified by the West Mercia Energy risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the business audited. The proposed plan considers 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 2020/21 to deliver 22 days of audit.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p> <p>Internal audit strategic plan 2017/18 – February 2017 Internal audit strategic plan 2018/19 – February 2018 Internal audit strategic plan 2019/20 – February 2019</p> <p>Member Councillor P Nutting of Shropshire Council (Chair of the Joint Committee)</p> <p>Appendices Appendix A: West Mercia Energy – Proposed Internal Audit Plan 2020/21</p>
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APPENDIX A**WEST MERCIA ENERGY - AUDIT AREAS**

AUDIT	Including review of:	2020/21 DAYS
PROCUREMENT	Review of changes to contracts	1
DEBTORS	Review the impact of the new system on the operational aspects of billing	4
FINANCE	A combined audit reviewing the areas of Finance general controls, Payroll general controls and Creditors general controls.	5
IT	Final year of a two-year programme to provide assurance in respect of the application changes to the billing system.	4
CORPORATE GOVERNANCE AND RISK MANAGEMENT	Corporate Governance & Risk Management Combined review (including EGARRP, risk mgt and business continuity, review of standing orders	4
ENGAGEMENT MANAGEMENT	To include follow up of previous recommendations, audit management, audit planning, servicing Audit Committee, advisory	4
	Contingency	0
TOTAL		22



<u>Committee and Date</u>

West Mercia Energy Joint Committee

25 February 2019

<u>Item</u>

12

<u>Public</u>

ANTI-SLAVERY AND HUMAN TRAFFICKING STATEMENT 2019/20

Responsible Officer Nigel Evans

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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 draft WME Transparency Statement for 2019/20 for approval.

2. Recommendations

It is recommended that the Joint Committee:

- 2.1 approve the draft WME Transparency Statement for 2019/20
- 2.2, delegate authority to the Director to finalise the WME Transparency Statement and publish it in accordance with section 54 of the Modern Slavery Act 2015.

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 25th 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 Statement is in draft form as the financial year 2019/20 has not yet ended. No changes are expected to the Statement once the financial year has ended and it is preferable for the Statement to be completed and published prior to the September Joint Committee.
- 5.5 The WME Statement for 2019/20 is attached and the Joint Committee are asked to approve the draft Statement. Once approved the Statement will be published on the WME website.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Joint Committee 25 th September 2017 – Anti-Slavery and Human Trafficking Policy
Joint Committee 26 th February 2019 - Anti-Slavery and Human Trafficking Statement 2018/19
Member Councillor P Nutting of Shropshire Council (Chair of the Joint Committee)
Appendices Appendix 1 - WME Transparency Statement 2019/20



Modern Slavery Act 2015

West Mercia Energy Transparency Statement 2019/20

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 2019 to 31 March 2020 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 2019 to 31 March 2020 WME have:

- Monitored adherence/compliance to/with our 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

During 2020/21 WME will continue to apply our Anti-Slavery and Human Trafficking Policy to all our commercial activities, and to maintain 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



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Committee and Date

West Mercia Energy Joint
Committee

25 February 2020

Item

13

Public

EQUALITY POLICY

Responsible Officer Nigel Evans

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1. Summary

- 1.1 This report presents to the Joint Committee the Shropshire Council Equality Policy for approval and adoption by WME.

2. Recommendations

It is recommended that the Joint Committee

- 2.1 approve and adopt the Shropshire Council Equality Policy for WME.

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 WME Joint Agreement states that the Joint Committee shall approve and adopt and thereafter keep under review strategic policies necessary for the proper operation of the Committee and the WME business, and where appropriate shall

adopt the Lead Authority's relevant policies (with or without revision). The Joint Agreement states that policies relating to equality are considered strategic.

- 5.2 Internal Audit as part of their recent work on Corporate Governance and Risk Management Policy identified that the current Shropshire Council Equality Policy has not been formally approved and adopted by the WME Joint Committee.
- 5.3 Under the Joint Agreement, the Member Authorities have agreed that the Joint Committee shall have the power to appoint staff and that one Member Authority shall act as the Lead Authority to employ the staff. The Lead Authority is Shropshire Council.
- 5.4 Given that WME are a relatively small organisation, it does not warrant the employment of a WME Human Resources officer so Human Resources form part of the service level agreement WME has with Shropshire Council. As a consequence unless there is a specific organisational need, WME will adopt Shropshire Council policies (the Lead Authority) in relation to its staff and with regards this specific policy it is considered reasonable to adopt this policy rather than create a specific WME one.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
26 th February 2020 – Internal Audit Performance Report to February 2020 (Appendix 3 – Corporate Governance and Risk Management Report 2019/20)
Member Councillor P Nutting of Shropshire Council (Chair of the Joint Committee)
Appendices Appendix 1 - Shropshire Council Equality Policy

Equality Policy

Contents:

- Paragraph 1 – Introduction
- Paragraph 2 – Public Sector Equality Duty
- Paragraph 3 – The Equality Commitment
- Paragraph 4 – Roles and Responsibilities
- Paragraph 5 – How to resolve difficulties
- Paragraph 6 – How to identify and act on hate crime
- Paragraph 7 – Recruiting and employing people fairly
- Paragraph 8 – Training and development
- Paragraph 9 – Monitoring and review

Appendices

- Appendix A – Definitions
- Appendix B – Further reference

1. Introduction

The Council is committed to eliminating discrimination and encouraging diversity amongst the workforce. The Equality Act 2010, which consolidated and replaced much of the previous equality legislation forms the basis of this policy. The Council has a legal duty to provide opportunities for both learning and employment in an environment which is fair and without discrimination.

2. Public Sector Equality Duty

The **Public Sector Equality Duty (PSED)**, introduced under the Equality Act 2010, applies to public sector bodies including listed local authorities such as Shropshire Council. The legislation states that a listed authority must comply with both a general equality duty and with specific duties, as set out in the Equality Act 2010.

The general equality duty may be described as the duty on a listed public authority, when carrying out its functions, to have what is called due regard to the three equality aims.

These aims are:

- **eliminate discrimination, harassment, victimisation** and any other conduct that is prohibited by ensuring there are appropriate employment policies in place,
- **advance equality of opportunity** between groups/people who share a relevant protected characteristic and groups/people who do not share it, by considering the need to remove or minimise disadvantage, by taking steps to meet different needs, and by encouraging participation when it is disproportionately low.
- **foster good relations** between groups/people who share a relevant protected characteristic and groups/people who do not share it.

To demonstrate full compliance with the specific duties, listed authorities are required to publish:

- Information about workforce diversity and about service user diversity, to demonstrate compliance with the general equality duty. The frequency for this is annual
- One or more equality objectives which an authority thinks it should achieve in order to do any of the things mentioned in the general equality duty. The frequency for this is a minimum of every four years, with effect from April 2012.

Equality objectives must be specific and measurable. The authority must publish one or more equality objectives as per the minimum of every four years.

These should be published on the local authority website, thereby providing visible evidence of Shropshire Council's efforts to meet its obligations under the Public Sector Equality Duty.

The Council accordingly published its first **Equality Objectives Action Plan** in 2012. A stocktake was carried out during 2014/2015, with a progress report produced to show the position as at 31st March 2015. This is available on the website.

Something that Shropshire Council as a listed public authority looks at, when considering the PSED obligations, are what is termed the nine **Protected Characteristic** groupings of people.

These groups are, in alphabetical order:

Age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion and belief; sex; sexual orientation.

The Council demonstrates equal treatment to people who are in these groups and to people who are not, through having what is termed due regard to their needs and views when developing policy and strategy, and when commissioning, procuring, arranging or delivering services.

Decision makers must be aware of the duty to have due regard when making decisions or taking action, and must assess whether it has implications for people with a particular Protected Characteristic. Equality implications should be considered when policy decisions are being made, and should be kept under review, for example through use of standard Equality and Social Inclusion Impact Assessments. Guidance and examples are available on the Council website.

Shropshire Council additionally takes a tenth grouping of people into consideration when considering the equality impact of changes to services etc, under the heading of Social Inclusion. This includes people that may be described as vulnerable, due to safeguarding concerns; households living in poverty; people with caring responsibilities; people living in rural areas who may be isolated from services, amongst others.

Additionally, is also unlawful to discriminate on the grounds of trade union membership or non-membership, full time, part time, fixed term or casual status, past unrelated convictions, caring responsibilities, perceived social or economic status, and HIV or AIDS).

3. **The Equality Commitment**

Selection for employment, promotion, training or any other benefit will be on the basis of aptitude and ability. Additionally, The Disciplinary, Grievance and Harassment and Bullying procedures and policies must all be free from discrimination. All employees with any of the 'protected characteristics' must be treated fairly and with respect.

The Council aims to:

- Create an environment in which individual differences and the contributions of all staff are recognized and valued.
- Provide every employee with a working environment that promotes dignity and respect to all, where employees feel able to challenge behavior and attitudes which are contrary to the policy.
- Ensure that all intimidation, bullying or harassment will not be tolerated and cases will be dealt with swiftly and fairly. The Bullying and Harassment Policy is available to complainants and the Disciplinary Policy may be instigated against perpetrators.
- Ensure training, development and progression opportunities are available to all staff.
- Review all our employment practices and procedures to ensure fairness.

4. Roles and Responsibilities

All staff and volunteers are responsible for ensuring that discrimination does not occur within the workplace.

5. How to resolve difficulties

The Council is responsible for preventing employees from suffering discrimination in the workplace and are ultimately responsible for any discrimination carried out by their employees, regardless of their knowledge or approval. The Council must also ensure that their employees are not harassed by a third party. It is important therefore that managers ensure that all staff and volunteers are aware of the policy.

If a complainant raises a grievance because either they are subject to discrimination, or because they have witnessed discrimination directed towards another person, they should be able to access, or request a copy of the Council's Bullying and Harassment Policy from their manager. The complainant will have the option of pursuing either the informal or formal route.

In cases where an employee's conduct falls short of the required standard, the disciplinary procedure may be invoked. The disciplinary procedure is the means by which rules are observed and standards are maintained. In cases where the misconduct is minor, it may be dealt with through the informal route. However, in cases where the informal route has not had the desired effect or the misconduct is considered too serious, the formal route should be followed. Certain acts such as a serious breach of the Council's adopted Equality Policy, including any form of unlawful discrimination, victimisation, bullying or harassment of colleagues may constitute gross misconduct which may lead to dismissal.

Internal issue.

If an employee complainant raises a grievance because either they are subject to discrimination by a member of staff, or because they have witnessed discrimination directed towards another person by a member of staff, they should access the bullying and harassment policy available on the Intranet. The complainant will have the option of pursuing either the informal or formal route.

In cases where an employee's conduct falls short of the required standard, the disciplinary procedure may be invoked. The disciplinary procedure is the means by which rules are observed and standards are maintained. In cases where the misconduct is minor, it may be dealt with through the informal route. However, in cases where the informal route has not had the desired effect or the misconduct is considered too serious, the formal route should be followed. Certain acts such as a serious breach of the Equality Policy, including any form of unlawful discrimination, victimisation, bullying or harassment may constitute gross misconduct which may lead to dismissal.

External issue

If an employee complainant raises a grievance because either they have been subject to discrimination by a third party, or because they have witnessed discrimination directed towards another person by a third party they should be able to access the Bullying and Harassment Policy.

Where a third party complainant raises a grievance because either they have been subject to discrimination by an employee, or because a third party has witnessed discrimination directed towards another person by an employee they should access the Council's Complaints Procedure.

6. How to identify and act on hate crime

Hate crime is an offence committed against a person or property motivated by the perpetrator's hostility and prejudice towards people because they are seen as being different. By working together organisations will try to meet their equality and diversity obligations, particularly in seeking to eliminate discrimination, harassment and victimisation. In addition, working together encourages social inclusion and promotes a resilient and caring society.

To report a hate crime you will need to complete the hate crime reporting form.
<https://www.shropshire.gov.uk/crime-and-criminal-justice/report-a-hate-crime/>

7. Recruiting and employing people fairly

The council will make sure that we provide equality of opportunity to all in employment.

The Council:

- Has an open and transparent approach to recruitment
- Will ensure that recruitment decisions are made using pre-agreed objective criteria
- Will seek to appoint the best applicant for the job based on merit
- Will ensure the recruitment and selection process conveys a positive image of Shropshire Council and portrays us as an employer of choice
- Has been awarded the "two ticks" symbol by JobcentrePlus which demonstrates our commitment to employ, retain and develop the abilities of disabled people
- Will ensure that the recruitment and selection of staff is conducted in a professional, timely and responsive manner and in compliance with current employment legislation
- Will provide appropriate training, development and support to those involved in recruitment and selection activities in order to ensure the recruitment of employing people is fair

- Will treat all applicants fairly, equitably and efficiently, with respect and courtesy, aiming to ensuring that the applicant experience is positive, irrespective of the outcome
- Will ensure that its recruitment and selection is cost effective
- Will ensure that if any member of staff involved in the recruitment process is related to, or has a close personal relationship with an applicant then they are not involved in recruitment process at any point. Including restructures, ring-fencing, decisions about post-creation and job description content.
- Will ensure that all documentation relating to applicants will be treated confidentially in accordance with the Council's Data Protection Policy.
- Will not as a matter of course require job applicants to complete a medical questionnaire as part of the application procedure. Health related questions should be avoid unless **intrinsic** to a function of their work. Additionally, candidates should not be asked about their sickness record until they have been made a conditional offer

8. **Training and Development**

During training sessions identify good equality practice and include guidance around discrimination, harassment or victimization as appropriate. When selecting candidates to attend training, ensure that selection is free from discrimination.

9. **Monitoring and review**

Monitoring and review includes gathering individual personal information on the diversity of potential recruits and existing employees, at certain times, and comparing and analysing the data. Anonymity of individuals is required when publishing overall statistics such as those contained in the annual Workforce Diversity Monitoring Report published on the Council website. The Annual Report helps the Human Resources Team to contribute to progress with the objectives in the four year Equality Objectives Action Plan, including Action Area A: "publish more visibly".

The Human Resources Team has agreed to carry out actions to meet six specific equality objectives within the Shropshire Council Equality Objectives Action Plan. These are under the broad headings of Action Area B: "collect and analysis more proactively" and Action Area C: "work more jointly" and are as follows:

Overall Strategic Action B: collect and analyse more proactively

- Analyse internal information on workforce, and compare with good practice authorities, in order to identify and comment on trends and prioritise where the gaps may be in representation of groups with Protected Characteristics.
- Identify good practice in training and guidance around discrimination, harassment or victimisation, including around recruitment, induction and retention, and where appropriate introduce this as part of Shropshire Council training programs and briefings for officers and elected Members.
- Evaluate perceived effectiveness of briefings and training programs, in order to ensure officers and Members feel equipped and encouraged to come forward where any such incidents occur

Overall Strategic Action C: work more jointly

- Identify good practice in training and guidance on developing and maintaining good relations, including around recruitment, induction and retention, and where appropriate, introduce this as part of Shropshire Council training programs and briefings for officers and elected Members.
- Evaluate increased understanding amongst officers and elected Members about the challenges faced by people with Protected Characteristics and people at risk of social exclusion
- Support positive joint approaches towards recruitment and retention of young people in local businesses across the sub region

Associated Policies and Procedures

Grievance Policy and Procedure
 Bullying & Harassment Policy
 Maternity, adoption and surrogacy adoption leave policy
 Flexible & Agile Working Policy
 Employee Absence Management Policy
 Disciplinary Policy

	Approval date
Policy Forum	14 th July 2016
EJCC	29 th July 2016

APPENDICES

Appendix A

DEFINITIONS

The Protected Characteristics are as follows:

AGE

Discrimination directed at either 'young' or 'old' is likely to be unfair.

It is important to emphasise that employers are highly vulnerable if they decide not to interview any job candidates who have reached an age which they regard as an appropriate age for retirement. Employers should therefore interview older and younger candidates, focusing on their skills and ability to do the job rather than age alone.

Retiring from work

Dismissal

Unless it can be objectively justified it is not permissible to dismiss someone on the grounds of retirement. Older workers (age 55 plus) can voluntarily retire at a time they choose and draw any occupational pension they are entitled to. Older workers may also request flexible retirement from age 55. It is advisable for the employee to contact their pension provider for further information regarding pension benefits. Employers cannot force employees to retire or set a retirement age.

Work place discussions

Whatever the age of an employee, discussing their future aims and aspirations can help an employer to identify their training or development needs and provide an opportunity to discuss their future work requirements.

For all employees these discussions may involve the question of where they see themselves in the next few years and how they view their contribution to the organisation. A useful exercise is to ask open questions regarding an employee's aims and plans for the short, medium and long term. Some employers may find it useful to hold these discussions as part of their formal appraisal processes.

The outcome of any workplace discussions should be recorded and held for as long as there is a business need for doing so. A copy will be provided to the employee.

Poor performance

If an employee is performing poorly the employer should discuss this with them to establish a cause. Failure to address any poor performance with an employee because there is an expectation they will retire soon may be discriminatory. Employers should establish a reason for poor performance, setting improvement periods and agreeing what training and development would help the employee meet the business expectation.

If levels are not improved and an employer has followed the company's performance procedure they then may decide to dismiss the employee on capability grounds, contact Human Resources for further information.

Is the increase in annual leave based on length of service discriminatory?

No, any increase in benefits during or before the 5th year of service is not discriminatory, the increase in the annual leave is based on loyalty, rather than age.

DISABILITY

It is unlawful to discriminate against workers because of a physical or mental disability or fail to make reasonable adjustments to accommodate a worker with a disability. Under the Equality Act 2010 a person is classified as disabled if they have a physical or mental impairment which has a substantial and long-term effect on their ability to carry out normal day-to-day activities. Day-to-day activities include things such as using a telephone, reading a book or using public transport. The overriding principle of equality legislation is generally one of equal treatment, however the provisions relating to disability discrimination are different because the employer may and often must treat a disabled person more favourably than a person who is not disabled. This may mean that employment practices need to be changed as is reasonably practical so that the disabled person can benefit from what is offered to the same extent as a person without that disability can. If an employee has a disability that is making it difficult to work, employers should consider what reasonable adjustments they can make in the workplace to help or schedule an interview with the employee to discuss what can be done to support them. This could be as simple as supplying an adequate, ergonomic chair or power-assisted piece of equipment. Reasonable adjustments also include re-deployment to a different type of work if necessary. Further advice and guidance may be obtained from the Managing Attendance Policy and Occupational Health.

GENDER REASSIGNMENT

Gender reassignment is a personal, social, and sometimes medical process by which a person's gender presentation (the way they appear to others) is changed. Anyone who proposes to, starts or has completed a process to change his or her gender is protected from discrimination under the Equality Act. An individual does not need to be undergoing medical supervision to be protected. So, for example, a woman who decides to live as a man without undergoing any medical procedures would be covered.

It is discrimination to treat transgender people less favourably for being absent from work because they propose to undergo, are undergoing or have undergone gender reassignment than they would be treated if they were absent because they were ill or injured, or if they were absent for some other reason.

- **Support for individuals undergoing gender transitions** - Discuss with the transgender person how they would prefer information about their transition to be communicated to colleagues. Some transgender people may feel comfortable talking about their transition with colleagues, but others may prefer not to.
- **Confidentiality** - At a point agreed with the individual, all personal records should be changed to reflect the acquired name and gender. Access to personal records which indicate a person's previous gender should be retained only if necessary, and otherwise deleted or destroyed.
Employees should make sure that they consider the following.
- **Telling people about your situation** - Make a list of the people who need to be informed. You may wish to speak to them personally, or may prefer to ask HR or your line manager to communicate with them
- **Medical appointment and absences** - Make sure the employer knows when you will need to take time off work. It is discrimination for your employer to treat you less favourably if you are absent from work for a reason related to gender reassignment than you would be treated if you were absent because you are ill or injured, or if you were absent for some other reason.
- **Changing everything into your new identity** - You will need to change your name on your email address, Shropshire Council directories, records and work passes. Speak to your line manager at an early stage about how this should be managed.

MARRIAGE AND CIVIL PARTNERSHIPS

Gay and lesbian couples are able to get married or register their civil partnership in England, Scotland and Wales, which gives many of the same rights as other married couples.

Same sex couples who marry or register as civil partners have the same rights as other married couples in respect of employment rights.

The Equality Act protects employees who are married or in a civil partnership against discrimination.

PREGNANCY AND MATERNITY

It is unlawful to discriminate, or treat employees unfavourably because of their pregnancy, or because they have given birth recently, are breastfeeding or on maternity leave.

Discrimination happens when a woman is treated unfavourably because of her pregnancy, pregnancy-related illness or she exercises the right to statutory maternity leave. Ensure that an employee absent from work is notified of any important information, such as restructures, changes to terms and conditions and organisational/management changes within the service area.

RACE

It is unlawful for an employer to discriminate against employees because of race, which includes: colour, nationality, ethnic or national origin.

In very limited circumstances, there are some jobs which can require that the job-holder is of a particular racial group. This is known as an 'occupational requirement'. One example is where the job-holder provides personal welfare services to a limited number of people and those services can most effectively be provided by a person of a particular racial group because of cultural needs and sensitivities.

RELIGION AND BELIEF OR LACK OF RELIGION AND BELIEF

There is no specific list that sets out what religion or belief discrimination is. The law defines it as any religion, religious or philosophical belief. This includes all major religions, as well as less widely practised ones.

To be protected under the Equality Act, a philosophical belief must:

- be genuinely held
- be a belief and not an opinion or viewpoint, based on the present state of information available
- be a belief as to a weighty and substantial aspect of human life and behaviour
- attain a certain level of cogency, seriousness, cohesion and importance
- be worthy of respect in a democratic society, compatible with human dignity and not conflict with the fundamental rights of others
- humanism and atheism are examples of philosophical beliefs
- workers are also protected against discrimination if they do not hold a particular (or any) religion or belief

Employers do not have to give workers time off or facilities for religious observance, but they should try to accommodate them whenever possible. For example, if a worker needs a prayer room and there is a suitable room available then a worker could be allowed to use it, providing it does not disrupt others or affect their ability to carry out their work properly.

Many employers find that being sensitive to the cultural and religious needs of their employees makes good business sense. This can mean making provisions for:

- flexible working
- religious holidays and time off to observe festivals and ceremonies
- prayer rooms with appropriate hygiene facilities

- dietary requirements in staff canteens and restaurants
- dress requirements

SEX

It is unlawful to discriminate against workers because of their gender eg paying women less than men for carrying out the same role. In very limited circumstances, there are some jobs which can require that the job-holder is a man or a woman. This is known as an 'occupational requirement'. The list of occupational requirements is restricted.

SEXUAL ORIENTATION

An employer should protect bi sexual, heterosexual and lesbian and gay people from discrimination on grounds of their sexual orientation. Sexual orientation is defined as:

- orientation towards people of the same sex (lesbians and gay men)
- orientation towards people of the opposite sex (heterosexual)
- orientation towards people of the same sex and the opposite sex (bisexual)

ADDITIONAL PROTECTIONS APPLY TO THE FOLLOWING:

Equal Pay

An employer must give equal treatment in the terms and conditions of their employment contract if staff are employed on

Like work – which is the same or broadly similar
 Work rated as equivalent under job evaluation
 Work found to be of equal value

Fixed Term Employees (Prevention of Less Favourable Treatment) Regulations 2002 aim to ensure employees on a fixed term contract are treated no less favourable than compared to permanent employees.

Part Time Workers (Prevention of Less Favourable Treatment) Regulations 2000 should receive the same rate of pay as an equivalent full time member of staff, they should not be excluded from training and should receive holiday pay pro rata to an equivalent full time employee.

Rehabilitation of Offenders Act 1974, many ex-offenders are given certain employment rights if their convictions become 'spent'. The DBS Code of Practice and the Rehabilitation of Offenders Act states that employers are not allowed to discriminate against employees with a criminal background and must treat applicants fairly. When working or applying to work with children extra checks may be needed, for example an enhanced DBS check. Recruitment decisions should therefore be based on if the criminal information presented is relevant to the job the applicant will be carrying out.

Trade Union Membership. In accordance with the Trade Union and Labour Relations (Consolidation) Act 1992 protection from discrimination either because of membership or non-membership of a trade union.

Lifestyle. The Council ensures that employees are treated no less favourable due to their lifestyle eg goth.

TYPES OF DISCRIMINATION

Direct discrimination

Direct discrimination occurs if an employer treats a person less favourably on the grounds of a person's protected characteristic compared to a person who does not have that protected characteristic. There may be rare instances during recruitment where a genuine occupational requirement is acceptable, but this should be discussed with the HR Business Partner eg Where the job requires someone of a particular sex for reasons of privacy and decency - for example, a job working in a changing room.

Direct discrimination - associative discrimination

Associative discrimination is direct discrimination against someone because of their association with another person who possesses a protected characteristic.

Direct discrimination - perceived discrimination

Perceived discrimination is direct discrimination against a person because others think they possess a particular protected characteristic. It applies even if the person does not actually possess that characteristic but is perceived by others to do so.

Indirect discrimination

Indirect discrimination is where a criterion or practice is applied to everyone, but particularly disadvantages people who share a protected characteristic.

Harassment

This is behaviour that is deemed offensive by the recipient. Harassment occurs when, for a reason which relates to a protected characteristic another person engages in unwanted conduct which may be physical, verbal or non-verbal and which violates the person's dignity or creates an intimidating, hostile, degrading, humiliating or offensive environment for that person. It is the effect of the conduct rather than the perpetrators intentions that define whether it constitutes harassment. Employees can raise a complaint against behaviour that they find offensive even if it is not directed at them. Complainants need not possess the relevant protected characteristics themselves. Employees are also protected from harassment because of perception and association.

Victimisation

Victimisation has a specific meaning in discrimination law. It does not just mean singling someone out. Victimisation makes it unlawful for one person to treat another less favourably than others because they made or supported a discrimination complaint or raised a discrimination grievance or because they are suspected of doing so.

An employee is not protected if they have maliciously made or supported an untrue complaint. However it is sufficient if the employee believes that the victim has done, or intends to do any of the things listed above.

FURTHER REFERENCE.

Shropshire Council

<https://www.shropshire.gov.uk/equality,-diversity-and-social-inclusion/>

Gov.uk

<https://www.gov.uk/guidance/equality-act-2010-guidance>

Equality and Human Rights Commission EHRC

www.equalityhumanrights.com/

The Equality Act 2010

<https://www.gov.uk/guidance/equality-act-2010-guidance>

Equality and Social Inclusion Impact Assessments

<https://www.shropshire.gov.uk/media/1457869/Shropshire-guidance-and-evidence-template.pdf>

Contact Details

- Human Resources, Shropshire Council
Ask.HR@Shropshire.gov.uk
- Lois Dale, Rurality and Equalities Specialist, Shropshire Council.
Lois.dale@shropshire.gov.uk



Committee and Date

West Mercia Energy Joint
Committee

25 February 2020

Item

14

Public

Treatment of WMS Pension Liability

Responsible Officer James Walton

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Tel: 01743 258915

1. Summary

- 1.1. A paper was agreed at WME Joint Committee on 24 September 2019 to remove the pension deficit liability relating to former WMS employees (including Compensatory Added Years Benefits) and WME from the WME Balance Sheet from 1 April 2020.
- 1.2. Work has continued since that date and reports are due to be taken to the Owing Authorities' respective Cabinets to approve the transfer from WME to the Owing Authorities and the setting up of a new Joint Committee.
- 1.3. This report confirms, subject to the Owing Authorities approving the transfer to themselves of the liability from the WME Joint Committee, how arrangements would take effect from 1 April 2020 and the impact on WME and the WME Joint Committee.

2. Recommendations

It is recommended that the Joint Committee agrees to delegate to the WME Treasurer (Shropshire Council Director of Finance, Governance and Assurance (Section 151 Officer)) the calculation of the final position of the WMS pension deficit as at 1 April 2020 and, subject to the approval of such a transfer by the Owing Authorities respective Cabinets, to effect the transfer of the WMS pension liability to the Owing Authorities.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1. A risk assessment was set out in the previous report to WME Joint Committee

- 3.2. There are no direct environmental, climate change, privacy, equality and diversity and Public Health implications from this report.

4. Updated Position

- 4.1. A report has been produced to obtain the necessary approvals for the transfer of the pension liability to the Owing Authorities. The respective reports are due to be taken to the Cabinet of each Owing Authority as follows:
- a. Herefordshire Council – 27 February 2020
 - b. Telford and Wrekin Council – 19 March 2020
 - c. Shropshire Council – 25 March 2020
 - d. Worcestershire County Council – 26 March 2020
- 4.2. Indicative figures for the transfer of the pension liability have been provided by Mercer (the Actuary for Shropshire County Pension Fund) and included in the reports produced over the last twelve months. All figures in the calculation can vary significantly on a daily basis, depending on what is happening in the investment markets. Whilst investment markets as a whole have been fairly favourable over the period since the actuarial valuation, there has been a large fall in corporate bond yields over that period (much of it occurring in the previous three weeks). This has pushed up the value of the liabilities for IAS19 purposes, so as WME is to be 100% funded on IAS19 assumptions as at 31 March 2020 then based on current markets the allocation of assets to WME will need to be higher than the amounts calculated as at 31 March 2019. This will not impact the contribution rates already calculated, given that the ultimate financial responsibility is not changing and given that the contribution rates will be reviewed again at the next actuarial valuation.
- 4.3. The final figure will be calculated as at the transfer date of 1 April 2020 and a delegation is requested to the WME Treasurer (Shropshire Council Director of Finance, Governance and Assurance (Section 151 Officer)) to agree this final figure for removal from WME accounts.

5. Financial Implications

- 5.1. The overall financial impact on WME Joint Committee has not changed in principle i.e. the impact of the pension deficit will be zero under IAS19 calculations on WME Balance Sheet.
- 5.2. The value of pension contributions following the actuarial valuation as at 31 March 2019 does not follow the same calculation basis as the production of the IAS19 figures for the Balance Sheet. By ensuring WME is fully funded under IAS19/FRS102 assumptions, it will actually be in surplus under on-going actuarial assumptions. As a result, WME

may not be required to physically pay annual pension contributions to Shropshire County Pension Fund under this arrangement, as the actuarial surplus relating to former service would offset the on-going employers' contributions for WME staff. While this may look unusual in isolation, the overall position is unchanged and there are no overall financial implications arising from this.

- 5.3. The former liability payment is expected to be in surplus for the purposes of the contribution and under these circumstances a reduced contribution would be paid by WME resulting in an increase in profit or reduction in loss. The corresponding increased contribution would be met by the owning authorities.

6. Background

- 6.1. It is a decision for each Owing Authority, rather than the Joint Committee, to agree that the Owing Authorities take direct responsibility for their share of liability of the current WMS pension deficit so that it can be removed as a liability from the WME business.
- 6.2. The aim of the proposal identified in this report is to put WME in a position where, at least initially, it is not carrying a pension deficit (and certainly not relating to former WMS employees) under the Shropshire County Pension Fund. To achieve this, the overall aim of any proposal is that the liabilities relating to former WMS employees will be separated from the WME business and instead more clearly allocate the liability to the Owing Authorities.
- 6.3. The Pension liability relating to current and future WME employees will continue to be the responsibility of the WME Joint Committee.

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

Treatment of WMS Pension Liability – West Mercia Energy Joint Committee 24 September 2019

Cabinet Member (Portfolio Holder)

Councillor Peter Nutting

Local Member

All

Appendices

None

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<u>Committee and Date</u>

West Mercia Energy Joint Committee

25 February 2020

<u>Item</u>

15

<u>Public</u>

RISK MANAGEMENT UPDATE

Responsible Officer Nigel Evans

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1. Summary

- 1.1 The Joint Committee annually reviews the WME Risk Management Strategy and at each meeting receive details regarding the key risks identified.

2. Recommendations

The Joint Committee are recommended to:

- 2.1 approve the WME Risk Management Strategy attached at Appendix A;
- 2.2 asked to accept the position 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.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Given the subject matter of this report, the assessment of risk forms a fundamental part of the risk strategy.

4. Financial Implications

- 4.1 The financial implications of each risk are considered when the impact of the risk is assessed.

5. Background

- 5.1 The current WME Risk Management Strategy was approved by the Joint Committee on 26 February 2019. Appendix A contains the proposed updated Strategy with the proposed changes outlined on page 3.
- 5.2 The risk register is kept under constant review and is formally reviewed by the management of WME twice a year. The current risk register comprises of 72 highlighted risks compared to 64 in February 2019 with 8 new risks added
- 5.3 The majority of the risks within the risk register are operational with controls in place which mitigate the impact of the risks to an acceptable risk level. The proposed changes to the strategy is to present to each Joint Committee details of the medium and high risks in terms of the risk, the risk owner, the likelihood (L) of the risk, the impact (I) and status.
- 5.4 No high risks have been identified and the current medium risks identified are as follows:

Risk	Risk Owner	L	I	Status
Breach of trading risk levels	Gareth Maude	1	5	5
Breach of product tolerance levels	Gareth Maude	2	4	8
Central government policy or Regulative initiative	Nigel Evans	1	5	5
Products to satisfy customers green agenda	Nigel Evans	4	3	12
Customer contracts	Nigel Evans	3	4	12
Loss of key staff	Nigel Evans	2	4	8
Negative asset position of WME balance sheet	Nigel Evans	4	3	12

- 5.5 Behind all risks are impact assessments, details of controls currently in place and any additional controls and actions required in the future. The Joint Committee can at any time elect to have a more detailed examination of any of the risks and can invite the risk owner to a committee meeting to discuss their risk.

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

Member

Councillor P Nutting of Shropshire Council (chair of the Joint Committee)

Appendices

Appendix A - WME Risk Management Strategy

RISK MANAGEMENT STRATEGY

Introduction

Risk management is an integral part of good management practice and a key part of corporate governance. This strategy statement outlines the arrangements put in place to ensure that WME identifies and deals with the key risks that it faces, ensuring that the right actions are taken at the right time. It involves the dissemination of roles, responsibilities and accountabilities for risks within the organisation and forms part of the corporate governance of WME.

This strategy seeks to set out how WME:

- i) Identifies and measures risk
- ii) Plans and acts to manage or mitigate risk
- lii) Monitors risk on a continual basis

WME recognises that the development of policy, delivery of objectives and management of its operations attracts risks. How successful WME is in dealing with the risks it faces can have a major impact on the achievement of its key strategies, priorities and service delivery to its customers. The risk management strategy helps to support the aim of WME to be a first-class organisation.

Aims & Objectives

Risk Management is about making the most of opportunities (making the right decisions) and about achieving objectives once those decisions are made. This is achieved through transferring risks, controlling risks, living with risks or ceasing the activity that gives rise to the risk. WME aims to ensure that Risk Management becomes a natural component of its management processes.

The objectives of this strategy are to:

- Raise awareness of the need for Risk Management in all areas of service delivery, integrate it into the culture of WME and embed it in the performance management framework
- Manage risk in accordance with best practice
- Anticipate and respond to changing social, financial, environmental, technological and legislative requirements
- Minimise exposure to risk

WME will achieve these objectives by:

- Including Risk Management as an integral part of its management processes and day-to-day operations through corporate, directorate and unit business plans
- Ensuring sound systems of internal control
- Incorporating Risk Management into major service reviews including best value and project management
- Preparing contingency plans in areas where there is a potential for serious adverse effects on service continuity
- Regular monitoring and review of the arrangements
- Ensuring that we respond to and meet our legislative responsibilities in relation to the management of risk

Our Approach to the Governance of Risk Management

Our overall aim is to embed the culture of Risk Management throughout the organisation.

Risks are managed every day as part of normal business activity. Risk Management is not just about eliminating risk but about dealing with and reducing the circumstances in terms of their impact and probability (likelihood). A critical success factor in embedding a risk management culture is the commitment of the Director, Senior Managers and the Joint Committee Members.

Roles and Responsibilities

The full integration of Risk Management into the culture of the organisation can only be achieved through the full commitment and understanding of all stakeholders. These stakeholders can be defined as follows:

- WME Joint Committee
- Director
- Senior Managers
- WME employees

All these stakeholders have a role to play in the control environment within which WME operates, whether in connection with the setting of policy and decision making, the challenge process of accountability, the implementation of WME's objectives, the setting of internal controls or the provision of a safe working environment.

WME's responsibilities need to be clearly understood and have been defined as:

- Development, monitoring and review of the Risk Management Strategy and Risk Register
- Identification, analysis and monitoring of principal risks
- Champion and raise awareness of Risk Management and to ensure that the process becomes embedded in the culture of the organisation
- Ensure synergy with other "risk" systems, e.g. Health and Safety, Business Continuity and project management
- Ensure regular updating of the Risk Register
- Monitor and review Risk Registers and Risk Action Plans

Joint Committee responsibilities:

- Review the Risk Management ~~Strategy~~Policy on an annual basis.
- ~~Review the full risk register on an annual basis.~~
- Receive details of all medium and high risks at each meeting ~~and to consider mitigation process in place.~~

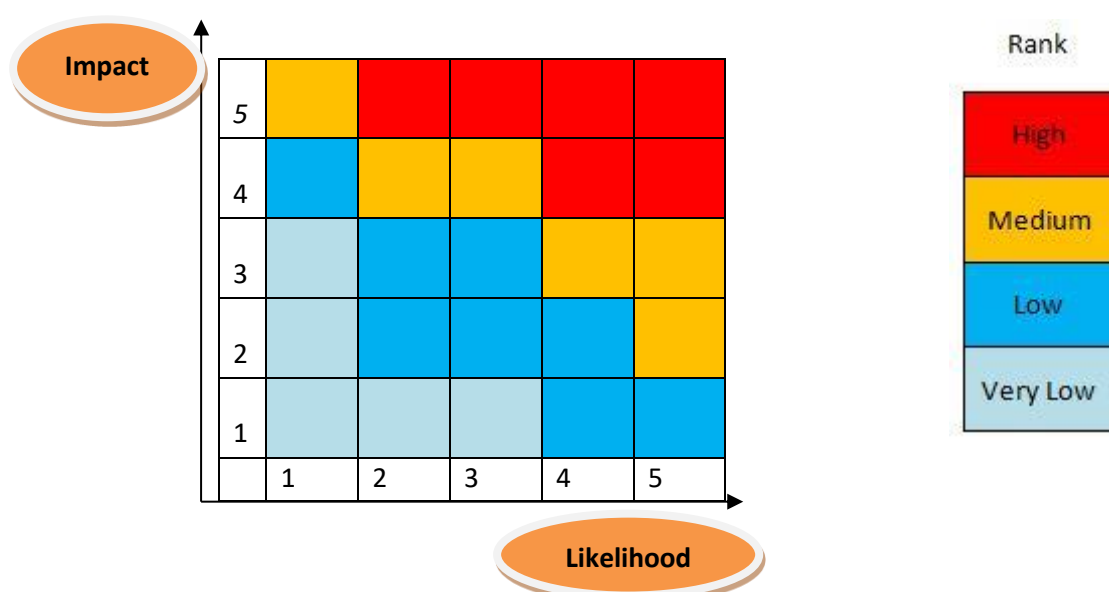
Each identified risk will be allocated an owner, responsible for the management and monitoring of that risk.

The Director will have a responsibility to ensure that Senior Managers analyse risks and produce appropriate information for inclusion in the Risk Register and Risk Action Plans specific to their sectors; whilst making the necessary connections to issues that have an organisation wide effect.

Risk Appetite

WME evaluates risks on the basis of the likelihood of them occurring and the impact of the consequences if they do. A standard set of evaluation criteria is used to evaluate both likelihood and impact and the resultant risks are then plotted on the maps, as depicted below.

Risk Matrix



Risks are treated in accordance with the WME 'risk appetite', that is the level of risk the organisation deems to be acceptable. While all risks should be judged on their own merit, managers also have the responsibility to manage their risks as they see fit. Nevertheless, good practice suggests that any risk classified as high should be deemed to require immediate management attention with the aim of treating it, either to reduce the level of threat or maximise the opportunity that may arise from it.

Identification and Categorisation of Risk

The focus of good risk management is the identification and treatment of risks. It increases the probability of success and reduces the likelihood of failure and the uncertainty of achieving objectives. Risk management should be a continuous and evolving process that runs throughout the strategies and service delivery of the organisation.

Learning lessons from past activities helps inform current and future decisions by reducing threats and optimizing the uptake of opportunities. Celebrating and communicating successful risk management in turn encourages a more daring but calculated approach.

The Director and Senior Managers have a clear responsibility to set the overall framework and establish and monitor the Risk Register. Strategic risks are those that might impact on the high level,

medium to long-term, goals and objectives of WME together with those cross cutting issues that have potential to impact significantly on service delivery, business continuity and profit generation.

At operational level the monitoring and identification of risk lies with sector managers and forms part of their service planning process. These are the risks that will be encountered as a result of daily activity. Due consideration must be given to the need to involve other sectors in decision making processes in order to mitigate risk.

Risks should be identified by considering the threats to the successful delivery of each of the objectives and activities of the organisation. These risks have been categorised as follows within the Risk Register:

- Business continuity
- Operational
- Systems
- Trading
- Strategic

Benchmark test for significance

Likelihood	Score	Risk Likelihood Definition
Rare	1	Risk may occur in exceptional circumstances
Possible	2	Risk may occur within the next three financial years
Likely	3	Risk is likely to occur within this financial year
Almost Certain	4	Indication of imminent occurrence
Certain	5	Risk has occurred and will continue to do so without immediate action being taken

Impact	Score	Risk Impact Definition
Negligible	1	<ul style="list-style-type: none"> • Negligible loss, delay or interruption to services • Can be easily and quickly remedied • Financial impact less than 2½% of annual WME budgeted net profit
Minor	2	<ul style="list-style-type: none"> • Minor loss, delay or interruption to services • Short term impact on operational efficiency and performance • Financial loss of between 2½ - 10% of annual WME budgeted net profit • Failure to meet internal standards. • Affects only one group of stakeholders • No external interest • Isolated complaints

Significant	3	<ul style="list-style-type: none"> • Significant loss, delay or interruption to services. • Medium term impact on operational efficiency and performance. • Financial loss of between 10 - 20% of annual WME budgeted net profit • Failure to meet recommended best practice. • Affects more than one group of stakeholders. • May attract short-term attention of legislative or regulatory bodies. • Significant complaints.
Major	4	<ul style="list-style-type: none"> • Major loss, delay or interruption to services. • One off events which could de-stabilise the organisation. • Widespread medium to long term impact on operational efficiency, performance and reputation. • Financial loss of between 20 - 50% of annual WME budgeted net profit for one year. • Financial loss of between 15 - 30% of annual WME budgeted net profit for more than one year. • Breach of legal or contractual obligation. • Affects more than one group of stakeholders. • Will attract medium-term attention of legislative or regulatory bodies. • Significant adverse media interest.
Critical	5	<ul style="list-style-type: none"> • Total sustained loss or disruption to critical services. • Long term impact on operational efficiency, performance and reputation. • Financial loss of 50%+ of annual WME budgeted net profit for one year. • Financial loss of 30%+ of annual WME budgeted net profit for more than one year. • Serious breach of legal or contractual obligation. • Affects all groups of shareholders. • National impact with rapid intervention of legislative or regulatory bodies. • Extensive adverse media interest. • Loss of credibility.



Committee and Date

West Mercia Energy Joint
Committee

25 February 2020

Item

16

Public

MINUTES OF THE FLEXIBLE ENERGY ADVISORY PANEL

Responsible Officer Nigel Evans

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

1. Summary

- 1.1 This report presents to the Joint Committee the minutes of the Flexible Energy Advisory Panel meetings which have been held since the last Joint Committee, namely the meeting of 9th September 2019.

2. Recommendations

It is recommended that the Joint Committee

- 2.1 consider and endorse, with appropriate comment, the minutes of the Flexible Energy Advisory Panel 9th September 2019.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

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

5. Background

- 5.1 The current WME Energy Governance, Accountability, Risk and Reporting Policy (EGARRP) was approved at the Joint Committee of 26th February 2019. EGARRP states that the Joint Committee are to consider and endorse with appropriate comment the approved minutes from the Flexible Energy Advisory Panel.
- 5.2 The Flexible Energy Advisory Panel is made up of officers from WME as well as an officer from each of the Member Authorities. The Panel meets every 6-8 weeks and acts in an advisory capacity to the Director of WME in areas such as pricing, strategic policy formation and trading.
- 5.3 The minutes of the meeting of the 9th September 2019 have already been circulated to officers and members when the trading results for the period to 31st December were issued in January 2020.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Joint Committee 26 February 2019 - Energy Governance, Accountability, Risk and Reporting Policy
Member Councillor P Nutting of Shropshire Council (Chair of the Joint Committee)
Appendices Minutes of the meeting 9 th September 2019



WEST MERCIA ENERGY

**MINUTES OF THE WME FLEXIBLE ENERGY ADVISORY PANEL
HELD ON 9th SEPTEMBER 2019 at 2pm**

PRESENT

Nigel Denton	-	Shropshire Council
Nigel Evans	-	West Mercia Energy
Gareth Maude	-	West Mercia Energy
Gavin Owen	-	West Mercia Energy
Mark Sanders	-	Worcestershire County Council

Dialled in:

Ben Boswell	-	Herefordshire Council
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1. APOLOGIES

Sarah Bass	-	Telford & Wrekin Council
Julie Wassall	-	West Mercia Energy

2. MINUTES OF LAST MEETING

The minutes of the meeting of 11th July 2019 were formally approved.

3. REVIEW OF BUYING ACTIONS

GM went through the Transaction Summary as at 9th September 2019 and talked through some slides to update the market movements and illustrate some of the market drivers since the last meeting.

GM commented that the last meeting coincided with a spike in market prices of a similar nature to that seen at the beginning of April and as a result we had been forced to increase our hedged positions to protect against further increases. This accounted for trades executed on the 11th and 12th July. Since then the markets have resumed their downward trend, driven by comfortable supply levels as a result of increased LNG shipments into Europe, and high levels of European gas storage. The majority of trades from the 16th July onwards were executed to take advantage of these lower market prices.

4. REVIEW OF MARKET TRADING POSITIONS

GM reviewed the Trading Dashboards and associated position charts and highlighted the following;

Gas:



[REDACTED]
[REDACTED]
Power:

5. FINANCIAL RESULTS

NE discussed the trading results for the 5 months to 31st August which had been recently distributed and explained the reasons for the improvement against the budget.

6. PRICES FOR NEXT TERM

NE discussed pricing for the period 1st September to 31st December 2019 providing the Panel an update from the previous meeting. The Panel were supportive of the recommendation to discount the capped gas price for schools by [REDACTED]
[REDACTED]

7. PORTFOLIO CHANGES – ADDITIONS / REMOVALS

The Panel were presented the summary of the WME portfolio as at 4th September and the movements from the last meeting were reviewed. Volumes within the overall portfolio had [REDACTED]

8. CUSTOMER/BUSINESS DEVELOPMENT UPDATE

GO gave an update on the contracts ending March 2020: [REDACTED]
[REDACTED] and an update on number of terminations received to date.

GO also gave an update on the position of the following prospects:

[REDACTED]
[REDACTED]
[REDACTED]

9. SUPPLIER CONTRACT UPDATE

GM confirmed that evaluation of the liquid fuels tender had been completed and the 10-day stand-still period was due to commence on the 10th September. At the completion of this the contract would be awarded to Certas Energy, the incumbent supplier, for three years from 1st October 2019.

10. FIXED PRICE SUPPLY CONTRACT ARRANGEMENTS

The Panel were presented with the draft Joint Committee paper on this area and this was discussed. NE provided the Panel a progress update on the set up of a new DPS fixed price supply arrangement.

11. GREEN ENERGY UPDATE

NE provided the Panel analysis on the costs of REGO (renewable energy guarantees of origin) backed electricity.

12. WATER UPDATE

The Panel were provided a verbal update on a potential collaborative arrangement between WME and other Central Purchasing Bodies.

13. AOB

None

14. DATE OF NEXT MEETING

It was agreed that dates would be circulated at a later date for a December meeting.

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