



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

Date: 22nd February 2021

Committee:
West Mercia Energy Joint Committee

Date: Tuesday, 2 March 2021

Time: 10.00 am

Venue: THIS IS A VIRTUAL MEETING - PLEASE USE THE LINK ON THE AGENDA TO LISTEN TO THE MEETING

Members of the public will be able to listen to this meeting by clicking on this link:

www.shropshire.gov.uk/WestMerciaEnergyJointCommittee2March2021

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Claire Porter
Director of Legal and Democratic Services

Members of West Mercia Energy Joint Committee

Herefordshire Council

L Harvey
G Davies

Shropshire Council

P Nutting (Vice-Chairman)
R Macey

Telford & Wrekin Council

L Carter
R Evans

Worcestershire County Council

J Smith
A Hardman (Chairman)

Your Committee Officer is:

Emily Marshall Committee Officer

Tel: 01743 257717

Email: emily.marshall@shropshire.gov.uk

AGENDA

1 Election of Chairman

To elect a Chairman for the ensuing year.

2 Apologies for Absence

To receive apologies for absence.

3 Appointment of Vice-Chairman

To appoint a Vice-Chairman for the ensuing year.

4 Minutes (Pages 1 - 4)

To receive the minutes of the Joint Committee meeting held on 29th September 2020

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, 26th February.

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 - Audit Plan 2020/21 (Pages 5 - 18)

Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

9 Internal Audit - Performance Reports to March 2021 (Pages 19 - 50)

Report of the Audit Services Manager.

Contact: Ceri Pilawski (01743 257739)

10 Internal Audit - Strategic Plan 2021/22 (Pages 51 - 54)

Report of the Audit Services Manager.

Contact: Ceri Pilawski (01743 257739)

11 Anti-Slavery and Human Trafficking Statement - 2020-21 (Pages 55 - 58)

Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

12 Risk Management Update (Pages 59 - 66)

Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

13 Exclusion of Press and Public

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

14 Exempt Minutes (Pages 67 - 68)

To approve the exempt Minutes of the meeting held on 29th September 2020.

15 Annual Business Plan and Budget 2021/22 Including a Review of 2020/21
(Pages 69 - 106)

Exempt Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

16 Date of Next Meeting

The next meeting of the West Mercia Energy Joint Committee will be held on Tuesday, 28th September 2021 at 10.00 a.m. Venue to be confirmed



Committee and Date

West Mercia Energy Joint
Committee

2nd March 2021

WEST MERCIA ENERGY JOINT COMMITTEE

Minutes of the meeting held on 29 September 2020

VIRTUAL MEETING

10.00 - 11.29 am

Responsible Officer: Emily Marshall

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

Present

Councillor Hardman

Councillors Evans, Robert Macey, Peter Nutting (Vice Chairman) and Smith

57 Apologies for Absence

Due to technical difficulties, the Chairman was unable to join the meeting for this item, therefore, the Vice-Chairman presided as Chairman for the following item.

There were no formal apologies for absence, however it was noted that Councillors Davies and Harvey (Herefordshire Council) were experiencing technical difficulties that were preventing them from joining the virtual meeting. The Committee Officer reported that Shropshire Council's IT Team were assisting both Councillors to join and participate in the meeting. The Committee agreed that, as the meeting was quorate, in accordance with the Joint Committee's Terms of Reference, to proceed with consideration of the items of business on the agenda.

58 Minutes

RESOLVED:

That the Minutes of the West Mercia Energy Joint Committee held on 25th February 2020 be approved as a correct record and signed by the Chairman.

59 Public Questions

There were none.

60 Disclosable Pecuniary Interests

There were none.

61 Supplier Contracts

The Director provided an update on supplier contracts in accordance with Standing Orders, reporting that there had been one entry since the last meeting, relating to the supply of bulk Liquified Petroleum Gas (LPG), contract let in accordance with Standing Order 3.2.3. Supplier is Calsonic. The current contract arrangements have

been maintained as it would not be cost effective for schools to replace tanks around schools.

RESOLVED:

That the update on supplier contracts be noted.

62 Statement of Accounts 2019/2020 and Annual Governance Statement 2019/2020

Mr J. Walton, Treasurer (WME) presented the Letter of Representation, the Statement of Accounts 2019/20 and the Annual Governance Statement 2019/20 for the West Mercia Energy Joint Committee (copy attached to the signed minutes).

RESOLVED:

1. That the Letter of Representation, to be signed by the Chairman and submitted by the Treasurer, be noted.
2. That the finalised Statement of Accounts 2019/20, to be signed by the Chairman and the Treasurer be considered.
3. That the Annual Governance Statement 2019/20 be considered.

63 External Audit - Audit Findings Report 2019/2020

Due to technical difficulties, the External Audit representative had been unable to join the virtual meeting. The Director of West Mercia Energy presented the report to the Committee. (Copy attached to the signed minutes).

The Committee were pleased to consider the report and note the unqualified opinion.

RESOLVED:

That the contents of the West Mercia Energy Joint Committee Audit Findings Report 2019/20 be considered and endorsed.

64 Internal Audit - Annual Report 2019/2020

P. Chadderton, Principal Auditor, Shropshire Council, introduced Internal Audit Annual report 2019/20 (copy attached to the signed minutes)

RESOLVED:

1. That performance against the Audit Plan for the year ended 31 March 2020 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 2019/20.

3. That the Head of Audit's positive year end opinion on West Mercia Energy's governance, risk management and internal control environment for 2019/20 based on the work undertaken and management responses received, be noted.

65 Distribution of Surplus

The Treasurer presented the report which recommended the level of distribution of surplus held at 31 March 2020 to the Member Authorities (copy attached to the signed minutes).

RESOLVED:

1. That the retention of accumulated surplus of £0.633 million be approved.
2. That the distribution of accumulated surplus of £1.111 million, in accordance with the provisions of the Joint Agreement, be approved.

66 Risk Management Update

Members made reference to the rapidly changing situation arising from the Covid-19 pandemic and asked the Director to report back if any of the risks changed substantially.

RESOLVED:

That the medium and high risks presented be noted.

67 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.

68 Exempt Minutes

That the Exempt Minutes of the West Mercia Energy Joint Committee held on 25th February 2020 be approved as a correct record and signed by the Chairman

69 Update on Business Plan and Trading Performance to Date 2020/21

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 2020/21.

RESOLVED:

That the recommendations contained within the exempt report be approved.

70 Energy Governance, Accountability, Risk and Reporting Policy

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

RESOLVED:

That the recommendation contained within the exempt report be approved.

71 Date of Next Meeting

It was noted that the next meeting of the West Mercia Energy Joint Committee would take place on Tuesday, 2nd March 2021.

Signed (Chairman)

Date:



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	8
2 nd March 2021	<u>Public</u>

EXTERNAL AUDIT PLAN 2020/21

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 2020/21 for consideration and approval.

2. Recommendations

It is recommended that the Joint Committee:

- 2.1 approve the draft audit plan for 2020/21 as presented by WR Partners attached at Appendix 1
- 2.2 approve the commissioning of WR Partners 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 WR Partners' 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 fee for the 2020/21 audit is £12,750. This is a saving of £1,500 compared to the audit fee for 2019/20 of £14,250.

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 A procurement exercise was conducted in late 2020 with the winning tenderer WR Partners, an audit firm based in Shrewsbury. Our previous auditors, Grant Thornton, also submitted a bid but were unsuccessful.
- 5.3 The attached WR Partners Service Plan sets out the scope of the audit to be undertaken, identifies risks and audit responses to these and outlines materiality levels.
- 5.4 WR Partners will conduct their main audit work on the WME accounts for 2020/21 in July 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 A Hardman of Worcestershire County Council (Chair of the Joint Committee)
Appendices Appendix 1 – WR Partners Service Plan for West Mercia Energy (year ended 31 March 2021)



Service Plan Year ending 31 March 2021

2 March 2021

Service Team John Fletcher
Engagement Partner
E: jfletcher@wrpartners.co.uk

Alex Riley
Audit Manager
E: ariley@wrpartners.co.uk

Gwyn Davies
Audit in-charge
E: gdavies@wrpartners.co.uk

1. Introduction and scope
2. Identified risks and our audit responses
3. Materiality
4. Other considerations
5. Workflow and audit approach
6. Fees

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To the Members of West Mercia Energy

The purpose of this document is to communicate to you our proposed audit and service strategy for the current year, to confirm the scope of our work, and to discuss with management the issues we consider, at present, to have the most significant audit impact.

The matters raised in this and other reports that will flow from the audit are only those which will have come to our attention arising from, or relevant to, our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and in particular we cannot be held responsible for reporting all risks in your business or all internal control weaknesses.

This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

WR Partners

1. Introduction and scope

1.1 Routine compliance scope

We have been engaged to provide the following services:

- Perform an audit, in compliance with International Standards on Auditing ("ISAs") (UK), of the year end statutory financial statements
- Prepare a report to management which incorporates a review of internal control and accounting issues arising from our work.

Our respective audit responsibilities and the objectives, procedures and limitations of the audit have been set out in our engagement letter and agreed with management.

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Audit approach

Our audit approach will be risk based. This means that emphasis will be placed on the audit areas considered to be of higher risk. We have highlighted these in section 2.

We will update our knowledge of your systems and controls, and we shall test those controls upon which we intend to place audit reliance. This will be supplemented by substantive tests of detail and substantive analytical review procedures.

The benefits of our approach to you are:

- Feedback and assurance in relation to your controls and processes;
- Early identification of issues to avoid "late surprises" in the audit; and
- Suggestions for improvement in the systems and controls where issues are identified.

1.3 Independence

WR Partners has policies and procedures in place which are reviewed on an annual basis to ensure compliance with the APB's Ethical Standards. Where ethical issues are identified, we are required to communicate these to you.

We have not identified any ethical threats arising for the current year audit engagement to identify to you at this stage.

We confirm that, for the purposes of the audit, we are independent from West Mercia Energy.

Other related services

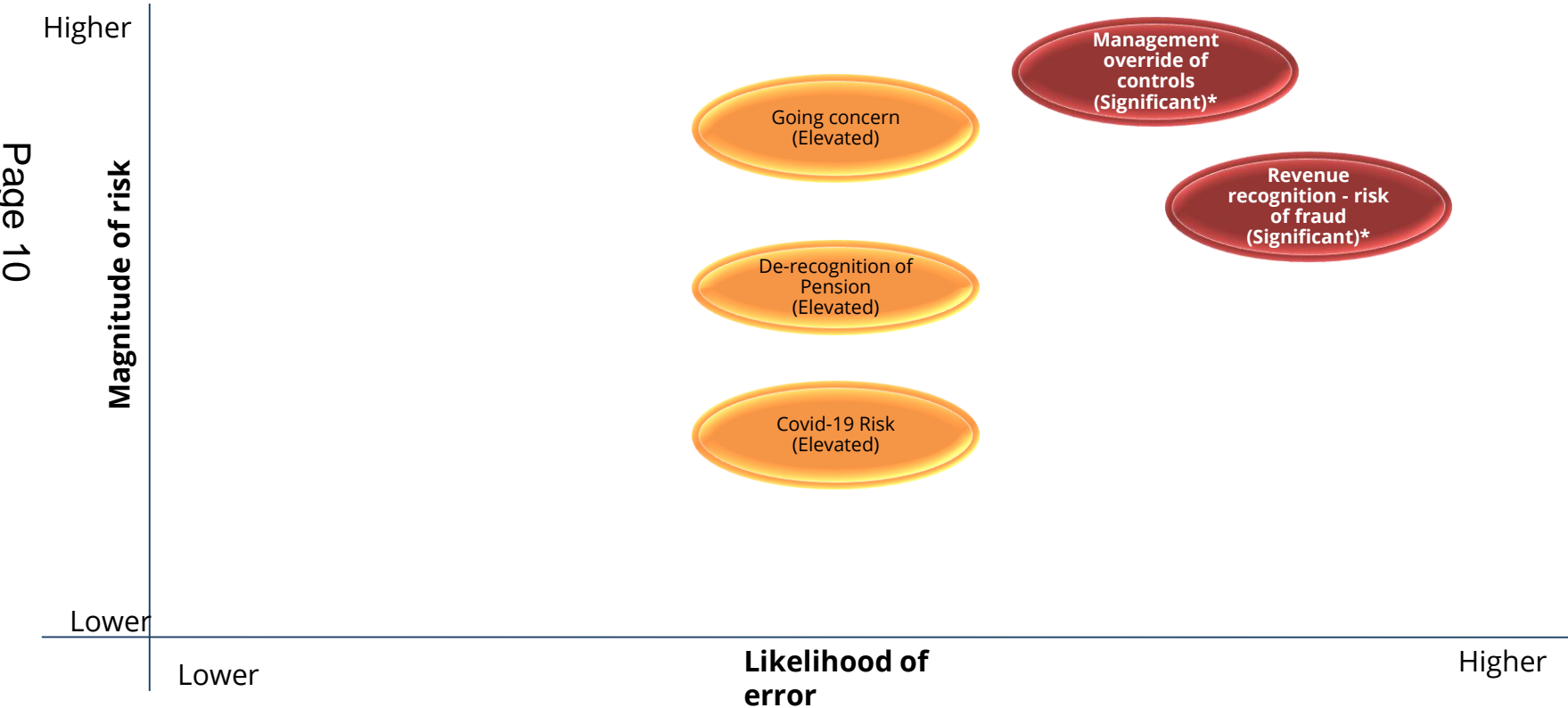
In addition to the routine company compliance services noted above, we also provide the following other services:

- Value added advice to support you in developing the business; and
- Strategic advice.

2. Identified risks and our audit responses

The diagram below illustrates our assessment of the magnitude of risks we have identified and the perceived likelihood of error associated with them.

- Significant risk
- risk of material misstatement that is judged to require special audit consideration due to its potential magnitude **and** likelihood.
- Elevated risk
- risk of material misstatement that is judged to require special audit consideration due to its potential magnitude **or** likelihood.



*ISA 240 requires that the risk of management override of controls and that the risk of fraud in revenue recognition are “significant risks”.

2. Identified risks and our audit responses

Audit Risk	Assessment	Audit response
Fraud – Management override of controls Risk of material misstatement in the financial statements due to management override of controls. <i>(ISA 240 requires that the risk of management override of controls is a “significant risk” on all audits)</i>	Significant	We will: <ul style="list-style-type: none">▪ Inspect a sample of cashbook transactions throughout the year and post year end▪ Review accounting estimates with particular focus on the assumptions used and the retrospective adequacy and accuracy▪ Inspect a sample of manual journals posted during the year▪ Review unusual transactions outside the usual course of business▪ Review credit notes issued post year end
Fraud – Revenue recognition Risk of material misstatement of revenue as a result of fraud. <i>(ISA 240 requires that the risk of fraud in revenue recognition is a “significant risk” on all audits unless there is a reason as to why it can be specifically rebutted – such circumstances are considered to be rare)</i>	Significant	We will: <ul style="list-style-type: none">▪ Test the operating effectiveness of key controls in the revenue cycle to ensure they are operating as expected during the year▪ Inspect on a target basis, a sample of manual journals posted to revenue during the year▪ Perform specific analytical procedures including analysis substantive tests of detail▪ Review contract terms with customers▪ Review sales made immediately before and after the year end to ensure correct cut-off

2. Identified risks and our audit responses

Audit Risk	Assessment	Audit response
Going Concern The risk that the entity cannot continue trading for the foreseeable future (a minimum of 12 months from the date of signing the accounts which is expected to be for the period to September 2022).	Elevated	We will: <ul style="list-style-type: none">Review the Management going concern assessmentReview budgets and forecasts, challenging the assumptions usedConsider the financial position and recent performance of the company in reviewing the adoption of the going concern principalReview cash facilities to ensure they meet the forecasted cash flow requirementsCompare actual results to forecasted results pre and post-year endDiscussions with managementAssess the impact of Covid-19 on the entity and their operations going forward
Covid-19 Fraud Risk There is a risk that Covid-19 opportunities have been inappropriately exploited	Elevated	We will: <ul style="list-style-type: none">Consider the controls and processes that were in place whilst staff were working remotely for robustnessAssess audit procedures and perform additional or enhanced audit procedures where deemed necessary.
De-recognition of Pension Scheme There is a risk that the pension scheme has not been disclosed or accounted for correctly	Elevated	We will: <ul style="list-style-type: none">Agree derecognition of the pension scheme to approved council meeting minutesReview accounts disclosures to ensure the removal of pension scheme is appropriately disclosed and the movement through the I&E statement appropriately classifiedAgreed values used within the derecognition of the pension scheme as at 1 April 2020 to the valuation as at 31 March 2020

3.1 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.

3.2 Materiality at the planning stage

In assessing materiality levels we have used a benchmark percentage of revenue as our basis for materiality. Benchmark percentages range from 1-2% of the total revenue as generally accepted thresholds.

We have capped materiality to the expected surplus to be generated for the year to avoid a possible immaterial error which could in effect cause a deficit for the year and therefore fundamentally impact the users of the financial statements.

Materiality level as at the planning stage has been assessed to be £700,000.

We have assessed whether a separate materiality level is needed for any other area of the financial statements. Related Party transactions are considered to have a materiality level of £nil due to being material in nature and having a fundamental impact on the financial statements.

3.3 Matters reported

Whilst our audit procedures are designed to identify misstatements which are material in our opinion to the financial statements we will also consider the aggregate effect of misstatements which may not be material, but in aggregate could materially impact the financial statements.

We will report to the joint committee any identified misstatements which are above the 'clearly trivial' threshold. In line with ISA 260 'clearly trivial' refers to matters which are clearly inconsequential to the financial statements.

For WME we propose a difference arising would be clearly trivial to the financial statements if it is less than £35,000.

4. Other considerations

4.1 Laws and regulations

As part of the audit process we consider the impact on the financial statements of any potential non-compliance with laws and regulations.

The principal laws and regulations we consider relevant to the organisation in performing this assessment are as follows:

Law or regulation	Audit response
Code of Practice on Local Authority Accounting Financial statements must be prepared in line with the CIPFA code	Financial statements to be reviewed to ensure all relevant disclosures are included
Employment Law Contracts held with employees must be in line with Employment Law	Contracts to be reviewed within audit procedures, together with procedures in place in relation to employment matters
Health and Safety regulations Regulations must be complied with in respect of employees and visitors	The accident book and board minutes will be reviewed, together with procedures in place in relation to health and safety regulations
GDPR Regulations must be complied with in respect of data held	Discussions to be held with management and review of GDPR compliance to be performed including review of privacy policy

No matters have been noted or brought to our attention to-date

4.2 Key accounting estimates

As part of the audit process we consider the key estimates utilised within the preparation of the financial statements for consistency and reasonableness.

The key accounting estimates we consider relevant to the organisation are as follows:

Accounting estimate	Assessment of prior year	Audit implication
Depreciation rates	Review of previous years auditor's findings confirmed no material issues arising regarding Depreciation Rates used and their application.	Depreciation proof in total testing will be performed at fieldwork.
Bad Debt Provision	Review of previous years auditor's findings confirmed no material issues arising regarding the bad debt provision included at year end.	After-date cash testing will be performed and a review of old items on the sales ledger for recoverability.
Prepayments	Review of previous years auditor's findings confirmed no material issues arising regarding the calculation and accuracy of prepayments.	Prepayments will be reviewed for reasonableness. Substantive analytical review, together with substantive testing will be undertaken at fieldwork.
Accruals & deferred income	Review of previous years auditor's findings confirmed no material issues arising regarding calculation of accruals and deferred income.	Accruals and deferred income will be reviewed for reasonableness. Substantive analytical review, together with substantive testing will be undertaken at fieldwork.

4.3 Related Parties

Accounting standards require that related party transactions are appropriately disclosed within the financial statements.

Management are expected to have appropriate systems of controls in place to enable them to:




- identify;
- authorise;
- document; and
- report related party transactions in the financial statements.

To assist the Management with this task we propose that Members and key management complete an annual declaration, which is collated and retained by an appropriate person in the company and provide us with the details as part of the audit deliverables process.

Note the following constitute the majority of related parties:

- Members of the Joint Committee and their spouses/ long term partners/ children and parents;
- Other entities in which shareholders and their spouses/ long term partners/ children and parents have an interest;
- Directors/Key Management of the entity and their spouses/ long term partners/ children and parents;
- Other entities in which directors/key management and their spouses/ long term partners/ children and parents have an interest

5. Workflow and audit approach

Phase	Key Dates	Staffing	Focus and Approach	Reporting
<div>Audit Planning and Interim Audit</div> 	Planning / Interim: - 1 st – 3 rd February 2021 Presentation of audit plan: - 2 nd March 2021	Duration off-site <ul style="list-style-type: none"> • x2 Team Members • Manager review • Partner review 	<ul style="list-style-type: none"> • Planning meeting with you • Discussion of performance and developments • Confirm scope, timetable and audit risks • Preliminary analytical review • Plan audit work and design testing • Confirm systems and controls (procedures) • Controls testing 	<div>Service Plan</div>
<div> <div>Page 17</div> <div>Receipt of accounts</div>  </div>	Receipt & Review: - 28 June 2021	Duration off-site <ul style="list-style-type: none"> • x2 Team Members • Manager review • Partner review 	<ul style="list-style-type: none"> • Accounts compliance review – disclosure checklist completion 	<div>Draft accounts comments</div>
<div>Final Audit</div> 	Final audit: - w/c 5 th July 2021 Audit closing meeting: - July 2021	Duration off-site <ul style="list-style-type: none"> • x2 Team Members • Manager review • Partner review 	<ul style="list-style-type: none"> • Substantive/transactional testing • Balance sheet audit • Close meeting with you to discuss audit findings 	<div>Audit Close Memorandum</div>
<div>Completion</div>	Presentation of audit findings: - September 2021 Signing of accounts: - September 2021	Off-site	<ul style="list-style-type: none"> • Final completion procedures • Update subsequent events review • Finalise and sign audit report 	<div>Signed Audit Report</div>

Our proposed fees for the provision of our routine compliance services as set out in the scope section of this document are £12,750 exclusive of VAT but inclusive of expenses and disbursements.

		£
Planning	February 2021	4,250
Fieldwork	July 2021	6,500
Completion	September 2021	2,000
Total		12,750

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Impact of delays

The support supplied by your team is essential to our ability to deliver an efficient service without compromising quality and effectiveness. Accordingly, if the standard and timeliness of support is not in accordance with the assumptions noted above, we shall draw your attention to this and will need to raise additional fees commensurate to any additional costs incurred by us following appropriate discussions with you.

These fees are based on the assumption that:

- Audit deliverables - the accounting records and schedules as detailed in Appendices B1 and B2 will be made available to us on the dates agreed; and
- Timetable - the timetables are followed as specified in section 4 to avoid inefficient audit testing and/or additional subsequent events review.
- Staff availability - relevant staff will be available to deal with our queries throughout the process

The 2021 fee proposal is based on the above items being prepared by WME and provided to us as per the deliverables listing.

Flexibility remains key to our working ethos and we would encourage you to advise us as early as possible if, for any reason, it would be challenging to deliver all the information requested. This should enable us to reconsider the timetable and possibly reschedule as appropriate with minimum impact on our service and delivery.

Other related services

Advice and services provided outside the scope of our routine compliance services, as set out above, may be the subject of a separate fee. We shall discuss with you the nature and scope of the work and agree an appropriate fee basis prior to the commencement of this work.



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee 02 March 2021	9 <u>Public</u>

WEST MERICA ENERGY (WME) INTERNAL AUDIT PERFORMANCE REPORT TO MARCH 2021

Responsible Officer Ceri Pilawski

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

Tel: 01743 257739

1. Summary

- 1.1 This report provides members with an update on the work completed by Internal Audit against the approved Internal Audit Plan 2020/21, presented on 25th February 2020.
- 1.2 Five pieces of planned audit work for 2020/21 have been completed since the last report. Completed reviews attracting good assurance are Finance, Debtors, Information Technology, Procurement, Corporate Governance and Risk Management.
- 1.3 The plan remains at 22 Days as agreed in February 2020.

2. Recommendations

- 2.1 The Committee consider and endorse, with appropriate comment, the performance to date against the 2020/21 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, several significant recommendations in a small number of areas would not result in a limited opinion if most 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 six 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 2020/21

Audit Area	Assurance level	No. of Recommendations made				Total
		Best Practice	Requires Attention	Significant	Fundamental	
Debtors System	Good	0	2	0	0	2
Finance System	Good	0	0	0	0	0
Corporate Governance and Risk Management	Good	0	0	0	0	0
Information Technology	Good	0	3	0	0	3
Procurement	Good	0	1	0	0	1
Total for the period		0	6	0	0	6
Total to date						
• numbers		0	6	0	0	6
• percentage		0%	100%	0%	0%	100%

- 5.7 There are five good assurance levels in place and no significant issues to bring to the Committee's attention. An action plan is in place to address recommendations 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 2020. There have been no variations to the plan agreed in February and no significant impact on audit reviews from the pandemic.

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 2020/21, 25th February 2020.

Member

Councillor A Hardman of Worcestershire County Council (Chair of the Joint Committee)

Appendices

Appendix 1 – Debtors Report 2020/21

Appendix 2 – Finance Report 2020/21

Appendix 3 – Corporate Governance and Risk Management Report 2020/21

Appendix 4 – IT Audit 2020/21

Appendix 5 – Procurement 2020/21



SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

FINAL INTERNAL AUDIT REPORT WME DEBTORS/INCOME 2020/21

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 2020
Debrief Meeting:	04/11/2020 – via email
Draft Report Issued:	13 November 2020
Responses Received:	23 November 2020
Final Report Issued:	23 November 2020

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 2020/21 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. The scope includes a follow up of recommendations made in the 2019/20 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 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

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.
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	4
Recommendations implemented	1
Recommendations partially implemented	-
Recommendations superseded	2
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

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

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

ACTION PLAN FOR WME DEBTORS/INCOME 2020/21

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 for the new system in operation. 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	Agreed	John Morris, Billing and Pricing Specialist	March 2021
6.1	2	The direct debit process note should be dated, and version controlled. This will ensure that any changes to the process can be evidenced and staff confident they are working to the current process.	Requires Attention	Now dated and any future changes will be dated, and version controlled.	Jo Pugh, Finance Manager	Completed



SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

FINAL INTERNAL AUDIT REPORT WME FINANCE 2020/21

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:	November 2020
Debrief Meeting:	N/a
Draft Report Issued:	N/a
Responses Received:	N/a
Final Report Issued:	30 November 2020

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 2020/21 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 2019/20 audit.
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 finance audit 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. 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	
Recommendations superseded	1
Recommendations not implemented	

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

Audit Approach

11. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of 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.
12. A more detailed report covering all the work undertaken can be provided on request.

Ceri Pilawski
Head of Audit

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SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

FINAL INTERNAL AUDIT REPORT WME CORPORATE GOVERNANCE AND RISK MANAGEMENT 2020/21

Assurance Level	Good
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Audit Data

Customer:	West Mercia Energy
Report Distribution:	Nigel Evans, Director
Auditor(s):	Shelley Taylor
Fieldwork Dates:	November 2020
Debrief Meeting:	N/a
Draft Report Issued:	N/a
Responses Received:	N/a
Final Report Issued:	13th November 2020

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 2020/21 Audit Services have undertaken a review of Corporate Governance.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. 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 2019/20 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.
 - ✓ A business continuity plan has been prepared which details the actions to be taken to allow recovery from an incident.

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. 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	1
Recommendations partially implemented	
Recommendations superseded	
Recommendations not implemented	

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

Audit Approach

11. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of 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.
12. A more detailed report covering all the work undertaken can be provided on request.
13. 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

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



SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

FINAL INTERNAL AUDIT REPORT WME IT AUDIT 2020/21

Assurance Level | Good

Audit Data

Customer:	Nigel Evans – Director of WME
Report Distribution:	As above
Auditor(s):	Joanne Woolley
Fieldwork Dates:	January 2021
Debrief Meeting:	03 February 2021
Draft Report Issued:	26 January 2021
Responses Received:	03 February 2021
Final Report Issued:	03 February 2021

Assurance

Previous Assurance Level	Current Assurance Level	Direction of Travel
Limited	Good	Strengthening control environment

Introduction and Background

1. As part of the approved internal audit plan for 2020/21 Audit Services have undertaken a review of the IT arrangements in place for West Mercia Energy's (WME) 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 follow up the recommendations made in the 2019/20 WME IT Application Audit which was a full review of system compliance with legislation and policies, application security, parameter data, continuity processes, management/audit trails, change control procedures and interfaces.
In addition to the follow up of previous recommendations, the 2020/21 audit includes a full review of the current controls in place for user training, data input, data processing and data output in relation to the organisation's utilities and billing system.
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:
 - ✓ To follow up the previous recommendations.
 - ✓ Users have received the required training.
 - ✓ Data is accurately input and the authenticity of the data is verified.
 - ✓ Data is processed in a timely manner and validated.
 - ✓ Output is secure, accurate and reaches the intended recipient in a timely manner.

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:

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
3	0	0	3	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	13
Recommendations implemented	10
Recommendations partially implemented	2
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

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

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

ACTION PLAN FOR WME IT AUDIT 2020/21

APPENDIX 1

Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	Lead Officer	Date to be Actioned
1.1	1	To ensure that recovery testing is fully supported a test plan should be agreed and documented. Test results should be recorded so that a full report of issues and resolutions are captured for future reference. A fully documented recovery exercise will provide evidence that the testing has been undertaken and that any exceptions were noted and resolved, and the system is fit for purpose.	Requires Attention	Agreed, we will incorporate a test plan into future testing.	Neil Marston	03/02/2021
1.2	2	Following changes to working practices as a result of Covid-19 and a requirement to work from home where possible, a review of the Business Continuity Policy and Recovery Plan should be undertaken to ensure that both documents are up to date and reflect new working practices and recovery arrangements. <i>(Updated from the recommendation agreed in 2019/20).</i>	Requires Attention	Agreed.	Nigel Evans	30/09/2021

Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	Lead Officer	Date to be Actioned
1.3	3	Work on the documentation of a retention policy for the utilities/billing system data should continue and the policy should be formalised and agreed to ensure that information is retained for the required period and in line with GDPR.	Requires Attention	Agreed.	Nigel Evans	30/06/2021

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SHROPSHIRE COUNCIL AUDIT SERVICES

"ADDING VALUE"

FINAL INTERNAL AUDIT REPORT WME PROCUREMENT 2020/21

Assurance Level | **Good**

Audit Data

Customer:	West Mercia Energy
Report Distribution:	Nigel Evans, Director
Auditor(s):	Shelley Taylor
Fieldwork Dates:	2 nd February 2021
Debrief Meeting:	N/a
Draft Report Issued:	3 rd February 2021
Responses Received:	3 rd February 2021
Final Report Issued:	3 rd February 2021

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 2020/21 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 gas contract to ensure compliance with Financial Regulations, Standing Orders and Contract Rules.
7. The scope includes a follow up of recommendations made in the 2019/20 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.
 - √ 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. 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	
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

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

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ACTION PLAN FOR WME PROCUREMENT 2020/21

APPENDIX 1

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>(As recommended and agreed in 2018/19 and 2019/20).</p>	Requires Attention	Agreed	Nigel Evans	Sept 2021



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	10
2 nd March 2021	<u>Public</u>

WEST MERCIA ENERGY (WME) INTERNAL AUDIT STRATEGIC PLAN 2021/22

Responsible Officer Ceri Pilawski
e-mail: ceri.pilawski@shropshire.gov.uk

Tel: 01743 257739

1. Summary

- 1.1 This report details the proposed programme of audit work for the year 2021/22 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 2021/22.

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 remains at 22 days in 2021/22 in line with delivery 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. COVID has had very little impact on WME’s governance and internal control environment with staff being well established to work from home as required. The impact of COVID on future customer demands will be considered in business plans.
- 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.
- 5.4 The audit programme is shown at **Appendix A**. The proposed plan is presented to Committee for approval to reflect current issues and risks. This will ensure that the audits are timely, appropriate and add value, 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 Internal Audit 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 2021/22 to deliver 22 days of audit.

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

Internal audit strategic plan 2018/19 – February 2018

Internal audit strategic plan 2019/20 – February 2019

Internal audit strategic plan 2020/21 – February 2020

Member

Councillor A Hardman of Worcestershire County Council (Chair of the Joint Committee)
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Appendices

Appendix A: West Mercia Energy – Proposed Internal Audit Plan 2021/22
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APPENDIX A**WEST MERCIA ENERGY - AUDIT AREAS**

AUDIT	Including review of:	2021/22 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	Review development of IT controls as required by management and follow up systems application audit	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>	<u>Item</u>
West Mercia Energy Joint Committee	11
2 nd March 2021	<u>Public</u>

ANTI-SLAVERY AND HUMAN TRAFFICKING STATEMENT 2020/21

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 2020/21 for approval.

2. Recommendations

It is recommended that the Joint Committee:

- 2.1 approve the draft WME Transparency Statement for 2021/22
- 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 2020/21 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 2020/21 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 25th September 2017 – Anti-Slavery and Human Trafficking Policy

Joint Committee 25th February 2020 - Anti-Slavery and Human Trafficking Statement 2019/20

Member

Councillor A Hardman of Worcestershire County Council (Chair of the Joint Committee)

Appendices

WME Transparency Statement 2020/21



Modern Slavery Act 2015

West Mercia Energy Transparency Statement 2020/21

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 2020 to 31 March 2021 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 2020 to 31 March 2021 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 2021/22 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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<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	12
2 nd March 2021	<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 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 25 February 2020 a copy of which is attached in Appendix A. The WME management team have conducted their annual review of the Strategy document and this year no changes are being proposed.
- 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 seventy six highlighted risks.
- 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.
- 5.4 The table below identifies the five current medium risks and the one medium risk from the last meeting that now has a lower rank. No high risks have been identified.

Ref	Risk	Risk Owner	L	I	Status	Rank	Rank Change
Current Medium Risks							
1	Breach of product tolerance levels	Gareth Maude	4	3	12	Medium	Decrease
2	Breach of trading risk levels	Gareth Maude	1	5	5	Medium	No change
3	Central government policy or Regulative initiative	Nigel Evans	1	5	5	Medium	No change
4	Loss of key staff	Nigel Evans	2	4	8	Medium	No change
5	Loss of external customer contracts	Nigel Evans	3	4	12	Medium	Increase
Previous Medium Risk							
1	Impact of Covid-19 (lower volumes)	Nigel Evans	3	3	9	Low	Decrease

L – likelihood of the risk
I – impact of the risk

- 5.5 The risk relating to the loss of external contracts has been increased due to a rise in the likelihood rating. This is due to the relative high number of key contracts up for renewal compared to previous years.
- 5.6 The risk relating to the breach of product tolerance levels has been reduced from high to medium as the impact has been reassessed from a rating of four down to three.

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

Joint Committee 25th February 2020 – Risk Management Update

Member

Councillor A Hardman of Worcestershire County 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 on an annual basis.
- Receive details of all medium and high risks at each meeting.

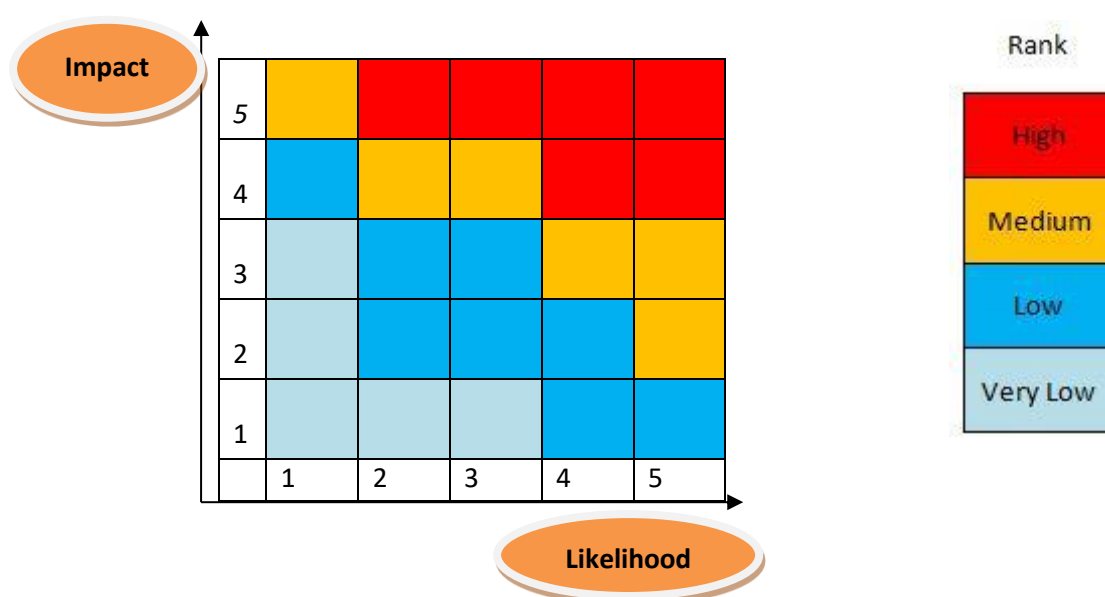
Each identified risk will be allocated an owner, responsible for the management and monitoring of that risk.

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.

		<ul style="list-style-type: none"> • 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.

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

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