The Audit Plan for West Mercia Energy

Year Ending 31 March 2018

26 February 2018

Richard Percival
Associate Director
T 0121 232 5434
E richard.d.Percival@uk.gt.com

Jim McLarnon
Manager
T 0121 232 5219
E james.a.mclarnon@uk.gt.com

Allison Thomas
Executive
T 0121 232 5278
E allison.a.Thomas@uk.gt.com

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Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

T +44 (0)121 212 4000
www.grantthornton.co.uk

West Mercia Energy

Chapter House South
Abbey Foregate
Shrewsbury

SY2 5DE

26 February 2018

Dear Members of the Joint Committee

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

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

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

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

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

Richard Percival

Associate Director
For Grant Thornton UK LLP

Contents

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

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

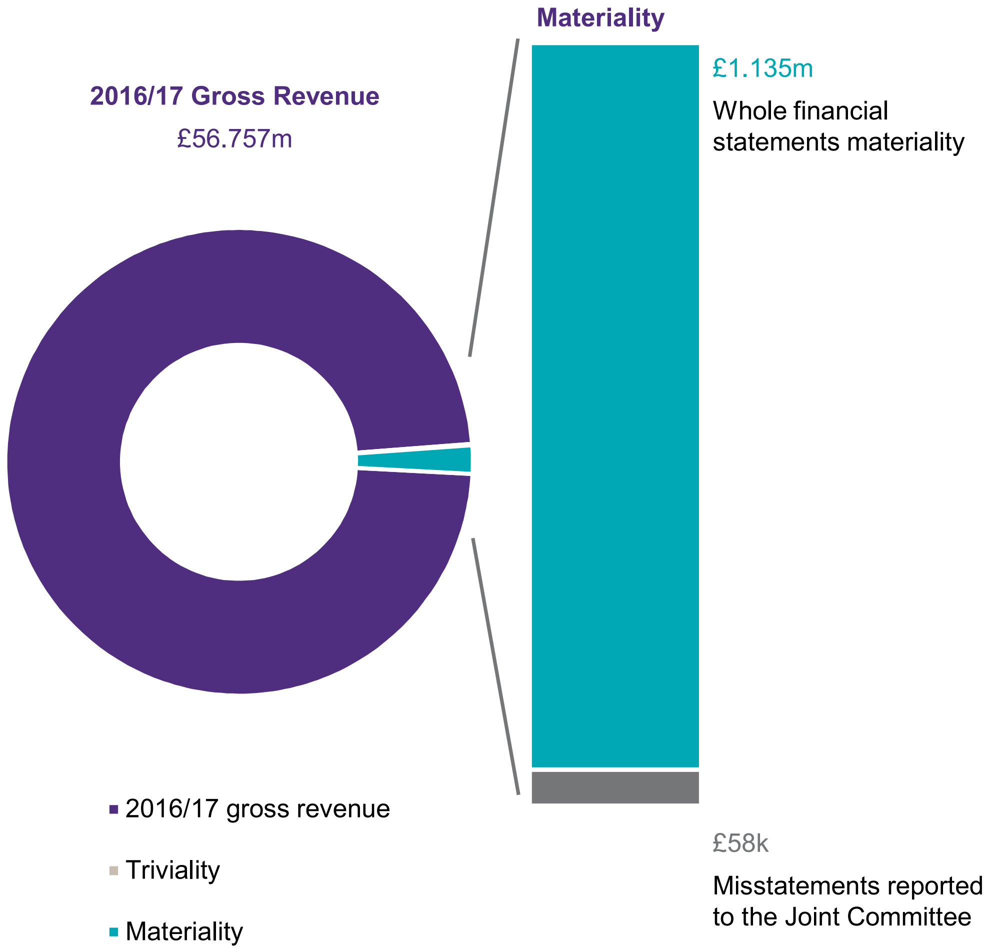
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

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

Matters we will report to the Audit Committee

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

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



Significant risks identified

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

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	• Review and testing of revenue recognition policies • Performance of attribute testing on material revenue streams
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	• Review of accounting estimates, judgements and decisions made by management • Updating our understanding of the journals control environment and testing of journals entries • Review of unusual significant transactions
Valuation of pension fund liability	The defined benefit pension fund (LGPS) liability as reflected in the balance sheet represents a significant financial statements estimate.	• Gain assurance on the data provided to the actuary including, but not confined to, the auditor of the pension fund • Review the assumptions made by the actuary • Agree amounts disclosed in primary statements and notes to actuary's statement • Review PwC report (as auditors expert) and perform any additional procedures suggested in the report • Complete an ISA driven estimates working paper

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

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

Other risks identified

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

Other reasonably possible risks	Description	Planned audit procedures
Turnover – Utility Revenue	Existence/Occurrence - Contract accounting not consistent with terms.	• We will document the processes and controls in place around the accounting for utility revenue and carry out walkthrough tests to confirm operation of controls. • Tests of detail on utility revenue included in the financial statements including testing on a sample of utility revenue transactions.
Cost of Goods Sold – Utility Expenditure	Valuation – Gross - Costs not accounted for property.	• We will document the processes and controls in place around the accounting for utility expenditure and carry out walkthrough tests to confirm operation of controls. • Tests of detail on utility expenditure included in the financial statements including testing on a sample of utility expenditure transactions.
Cost of Goods Sold – Utility Expenditure	Valuation – Net - Activity variation adjustments to expenditure not correct.	• We will document the processes and controls in place around the accounting for utility expenditure and carry out walkthrough tests to confirm operation of controls. • Tests of detail on contracts with supplier rebates or significant activity variation to ensure expenditure has been recorded appropriately

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

Audit logistics and team

Richard Percival, Engagement Lead

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

Jim McLarnon, Audit Manager

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

Allison Thomas, Audit Incharge

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

Fees and related matters

Fees

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

Our fee assumptions include:

- Our fees are exclusive of VAT and out of pocket expenses
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- You will make available management and accounting staff to help us locate information and to provide explanations

What is included within our fees

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

Independence and non-audit services

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

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

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

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

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

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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