



Grant Thornton

An instinct for growth™

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

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



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

Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	8
Fraud Risk Assessment	9
Laws and Regulations	13
Impact of Laws and Regulations	14
Going Concern	16
Going Concern Considerations	17
Related Parties	21
Accounting Estimates	23
Appendix A Accounting Estimates	25

Purpose

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

Background

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

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

Communication

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

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

Purpose

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

General Enquiries of Management

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

General Enquiries of Management

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

Fraud

Issue

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

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

Fraud risk assessment

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

Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	No areas with a potential for misreporting have been identified.
8. How do WME communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	Fraud risks are identified by Internal Audit in their audit planning process; in identifying key controls to be assessed as part of an audit; in targeted fraud prevention work and by raising awareness of the potential for fraud with staff, members and people working and involved with WME. This is done through the Anti-Fraud and Corruption Strategy and speaking up about Wrongdoing Policy. The Joint Committee has a Whistleblowing Policy in place to enable staff to raise concerns regarding malpractice. No issues have been reported.
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	No areas considered to be high risk. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	No Procurement is conducted in accordance with set procedures.

Fraud risk assessment

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

Law and regulations

Issue

Matters in relation to laws and regulations

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

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

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Joint Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

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

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does WME have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to WME's regulatory environment that may have a significant impact on WME's financial statements?</p>	<p>The Joint Committee has a Annual Governance Statement which highlights the scope of responsibility which determines sound system of internal controls and management of risk. A risk register is kept and in the event of any incident, risks are reviewed to ensure controls, mitigation measures and scores are appropriate.</p> <p>The Monitoring Officer and Treasurer provide advice to the Director on compliance with relevant laws and regulations.</p> <p>Internal Audit examine, evaluate and report on arrangements to ensure compliance with legislation and regulations, recommending to management any arrangements to address weaknesses, as necessary.</p> <p>No</p>
<p>2. How is the Joint Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer and Treasurer provide advice to the Joint Committee on compliance with relevant laws and regulations.</p> <p>The Joint Committee is responsible for the approval of the Annual Governance Statement and the review of the related assurances which set out the system of internal control and detail the policies and procedures in place. This provides the assurance that management arrangements are in place for identifying and responding to changes in law and regulations and highlights any significant governance issues arising as a result of such changes.</p> <p>Internal Auditors' reports to the Joint Committee incorporate issues relating to compliance with legislation and regulations, where appropriate.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No</p>

Impact of laws and regulations

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

Going Concern

Issue

Matters in relation to going concern

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

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

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

Going concern considerations

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

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	Yes
4. Have there been any significant issues raised with the Joint Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No

Going concern considerations

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

Going concern considerations

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

Related Parties

Issue

Matters in relation to Related Parties

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

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

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

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

Relating Parties

Question	Management response
1. What controls does WME and the Joint Committee have in place to identify, account for and disclose related party transactions and relationships?	Members and chief officers complete annually a Related Party Transactions Declaration Form. At the formal tender stage of contracts, the tenderer is required to complete a declaration of any connection with officers or elected members of WME.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

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

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

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

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

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

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
3. How is the Joint Committee provided with assurance that the arrangements for accounting estimates are adequate ?	By obtaining the necessary input of the Treasurer, Director and Internal Audit as required.

Appendix A Accounting Estimates

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

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	No	Valuations are made in-line with the CIPFA Code of Practice guidance.	No.
Measurement of Financial Instruments	Measurements are obtained from appropriate sources. The Joint Committee follows the requirements of the CIPFA Code of Practice.	The financial instruments are measured by the Director and the accounts reviewed by the Treasurer.	No	The measurements are based upon the best information held at the current time and are provided by experts in their field.	No

Appendix A Accounting Estimates (Continued)

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

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Creditor Accruals	Accruals are estimated by reviewing goods and services received prior to the end of the financial year for which an invoice has not been received	The date of receipt of the goods and services is used in the estimation of the accrual.	No	The use of actual dates of receipt of goods and services gives a low degree of uncertainty.	No.
Non Adjusting events – events after the balance sheet date	The Joint Committee follows the requirements of the CIPFA Code of Practice	The Treasurer is notified by the Director.	This would be considered on individual circumstances	This would be considered on individual circumstances	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Mercers. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Joint Committee responds to queries raised by the administering body - Shropshire Council.	The Joint Committee are provided with an actuarial report by Mercers (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.



grantthornton.co.uk

© 2019 Grant Thornton UK LLP

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.