

Date: Monday, 29 November 2021

Time: 10.00 am

Venue: Council Chamber, Shirehall, Abbey Foregate, Shrewsbury, SY2 6ND

Contact: Emily Marshall, Committee Officer
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WEST MERCIA ENERGY JOINT COMMITTEE

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Contact: Nigel Evans (0333101 4353)



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EXTERNAL AUDIT UPDATE RE. 2020/21 AUDIT

Responsible Officer Nigel Evans

e-mail: nevens@westmerciaenergy.co.uk Tel: 0333101 4353

1. Summary

- 1.1 At the last Joint Committee meeting the WME External Auditors, WR Partners, presented their audit findings report relating to the WME financial statements for the year 2020/21. Whilst their audit work was substantially complete, the report highlighted the final audit work to be completed. This work has since been completed allowing them to issue their audit opinion, a copy of which is attached to this report.

2. Recommendations

- 2.1 The Joint Committee are asked to consider and endorse, with appropriate comment, the Independent Auditor's 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 WR Partners' audit work was conducted in accordance with the International Standard on Auditing (UK).

4. Financial Implications

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

5. Background

5.1 At the Joint Committee of 28 September 2021, WR Partners presented their Audit Close Memorandum for the year ended 31st March 2021. This report highlighted that they had substantially completed their audit work with the one area where further work was required, namely final work around going concern.

5.2 In October 2021 WR Partners have completed this final work. The work comprised of further discussions with WME management, receipt of a letter of support signed by each of the Member Authorities and a follow up call with the Councillor Butler who chaired the last Joint Committee meeting.

5.3 As a result of this work, WR Partners have been able to issue a clean audit opinion, a copy of which is attached.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p>
<p>Joint Committee 28th September 2021 – External Audit Findings Report 2020/21</p>
<p>Joint Committee 2nd March 2021 – External Audit Plan 2020/21</p>
<p>Joint Committee 28th September 2015 – Local Audit and Accountability Act</p>
<p>Member Councillor R Evans of Telford & Wrekin Council (chair of the Joint Committee)</p>
<p>Appendices Independent Auditor’s Report</p>

INDEPENDENT AUDITOR'S REPORT

To the Members of West Mercia Energy Joint Committee

Opinion

We have audited the financial statements of West Mercia Energy Joint Committee, which comprise the balance sheet as at 31 March 2021 and the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement and Cash Flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies

In our opinion, the accompanying financial statements of the Joint Committee for the year ended 31 March 2021 are prepared, in all material respects, in accordance with the basis of accounting as described in note 1 Accounting Policies, 1.1 General Principles.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Joint Committee in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1.1 to the financial statements, which describes the basis of accounting, and is a special purpose framework. The financial statements are prepared to report to the Joint Committee Member Authorities. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for West Mercia Energy Joint Committee and its members and should not be distributed to or used by parties other than West Mercia Energy Joint Committee or its members. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Joint Committee's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The Treasurer to the Joint Committee is responsible for the other information. The other information comprises the other information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Joint Committee, the Treasurer to the Joint Committee and those charged with governance for the financial statements

As explained more fully in the Statement of Responsibilities and Joint Committee Approval set out on pages 6 to 7, the Joint Committee is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Joint Committee, that officer is the Treasurer to the Joint Committee. The Treasurer to the Joint Committee is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with the basis of accounting described in note 1.1 and for such internal control as the Treasurer to the Joint Committee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer to the Joint Committee is responsible for assessing the Joint Committee's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Joint Committee intends to liquidate or to liquidate the Joint Committee or to cease operation, or has no realistic alternative to do so.

The Joint Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Joint Committee's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- The audit team obtain an understanding of the legal and regulatory frameworks that are applicable to the Joint Committee and determined that the most significant are those that relate to the reporting framework (CIPFA Code of Practice on Local Authority Accounting (The 'Code'), Employment law, Health & Safety Regulations and the EU General Data Protection Regulation (GDPR)).

We understood how the Joint Committee are complying with these frameworks by making enquiries of management and those responsible for legal and compliance procedures. We also reviewed meeting minutes to identify and recorded instances of irregularity or non compliance that might have a material impact on the financial statements.

- We reviewed the susceptibility of the Joint Committee's financial statements to material misstatement including how fraud might occur by meeting with key management to understand where they considered there was susceptibility to fraud. Based on our understanding our procedures involved inquiries of management and those charged with governance, manual journal entry testing, cashbook reviews for large and usual items and the challenge of significant accounting estimates used in preparing the financial statements.
- We also assessed the Joint Committee's internal control procedures to ensure we could appropriately scrutinise these controls and establish whether our understanding of the control environment was sufficient to supplement our additional testing procedures.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Joint Committee, as a body, in accordance with our letter of engagement dated 20 January 2021. Our audit work has been undertaken so that we might state to the Joint Committee's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Joint Committee and the Joint Committee's members as a body, for our audit work, for this report, or for the opinions we have formed.



WR Partners,
Appointed Auditor
Shrewsbury
1 November 2021

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RISK MANAGEMENT UPDATE

Responsible Officer Nigel Evans

e-mail: nevans@westmerciaenergy.co.uk Tel: 0333101 4353

1. Summary

- 1.1 The purpose of this report is for the Joint Committee to receive details of all medium and high risks in accordance with the WME Risk Management Strategy. This report has been updated from the report submitted to the September Joint Committee.

2. Recommendations

- 2.1 The Joint Committee are asked to consider and endorse, with appropriate comment the medium and high risks presented.

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 A report was submitted to the September Joint Committee but due to illness to WME staff at the time of the meeting it was agreed that this item be deferred to this meeting. As a result the key risks have been reconsidered and the report updated.
- 5.2 The WME Risk Management Strategy is reviewed and presented to the Joint Committee on an annual basis. This was presented and endorsed by the Joint Committee in February. WME Risk Management Strategy states that the Joint Committee are to receive details of all medium and high risks at each meeting.
- 5.3 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.
- 5.4 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.
- 5.5 The table below identifies the six current high and medium risks, the one medium risk from the last meeting that now has a lower rank and the change in rank levels from the last meeting.

Ref	Risk	Risk Owner	L	I	Status	Rank	Rank Change
Current High and Medium Risks							
1	Market conditions leading to less competitive prices / high year on year price rises	Gareth Maude	4	3	12	Medium	Increase
2	Delays in customers completing new contracts resulting in high year on year price rises.	Nigel Evans	5	3	15	Medium	Increase
3	Breach of product tolerance levels	Gareth Maude	4	5	20	High	Increase
4	Breach of trading risk levels	Gareth Maude	4	5	20	High	Increase
5	Central government policy or Regulative initiative	Nigel Evans	1	5	5	Medium	No change
6	Loss of key staff	Nigel Evans	3	4	12	Medium	No change
Previous Medium Risk							
1	Loss of external customer contracts due to natural competition	Nigel Evans	3	3	9	Low	Decrease

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

- 5.6 The key driver affecting the increase in rank levels of the first four identified risks is the energy commodity market conditions we have experienced over recent months. Gas and electricity prices have increased significantly since March and have traded at unprecedented levels - the market commodity prices for gas for the 21/22 delivery period have risen by over 380% by the start of October and for electricity by 250%.
- 5.7 In addition, Day Ahead gas prices (the price of gas for delivery tomorrow) have traded consistently above £1 per therm since the end of July rising to above £2 a therm in October. To put these levels into context gas Day Ahead rates have only

been above £1 a therm on six separate days since 2011 so the consistent high levels we have seen are truly exceptional.

- 5.8 With the gas Day Ahead prices currently so high, the rank of the risk associated with the gas cash out (Ref 3 in the table above) has been increased. Should consumed volumes be greater than those procured (e.g. where the winter is colder than the norm) then these additional volumes would be bought at the Day Ahead rates leading to additional costs. This risk is being closely monitored by the business and mitigated where possible by procuring additional volumes for the remaining months of the financial year where it is considered necessary. By doing so this does increase the risk of breaching risk levels hence why the risk has been increased for Ref 4 in the table also.
- 5.9 As a result of the exceptional market conditions experienced by the business and potential financial impacts on the trading results for the current financial year, it has been considered prudent to defer any approval of the distribution of surplus relating to the financial year 2020/21 to March.
- 5.10 The risk relating to the loss of key staff has been reassessed also with the status increased but the rank remaining at the medium level. A review of the structure of the business is currently being considered in order to mitigate this risk, build in greater resilience and strengthen for further growth.
- 5.11 The WME risk register identifies a number of risks relating to the supply of green energy and currently through the proactive work conducted the risks have been classified as low but continued focus will remain on this key area.

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

Joint Committee 28th September 2021 – Risk Management Update

Joint Committee 2nd March 2021 – Risk Management Update

Member

Councillor R Evans of Telford & Wrekin Council (Chair of the Joint Committee)

Appendices

None

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Distribution of Surplus

Responsible Officer James Walton - Treasurer
e-mail: james.walton@shropshire.gov.uk Tel: 01743 258915

1. Summary

- 1.1 The Joint Committee in September approved the deferral of the distribution of the accumulated surplus to the Member Authorities until the next Joint Committee meeting. Given the continued unprecedented conditions within the energy markets within the current financial year, it is recommended that any distribution is deferred until the Joint Committee on 1st March 2022.

2. Recommendations

- 2.1 It is recommended that the Joint Committee approve the deferral of any distribution of surplus until the next Joint Committee in March.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Due to unprecedented trading conditions and gas prices being at a historically high level, the implications of these factors on the 2021/22 financial year are not yet fully known. Delaying the distribution will assist in managing the risks associated with this.
- 3.2 There is a risk to the Member Authorities and the WME business if a distribution is made to the Member Authorities without retaining sufficient funds for the proper operation of the business, to maintain a contingency fund and general reserves or provide for future investment. This risk is usually mitigated by the retentions being calculated taking into account future capital commitments and energy trading reserves (Capital at Risk for gas and electricity). This risk can be more fully assessed by deferring the decision regarding the level of retentions and any associated distribution until later in the current financial year.
- 3.3 There are no direct environmental, equalities or climate change consequences arising from this report.

4. Financial Implications

4.1 By deferring any distribution of surplus until March it means the General Fund reserve fund within WME is maintained at a higher level until this time to support the trading conditions within 2021/22. The General Fund as of 31st March 2021 stands at £1.47m.

5 Background & report

5.1 Following the completion of the annual accounts and the external audit, it is usual at the September Joint Committee meeting to consider the distribution to the Member Authorities of the accumulated surplus held at the year end as described in the Joint Agreement.

5.2 At the September Joint Committee it was approved to defer the distribution of surplus until the next Joint Committee.

5.3 The reason to defer any distribution until March is that this would allow a greater view of the trading and financial position of WME for the current financial year 2021/22 in light of the exceptional energy market conditions. By adopting this prudent approach it enables a greater insight to the level of retentions to be made within the distribution in light of these unprecedented market conditions.

5.4 The previous agenda item on risk management referred to the increased risks to the business in light of the unprecedented market conditions.

5.5 Monthly trading information is issued to Members and key officers of the Member Authorities outlining financial performance. In addition Members will have been provided a briefing note separately regarding forecasted scenarios for 21/22 and a later agenda item will cover the trading update for 21/22.

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

Risk Management Update

Joint Committee 28 th September 2021 - Distribution of Surplus

Joint Committee 28 th September 2021 - Statement of Accounts 2020/21

Joint Committee 29 th September 2020 – Distribution of Surplus

Member

Councillor R Evans of Telford & Wrekin Council (Chair of the Joint Committee)

Appendices None

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