



Service Plan Year ending 31 March 2021

2 March 2021

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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.

1.2 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

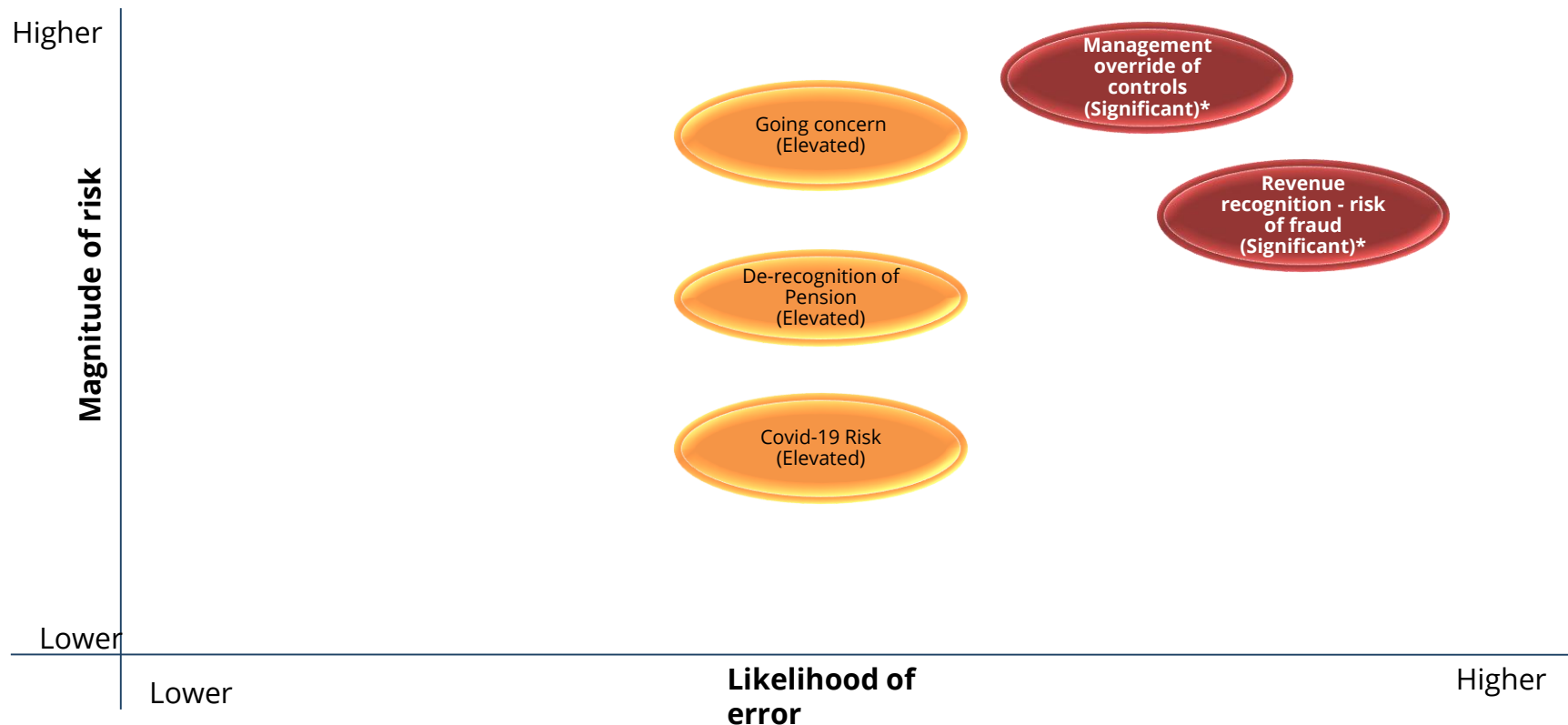
The diagram below illustrates our assessment of the magnitude of risks we have identified and the perceived likelihood of error associated with them.

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
<p>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></p>	<p>Significant</p>	<p>We will:</p> <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
<p>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></p>	<p>Significant</p>	<p>We will:</p> <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
<p>Going Concern</p> <p>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).</p>	<p>Elevated</p>	<p>We will:</p> <ul style="list-style-type: none"> ▪ Review the Management going concern assessment ▪ Review budgets and forecasts, challenging the assumptions used ▪ Consider the financial position and recent performance of the company in reviewing the adoption of the going concern principal ▪ Review cash facilities to ensure they meet the forecasted cash flow requirements ▪ Compare actual results to forecasted results pre and post-year end ▪ Discussions with management ▪ Assess the impact of Covid-19 on the entity and their operations going forward
<p>Covid-19 Fraud Risk</p> <p>There is a risk that Covid-19 opportunities have been inappropriately exploited</p>	<p>Elevated</p>	<p>We will:</p> <ul style="list-style-type: none"> ▪ Consider the controls and processes that were in place whilst staff were working remotely for robustness ▪ Assess audit procedures and perform additional or enhanced audit procedures where deemed necessary.
<p>De-recognition of Pension Scheme</p> <p>There is a risk that the pension scheme has not been disclosed or accounted for correctly</p>	<p>Elevated</p>	<p>We will:</p> <ul style="list-style-type: none"> ▪ Agree derecognition of the pension scheme to approved council meeting minutes ▪ Review accounts disclosures to ensure the removal of pension scheme is appropriately disclosed and the movement through the I&E statement appropriately classified ▪ Agreed 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. Other considerations

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 style="border: 1px solid black; padding: 5px; text-align: center;">Audit Planning and Interim Audit</div> <div style="text-align: center; margin-top: 10px;">↓</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 style="border: 1px solid black; padding: 5px; text-align: center;">Service Plan</div>
<div style="border: 1px solid black; padding: 5px; text-align: center;">Receipt of accounts</div> <div style="text-align: center; margin-top: 10px;">↓</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 style="border: 1px solid black; padding: 5px; text-align: center;">Draft accounts comments</div>
<div style="border: 1px solid black; padding: 5px; text-align: center;">Final Audit</div> <div style="text-align: center; margin-top: 10px;">↓</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 style="border: 1px solid black; padding: 5px; text-align: center;">Audit Close Memorandum</div>
<div style="border: 1px solid black; padding: 5px; text-align: center;">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 style="border: 1px solid black; padding: 5px; text-align: center;">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

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.