



West Mercia Energy

Audit Close Memorandum – year ended 31 March 2021

28 September 2021

Service Team

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To the Members of West Mercia Energy Joint Committee

The purpose of this memorandum is to highlight the key issues affecting the financial statements of West Mercia Energy for the year ended 31 March 2021. It is also used to report to management and those charged with governance in order to meet the mandatory requirements of International Standard on Auditing (UK) 260.

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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during the course of our audit.

We would like to give our thanks to Nigel Evans, Jo Pugh and their finance team for their assistance and cooperation during the audit. Our team were able to complete the audit in an efficient manner due to the team's support and understanding of the underlying records and processes of the organisation.

This has enabled us to not have to alter or change our approach to the audit that we communicated to you at the start of the audit within the Service Plan.

WR Partners

1. Status of the audit

1.1 Matters outstanding

Our audit is complete, subject to the following:

Receipt of outstanding information

- No outstanding information

Audit work to be completed

- Final going concern confirmation

Completion procedures

- Final subsequent events review; and
- Final review of statutory accounts as approved by the Joint Committee.

1.2 Audit Plan

In completing our work, we have not had to alter or change our approach to that we communicated to you at the start of the audit within the Service Plan.

1.3 Completion and Submission timetable

Based on the outcome from today's audit close meeting we expect that the schedule to completion will be as detailed below:

	Date
Audit close meeting with management	5 August 2021
Joint Committee meeting to approve financial statements	28 September 2021
Audit report approval	28 September 2021

2. Summary of key audit findings

Area		Summary of audit findings	Matters to note
Key audit findings (Appendix A)	Audit of significant and elevated risks (Pages 9-11)	<p>Significant and elevated audit risks as identified at the planning stage of the audit have been addressed:</p> <ul style="list-style-type: none"> ▪ Fraud - Management override of control (Significant) ▪ Fraud - Revenue recognition (Significant) ▪ Going concern (Elevated) ▪ Covid-19 Fraud risk (Elevated) ▪ De-recognition of Pension Scheme (Elevated) 	<p>No issues to report</p>
	<p>Matters for Discussion</p> <p>Notes from discussion with management</p>	<p>Matters Identified for discussion :</p> <ul style="list-style-type: none"> ▪ Derecognition of Pension Liability as exceptional cost <ul style="list-style-type: none"> • Split on I&E Account • Currently disclosed within note 18 (page 36) <p>Agreed to leave disclosure as currently shown within the accounts with current disclosure within note 18 considered to be transparent.</p> ▪ Recovery of trade debtor balances <ul style="list-style-type: none"> • North Bromsgrove high School £11,341 <p>Confirmed that balances have now been recovered.</p> ▪ Trading risk provision <ul style="list-style-type: none"> • Exposure to future price increases • Recognition in line with CIPFA code <p>We understand the basis of the provision to be in relation to potential future price movements in the supply of energy which may result in future additional costs being incurred by WME. The basis of the provision is not considered to be accordance with the CIPFA Code and therefore an uncorrected adjustment has been identified. This is not considered to be material.</p> ▪ Outlook for 2022 <ul style="list-style-type: none"> • Current trading position • Risks/opportunities 	

2. Summary of key audit findings

Area		Summary of audit findings	Matters to note
Key audit findings (Appendix A)	Key estimates (Page 12)	We have reviewed the key estimates which are included in the financial statements.	No issues to report
	Accounting policies (Page 12)	We have not noted any accounting policy changes to bring to your attention.	No issues to report
	Related parties (Page 12)	We have reviewed the related party transactions disclosure provided in Note 10 to the accounts.	No issues to report
	Laws and regulations (Page 13)	We have reviewed the compliance with key laws & regulations applicable to the organisation.	No issues to report

2. Summary of key audit findings

Area		Summary of audit findings	Matters to note								
Key audit findings (continued) (Appendix A)	Summary of corrected and uncorrected misstatements (Page 14)	<p>There have been no correcting journals which impact the recorded profit/loss.</p> <table border="1"> <thead> <tr> <th></th> <th>2021 £'000</th> </tr> </thead> <tbody> <tr> <td>Surplus per Draft Accounts</td> <td>7,607</td> </tr> <tr> <td>Corrected misstatements:</td> <td>£nil</td> </tr> <tr> <td>Surplus per Audited Accounts</td> <td>7,607</td> </tr> </tbody> </table> <p>We have identified one uncorrected misstatement during the course of the audit in relation to the recognition of the trading risk provision. If this provision was released to the income and expenditure account the net operating surplus would increase by £373k.</p>		2021 £'000	Surplus per Draft Accounts	7,607	Corrected misstatements:	£nil	Surplus per Audited Accounts	7,607	<p>No issues to report</p> <p>No issues to report</p> <p>Uncorrected adjustment identified. Not material to the financial statements.</p>
	2021 £'000										
Surplus per Draft Accounts	7,607										
Corrected misstatements:	£nil										
Surplus per Audited Accounts	7,607										
Design and operating effectiveness of controls (Appendix B)	Recommendations made during the audit (Pages 15-16)	Control recommendations identified during the audit are detailed in Appendix B.	No high risk control matters noted								

3. Going Concern

3.1 Going Concern Assessment

The financial statements have been prepared on a going concern basis and no material uncertainties in relation to the organisation's ability to continue as a going concern for the foreseeable future have been disclosed.

	Next Year (Forecast) 31/03/2022 £'000	Current Year (Draft) 31/03/2021 £'000	Prior year 31/03/2020 £'000	2 Years Ago 31/03/2019 £'000
Turnover	69,829	60,646	70,246	66,277
Gross Profit %	2.3%	2.59%	2.97%	2.65%
Net Operating Surplus	805	7,607*	880	732
Current Ratio		1.14 : 1	1.10 : 1	1.08 : 1
Cash at bank		2,164	7,371	5,801

*2021 net operating surplus includes a one off transaction in connection with the derecognition of the pension liability relating to WMS for the total of £6,928k. Excluding the transfer of the pension scheme liability, a normalised net operating surplus of £679k was generated.

Management have confirmed their assessment that the entity is expected to continue trading for a period in excess of twelve months from the date of approval of the financial statements.

Our discussions with management and our audit work to date in relation to going concern has not highlighted any material uncertainties that we consider require disclosure in the audit report or any reason not to prepare the accounts on a going concern basis.

4.1 Management Representation

We require management to provide the following specific representations in respect of the financial statements:

- Trading risk provision
- Fair Value of Pension Scheme Assets

4.2 Subsequent Events

Under International Standard on Auditing 560 we are required to confirm whether there have been any subsequent events since the organisation's year end. We understand that there are no such matters.

4.3 Auditors' Report

Subject to all of the matters discussed within this document being cleared, we anticipate being able to issue an unqualified opinion following approval of the accounts by the Joint Committee.

4.4 Independence

We can confirm that we have re-evaluated our firm's independence in connection with the audit and we are not aware of any factors affecting our independence or objectivity and thus our ability to continue to act as auditors.

Informed Management:

- Nigel Evans, Director

4.5 Audit Debrief

As part of our priority to provide you with the best possible service and to achieve a successful long-term working relationship, we welcome any comments that you or any of your team may have.

- What went well?
- What could have been done better?

Appendix A – Key Audit Findings

App A.1 Audit of significant and elevated risks

Our audit findings in relation to the significant risks and elevated risks identified at the planning stage of our audit, and communicated in the Service Plan, are detailed below:

Audit Risk	Risk Assessment	Work performed	Audit Findings
<p>Fraud – Management override of controls Risk of material misstatement in the financial statements due to management override of controls</p>	<p>Significant</p>	<p>We have:</p> <ul style="list-style-type: none"> Inspected a sample of cashbook transactions throughout the year and post year end Reviewed accounting estimates with particular focus on the assumptions used and the retrospective adequacy and accuracy Inspected a sample of manual journals posted during the year Reviewed unusual transactions outside the usual course of business Reviewed credit notes post year end 	<p>We have performed the planned testing and have concluded satisfactorily in this area.</p> <p>Completed – no issues noted</p>
<p>Fraud – Revenue recognition Risk of material misstatement of revenue as a result of fraud</p>	<p>Significant</p>	<p>We have:</p> <ul style="list-style-type: none"> Tested the operating effectiveness of key controls in the revenue cycle to ensure they are operating as expected during the year Inspected on a target basis, a sample of manual journals posted to revenue during the year Performed specific analytical procedures including substantive test of detail Reviewed contract terms with customers Reviewed sales made immediately before and after the year end to ensure correct cut-off 	<p>We have performed the planned testing and have concluded satisfactorily in this area.</p> <p>Completed – no issues noted</p>

App A.1 Audit of significant and elevated risks

Our audit findings in relation to the significant risks and elevated risks identified at the planning stage of our audit, and communicated in the Service Plan, are detailed below:

Audit Risk	Risk Assessment	Work performed	Audit Findings
<p>Going Concern The risk that the entity will be unable to continue to operate for the foreseeable future</p>	<p>Elevated</p>	<p>We have:</p> <ul style="list-style-type: none"> Reviewed management going concern assessment Reviewed budgets/forecasts, challenging the assumptions used Considered the financial position and recent performance of the entity in reviewing the adoption of the going concern principal Compared actual results to forecasted results pre- and post-year end Discussed with management Assessed the impact of Covid-19 on the organisation and their operations going forward 	<p>We have performed the planned testing and have concluded satisfactorily in this area.</p> <p>Completed – no issues noted. Final confirmation to be obtained on date of signing</p>
<p>Covid-19 Fraud Risk There is a risk that Covid-19 opportunities have been inappropriately exploited</p>	<p>Elevated</p>	<p>We have:</p> <ul style="list-style-type: none"> Considered the controls and processes that were in place whilst staff were working remotely for robustness Assessed audit procedures and perform additional or enhanced audit procedures where deemed necessary. 	<p>We have performed the planned testing and have concluded satisfactorily in this area.</p> <p>Completed – no issues noted</p>

App A.1 Audit of significant and elevated risks

Our audit findings in relation to the significant risks and elevated risks identified at the planning stage of our audit, and communicated in the Service Plan, are detailed below:

Audit Risk	Risk Assessment	Work performed	Audit Findings
<p>De-recognition of Pension Scheme (WMS element only) There is a risk that the pension scheme has not been disclosed or accounted for correctly</p>	<p>Elevated</p>	<p>We have:</p> <ul style="list-style-type: none"> Agreed 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 	<p>We have performed the planned testing and have concluded satisfactorily in this area.</p> <p>Completed – no issues noted</p>

App A.2 Key estimates

We have reviewed the key estimates within the financial statements which we consider to be as follows:

Accounting estimate	Audit work performed	Impact on financial statements
Bad debt provision	<ul style="list-style-type: none"> A review of year end debtors undertaken, together with after date cash testing. Consideration given to the debtor age profile. 	<div style="border: 1px solid black; padding: 5px; text-align: center;"> Completed - no issues noted </div>
Pension assumptions	<ul style="list-style-type: none"> Reviewed assumptions used in the valuation of the pension scheme comparing to industry averages and benchmarks to ensure reasonable. 	
Prepayments	<ul style="list-style-type: none"> Prepayments reviewed for reasonableness. Substantive testing completed. 	
Accruals & deferred income	<ul style="list-style-type: none"> Accruals and deferred income reviewed for reasonableness. Substantive testing completed. 	
Risk provision	<ul style="list-style-type: none"> Review of basis for risk provision and agreement of key prices to external data and contracts 	
		<ul style="list-style-type: none"> Point for discussion identified

App A.3 Accounting policies

We have reviewed the accounting policies, particularly those involving any key judgements and have no matters to bring to your attention.

App A.4 Related Parties

Related party transactions and disclosures as identified by you are set out in note 10 to the accounts. These have been reviewed and no other issues identified.

App A.5 Laws and regulations

Our audit findings in relation to the significant laws and regulations identified at the planning stage of our audit, and communicated in the Service Plan, are detailed below:

Law or regulation	Audit work performed	Impact on financial statements
CIPFA Code	<ul style="list-style-type: none"> Financial statements to be reviewed to ensure all relevant disclosures are included 	<div data-bbox="1514 692 1701 801" style="background-color: #c8e6c9; padding: 5px; text-align: center;">Completed – no issues noted</div>
Employment Law	<ul style="list-style-type: none"> Employment contracts reviewed within our audit procedures, together with procedures in place in relation to employment matters. Discussions held with key management. 	
Health and Safety regulations	<ul style="list-style-type: none"> Discussions held with management and confirmation gained of there being no incidents in the year. Board minutes and the procedures in place in relation to health and safety regulations reviewed. 	
Data Protection (GDPR)	<ul style="list-style-type: none"> Discussions to be held with management and review of GDPR compliance to be performed including review of privacy policy. Review of policy implemented across the firm. 	

App A.6 Summary of Corrected and Uncorrected Misstatements

We set out below details of the :

- Adjustments noted and made to the accounts during the course of the audit following discussion and agreement with you; and
- Details of potential adjustments identified during the course of our audit work.

Management should consider the misstatements identified during the course of our audit work in conjunction with the above findings.

Corrected misstatements

There have been no adjustments identified during the course of the audit that require reflection in the accounts.

Uncorrected misstatements

We have identified one uncorrected misstatement during the course of the audit in relation to the release of the trading risk provision which totals £373,493.




The impact of this uncorrected adjustment is not considered to be material to the financial statements.

Appendix B – Design and Operating Effectiveness of Controls

Design & operating effectiveness of controls



This section of our report includes recommendations for improvements in systems or controls that were identified during the course of our audit work:

	High Risk – Matters that are considered fundamental against which management should take action as soon as possible				
	Medium Risk – Matters that are considered significant that should be addressed within 3 – 6 months				
	Low Risk – Matters that are not considered fundamental but where improvements can be made				
	Observation		Implication	Recommendation	Management Response
1	<i>No control recommendations have been identified during the course of the audit.</i>				