

Annual Service Plan

West Mercia Energy
Year ending 31st March 2022

John Fletcher, E: jfletcher@wrpartners.co.uk
Alex Riley, E: ariley@wrpartners.co.uk



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To the Joint Committee 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 document 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

1.1 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 those 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/or 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.

2. Identified risks & our audit responses

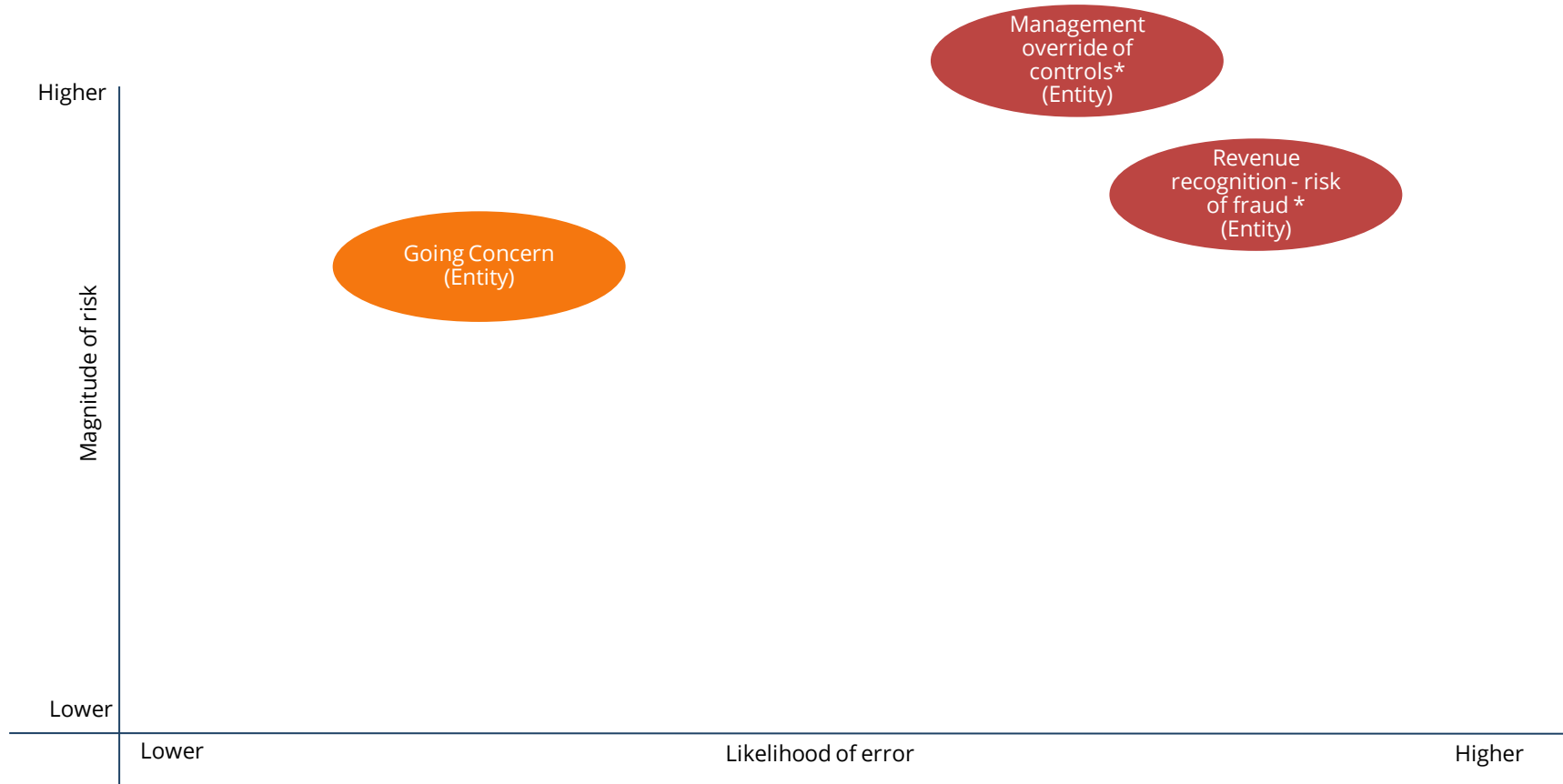
The diagram below illustrates our assessment of the magnitude of risks we have identified and the perceived likelihood of error associated with them.

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 & our audit responses

Audit Risk	Assessment	Audit response
<p>Fraud – Management override of controls <i>Risk of material misstatement in the financial statements due to management override of controls. (ISA 240 requires that the risk of management override of controls is a "significant risk" on all audits)</i></p>	<p>Significant risk</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 post year end
<p>Fraud – Revenue recognition <i>Risk of material misstatement of revenue as a result of fraud. (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 risk</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 throughout the year ▪ Perform specific analytical procedures including substantive tests of detail ▪ Inspect on a target basis, a sample of manual journals posted to revenue during the year ▪ Review accounting policies for revenue recognition ▪ Review contract terms with customers ▪ Review sales made immediately before and after the year end to ensure correct cut-off
<p>Going Concern <i>The risk that the entity cannot continue trading for the foreseeable future (a minimum of 12 months from the date of signing the accounts).</i></p>	<p>Elevated risk</p>	<p>We will:</p> <ul style="list-style-type: none"> ▪ Review management going concern assessment ▪ Review budgets and forecasts, challenging the assumptions used ▪ Consider the financial position and recent performance of the entity in reviewing the adoption of the going concern principal ▪ Review cash/borrowing facilities to ensure they meet the forecasted cash flow requirements ▪ Compare actual results to forecasted results pre- and post-year end ▪ Discussions with management

3. Other considerations

3.1 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	Matters arising to date
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	No matters noted to date.
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	No matters noted to date.
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	No matters noted to date.
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 noted to date.

3. Other considerations

3.2 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	Depreciation rates deemed reasonable in previous period.	Depreciation proof in total testing will be performed at fieldwork if material.
Bad Debt Provision	The bad debt provision in the prior year was considered appropriate.	After-date cash testing will be performed and a review of old items on the sales ledger for recoverability.
Accruals & Deferred income	Accruals balances were considered reasonable in the previous period.	Accruals and deferred income testing will be performed and a review of items to ensure correct classification.
Pension scheme assumptions	Assumptions used in the pension scheme valuation at year end were considered reasonable.	We will review the pension assumptions used and benchmark against published data to ensure reasonable.

3.3 Related Parties

Accounting standards require that related party transactions are appropriately disclosed within the financial statements.

The entity is 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 management with this task we propose that Joint Committee members and key management complete an annual declaration, which is collated and retained by an appropriate person in the Joint Committee and provide us with the details as part of the audit deliverables process.

The concept of materiality

The concept of materiality applies to the preparation of the financial statements and the audit process and applies to monetary misstatements, disclosure requirements, adherence to acceptable accounting practice and applicable law.

Misstatements, including omissions, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality at the planning stage of the audit

We have determined the financial statement materiality based on the benchmark noted in the below table.

We also design our procedures to detect errors in specific accounts at a lower level of precision. Accordingly, Directors' remuneration and key management personnel remuneration materiality has been reduced to £nil due to it being material by nature.




We revise the materiality levels determined at the planning stage of the audit if, during the course of the audit, we become aware of facts or circumstances that would have caused us to make a different determination of materiality at the planning stage.

Matters we will report to those charged with governance

Our audit procedures are designed to identify misstatements which are material to the financial statements as a whole but we will report to those charged with governance unadjusted misstatements of lesser amounts unless they are deemed 'clearly trivial'. The determination of amounts under which matters are considered to be 'clearly trivial' to the financial statements is disclosed in the below table.

Benchmark	Overall materiality	Clearly trivial
1% of the average turnover of the previous 3 years.	£505,000	£31,500

5. Workflow & audit approach

Phase	Key Dates	Staffing	Focus and Approach	Reporting
Audit Planning 	Planning: - 17 - 19 January 2022	3 days off-site <ul style="list-style-type: none"> • 2 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 	Service Plan
Receipt of Draft Accounts 	27 June 2022	<ul style="list-style-type: none"> • 1 team member • Manager review 	<ul style="list-style-type: none"> • Review of draft accounts to ensure correct disclosures in place 	Accounts review comments
Final Audit 	Final audit: - 4 to 9 July 2022 Audit closing meeting: - July 2022	5 days off-site <ul style="list-style-type: none"> • 2 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 	Audit Close Memorandum
Completion	Joint Committee meeting: - September 2022	Off-site	<ul style="list-style-type: none"> • Final completion procedures • Update subsequent events review • Finalise and sign audit report 	Signed Audit Report

Our proposed fees for the provision of our routine compliance services as set out in the scope section of this document are £13,350 (2021: £12,750) exclusive of VAT but inclusive of expenses and disbursements.

	Date	2022 £
Planning	January	4,000
Fieldwork	July	6,750
Completion	September	2,600
Total		13,350

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.

Our current year fee quote is based on the following assumptions:

- *Audit deliverables* - the accounting records and schedules requested will be made available to us on the dates agreed;
- *Timetable* - the timetables are followed as specified in section 5 to avoid inefficient audit testing and/or additional subsequent events review; and
- *Staff availability* - relevant staff will be available to deal with our queries throughout the process

The fee proposal is based on the above items being prepared by you and provided to us as per the agreed upon information request list.

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 to the agreed timetable. This should enable us to reconsider the timings 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.

Appendix A – Related parties

As noted within the main body of this plan we require details of all related parties and any transaction with them during the year, as follows:

Type	Name of Related Party
Joint Committee	Councillor Elizabeth Harvey
	Councillor Adrian Hardman
	Councillor Gemma Davies
	Councillor Adam Kent
	Councillor Lee Carter
	Councillor Rae Evans
	Councillor Ed Potter
	Councillor Gwilym Butler
Key Personnel	Nigel Evans
	Jo Pugh

Note the following constitute the majority of related parties:

- *Joint Committee members of the entity and their spouses/ long term partners/ children and parents;*
- *Other entities in which Joint Committee members and their spouses/ long term partners/ children and parents have an interest;*
- *Key Management of the entity and their spouses/ long term partners/ children and parents;*
- *Other entities in which Key Management and their spouses/ long term partners/ children and parents have an interest;*
- *Key Management Personnel and their spouses/ long term partners/ children and parents; and*
- *Other entities in which key management personnel and their spouses/ long term partners/ children and parents have an interest.*