



West Mercia Energy

Audit Close Memorandum – year ended 31 March 2022

27 September 2022

Service Team

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To the Joint Committee Members of West Mercia Energy

The purpose of this memorandum is to highlight the key issues affecting the financial statements of WME for the year ended 31 March 2022. 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 Joint Committee.

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 further outstanding information

Audit work to be completed

- Final Subsequent events review

Completion procedures

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

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	8 August 2022
Joint Committee meeting to approve financial statements	27 th September 2022
Audit report approval	27 th September 2022

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 11-12)	<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) 	No issues to report
	Matters for Discussion	<p>Matters arising for further discussion:</p> <ul style="list-style-type: none"> ▪ Current performance update and business plan <ul style="list-style-type: none"> ▪ Impact of change of product from Cash Out (Gas) ▪ Customer communication and retention ▪ Electricity supply contract – renewal 1 April 2024 ▪ Current market risk and volatility ▪ Outlook for 2023 and beyond ▪ Gross Margin and contract provisions <ul style="list-style-type: none"> ▪ Reduction in Gross Margin from 2.65 to 1.8% ▪ To consider any loss making contracts in place which may require providing for ▪ Distribution disclosure (note 1.15) <ul style="list-style-type: none"> ▪ Distribution of 2021 balance scheduled for payment post year end ▪ Distribution in relation to the 2022 year end 	<p>Items discussed with management at the audit close meeting.</p> <p>No issues identified which would impact on the audit report.</p>

2. Summary of key audit findings

Area		Summary of audit findings	Matters to note
Key audit findings (Appendix A)	Key estimates (Page 11)	We have reviewed the key estimates which are included in the financial statements.	No issues to report
	Accounting policies (Page 11)	We have not noted any accounting policy changes to bring to your attention.	No issues to report
	Related parties (Page 11)	We have reviewed the related party transactions disclosure provided in Note 10 to the accounts.	No issues to report
	Laws and regulations (Page 12)	We have reviewed the compliance with key laws & regulations applicable to the Joint Committee.	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 13)	<p>There have been no correcting journals which impact the recorded surplus of £173k.</p> <p>We have not identified any uncorrected misstatements as part of our audit testing.</p>	<p>No issues to report</p> <p>No issues to report</p>
Design and operating effectiveness of controls (Appendix B)	Recommendations made during the audit (Pages 14-15)	No Control recommendations identified during the audit work performed.	No high risk control matters noted

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.

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. Management have included the assessment of longer term forecasts within their assessment including

Key points arising from our review of management going concern assessment include:

Future Forecasts:

- Change from 'Cash Out' product
- Fully locked positions for 2023

Key Assumptions & Sensitivity analysis

- Customer retention and new customer wins
- Ongoing energy usage reductions
- Market gains/losses
- Gas volume forecasts
- Weather conditions

Our discussions with management and our audit work 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 do not require management to provide any specific representations in respect of the financial statements.

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 Board.

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. The self review and management threats arising from our assistance in the provision of non-audit services, have been sufficiently addressed by appropriate safeguards including independent internal reviews, the existence of informed management, and the involvement of other relevant individuals who are required to approve all adjustments impacting the financial statements.

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
Fraud – Management override of controls Risk of material misstatement in the financial statements due to management override of controls	Significant	We have: <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 issued post year end 	We have performed the planned testing and have concluded satisfactorily in this area. <div style="background-color: #d4edda; padding: 5px; text-align: center;">Completed – no issues noted</div>
Fraud – Revenue recognition Risk of material misstatement of revenue as a result of fraud	Significant	We have: <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 tests of detail ▪ Reviewed contract terms with customers ▪ Reviewed sales made immediately before and after the year end to ensure correct cut-off 	We have performed the planned testing and have concluded satisfactorily in this area. <div style="background-color: #d4edda; padding: 5px; text-align: center;">Completed – no issues noted</div>

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 Joint Committee 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 the Joint Committee members' going concern assessment ▪ Reviewed budgets/forecasts, challenging the assumptions used ▪ Considered the financial position and recent performance of the Joint Committee in reviewing the adoption of the going concern principal ▪ Reviewed cash facilities to ensure they meet the forecasted cash flow requirements ▪ Compared actual results to forecasted results pre- and post-year end ▪ Discussed with management 	<p>We have performed the planned testing and have concluded satisfactorily in this area.</p> <p style="text-align: center;">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="background-color: #c8e6c9; padding: 5px; display: inline-block;">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. 	
Accruals & Deferred income	<ul style="list-style-type: none"> Accruals and deferred income reviewed for reasonableness. Substantive testing completed. 	

App A.3 Accounting policies

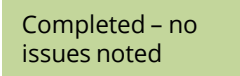
We have reviewed the accounting policies, particularly those involving any key judgements and have no matters to bring to your attention.

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
Code of Practice on Local Authority Accounting Financial statements must be prepared in line with the CIPFA code	<ul style="list-style-type: none"> Financial statements have been reviewed to ensure all relevant disclosures are included 	
Employment Law Contracts held with employees must be in line with 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 Regulations must be complied with in respect of employees and visitors	<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. 	
GDPR Regulations must be complied with in respect of data held	<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


There have been no uncorrected misstatements noted during the course of the audit.


The impact of uncorrected adjustments is considered to be nil to the current year financial statements.


Appendix B – Design and Operating Effectiveness of Controls

Appendix B – Control Recommendations

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	No control recommendations have been identified during the course of the audit				