

Audit Findings Memorandum

Year ended 31 March 2023

West Mercia Energy

26 September 2023



Service Team

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1. Overview	2	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 2023. 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.
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		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.
		Acknowledgements
		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.

1.1 Overview of audit scope

We have performed our work in accordance with the requirements of the International Standards on Auditing (“ISAs”) (UK), for those entities as set out in our Service Plan.

1.2 Overview of approach

Our audit approach is risk based; emphasis placed on the audit areas considered to be of higher risk. 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.

We have updated our knowledge of your systems and controls, and tested those controls upon which we intended to place audit reliance. We have supplemented our testing of controls with substantive tests of detail and/or substantive analytical review procedures.

1.3 Status of the audit

Our audit of the financial statements is substantially complete and subject to resolution of the outstanding queries set out on page 4 we anticipate our audit opinion to be unmodified.

1.4 Completion timetable

The timetable to completion has been agreed as follows:

	Date
Audit close meeting	2 August 2023
Joint Committee meeting to approve financial statements	26 September 2023
Audit report approval	26 September 2023

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.

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






Our assessment of materiality has been revised from that considered at the planning stage on receipt of the draft financial statements. There has been no changes to materiality levels previously considered.

We also design our procedures to detect errors in specific accounts at a lower level of precision. Accordingly, related party transactions and key management personnel remuneration materiality has been reduced to £1,000 due to it being material by nature.




Benchmark	Overall Materiality	Trivial
1% of the 3-year turnover average	£835,000	£42,000

2. Status of the audit and audit opinion

Our work is substantially complete and there are currently no matters of which we are aware that would require modification to our audit opinion, subject to the satisfactory completion of the matters detailed below:

-  Receipt and audit of outstanding information:
 - No further information is outstanding
-  Completion of audit testing:
 - No further audit work to be performed
-  Final subsequent review
-  Final review of the draft statutory accounts
-  Receipt of the signed management representation letter

Impact

-  Not considered likely to result in material adjustment or change to disclosures within the financial statements
-  Potential to result in material adjustment or change to disclosures within the financial statements
-  Likely to result in material adjustment or change to disclosures within the financial statements

Anticipated audit opinion

We anticipate our audit opinion to be unmodified.

3. Summary of key audit findings

3.1 Significant and elevated audit risks

Risk Area Identified	Risk Level	Risk and audit findings	Assessment	
Fraud – management override of controls	Significant	Under ISA 240 (UK) there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.	We have not identified any matters in relation to management override of controls	●
Fraud – Income recognition	Significant	Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	We have not identified any matters relating to improper revenue recognition	●
Going Concern	Elevated	Due to the current volatility of the energy sector, going concern was identified as an elevated risk at the planning stage of the audit. Management has produced a going concern review to speak to the going concern basis of account preparation. See page six for further detail regarding the managements assessment.	We have not identified any issues relating to the going concern status of the entity	●

3. Summary of key audit findings

3.2 Going concern

We are required to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the Going Concern basis of accounts preparation.

Assessment of Going Concern	Commentary
<p>Managements assessment</p> <p>Management have undertaken the following to assess the appropriateness of the going basis of accounts preparation:</p> <ul style="list-style-type: none">• Produced budgets and forecasts, including cash flow forecasts, for the period up to September 24• Produced a long-term business plan• Prepared and assessed monthly management accounts	<p>Management have concluded that West Mercia Energy is a going concern and have prepared the financial statements on that basis. Management have provided us with a copy of the 2023/24 business plan which include forward looking projections for the period to 2025/26.</p>
<p>Audit work performed</p> <p>We have considered if there are any factor or events which may indicate that the going concern basis may not be appropriate.</p> <p>We have reviewed managements supporting documentation, including assumptions to determine if these are reasonable</p>	<p>Key points arising from our review of management's going concern assessment are:</p> <p>Key factors and assumptions taken into account by management are as follows:</p> <ul style="list-style-type: none">▪ Customer retention and new wins▪ Ongoing energy reductions from the current customer base▪ Trading with the energy market and trading conditions▪ Gas volume reforecasts▪ Weather conditions▪ Bad debts

Audit assessment

We are satisfied that the preparation of the financial statements on the going concern basis is reasonable.



3.3 Other matters for discussion

Matters identified for discussion following our audit fieldwork are listed as below:

Matter	Commentary (update for management close meeting)
<p>Amounts due to external utility customers</p>	<p>Amounts due to external utility customers has increased from £1.3m in 2022 to £5.1m in 2023. To confirm understanding of amounts owed back to external customers and expected timing of the payment being realised.</p> <p>We discussed with management the nature of this balance and how it has arisen. We confirmed correct treatment to hold these balances as creditors within the year end accounts.</p>
<p>Pension Asset Recognition</p>	<p>The pension scheme has moved from a net deficit of £264k at the start of the year to a surplus of £793k as per the actuary valuation.</p> <p>This has been mostly driven by the change in actuarial assumptions which have reduced the liabilities by £857k but increased the assets by £200k. This is driven by an increase in the discount rate by 2% to 4.7%, a reduction in future salary and pension increases and a reduction in the inflation assumption to 0.3%.</p> <p>The draft accounts currently recognise the pension scheme asset. Under the CIPFA code the asset can only be recognised to the extent that the asset can be recovered either through reduced future contributions or refunds from the plan.</p> <p>Reduced contributions over the next 3 years are as follows: (Obtained from 2022 Actuarial Valuation Contribution Projections)</p> <ul style="list-style-type: none"> • 2023/24 £90,200 • 2024/25 £94,100 • 2025/26 £98,200 <p>Therefore total expected future benefit totals £283,000 and therefore asset ceiling of £510,000 should be recognised.</p> <p>The final accounts have now been adjusted to recognise the restriction on the surplus position. Final surplus position is £283,000.</p>

3. Summary of key audit findings

3.4 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

The following adjustments have been identified and processed during the course of the audit:

	2023
	£
Total comprehensive Income per draft accounts	2,435
Pension Scheme Adjustment	(510)
Total comprehensive Income per audited accounts	1,925

Uncorrected misstatements

Uncorrected misstatements which have not been adjusted have been identified below:

There is no uncorrected misstatements which have been identified during the course of the audit.

3. Summary of key audit findings




3.5 Other audit and accounting areas

We set out below the other matters which auditing standards require us to communicate to you:

Area	Commentary	Assessment
Accounting estimates	In addition to the identified key accounting estimates and judgement, we have considered the other accounting estimates and have no matters to bring to your attention.	●
Accounting policies	We have not noted any accounting policy changes or policies which do not comply with Financial reporting standards.	●
Related parties	We are not aware of any related parties or related party transactions which have not been disclosed.	●
Laws and Regulations	You have not made us aware of any significant incidences of non-compliance with laws and regulations and we have not identified any matters from our audit work.	●
Matters in relation to fraud	<p>We have previously discussed the risk of fraud and documented this in our service plan. Our work performed to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, is included within our draft audit opinion.</p> <p>No matters have been identified from our audit work and we have not been made aware on any matters by management or the board.</p>	●
Accounts disclosures	Our review found no material omissions in the financial statements.	●
Other information	<p>We are required to consider and give an opinion (within our audit report) on whether other information published together with the with audited financial statements (including the narrative report) is materially inconsistent with the financial statements or our knowledge obtained during the audit or is materially misstated.</p> <p>No material inconsistencies have been identified and we plan to issue an unmodified audit opinion in this regard.</p>	●

3. Summary of key audit findings

3.5 Other audit and accounting areas

Area	Commentary	Assessment
Audit evidence and explanations/significant difficulties	All information and explanations requested from management have been provided.	
Subsequent events	Under International Standards on Auditing 560, we are required to confirm whether there have been any subsequent events since the year end impacting the financial statements as drafted. There have been none brought to our attention or disclosed within the financial statements.	
Independence and ethics	<p>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.</p> <p>Informed Management: Nigel Evans (Managing Director)</p>	
Design and operating effectiveness of controls	There have been no control recommendations identified in the course of the audit.	