

Audit Findings Memorandum

Year ended 31 March 2024

West Mercia Energy

20 September 2024



Service Team

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2. Status of the audit	4	
3. Summary of key audit findings	5	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.
4. Other Matters	9	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. Overview



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	6 August 2024
Joint Committee meeting to approve financial statements	20 September 2024
Audit report approval	20 September 2024

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.


We also design our procedures to detect errors in specific accounts at a lower level of precision. These are identified below.


Final Materiality Levels			
Financial statement area	Benchmark	Overall materiality	Clearly trivial
	1% of 3-year average turnover.		
Financial Statements	Capped at £1m in line with net profit for the year.	£1,000,000	£50,000
Expenditure	50% of overall materiality	£500,000	£25,000
Related Party Transactions	Material by nature	£1,000	N/A


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

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 Description	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 volatility of the energy sector in recent years, going concern was identified as an elevated risk at the planning stage of the audit.	Going Concern basis of preparation appears reasonable. See page six for further detail regarding the management's assessment.	●

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 accounting.

Assessment of Going Concern	Commentary
<p>Management's assessment 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 25• 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 2024/25 business plan which includes forward looking projections for the period to 2026/27.</p>
<p>Audit work performed 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▪ Change in electricity supplier from 1 April 2024▪ Gas volume reforecasts▪ Weather conditions▪ Bad debts
<p>Audit assessment</p>	<p>We are satisfied that the preparation of the financial statements on the going concern basis is reasonable.</p> <p style="text-align: right;"></p>

3. Summary of key audit findings



3.3 Other matters for discussion

Matters identified during out audit for discussion with you are shown below:

Matter	Commentary
Pension Asset Recognition	<p>The pension scheme valuation performed by the actuary shows a surplus position of £1,064k prior to asset ceiling consideration.</p> <p>The increase in the surplus position continues to be driven by the increase in the discount rate to 4.9% whilst increases to salaries and pensions have declined slightly as has expected movement in inflation.</p> <p>In 2023 financial year, WME recognised the surplus only to the extent that future contributions to the fund were expected to decrease due to the surplus position. The previous reported surplus position has decrease by £91k based on the saving recognised in the 2024 year end being accounted.</p> <p>The remaining asset position recognised is £192k which is the total of expected reduced contributions for the new two periods as follows: (Obtained from 2022 Actuarial Valuation Contribution Projections)</p> <ul style="list-style-type: none">• 2024/25 £94,100• 2025/26 £98,200 <p>Therefore total expected future benefit totals £192k and therefore a restriction in the surplus has been recognised of £872k.</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 adjustments identified during the course of the audit and reflected in the accounts following discussion with you are set out below. The aggregate impact of these adjustments are as follows:

	2024	2023
	£	£
Total comprehensive Income per draft accounts	910	2,435
Pension Scheme Adjustment	-	(510)
Total comprehensive Income per audited accounts	910	1,925

Uncorrected misstatements

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

4. Other matters

4.1 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 directors 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>	●

4. Other matters

4.2 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	We have not identified any deficiencies in controls from our testing. As a result we do not have any recommendations for improvements in systems or controls that were identified during the course of our audit work.	