

# Audit Service Plan

Year ending 31 March 2024

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West Mercia Energy

*22 March 2024*



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## Appendix A – Related parties

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. Overview of scope & approach

## 1.1 Scope of our work

We have been engaged to provide the following services:

- Perform an audit, in compliance with International Standards on Auditing (“ISAs”) (UK), of the year end financial statements; and
- 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 FRC Ethical Standard. 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.

## 1.4 Materiality

### 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 as follows:

### Related Party Transactions

Related Party Transactions including Directors' remuneration and key management personnel remuneration materiality has been reduced to £1,000 due to it being material by nature (with the exception noted below).

Related Party Transactions materiality does not include transactions with member authorities where the transactions are in the usual course of business.

### Expenditure

Expenditure has been assigned a reduced level of materiality (£500k) to reflect the size and structure of the organisation which is considered to be more reasonable rather than using the benchmark based on the top line income levels generated through trading activities.

### Materiality during the course of the audit

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.

Planning Materiality Levels			
Financial statement area	Benchmark	Overall materiality	Clearly trivial
Financial Statements	1% of 3-year average turnover.  Capped at £1m to not exceed profit for the year (based on budgeted profit)	£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. Identified risks & our audit responses

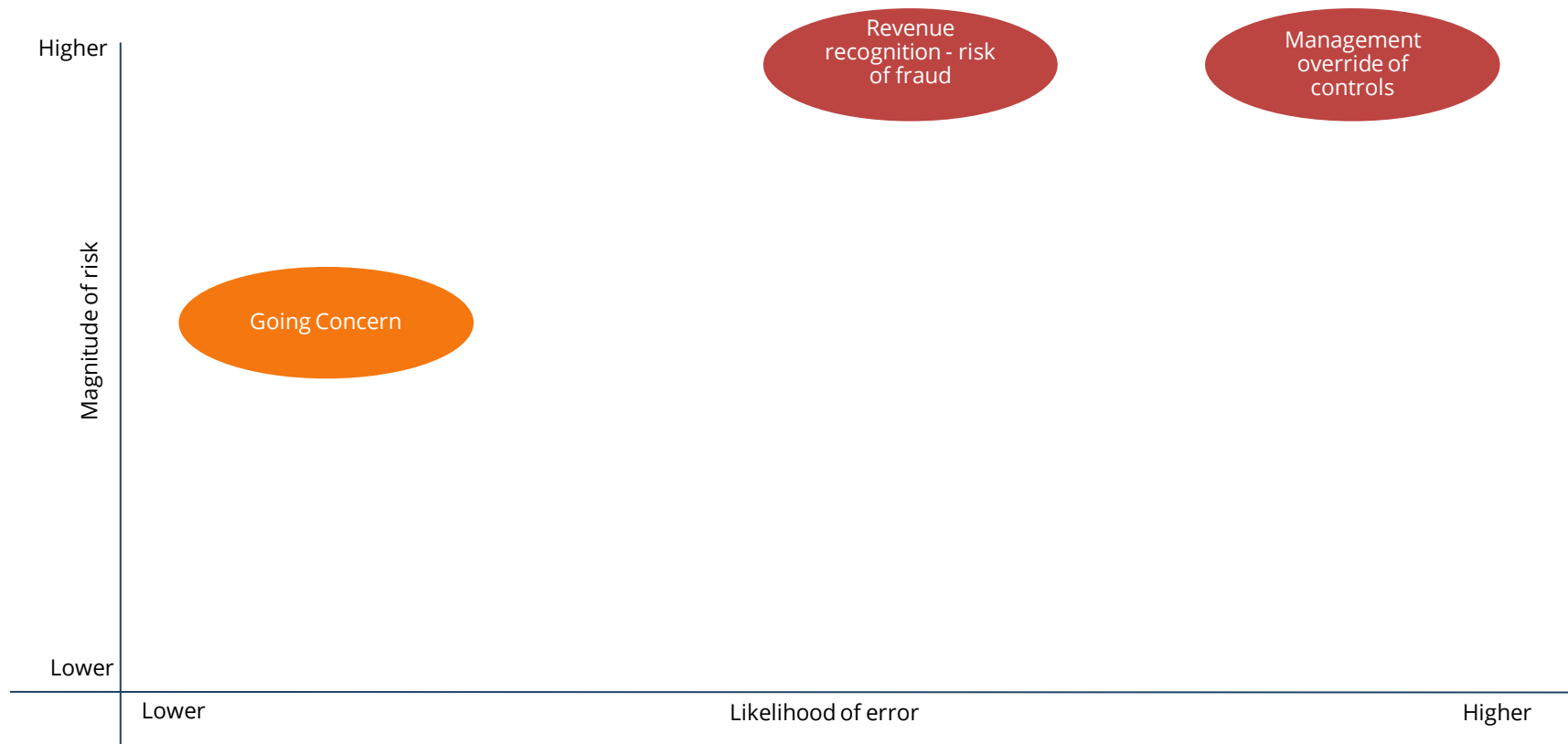
The diagram below illustrates our assessment of the magnitude of risks we have identified and the perceived likelihood of error associated with them.

Significant risk

- risk of material misstatement is close to the upper end of the spectrum of inherent risk due to the combination of its potential magnitude and likelihood.

Elevated risk

- risk of material misstatement above the lower end of the spectrum of inherent risk due to the combination of its potential magnitude and 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

Risk Area Identified	Risk Level	Audit Response
<p><b>Fraud – management override of controls</b></p> <p>Under ISA 240 (UK) there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p>	Significant	<p>We will:</p> <ul style="list-style-type: none"> <li>▪ Inspect a sample of cashbook transactions throughout the year and post year end</li> <li>▪ Review accounting estimates with particular focus on the assumptions used and the retrospective adequacy and accuracy</li> <li>▪ Inspect a sample of manual journals posted during the year</li> <li>▪ Review unusual transactions outside the usual course of business</li> <li>▪ Review credit notes issued post year end</li> </ul>
<p><b>Fraud – Revenue recognition</b></p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	Significant	<p>We will:</p> <ul style="list-style-type: none"> <li>▪ Test the operating effectiveness of key controls in the revenue cycle to ensure they are operating as expected throughout the year</li> <li>▪ Perform substantive tests of detail</li> <li>▪ Inspect on a target basis, a sample of manual journals posted to revenue during the year</li> <li>▪ Review contract terms with customers</li> <li>▪ Review sales made immediately before and after the year end to ensure correct cut-off</li> </ul>
<p><b>Going Concern</b></p> <p>The risk that the organisation cannot meet its liabilities as they fall due resulting in the financial statements being prepared on an incorrect basis.</p>	Elevated	<p>We will:</p> <ul style="list-style-type: none"> <li>▪ Review managements assessment of going concern</li> <li>▪ Hold discussion with management to understand future performance and risk profile</li> <li>▪ Review cashflow forecasts for the period to September 2025</li> </ul>

## 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
<b>Code of Practice on Local Authority Accounting</b> Financial statements must be prepared in line with the CIPFA code	Financial statements to be reviewed to ensure all relevant disclosures are included
<b>Employment Law</b> 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
<b>Health and Safety regulations</b> 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
<b>GDPR</b> 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
<b>Modern Slavery Act 2015</b> <i>Organisations with turnover of £36m or more must publish an annual statement setting out the steps they take to prevent modern slavery in their business and supply chains.</i>	Search of the organisation's website to be performed.

#### Matters identified at audit planning

We have not identified any matters which will impact our audit approach.

# 3. Other considerations

## 3.2 Accounting estimates

We have not identified any key accounting estimates which present a higher risk of misstatement.

We consider other estimates utilised within the preparation of the financial statements for consistency and reasonableness. These include:

Accounting estimate	Assessment of prior year	Audit implication
<b>Depreciation and useful economic lives</b>	Depreciation rates deemed reasonable in previous period.	Depreciation proof in total testing will be performed , with a review of any profit or losses on disposals and fully written down assets still in use.
<b>Doubtful debt provision</b>	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.
<b>Accruals &amp; Deferred income</b>	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.
<b>Pension scheme assumptions</b>	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. Other considerations

### 3.3 Related Parties

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

Management of West Mercia Energy are 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 the 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 organisation and provide us with the details as part of the audit deliverables process.

### 3.4 Accounting policies

We will review accounting policies used in the production of the financial statements to ensure consistency with accounting standard.

We are not aware of any changes to accounting policies for the Year Ended 31<sup>st</sup> March 2024.

## 4. Workflow & audit focus

Phase	Key Dates	Staffing	Focus and Approach	Reporting
<p>Audit Planning</p> 	<p>Planning: - 17<sup>th</sup> to 19<sup>th</sup> January 2024</p> <p>Joint Committee meeting: - 22<sup>nd</sup> March 2024</p>	<p>2 days off-site, 1 day on-site</p> <ul style="list-style-type: none"> <li>• 1 Team member</li> <li>• Manager review</li> <li>• Partner review</li> </ul>	<ul style="list-style-type: none"> <li>• Planning meeting with you</li> <li>• Discussion of performance and developments</li> <li>• Confirm scope, timetable and audit risks</li> <li>• Preliminary analytical review</li> <li>• Plan audit work and design testing</li> <li>• Confirm systems and controls (procedures)</li> </ul>	<p>Audit Service Plan</p>
<p>Review of accounts</p> 	<p>Receipt of accounts: - w/c 24<sup>th</sup> June 2024</p>	<p>1 days off-site</p> <ul style="list-style-type: none"> <li>• 1 Team members</li> <li>• Manager review</li> <li>• Partner review</li> </ul>	<ul style="list-style-type: none"> <li>• Review the statutory accounts</li> </ul>	<p>Draft accounts review comments</p>
<p>Final Audit</p> 	<p>Final audit: - w/c 1<sup>st</sup> July 2024</p> <p>Audit closing meeting: - July 2024</p>	<p>5 days on-site</p> <ul style="list-style-type: none"> <li>• 2 Team Members</li> <li>• Manager review</li> <li>• Partner review</li> </ul>	<ul style="list-style-type: none"> <li>• Substantive/transactional testing</li> <li>• Balance sheet audit</li> <li>• Close meeting with you to discuss audit findings</li> </ul>	<p>Audit Close Memorandum</p>
<p>Completion</p>	<p>Joint Committee meeting: - September 2024</p>	<p>Off-site</p>	<ul style="list-style-type: none"> <li>• Final completion procedures</li> <li>• Update subsequent events review</li> <li>• Finalise and sign audit report</li> </ul>	<p>Signed Audit Report</p>

Our proposed fees for the provision of our routine compliance services as set out in the scope section of this document are £15,100 (2023: £14,400) exclusive of VAT but inclusive of expenses and disbursements.

	£
<b>Audit Planning and interim</b> - Including attendance at joint committee meeting	4,000
<b>Audit fieldwork</b>	8,100
<b>Audit completion</b> - including attendance at joint committee meeting	3,000
<b>Total</b>	<b>15,100</b>

## 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.

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
<b>Joint Committee</b>	Councillor Lee Carter
	Councillor Nathan England
	Councillor Adam Kent
	Councillor Adrian Hardman
	Councillor Dean Carroll
	Councillor Gwilym Butler
	Councillor Peter Stoddart
	Councillor Graham Biggs
<b>Key Personnel</b>	Nigel Evans

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.*