

Audit Findings Memorandum

Year ended 31 March 2026

West Mercia Energy

25 September 2026



Service Team

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The purpose of this memorandum is to highlight the key issues affecting the financial statements of West Mercia Energy for the year ended 31st March 2026. 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.

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	5 th August 2026
Joint Committee meeting to approve financial statements	25 th September 2026
Audit report approval	25 th September 2026

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. Accordingly, Directors' remuneration and key management personnel remuneration materiality has been reduced to £1,000 due to it being material by nature.

Final Materiality Levels			
Financial statement area	Benchmark	Overall materiality	Clearly trivial
Financial Statements	1% of turnover.		
	Capped at £1.5m to not exceed profit for the year (based on budgeted profit).	£1,500,000	£75,000
Expenditure	50% of overall materiality	£750,000	£27,500
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 required
- Completion of audit testing :
 - No further audit work to be performed
- Final subsequent events review & completion procedures

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

Subject to all of the matters discussed within this document being cleared, 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
Managements assessment Management have undertaken the following to assess the appropriateness of the going basis of accounts preparation: • Produced budgets and forecasts, including cash flow forecasts, for the period up to September 26 • Prepared and assessed monthly management accounts • Produced a long-term business plan	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 2026/27 business plan which include forward looking projections for the period to 2028/29
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. We have reviewed managements supporting documentation, including assumptions to determine if these are reasonable	Key points arising from our review of management's going concern assessment are: Key factors and assumptions taken into account by management are as follows: ▪ Customer retention (See contracts ending in the next accounts period below) ○ Birmingham Council (Ending 31 March 2026) ○ Gloucestershire County Council (Ending 30 September 2026) ○ South Gloucestershire Council (Ending 31 March 2026) ▪ New contract 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	The preparation of the financial statements on the going concern basis is reasonable. 

3. Summary of key audit findings

3.3 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.

There is no corrected misstatements impacting on the reported net profit for the year of £9k after distributions which have been identified during the course of the audit.

Uncorrected misstatements

The potential adjustments identified during the course of the audit which have not been reflected within the accounts are set out below.

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 FRS	●
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	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.	●
	No matters have been identified from our audit work and we have not been made aware on any matters by management or the board.	
Accounts disclosures	Our review found no material omissions in the financial statements.	●
Other information	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.	●
	No material inconsistencies have been identified and we plan to issue an unmodified audit opinion in this regard.	

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.	●
Written representations	No specific letter of representations have been raised.	●
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 which have not been disclosed within the financial statements. We understand that at present there are no identified subsequent events which require disclosure or adjusting within the financial statements.	●
Independence and ethics	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 (Managing Director)	●
Design and operating effectiveness of controls	Control recommendations arising from our testing are included within Appendix A to this report.	

Appendix A – Design and Operating Effectiveness of Controls

This section of our report includes recommendations for improvements in systems or controls that were identified during the course of our audit work.

Impact assessment

- High – Matters that are considered fundamental against which management should take action as soon as possible
- Medium – Matters that are considered significant that should be addressed within 3 – 6 months
- Low – Matters that are not considered fundamental but where improvements can be made

	Observation	Impact	Implication	Recommendation	Management Response
1	There is no service level agreement in place with Shropshire Council.	●	The absence of a formal SLA with Shropshire Council increases the risk of unclear responsibilities, service expectations, and charging arrangements, potentially leading to disputes or ineffective oversight.	WME should establish and periodically review a formal SLA with Shropshire Council that clearly defines services, responsibilities, performance expectations, and charging arrangements.	Management are pursuing a SLA with Shropshire Council and will have this in place as soon as possible.