

Audit failure in the UK energy supply industry

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Executive Summary

Between January 2021 and February 2022 thirty-one energy firms exited the energy market, affecting more than two million consumers

The Office of Gas and Electricity Markets (Ofgem) estimated the cost of energy supplier failure and market exits to be £2.7 billion, or an average of £94 per customer.

One cause of failure was Ofgem's decision to relax market entry standards, leading to the emergence of a large number of thinly capitalised and often unhedged suppliers who were unable to withstand the increases in wholesale prices in 2021.

However a less well understood cause was the enrollment of unwitting company auditors into the central macroeconomic oversight processes of the sector: as Ofgem relaxed entry standards, they increasingly deferred to energy companies' audit reports as a proxy indicator of their financial resilience.

This report argues that whilst director statements and audit reports are no substitute for proper sectoral oversight and governance, auditors should still have been able to identify and articulate the economic vulnerability of these companies. There was, in other words, widespread audit failure.

To reinforce this, we present an accounting analysis of 15 energy suppliers who exited the market.

Our key findings are:

- 10 out of 15 companies reported negative operating and net income in their final year's accounts before entering administration. Two others did not disclose earnings.
- In terms of cash and liquidity, many suppliers relied on customer prepayments to remain cashflow positive, leaving suppliers with an obligation to supply. This model was always vulnerable to wholesale price rises.
- 11 of the 15 companies were 'balance sheet insolvent' in their final year's accounts - that is, they reported negative shareholder equity positions (or its equivalent – negative net assets). Collectively, these fifteen energy suppliers had a total negative equity of £373.8 million.
- Many had other signs of cashflow stress, such as the unfulfillment of Renewables Obligations.

Despite these important signs of financial stress and business model vulnerabilities, auditors generally failed to comment upon the seriousness of these risks or raise concerns regarding their ongoing viability.

Only two companies out of the 15 that went into administration received a negative going concern opinion in their final year's accounts.

This study emphasises the urgent need for audit reform to provide earlier warning systems that could help prevent systemic and costly failures in the future.

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1. Introduction

Thirty-one energy firms exited the energy market between January 2021 and February 2022, leaving more than two million consumers reliant on protective measures set up by the Office of Gas and Electricity Markets (Ofgem). In June 2022, Ofgem estimated that energy supplier failure and market exits would cost consumers around £2.7 billion, or an average of £94 per customer¹. At a time when high energy prices are pushing households deeper into a cost of living crisis, and State budgets are straining, the fragility of these firms and the social costs they impose requires some explanation.

To date, much of the media's attention has focused either on the impact of rising wholesale oil prices, the regulatory shortcomings of Ofgem, or a combination of both. A neglected but important part of this story is the way that an inadequate corporate audit process became enrolled into the central macroeconomic oversight and governance processes of the sector regulator. As Ofgem relaxed standards to encourage new entrants and stimulate competition, they increasingly deferred to companies' own governance arrangements — particularly directors' and auditors' statements— as their proxy indicator of financial resilience². This was to have disastrous and costly implications.

This report will examine the role of audit failure in 15 of the largest energy suppliers to collapse. It will do this by examining a range of financial indicators of fragility at all 15 firms, before reviewing their audit statements in the accounting year preceding their collapse to locate any risks identified by the auditors.

The next section will provide some history and background to these regulatory changes. Then we outline our methodology. Empirical sections on operating margins, net assets, liquidity and cashflow stress indicators follow. We then review the audit statements of the failed firms. A final section concludes, reflecting on the importance of audits to all stakeholders because – in practically all Public Interest Entities where failure imposes a social cost – they provide an implicit macroeconomic stability oversight role as well as a microeconomic verification role.

¹ This figure includes costs incurred through the 'supplier of last resort' (SOLR) process and missed payments to support renewable generation <https://www.nao.org.uk/wp-content/uploads/2022/03/The-energy-supplier-market.pdf>

² https://www.ofgem.gov.uk/sites/default/files/2022-05/Review%20of%20Ofgems%20regulation%20of%20the%20energy%20supply%20market_May%202022.pdf

2. Background

2.1 Privatisation and Ofgem's regulatory obligations

The regulatory arrangements that led to the market exit of 32 energy suppliers are part of a longer history of energy privatisation, that began with British Gas in 1986 under the Thatcher administration, followed by the 1989 Electricity Act which provided the groundwork for a phased programme of electricity privatisation, with the twelve regional electricity companies in England and Wales eventually sold off. Ofgem was established through the merger and abolition of the Office of Electricity Regulation (OFFER) and the Office of Gas Supply (OFGAS) under the Utilities Act (2000). Ofgem's primary duty was to protect the interests of consumers, which was broadly interpreted to be synonymous with promoting competition. Prior to Ofgem's formation, regulators applied a price cap to domestic customer charges. These price controls were removed in phases between 2000 and 2002, based on Ofgem's view that competition was lowering prices and that the regulatory powers Ofgem assumed under the Competition Act 1998 would deter companies from abusing their market power.

It was always acknowledged that greater competition would carry some risks – and so Ofgem was also tasked with ensuring that energy supply markets remained resilient. That involved some recognition that some energy suppliers would go bust. In a market that supplies essential services to households, maintaining uninterrupted supply when providers fail was considered to be a key regulatory obligation. Ofgem had two main processes for maintaining the continuity of supply: a 'supplier of last resort' (SOLR) process and a 'special administration regime' (SAR). Under the SOLR process, Ofgem transferred customers from a failed supplier to an existing supplier, thus maintaining continuity of provision. In cases where SOLR was considered unviable, they used an SAR where a temporary special administrator continued to run the failed company until it could be sold as a going concern, or customers were transferred to other suppliers.

Ofgem was also tasked with improving standards, including environmental standards. From 2002 they oversaw a Renewables Obligation (RO) scheme which required electricity suppliers to provide Ofgem with a specified number of Renewables Obligation Certificates (ROCs). Suppliers could obtain ROCs by generating a proportion of their power from renewable sources; or by making a payment into a buy-out fund, or a combination of the two. Ofgem was tasked with issuing and revoking ROCs, establishing and maintaining a Register of ROCs, monitoring participants' compliance with the requirements of the scheme, and receiving buy-out payments and redistributing the buy-out funds.

2.2 More Competition, Greater Corporate Fragility

Concerns about rising energy prices led to an Ofgem review in 2008 and a Competition and Markets Authority (CMA) review between 2014-16. Both noted that the full benefits of competition had not been realised – that prices were too high due to the ongoing dominance of six large energy suppliers in the market. The CMA in particular criticised the lack of new entrants and low customer switching rates in the energy market, arguing that profit margins, which averaged around 4%, were too high and that a 1.25% margin would be more 'competitive'³. Introducing more competition was viewed as the solution to this problem, with Ofgem urged by the CMA to remove barriers to entry and support smaller new entrants. Ofgem obliged and - as figure 1 shows - the number of suppliers rose from 12

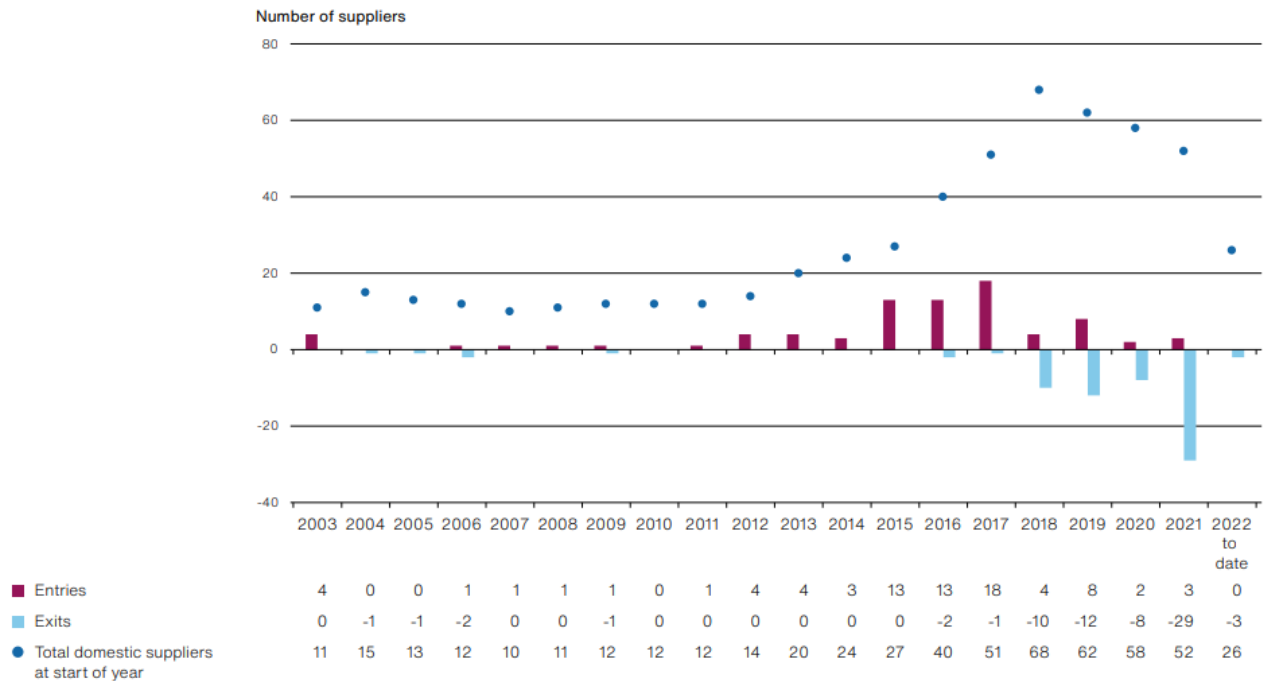
³ <https://www.bbc.co.uk/news/business-48284802>

in 2010 to 68 in 2018, with most of the growth coming after 2015. By September 2021 the new entrants had a market share of roughly 40 percent⁴.

Figure 1

Supplier entries and exits in the domestic energy retail market (Great Britain), January 2003 to May 2022

The number of suppliers in the market grew significantly from 2012, peaking in 2018



Source: <https://www.nao.org.uk/wp-content/uploads/2022/03/The-energy-supplier-market.pdf>

This development arguably shifted the balance of regulatory priority away from ensuring corporate resilience towards encouraging competition. The problems in the energy market were already visible in 2018, as market exits increased considerably. Between 2018-2020 as many as thirty suppliers left the market – some through failure, others through an acceptance that they could not operate profitably. In 2021 conditions disintegrated further as wholesale prices increased. In 2021 alone twenty-nine companies exited the market, including Bulb whose special administration arrangement affected 1.7 million customers⁵.

The problem of financial fragility was fostered by the weakening of regulations governing the issuance of electricity and gas supply licences, which allowed many suppliers to enter the market and operate with low levels of paid in equity. It was also fostered by certain innovations in the model for market entry, such as the growth of the ‘supplier-in-a-box’ model which allowed new entrants to sidestep regulatory market entry tests⁶. This effectively meant owners could take a ‘free bet’ on the market

⁴ <https://www.nao.org.uk/reports/the-energy-supplier-market/>

⁵ <https://www.icaew.com/insights/viewpoints-on-the-news/2022/aug-2022/energy-supplier-collapses-highlight-bigger-sector-crisis#:~:text=But%20then%20from%20mid%2D2021,July%202021%20and%20May%202022.>

⁶ <http://projects.exeter.ac.uk/igov/wp-content/uploads/2019/01/IGov-BM-Analysis-report.pdf>

with little regulatory interference⁷. This was initially tolerated as it was seen to be an example of market innovation and a way of encouraging new entrants.

The outcome of these developments was that many suppliers entered the market with thin profit margins and threadbare balance sheets prior to the wholesale price rises. Many also scrimped on their risk management: some did not hedge against the risk of wholesale price rises, leaving them particularly vulnerable when weekly prices rose over fivefold between February and December 2021.

An independent review by the consultancy company Oxera commissioned by Ofgem following the 2021 supplier exits found that the business models adopted by many new suppliers exposed them to supply and demand shocks. The Oxera report⁸ observed that the failed small energy suppliers exhibited:

- negative and deteriorating equity balances in the years leading up to their failure.
- poor liquidity and low levels of capital.
- over-reliance on customer credit balances to finance operations; and had relatively high levels of customer credit balances as a proportion of their assets,

The National Audit Office (NAO) condemned Ofgem, claiming that the regulator had overlooked the fragilities building up in the sector. They argued: “by allowing many suppliers to enter the market and operate with weak financial resilience, and by failing to imagine a scenario in which there could be sustained volatility in energy prices, it allowed a market to develop that was vulnerable to large-scale shocks and where the risk largely rested with consumers, who would pick up the costs in the event of failure,”.

2.3 Auditors Become Central To The Governance, Regulatory & Oversight Architecture

In reality, Ofgem was pulled in two directions simultaneously – first being asked to lower standards to ease barriers to entry, and then facing criticism for relaxing those standards when energy suppliers began to go bust. Ofgem initially managed this tension by effectively outsourcing the monitoring of risks associated with the growth of new entrants. Instead of taking a proactive role in overseeing and evaluating the financial positions of these newer, smaller energy suppliers, Ofgem chose to rely on the companies’ existing governance structures — especially directors’ and auditors’ statements — as their primary indicators of financial resilience⁹. OFGEM (2019)¹⁰ made this strategy explicit at the time (page 36: para 4.13):

‘It is a supplier’s responsibility to comply with their regulatory obligations. As such, we generally do not consider it is our role to forensically analyse suppliers’ operations and finances....

The ability to compel audits would strengthen our ability to effectively oversee poor-performing suppliers. This would enable us to identify at an early stage where suppliers are in

⁷ <https://www.ofgem.gov.uk/publications/review-of-gems-regulation-energy-supply-market>

⁸ <https://www.ofgem.gov.uk/publications/review-of-gems-regulation-energy-supply-market>

⁹ https://www.ofgem.gov.uk/sites/default/files/2022-05/Review%20of%20Ofgems%20regulation%20of%20the%20energy%20supply%20market_May%202022.pdf

¹⁰ <https://www.ofgem.gov.uk/publications/supplier-licensing-review-ongoing-requirements-and-exit-arrangements>

financial difficulty or may be at risk of failing to meet their customer service obligations. In so doing it would help to support our ability to identify and address instances of non-compliance and mitigate the potential for consumer harm.'

Whether they were aware of it or not, company auditors effectively became enrolled in a wider governing, regulatory and oversight architecture – performing an unintended macroeconomic stability role alongside their microeconomic verification role. It was an architecture which failed dismally.

The Oxera report raised concerns about the role of auditors, specifically the extent to which Ofgem relied on statements validating the 'going concern' status of a supplier in place of its own monitoring and analysis.

The Oxera report questioned whether this was sensible given the quality of the company audits, specifically with regards to the lack of due consideration about the nature and risks of this business model. Oxera (2021, p.31) noted that:

Based on our review, we do not see that the information on 'going concern' status as published in companies' annual reports necessarily provides Ofgem with the assurance it would require that such conditions hold, without carrying out its own analysis. Our review focuses solely on whether the audit process could serve as a reasonable substitute for regulatory analysis, which, we note, is not the purpose of audit statements or the 'going concern' status.

They continued:

Overall, it is clear that routine audit governance arrangements cannot be relied on to obviate the need for Ofgem's own monitoring and scrutiny of financial resilience in the sector. The directors' statements for the companies reviewed acknowledge operating losses and/or net liabilities without raising significant concerns about the companies' ability to remain in operation.

In its quietly damning assessment, Oxera effectively concluded that audit reports and going concern assessments could not be relied upon by users to provide sufficient information about a company's insolvency risk. Whilst regulatory monitoring would certainly add an additional layer of sectoral scrutiny, auditors ought to have been able to clearly identify and articulate financial resilience issues. Furthermore, auditors bear significant responsibilities when scrutinising entities like energy providers which offer essential services that households cannot forego. Energy supplier failures impose substantial costs on both households and the state. For example, Octopus Energy Limited received a £4.5bn state loan for its takeover of Bulb Energy Ltd, which it expects to repay through customer bills¹¹. The audit of energy companies therefore demands heightened care and attention because audit failure has wider macro-economic implications. In such circumstances, greater auditor scepticism is prudent: auditors should be more ready to provide going concern warnings, specifically about how detrimental shifts in the product market or the dependence of the business model on certain macroeconomic conditions that are susceptible to change, leaving the company insolvent. If auditors truly adhere to the capital maintenance principles of company law, a more challenging audit process might have been forthcoming.

¹¹ <https://www.ft.com/content/bf63b199-d1ad-4e85-aa81-1587e8f6b6cf>

This report now illustrates the problem through an investigation of fifteen failed energy suppliers.

3. Methodology

This report investigates whether auditors raised going concern risks about large energy suppliers shortly before they collapsed. To do this, we examine the 15 largest companies that went into administration ranked by the number of customers they had in the accounting year before that event (table 1).

We examine four company level indicators of financial fragility:

- A] Operating margins (operating and net income). Were these 15 companies able to make a profit from their operations?
- B] Liquidity: To what extent did these 15 companies rely on customer advances for their cash?
- C] Equity buffers: Did these 15 companies operate with a resilient balance sheet, as measured by net assets?
- D] Other indicators of stress: Were these companies defaulting on their renewables obligations and/or other expenditures prescribed by regulation?

We then examine the audit reports of these companies to assess their adequacy. This involves a review of the insolvency administrator reports to evaluate the extent to which these company finances deteriorate significantly after the last audited accounts.

We then conclude.

Table 1 : Top 15 Energy Supply Companies Going into Administration by number of customers

Date	Failed supplier	Number of Customers	Acquiring supplier
Nov-18	Extra Energy	108,000	Scottish Power
Oct-20	Tonik Energy	130,000	Scottish Power
Oct-19	Toto	134,000	EDF
Nov-16	GB Energy	160,000	Coop Energy
Jan-22	Together Energy Retail Ltd.	176,000	British Gas
Sep-21	Igloo	180,000	E.ON Next
Sep-21	Utility Point	200,000	EDF
Oct-21	Pure Planet	235,000	Shell Energy
Jan-19	Economy Energy	237,000	OVO
Nov-18	Spark Energy	290,000	OVO
Sep-21	Green	350,000	Shell Energy
Sep-21	People's Energy	350,000	British Gas
Jan-21	Green Network Energy	367,500	EDF
Sep-21	Avro	600,000	Octopus
Nov-21	Bulb	1,700,000	Octopus

4. Operating and net income margins of 15 energy suppliers

Energy suppliers face high procurement costs because their primary activity involves purchasing expensive energy from wholesale markets. In addition to these external expenses, they also incur internal costs, predominantly from sales and marketing efforts, required to attract, retain, and serve customers.

Of the 15 companies examined in our sample, 10 reported negative operating and net earnings margins in their final year's accounts before entering administration (as shown in table 2). Another two did not disclose earnings: one firm presented abbreviated accounts without an income statement, and another merely broke even for its parent company. Those that recorded positive margins achieved a maximum of 2-3 percent on total sales revenue. Such companies would be highly susceptible to increases in wholesale energy prices, especially in scenarios like April 2021 when most had over half of their clientele on fixed-price tariffs.

These fixed-price energy tariffs hindered suppliers' ability to adjust prices upward to offset the rising costs from wholesale energy prices, even in the absence of a price cap. As a result, many faced negative margins.

Table 2 : Top 15 Energy Supply Companies in administration final year operating and net income margins

Supplier	Last annual report and account date	Operating profit margin %	Net Income margin %
Extra Energy	31st Dec 2016	-5.2	-8
Tonik Energy	31st March 2018	-14.1	-14.1
Toto	30th April 2017	0	0
GB Energy	31st Dec 2015	-3.6	-2.7
Together Energy Retail Ltd.	31st Oct 2020	0	0
Igloo	31st March 2020	-9	-9
Utility Point	30th June 2020	-4.8	-4.8
Pure Planet	31st March 2020	-7.9	-8.7
Economy Energy	31st March 2017	1.6	1.2
Spark Energy	30th June 2017	2.7	2.2
Green	30th April 2021	2.4	1.9
People's Energy	31st Dec 2019	-1.8	-1.8
Green Network Energy	31st Dec 2019	-14	-14.1
Avro	30th June 2019	-7.3	-7.5
Bulb	31st March 2020	-3.9	-4.1
	Number of companies with negative earnings	10	10

Source: Companies House

5. Liquidity of 15 energy suppliers

Cash from operations comprises net profits combined with changes in working capital, which includes debtors and creditors. If the amount owed by debtors (i.e. amounts owed to the company but not yet paid) increases, this reduces cash from operations. Conversely, an increase in creditors (cash received by the company for services not yet delivered) enhances cash flow. For many of these smaller energy suppliers, positive cash from operations depended on amounts owed to creditors exceeding amounts owed by debtors, where creditors were normally customers who would make advance service payments.

A standard accounting principle expects current assets to be equal to or exceed current liabilities. However, in this business model, current liabilities needed to surpass current assets. This is because positive cash flow depended upon a growing customer base and payments made in advance for services yet to be delivered. In other words, this was a highly risky business model dependent upon the logics of borrowing from Peter to pay Paul (later).

In all but one of the fifteen energy suppliers examined, we found that amounts owing to creditors grew more than the amounts outstanding from debtors in both the final and preceding year of their operations.

Overall, we estimate that, in the final reporting year compared to the previous financial year, the value change in creditors was approximately 2.6 times greater than the increase in trade debtors and other accrued income (table 3).

Table 3: Trade debtors, creditors and payments in advance

	Trade Debtors	Trade Creditors/ Payables	Payments in Advance		Date of last set of accounts
Extra Energy	24.817	44.1	25.5	†	31-Dec-16
Tonik Energy	10.509	38.5	16.3	*	31-Mar-19
Toto	0.493	2.182	-	n/a	30-Apr-17
GB Energy	0.455	0.212	-	n.a	31-Mar-22
Together Energy Retail Ltd.	11.694	11.766	8.3	*	31-Oct-20
Igloo	15.6	29.527	9.63	†	31-Mar-20
Utility Point	14.361	35.886	30.88	*	30-Jun-20
Pure Planet	27.4	56.8	31.3	*	31-Mar-20
Economy Energy	19.649	26.855	14.62	*	31-Mar-17
Spark Energy	52.415	46.843	17.125	*	30-Jun-17
Green	6.344	6.872	5.506	*	30-Apr-22
People's Energy	15.929	19.143	5.115	†	31-Dec-19
Green Network Energy	33.962	75.247	30.341	†	31-Dec-18
Avro	52.315	98.314	45.943	†	30-Jun-19
Bulb	191	466	245	*	31-Mar-20
Totals	476.943	958.247	485.56		

Note: * recorded as accruals / deferred income all others † shown as customer prepayments in the report and accounts

Note: If customers pay in advance the company recognises a liability (services owing) as accruals/deferred income. The contra accounting entity is to increase cash.

The key risk is that the cash flow of these companies is being supported by prepayments from customers which improves current cash flow liquidity, but leaves the supplier vulnerable to sudden movements in energy prices which they have yet to supply to the customer. Without proper hedging arrangements in place, it was only a matter of time before this delicate liquidity balance would go

wrong. This should serve as a cautionary story about signing off company accounts as going concerns when the sustainability of the business model relies less on internal competences and more on very specific, context-dependent macroeconomic conditions which always had the potential to change.

6. Balance Sheet Solvency of 15 energy suppliers

A robust company balance sheet typically displays low debt levels and strong shareholder equity reserves. These reserves act as shock absorbers or buffers against unforeseen operating losses, impairments, or write-downs. If a company reports a negative shareholder equity figure, it indicates that they are 'balance sheet insolvent' — meaning the value of their assets is less than the value of their liabilities. While this doesn't necessarily imply they will undergo insolvency procedures (since they might still be capable of meeting their debt obligations when they fall due), reversing such a situation can be challenging, especially if debt covenants are breached.

Of the fifteen companies in our study, eleven reported negative shareholder equity (or its equivalent – negative net asset) positions in the year before administration proceedings. Collectively, these fifteen energy suppliers had a total negative equity of £373.8 million. This is the equivalent of negative equity of £71.90 per customer at the point of administration.

Table 4 : Top 15 Energy Supply Company in administration final year shareholder equity funds £millions

Supplier	Number of Customers	Shareholder equity £ Millions
Extra Energy	108000	-46.4
Tonik Energy	130000	-5.1
Toto	134000	-0.2
GB Energy	160000	-0.6
Together Energy Retail Ltd.	176000	0
Igloo	180000	-9.9
Utility Point	200000	-13.4
Pure Planet	235000	-37.7
Economy Energy	237000	6
Spark Energy	290000	8.6
Green	350000	3.4
People's Energy	350000	-2.2
Green Network Energy	367500	-25.9
Avro	600000	-27.4
Bulb	1700000	-223
Companies with negative earnings		11
Total equity		-373.8
Equity per customer £		-71.9

Source: Companies House

7. Other indicators of stress at 15 energy suppliers

The Office of Gas and Electricity Markets (Ofgem) regulator reports provide an insight into the cashflow stress of the fifteen energy companies. They allow us to see why their energy supply licences were revoked: financial insolvency, the failure to pay Renewables Obligations (ROs), failure to provide financial information by a set date and failure to improve customer relations: responding to complaints and billing arrangements (see table 5).

Table 5: Extracts from Ofgem reports for fifteen energy supply companies losing licence to operate

OFGEM Energy License Revoked		
Extra Energy	We were investigating whether Extra breached numerous licence conditions and Consumer Complaints Handling Standards relating to treating customers fairly, frequency of billing, timely provision of final bills, provision of annual statements, return of credit balances, handling meter readings appropriately, transfer blocking, and complaints and call handling.	Extra Energy Supply Limited ("Extra") ceased trading on 21 November 2018 and its licences to supply gas and electricity were revoked as of 25 November 2018.
Tonik Energy	On 2 October 2020, the Authority published its notice of proposal to issue a Final Order (FO) on Tonik Energy Ltd (Tonik) in accordance with Section 25(1) of the Electricity Act 1989 (EA89).	The particular behaviour of concern giving rise to the proposed FO was that Tonik failed to meet its Renewables Obligations (RO), by failing to produce Renewables Obligation Certificates (ROC) to the Authority by 1 September 2020. Tonik subsequently failed to provide robust assurance that it could and would be in a position to make the necessary payment, including applicable interest, by the late payment deadline of 31 October 2020. As Tonik ceased trading on 26 October 2020, the Authority has taken the decision not to proceed with issuing a FO.
Toto	The particular behaviour of concern giving rise to the proposed FO was that TOTO Energy Ltd failed to meet its Renewables Obligations (RO), by failing to produce Renewables Obligation Certificates (ROC) to the Authority by 1 September 2019	As TOTO Energy Ltd ceased trading on 23 October 2019, the Authority has taken the decision not to proceed with issuing a FO.
GB Energy	On 26 November 2016, the Authority made an application to the Chancery Division of the High Court ("the Court") under Part 8 of the Civil Procedure Rules for a declaration to the effect that:	GB Energy is unable to pay its debts (within the meaning of section 123(1)(e) or (2) of the Insolvency Act 1986) and;
Together Energy Retail Ltd.	On 26 January 2022, the Authority published its decision not to confirm the provisional order issued to Together Energy (Retail) Limited ("Together"), following the consultation period.	Ofgem issued the provisional order on 29 October 2021 after Together informed the Authority it would not make its Renewables Obligation ("RO") Payment of £12,508,099.14, including interest, by the deadline of 31 October 2021.
Igloo	Igloo was required to make its FIT Year 11 annual Levelisation Payment of £316,582.44 by the due date of 17 September 2021. Igloo was sent an invoice for the payment on 2 September 2021.	Igloo has refused or failed to make the payment.
Utility Point	Two energy suppliers, Utility Point and People's Energy, have announced today that they are ceasing to trade	
Pure Planet	Pure Planet Limited and Colorado Energy Limited have today announced they are ceasing to trade.	
Economy Energy	Economy Energy ceased trading on 8 January 2019 and its licences to supply gas and electricity were revoked as of 12 January 2019.	We were investigating whether Economy Energy complied with Article 68 of the Renewables Obligation Order 2015 (as amended) and Article 44 of the Renewables Obligation Order (Scotland) 2009 for the 2017/18 scheme year.
Spark Energy	As a consequence of Spark Energy Supply Limited ("Spark") being unable to pay its debts, the Authority has decided that, in order to protect the interests of consumers, it is appropriate to revoke its licence	As a result, the investigation into whether Spark Energy Supply Ltd complied with Article 68 of the Renewables Obligation Order 2015 (as amended) and Article 44 of the Renewables Obligation Order (Scotland) 2009 for the 2017/18 scheme year has closed
Green	Given that the Company is unable to pay its debts, the Authority is not satisfied that the Company will be able to continue to provide or otherwise procure the services necessary for supplying electricity to its customers or to pay charges under the industry arrangements;	
People's Energy	Two energy suppliers, Utility Point and People's Energy, have announced today that they are ceasing to trade	
Green Network Energy	Given that the Company is unable to pay its debts, the Authority is not satisfied that the Company will be able to continue to provide or otherwise procure the services necessary for supplying gas to its customers or to pay charges under the industry arrangements;	
Avro	Ofgem is issuing Avro Energy with a provisional order, which compels it to provide the regulator with financial and other information relating to the company's activities.	Avro Energy is now required to immediately provide this information and we expect them to engage in constructive discussions about their financial projections.
Bulb	An Energy Supply Company Administration Order (ESCA) Order, if made by the court in relation to an energy supply company, directs that while the ESCA Order is in force the affairs, business and property of that energy supply company are to be managed by a person appointed by the court ("ESC Administration").	The purpose of ESC Administration is to ensure that if a large gas or electricity supply company is in financial difficulty, arrangements are in place to allow the company to continue operating until it is either rescued, sold, or its customers transferred to other suppliers.

The Renewables Obligation (RO) mandates that licensed electricity suppliers obtain a certain percentage of the electricity they provide to UK customers from qualifying renewable sources. Each year, this scheme obliges electricity suppliers to present Ofgem with a set number of Renewables Obligation Certificates (ROCs) for every megawatt hour (MWh) of electricity they supply during that obligation period. The obligation levels for 2020/21 were announced by the Department for Business, Energy & Industrial Strategy (BEIS) on 27 September 2019. If a company uses fossil fuels for energy supply, it is required to purchase an RO at a rate of £50.05 per ROC on the basis that: 0.471 ROCs are required per MWh of electricity supplied to customers in England, Wales and Scotland and 0.185 ROCs per MWh for electricity supplied to customers in Northern Ireland¹².

Table 6 displays the outstanding renewable obligation payments determined by Ofgem at the end of October 2021. The data suggests that these liabilities range between 10% and 42% of the total revenue presented in the companies' most recent report and accounts. On average, the unpaid Renewable Obligation Certificate (ROC) obligations for this group of companies amounted to approximately 17% of their total revenue, as reported in their latest official financial statements. This percentage might be overstated if revenues increased after the most recent financial statements were released, which primarily reflect the 2020 financial year. Nevertheless, the outstanding renewable obligation payments are significant, especially considering that many of these companies were already operating at a loss.

Table 6: RO and ROS obligations unpaid as at 31st Oct 2021

Supplier	Obligation	Amount Owed (exc. Interest) as of 31 Oct 2021	Sales Revenue as per last accounts	ROC and ROS as a share of revenue
		£ million	£ million	%
Avro Energy Ltd	RO + ROS	56.06	389.7	14.4
Green Network Energy Ltd	RO + ROS	22.4	142.4	15.7
Igloo Energy supply Ltd	RO + ROS	15.66	69.9	22.4
People's energy(Supply) Ltd	RO + ROS	23.87	56.8	42
Pure Planet Ltd	RO + ROS	15.46	157.3	9.8
Together Energy Ltd	RO + ROS	12.4	46.4	26.7
Tonik Energy Ltd	RO + ROS	4.99	27.7	18

<https://www.ofgem.gov.uk/publications/renewables-obligation-late-payment-distribution-2020-2021>

When companies file for insolvency, Ofgem are unable to obtain these funds from suppliers directly and must instead chase the administrators of the companies¹³. This can impose additional costs.

¹² <https://www.ofgem.gov.uk/publications/renewables-obligation-total-obligation-202021>

¹³ <https://www.ofgem.gov.uk/publications/renewables-obligation-late-payment-distribution-2020-2021>

Auditor reports and material risk disclosure in the fifteen energy suppliers

The preceding sections show that there was considerable financial vulnerability across the 15 energy suppliers based on their final full financial statements before their administration. We would anticipate auditors to identify this vulnerability and highlight 'going concern' risks. Moreover, one would expect Ofgem to have scrutinized these reports meticulously, especially considering how pivotal audit reports had become in their regulatory and oversight framework.

Yet, out of the fifteen companies that collapsed, only two were given a negative 'going concern' opinion by the auditors. For both companies, this opinion was linked to concerns regarding continued funding from their parent companies.

In the majority of these cases, the lack of any auditor opinion on material going concern risks is extraordinary given these companies:

- A] had very weak, often negative profit margins
- B} generally ran with negative shareholder equity
- C] obtained cash from working capital that inverted the normal creditor-debtor relation expected at a well-run firm
- D] were under significant financial pressure to meet regulatory obligations with regard to their Renewables Obligation Certificates (ROCs)

The UK Corporate Governance Code (2018) notes that:

The main roles and responsibilities of the audit committee should include: providing advice (where requested by the board) on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy¹⁴.

Auditor responsibilities include:

- Establishing whether there is fraud or a material misstatement of financial numbers in the company annual financial disclosures.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's (or where relevant, the group's) internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the director.

¹⁴ <https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf>

<https://www.frc.org.uk/auditors/audit-assurance/auditor-s-responsibilities-for-the-audit-of-the-fi/description-of-the-auditor%E2%80%99s-responsibilities-for>

- Conclusions as to the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's (or where relevant, the group's) ability to continue as a going concern.
- *For entities that report on how they have applied the UK Corporate Governance Code, the auditor reviews the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the entity's compliance with the provisions of the UK Corporate Governance Code and reports on whether they are materially consistent with the financial statements and the auditor's knowledge obtained in the audit.*¹⁵

Table 7: Auditor opinions and to going concern in fifteen energy suppliers

Supplier	Date at which energy licence revoked	Audit report risk to going concern
Extra Energy	31st December 2016	None
Tonik Energy	31st March 2018	Funding doubt for going concern
Toto	30th April 2017	Boiler plate mention of risk to prices
GB Energy	31st December 2015	None
Together Energy Retail Ltd.	31st October 2020	None
Igloo	31st March 2020	None
Utility Point	30th June 2020	None
Pure Planet	31st March 2020	Material risk of funding from Blue Marble Holdings
Economy Energy	31st March 2017	None
Spark Energy	30th June 2017	None
Green	30th April 2021	None
People's Energy	31st December 2019	None
Green Network Energy	31st December 2019	None
Avro	30th June 2019	None

Source: Companies House

8. Summary

Our review has identified significant shortcomings in the audit reports concerning the "going concern" risks among the 15 largest energy suppliers that failed. There is a pressing need to align the audit process with the corporate governance code. Specifically, there should be robust enforcement of the corporate governance code to ensure auditors assess the viability risks of a company's business model.

For our energy supply companies, the business model is notably fragile and carries high risk:

- Margins were slim.
- Liquidity was often sustained by borrowing from households and paying suppliers later.
- Many were balance sheet solvent.
- Ofgem regulations related to licence approval were not complied with in various ways.

Regarding the audit reports of our fifteen energy suppliers, the auditors failed to address a spectrum of financial and non-financial risks that could jeopardise the sustainability of these business models and their ongoing operations.

This resulted in regulators becoming insensitive to risks building in the sector. New costs were incurred as a result: smaller energy suppliers were shifted to larger providers, incurring higher costs for both consumers and the receiving providers. For major energy suppliers, the risk was passed on to the state and taxpayers.

Although audit reports and going concern assessments are no substitute for proper regulatory oversight, our report suggests that there should have been greater professional scepticism expressed in these audit reports which may have helped the regulator identify risks building earlier. There is, consequently, an urgent need for audit reform. Our recommendations for reform can be found here: <https://auditreformlab.group.shef.ac.uk/audit-reform-kicked-into-the-long-grass/>

Appendix

Table 1: The fifteen companies reviewed in this report links to annual reports

Extra Energy	https://find-and-update.company-information.service.gov.uk/company/09812673/filing-history
Tonik Energy	https://find-and-update.company-information.service.gov.uk/company/09256482/filing-history
Toto	https://find-and-update.company-information.service.gov.uk/company/08500842
GB Energy	https://find-and-update.company-information.service.gov.uk/company/10300767/filing-history
Together Energy Retail Ltd.	https://find-and-update.company-information.service.gov.uk/company/09812716/filing-history
Igloo	https://find-and-update.company-information.service.gov.uk/company/10610614/filing-history
Utility Point	https://find-and-update.company-information.service.gov.uk/company/09735688/filing-history
Pure Planet	https://find-and-update.company-information.service.gov.uk/company/08432747/filing-history
Economy Energy	https://find-and-update.company-information.service.gov.uk/company/05857467
Spark Energy	https://find-and-update.company-information.service.gov.uk/company/04194006/filing-history
Green	https://find-and-update.company-information.service.gov.uk/company/09844617/filing-history
People's Energy	https://find-and-update.company-information.service.gov.uk/company/09523066/filing-history
Green Network Energy	https://find-and-update.company-information.service.gov.uk/company/09174794
Avro	https://find-and-update.company-information.service.gov.uk/company/08469555

Table 2: The fifteen companies reviewed in this report links to OFGEM reports

Extra Energy	https://www.ofgem.gov.uk/publications/investigation-extra-energy-supply-ltd-and-its-compliance-its-obligations-under-gas-and-electricity-supply-licences-slc-7b-14-21b-25c-27-31a-and-consumer-complaints-handling-standards-regulations-2008
Tonik Energy	https://www.ofgem.gov.uk/publications/tonik-energy-limited-final-order
Toto	https://www.ofgem.gov.uk/publications/toto-energy-limited-final-order
GB Energy	https://www.ofgem.gov.uk/publications/gb-energy-supply-ltd-notice-revocation-gas-supply-licence
Together Energy Retail Ltd.	https://www.ofgem.gov.uk/publications/together-energy-retail-limited-provisional-order
Igloo	https://www.ofgem.gov.uk/publications/igloo-energy-supply-limited-provisional-order
Utility Point	https://www.ofgem.gov.uk/publications/ofgem-protects-customers-failed-suppliers-utility-point-and-peoples-energy
Pure Planet	https://www.ofgem.gov.uk/publications/ofgem-protects-customers-pure-planet-and-colorado-energy
Economy Energy	https://www.ofgem.gov.uk/publications/decision-close-investigation-economy-energys-compliance-its-renewables-obligations
Spark Energy	https://www.ofgem.gov.uk/publications/decision-close-investigation-spark-energys-compliance-its-renewables-obligations
Green	https://www.ofgem.gov.uk/publications/green-supplier-limited-notice-revocation-electricity-supply-licence
People's Energy	https://www.ofgem.gov.uk/publications/peoples-energy-supply-limited-notice-revocation-electricity-supply-licence
Green Network Energy	https://www.ofgem.gov.uk/publications/green-network-energy-ltd-notice-revocation-gas-supply-licence
Avro	https://www.ofgem.gov.uk/publications/ofgem-orders-avro-energy-provide-financial-information
Bulb	https://www.ofgem.gov.uk/publications/bulb-energy-limited-energy-supply-company-administration-letter-secretary-state