

Cheshire & Warrington Local Enterprise Partnership

Audit Completion Report

Year ended 31 March 2022

14 June 2022

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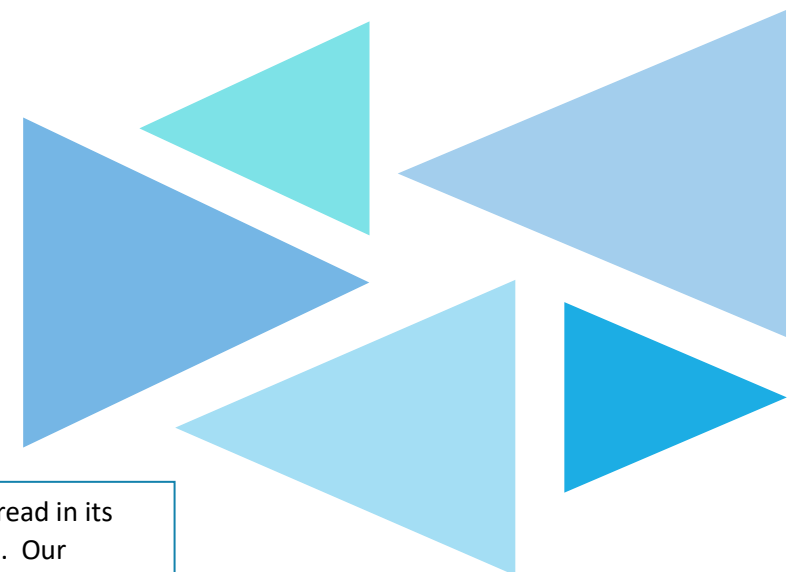
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1. Executive summary

Principal conclusions

Our audit has been conducted in accordance with International Standards on Auditing (UK) and our approach was based on a profit and loss and balance sheet audit using detailed substantive testing techniques. Analytical review procedures have been used at the planning and completion stages to help ensure that our testing is focused on the key areas and that the reported figures are consistent with our expectations.

In section 2 of this report, we have set out our conclusions and findings from our audit. This section includes conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum of which the principal ones were:

- Management override of controls.
- Revenue recognition.
- Completeness of creditors and accruals.
- Investment impairment review.
- Covid-19 and going concern.

Unadjusted misstatement

Section 5 sets out the unadjusted misstatements identified during our audit work. In aggregate all unadjusted errors are immaterial.

Status of the audit and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2022.

We are pleased to report that subject to discussion of the matters raised in this report and a further review of post balance sheet events, it is our intention to issue an unqualified opinion, without modification, on the financial statements.

We would like to take this opportunity to express our thanks to the CWLEP staff for their assistance during our audit. We received full cooperation and transparency during our work.

2. Audit findings

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement;
- our comments in respect of the accounting policies and disclosures that have been adopted in the financial statements;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

Management override of controls	Description of risk Under ISA 240 (UK) there is a presumption that the risk of management override of controls is present in all entities. Management at various levels within an organisation are in a position to perpetrate fraud because of their ability to manipulate accounting records by overriding controls.
	How we address this risk We undertook the following audit procedures in this area: <ul style="list-style-type: none">• Reviewed accounting estimates, judgements and decisions made by management.• Reviewed any large and/or unusual transactions.• Tested a sample of journals throughout the year as well as pre and post year-end adjustments.
	Audit conclusion No significant issues or instances of management override of internal controls were identified from our audit procedures.

2. Audit findings (continued)

Revenue recognition **Description of risk**

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue (including under and overstatement).

How we address this risk

We undertook the following audit procedures in relation to revenue;

- Reviewed recognition policies for appropriateness under FRS 102.
- Reviewed income recognised in the year, compared to expectations and prior years, and obtained explanations for significant or unusual variances.
- Reviewed and tested cut off at the year end.
- Reviewed a sample of contracts, agreeing terms with revenue recognised in the accounts.
- Selected other revenue items for testing to underlying records to ensure that revenue has been appropriately recognised.

Audit conclusion

There are no significant issues or instances of improper revenue recognition which were identified from our audit procedures.

2. Audit findings (continued)

Completeness of creditors and accruals**Description of risk**

The level and size of transactions for the CWLEP increases the risk of errors in recording liabilities accurately and on a timely basis.

How we addressed this risk

We undertook the following audit procedures in this area:

- A sample of supplier statements was obtained to agree 'key' supplier balances at the year end.
- We undertook detailed testing of a sample of invoices received and supplier payments made during the period following the year end to ensure liabilities have been recognised in the appropriate period.
- Performed a review of accruals and any provisions at the year end.

Audit conclusion

There are no significant issues with the completeness of creditors and accruals which were identified from our audit procedures.

Investment impairment review**Description of risk**

Under ISA 540 (UK) there is a presumed risk of misstatements of accounting estimates and related disclosures, and indicators of possible management bias.

How we address this risk

We undertook the following audit procedures in this area:

- Reviewed audited partnership accounts.
- Reviewed and assessed the valuation which has been prepared by an expert.
- Reviewed assumptions for reasonableness.

Audit conclusion

There are no significant issues with management's use of accounting estimates for the impairment review which were identified from our audit procedures.

2. Audit findings (continued)

Covid-19 and going concern

Description of risk

Under ISA 560 and 570 (UK) there is a presumed risk of management bias when carrying out an assessment of the entity's ability to continue as a going concern.

How we address this risk

We undertook the following audit procedures in this area:

- Obtained post year end management accounts and the forecasts for 2023 and considered whether these support the going concern assumption.
- Reviewed post year end bank statements or any unusual transactions or indication that going concern is not appropriate.
- Considered financial, operational and other indicators which may suggest that the use of going concern is not appropriate.

Audit conclusion

We did not identify any issues in respect of the adoption of the going concern assumption. We are satisfied the going concern disclosures in the financial statements are appropriate.

Accounting policies and disclosures

We have reviewed the accounting policies and disclosures in the financial statements and concluded they comply with applicable accounting standards including United Kingdom Account Standards (United Kingdom Generally Accepted Accounting Practice) (FRS 102) "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Significant matters discussed with management

There have been no significant matters discussed with management.

Significant difficulties during the audit

We did not encounter any significant difficulties during our audit, and we have had the full cooperation of management.

3. Financial highlights

Consolidated Statement of Comprehensive Income

	2022 £'000	2021 £'000	2020 £'000
Turnover	4,743	4,739	4,421
Cost of sales	(760)	(123)	(513)
Gross profit	3,983	4,616	3,908
GP %	83.98%	97.40%	88.40%
Staff costs	(2,328)	(2,172)	(1,934)
Other operating expenses	(1,709)	(1,899)	(1,934)
Operating surplus/(loss)	(54)	545	40
Gain/(loss) on revaluation of investments	(424)	1,151	(1,636)
Finance costs (net)	(278)	(73)	-
Net surplus/(loss) before tax	(756)	1,623	(1,596)
CWLEP	(814)	1,674	(1,610)
CWTB	58	(51)	14

The operating deficit for the FY22 was (£54k), compared to an operating surplus of £545k in FY21. The FY21 included £312k of Local Industrial Strategy Funding which the LEP had not spent by the year end, however as the LEP was not committed to carry out any further specific work as a condition of the income then the income was correctly recognised in the FY21. The money has been spent during the FY22 and is the reason for the reported deficit.

As part of the government's review of LEPs' functions there is an expected reduction in the core funding of £125k and the growth hub of £231k for the FY23.

Revaluation of investments represents the movement in the year of the LEP's share of The GM & Cheshire Life Sciences Partnership, for the FY22 it is a loss of (£424k) (2021: gain £1,151).

3. Financial highlights (continued)

Consolidated Statement of Financial Position

	2022	2021
	£'000	£'000
Fixed assets - Intangible	8,420	5,004
Fixed assets - Tangible	48	43
Fixed assets - Investments	8,250	7,967
Stocks	32	37
Trade debtors	497	603
Other debtors	3,500	4,672
Prepayments and accrued income	579	508
Cash at bank	996	1,008
Total current assets	5,604	6,828
Other loans	(597)	-
Trade creditors	(209)	(246)
Other creditors	(72)	(38)
VAT and PAYE	(153)	(206)
Accruals and deferred income	(634)	(733)
Total current liabilities	(1,665)	(1,223)
Net current assets/(liabilities)	3,939	5,605
Other loans	(10,794)	(8,000)
Net assets	9,863	10,619

Intangible assets of £8.4m represents the costs incurred by the LEP on development and funding provided to companies within the Enterprise Zone. There has been additional funding of £3.5m during FY22.

Investment assets of £8.2m represents the LEP's share of the Life Sciences Partnership. Additional investment during the year totalled £749k and a professional valuation at the year end resulted in reduction of £466k.

Other debtors represents amounts due from Cheshire East Council with regards to the Life Sciences investment and amounts yet to be drawn on EZ projects.

Other loans relates to draw downs on 5 projects relating to the EZ, this money is due back to CWAC and CEC when retained business rates are received.

4. Other communication requirements

Potential issue	Comments
Matters in relation to fraud	We have not been made aware of any significant incidents during the year and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related party transactions which have not been disclosed by management.
Matters in relation to laws and regulations	We are not aware of any significant instances of non-compliance with relevant laws and regulations that could have a significant impact on the financial statements.
Written representations	A specific representation has been requested in respect of the basis of preparation of the financial statements.
Confirmation requests from third parties	We have requested and obtained direct confirmation from the banks of the balances on all bank accounts and facilities as at 31 March 2022.
Disclosures	Our review has found no material omissions in the financial statements

5. Internal controls

The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements 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 internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance. (ISA UK 265)

Issue and risk	Recommendations	Management comment
<p>Purchase authorisation</p> <p>The LEP and CWTB have been going through a period of transition from paper to electronic filing and authorisation.</p> <p>We found a number of instances in both entities where:</p> <ol style="list-style-type: none"> 1. There was no authorisation evident on the purchase orders. 2. There was no authorisation evident on the purchase invoices. 3. The client was unable to access PO and PI authorisation as they were saved on MS Teams of an ex-employee. 	<p>We recommend the following:</p> <ol style="list-style-type: none"> 1. Evidence of authorisation is obtained for every PO/PI and records kept centrally. 	<p>The finding is accepted. There are two contributing factors to the incomplete record of authorisations; the move to hybrid working and a re-organisation of responsibilities, in July 2021, such that finance support is provided to Marketing Cheshire from the LEP. These have inadvertently reduced the level of communication between staff making purchases, some of whom need additional training in procedures, and the finance team. All staff have a delegated limit to make purchases up to £500 and department managers up to £5,000. However, not all have requested purchase orders or ensured that the invoices are sent to accounts@cheshireandewarrington.com, so that they are recorded and sent out for approval. To improve procedures, in autumn 2021 we adopted “Teams Approvals”, which allows for an electronic record of authorisation, and have created a sharepoint site for finance forms (e.g. PO requests), that all staff can access. We are still learning the most effective way to use Teams Approvals and are continuing to embed improved procedures in the current year.</p>

6. Unadjusted misstatements

		Statement of comprehensive income		Balance sheet		Profit/(loss) effect	Reason for not adjusting effect
		Dr £'000	Cr £'000	Dr £'000	Cr £'000		
Dr	Expenses	4				(4)	Not considered material
Cr	Accruals <i>Being purchase cut off testing (CWTB)</i>				4		
Dr	Accrued income			2		2	Not considered material
Cr	Income <i>Being understatement of accrued income (CWTB)</i>		2				
Dr	Accrued income			11		11	Not considered material
Cr	Income <i>Being missing accrued income relating to COP26 (CWTB)</i>		11				
Dr	Accrued income			46		46	Not considered material
Cr	Income <i>Being understatement of GPF accrued income (CWLEP)</i>		46				
Dr	Income	3				(3)	Not considered material
Cr	Deferred income <i>Being understatement of deferred income (CWLEP)</i>				3		
						52	Total Profit & Loss effect

7. Independence and ethics

In accordance with professional requirements and our ongoing risk assessment, we have reviewed the relationships between Murray Smith LLP and Cheshire & Warrington Local Enterprise Partnership that are relevant to the independence and the objectivity of the audit partner and the audit staff.

We can confirm that there are no significant facts or matters that impact our independence as auditors. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each staff member, are independent and are able to express an objective opinion on the financial statements.



8. Communication of audit matters with those charged with governance

Communication	Audit Planning Memo	Audit Completion Report
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of planned scope, approach, and timing	✓	
Confirmation of independence and ethical standards	✓	✓
Significant risks and key judgemental areas	✓	✓
Significant matters in relation to going concern	✓	✓
Significant findings from the audit		✓
Significant matters and issues arising during the audit and written representations have been sought		✓
Significant difficulties encountered during the audit		✓
Significant matters arising in connection to related parties		✓
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		✓
Non-compliance with laws and regulations		✓
Unadjusted misstatements		✓
Any expected modifications to the auditor's report		✓

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

The Audit Planning Memorandum outlined our audit strategy and plan to deliver the audit, while this Audit Completion report presents key issues, findings and other matters which arose from the audit, together with an explanation as to how they have been resolved.

We, as auditors, are responsible for forming and expressing an opinion on the financial statements. Our responsibilities are also set out in the engagement letter.

The audit of the financial statements does no relieve management or those charged with governance of their responsibilities.