

Cheshire & Warrington Local Enterprise Partnership

Audit Completion Report

Year ended 31 March 2023

4 September 2023

Mike Benson

Partner

T 01606 79411

E mike.benson@murraysmith.com

Nicola Tucker

Director

T 01606 79411

E nicola.tucker@murraysmith.com

Emma Caddell

Manager

T 01606 79411

E emma.caddell@murraysmith.com

Contents

	Page
1 Executive summary	2
2 Audit findings	3
3 Financial highlights	8
4 Other communication requirements	10
5 Internal controls and processes	11
6 Adjustments	14
7 Unadjusted misstatements	15
8 Independence and ethics	16
9 Communication of audit matters with those charged with governance	17

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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 and accuracy of creditors, accruals and deferred income.
- Investment impairment review.
- Intangible impairment review.
- Going concern.

Unadjusted misstatement

Section 7 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 2023.

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.

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; <ul style="list-style-type: none">• 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 and accuracy of creditors, accruals and deferred income

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.
- Performed a review of deferred income 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)

Intangible 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 CWLEPs consideration of impairment
- 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.

Going concern

Description of risk

Under ISA 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 2024 and 2025 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.

2. Audit findings (continued)

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

We discussed with management the flexible nature of arrangements between the LEP, the Local Authorities and funds such as those for the Enterprise Zone and Growing Places. In our opinion, there is insufficient rigorous documentation covering the contractual arrangements and authorisation of specific transactions between the various entities.

Also, The Local Authorities process a number of significant transactions on behalf of the LEP and we are concerned with the authorisation and systematic recording of these transactions.

Management comment

The Local Authorities, especially Cheshire East as the accountable body, have in the past made numerous payments relating to capital grant schemes. Payments relating to those programmes were documented and authorised by senior staff at the LEP. Those transactions did not need to be recorded within the LEP accounts. More recently, the range of payments has evolved to include transactions associated with Enterprise Zone Loans and the Life Sciences Fund which form part of the LEPs accounts. Procedures have continued to operate in a similar way to the past and not been modified to reflect the new arrangements. The LEP and the Local Authorities will need to reflect on the concerns raised and adjust procedures accordingly.

Significant difficulties during the audit

The above matters resulted in the need for significant additional audit work to gain assurance that all transactions to which the LEP was a party had been identified and processed accurately in the LEP’s accounting systems.

Management comment

See above.

3. Financial highlights

Consolidated Statement of Comprehensive Income

	2023	2022	2021
	£'000	£'000	£'000
Turnover	6,947	4,743	4,739
Cost of sales	(521)	(760)	(123)
Gross profit	6,426	3,983	4,616
GP %	92.51%	83.98%	97.40%
Staff costs	(2,354)	(2,328)	(2,172)
Other operating expenses	(1,330)	(1,668)	(1,858)
Amortisation of EZ intangible asset	(880)	(41)	(41)
Operating surplus/(loss)	1,862	(54)	545
Gain/(loss) on revaluation of investments	(1,954)	(424)	1,151
Finance costs (net)	(339)	(278)	(73)
Net surplus/(loss) before tax	(431)	(756)	1,623
CWLEP	(389)	(814)	1,674
CWTB	(42)	58	(51)

The operating surplus for the FY23 was £1,862k, compared to an operating deficit of (£54k) in FY22. FY23 includes £1,121k of additional EZ Business rates income and £1,560k from the Get Building Fund, which was a one off grant used to repay the loan relating to Blocks 22-24.

This year the intangible asset created by the funds provided to the Enterprise Zone has started to be amortised because income is now being received.

The revaluation of investments represents the movement in the year of the LEP's share of the Greater Manchester & Cheshire Life Sciences Funds 1 and 2. For the FY23 this results in a loss of (£1,954k) (2022: loss (£424k)).

3. Financial highlights (continued)

Consolidated Statement of Financial Position

	2023	2022
	£'000	£'000
Fixed assets - Intangible	8,322	8,420
Fixed assets - Tangible	9	48
Fixed assets - Investments	8,045	8,250
Stocks	34	32
Trade debtors	719	497
Other debtors	1,169	3,500
Prepayments and accrued income	334	579
Cash at bank	1,622	996
Total current assets	3,878	5,604
Other loans	(2,201)	(597)
Trade creditors	(119)	(209)
Other creditors	(17)	(72)
VAT and PAYE	(194)	(153)
Accruals and deferred income	(1,026)	(634)
Total current liabilities	(3,557)	(1,665)
Net current assets/(liabilities)	321	3,939
Other loans	(7,267)	(10,794)
Net assets	9,430	9,863

Intangible assets of £8.3m represents the costs incurred by the LEP on development and funding provided to companies within the Enterprise Zone. There has been additional funding of £0.8m during FY23 and amortization of £0.9m.

Investment assets of £8.0m represents the LEP's share of the Life Sciences Partnerships 1 and 2. Additional investment during the year totalled £1,965k, there was a disposal of £216k and professional valuations at the year end resulted in an impairment of £1,954k.

Other debtors represents amounts due from Cheshire East Council with regards to the Life Sciences investment and amounts yet to be drawn on Quadrant Phase 2 project.

Other loans totalling £8,171k, relates to draw downs on 6 projects relating to the EZ, this money is due back to CWAC, CEC and WBC when retained business rates are received. The remaining £1,297k included within Other loans, represents amounts borrowed from the Growing Places Fund to help fund the Life Sciences 2 project.

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 2023.
Disclosures	Our review has found no material omissions in the financial statements

5. Internal controls and processes

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>1 Finalised Income & Expenditure and Balance Sheet not available prior to audit work</p> <p>The figures were not finalised by the time of the external audit work, meaning that a number of changes had to be processed during the audit, resulting in additional time costs.</p>	<p>We recommend that the LEP schedules sufficient time to process all adjustments, prior to the commencement of the audit.</p> <p>The final figures should be supported by appropriate backing analysis.</p>	<p>Agreed. However, this year we were dealing with several new types of transactions including the first repayment instalments of loans in respect of the Enterprise Zone and other movements associated with the LEPs investing activities. Prior to working with the auditors, we were unsure how some of these transactions would be reported in the statutory accounts. A further hindrance was that, within our old version of Sage, nominal accounts had not been set up to cater for these transactions and had we done so before agreeing the reporting treatment, we risked doing so incorrectly. Consequently, the transactions were completed later than would normally be the case.</p>
<p>2 Onsite audit</p> <p>This year's audit took longer than originally budgeted. We believe this is due to the audit being carried out remotely which means that it takes much longer to get follow up information and explanations.</p>	<p>We recommend that next year's audit is carried out onsite with the LEP's finance team in attendance throughout the duration of site visit.</p>	<p>Agreed. We have completed the audit remotely for the past couple of years and doing so is not as efficient as being able to discuss issues face to face. It will be important to plan early the dates of the on-site visit to ensure staff availability and that records are fully prepared.</p>

5. Internal controls and processes (continued)

Issue and risk	Recommendations	Management comment
<p>3 Transactions with CEC, CWAC and WBC</p> <p>There are a number of transactions between the local authorities that relate to CWLEP but do not go through the CWLEP bank account.</p> <p>There is a lack of appropriate documentation and authorisation on these transactions and a risk that some could be missed from the LEP’s accounting systems.</p>	<p>We recommend the following:</p> <ol style="list-style-type: none"> 1. Specific documentation is received for each transaction and approval is obtained from LEP senior management or the board before the money is transferred. 2. Transactions are posted during the year to Sage 200, even if there is no transaction through the CWLEP bank account. 3. Reconciliations with each local authority are carried out monthly. 	<ol style="list-style-type: none"> 1. Transactions performed by the Local Authorities on behalf of the LEP, which also need to be recorded in the LEP accounts, are relatively few but of significant value. They are a recent phenomenon and include payments in respect of the EZ loans or contributions towards the Life Sciences Fund. Historically, where the Local Authorities have made payments, for example in relation to capital grants programmes, the procedures have been based on the close partnership working between the LEP and the Accountable Body. Payment authorisation is provided by either the Chief Executive or Finance and Commercial Director before the Local Authority makes the payment. We will review the documentation and ensure a more robust audit trail. 2. Agreed. Now that we have upgraded Sage and established the nominal accounts in the ledger, updating the records is a simpler process and can be done in a timely fashion when transactions occur. 3. Monthly reconciliation with each authority does not feel proportionate. All transactions pass through Cheshire East, the majority annually in October, so we suggest monitoring when payments are made and obtaining a confirmation from Cheshire East at appropriate times.

5. Internal controls and processes (continued)

Issue and risk	Recommendations	Management comment
<p>4 Accrued and deferred income It has been quite time consuming trying to obtain audit evidence as to why income is either accrued or deferred.</p>	<p>We recommend the following:</p> <ol style="list-style-type: none"> 1. Accrued and deferred income are clearly separated. 2. Each month, and especially at the year end, compliance with with FRS 102 and CWLEP’s income recognition policy should be considered and documented. 3. Reasons as to why the income is accrued or deferred should be clearly documented on LEP schedules. 	<ol style="list-style-type: none"> 1. We will explore the opportunity to separate accrued and deferred income. 2. The income recognition policy was reviewed and approved by the Finance and Audit Committee in June 2023, and a “mini-contract” put in place between the LEP and the Local Authorities to set out the treatment of income from retained business rates. This was the least well documented aspect of income recognition. For most funding streams the treatment of income is clear, and the treatment has been consistent over recent years. That said, reviews, including a year end schedule, will be prepared quarterly beginning September 2023. 3. Agreed.

6. Adjustments – CWLEP

During the audit the following adjustments were agreed with the company's management:

	Income statement (CWLEP)		Balance sheet (CWLEP)	
	£'000	£'000		£'000
Draft surplus per CWLEP (11.5.23)		62	Net assets per CWLEP (11.5.23)	9,579
Investing activities journals per CWLEP (31.5.23)		<u>47</u>	Opening balance adjustment	41
		109	Investing activities per CWLEP (31.5.23)	<u>47</u>
				9,667
Material adjustments:				
Life Sciences 1 – to reflect impairment in I&E	(1,854)		Life Sciences 1	(1,854)
Amortisation – reduction to adhere to FRS 102	<u>1,416</u>		Amortisation	1,416
		<u>(438)</u>		
Other adjustments:				
Life Sciences 1 – correction to revaluation posting	1		Life Sciences 1	1
Life Sciences 2 – impairment	(100)		Life Sciences 2	(100)
Loan interest – correction to accrued loan interest	<u>39</u>		Loan interest	39
		<u>(60)</u>		
(Deficit) per statutory accounts (exc CWTB)		<u>(389)</u>	Net assets (exc CWTB)	<u>9,169</u>

7. Unadjusted misstatements

	Statement of comprehensive income		Balance sheet		Profit/(loss) effect	Reason for not adjusting
	Dr £'000	Cr £'000	Dr £'000	Cr £'000	£'000	
Dr Deferred income Cr Sales Dr Expenditure <i>Being deferred income overstatement (CWLEP)</i>	1	41	40		40	Not considered material
Dr Deferred income Cr Income <i>Being overstatement of English Originals deferred income (CWTB)</i>		7	7		7	Not considered material
Dr Deferred income Cr Income <i>Being overstatement of Chamberlink deferred income (CWTB)</i>		5	5		5	Not considered material
Dr Expenditure Cr Accruals <i>Being late accruals (CWTB)</i>	10			10	(10)	Not considered material
					42	Total Profit & Loss effect

8. 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, except for the self review threat resulting from Murray Smith preparing the financial statements on behalf of CWLEP. 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.



9. 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.