



**Cheshire and Warrington Local Enterprise Partnership  
Finance and Audit Committee**

Tuesday 24<sup>th</sup> September 2019 14:30 pm – 15:30 pm  
Venue: Wyvern House, The Drummer, Winsford  
LEP Conference Room

**AGENDA**

Agenda Item		Lead	Timings
1	Welcome, introductions and apologies	Chair	
2	Conflicts of Interest	Chair	
3	Minutes of Meeting 16 <sup>th</sup> July 2019	Chair	5 minutes
4	Matters Arising:  Pensions Liability Policy on Reserves	Ian Brooks Ian Brooks	5 minutes 10 minutes
5	Paper on Internal Audit Plan 2019/20	Ian Brooks	10 minutes
6	Management Accounts to August 2019 2019-2020 Forecast	Ian Brooks	10 minutes
7	AOB	All	5 minutes
<b>PART 2 – Paper Commercially Sensitive</b>			
8	Paper on EZ Loan	Ian Brooks	15 minutes
9	Date of next meeting:		
	2 <sup>nd</sup> December 2019	Wyvern House, The Drummer, Winsford, 2.30pm-3.30pm	





**Cheshire and Warrington Enterprise Partnership  
Finance & Audit Committee Board Meeting Minutes**

**16<sup>th</sup> July 2019 Wyvern House, Winsford**

**Present:**

Tim Wheeler (Chair)  
Stephen Kinsey  
Graeme Bristow

**In attendance:**

Philip Cox, Ian Brooks, Mike Benson (Murray Smith LLP), Neil Taylor (CEC)

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**Agenda Item 1: Apologies and Introductions**

1.1 Tim Wheeler welcomed members to Committee meeting.

**Agenda Item 2: Conflicts of Interest**

2.1 No conflicts of interest were declared in relation to Agenda Items.

**Agenda Item 3: Draft Minutes**

3.1 The draft minutes circulated with meeting papers were agreed to provide a full and accurate account of the December meeting.

**Matters Arising**

Philip Cox referred to item 6.1 that the programme of work for Internal Audit remained outstanding. Ian Brooks agreed to liaise with Neil Taylor and Alex Thompson so that a plan could be presented to the next meeting.

**ACTION: IB/NT**

**Agenda Item 4: Annual Accounts – March 2019**

4.1 Ian Brooks introduced the audited Annual Report and Accounts for the year ended 31<sup>st</sup> March 2019. Key points in the discussion were as follows:

- The LEP had achieved a small operating surplus of £18,000.
- A negative movement in pension liabilities for former employees of £110,000 had however resulted in an overall deficit for accounting purposes for the year of £89,000 which has been transferred to reserves. After the movement, the net difference between the pension assets and pension liabilities is a small shortfall of just £15,000 and was not considered a source of



concern. Given the fluctuation in pension valuation, Tim Wheeler requested a short report for the next meeting to review the reasons for the movement and put it in context over the last few years.

**ACTION: IB**

- The LEP reserves are £270,000. Philip Cox referred the committee to the LEP position to hold sufficient reserves and cash to facilitate an orderly run down of activity should Government policy towards LEPs change. It was noted that the LEP has evolved considerably since this policy was adopted and discussion then explored a variety of options including the approaches taken by other LEPs and organisations, including holding an equivalent number of day cash in reserve. Tim Wheeler proposed that the committee consider a position paper, to be brought to the next meeting, to review the LEP policy towards an appropriate target level of reserves.

**ACTION: IB**

- Again, in the light of increasing complexity in the business, and looking ahead, Mike Benson recommended that the LEP should consider adopting project accounting to improve the financial recording of the growing range of activities and funding streams for the LEP. Ian Brooks confirmed this is already underway.
- He also highlighted that for similar reasons, there is an increasing need for the LEP to exercise clarity over contractual arrangements, in relation to grants, investment agreements and loans, where the LEP works in partnership with CEC as the accountable body. The form of contracts can have implications for accounting treatment.
- Discussion turned to the requirement to include in the statutory accounts the full range of funds and balances in which the LEP has an interest, acting sometimes on its own behalf and sometimes as an agent. It was agreed that the statutory accounts need to reflect the operating entity and that an annual report, e.g. for the AGM, would be a more appropriate place to document the full scope of financial resources available to Cheshire and Warrington.

**ACTION: IB**

- Graeme Bristow asked whether to consolidate Marketing Cheshire into group accounts. This was not necessary for 2018/19 because the LEP had taken responsibility for Marketing Cheshire after the year end. Mike Benson also confirmed his view, articulated during the due diligence process, that consolidated accounts would not be necessary. However, going forward in 2019/20 the committee and the full board should receive regular reports on the financial position of Marketing Cheshire. Ian Brooks will liaise with Mark Livesey and the finance team at Marketing Cheshire to provide such reports.

**ACTION: IB**

4.2 After an informative discussion, the committee resolved to recommend the annual report and accounts to the full board meeting to be held on July 17<sup>th</sup>.

4.3 The committee recorded its thanks to Mike Benson and his team and to Neil Taylor for their work and support in preparing the annual report and accounts.

#### **Agenda Item 5: Management Accounts June 2019**

5.1 Ian Brooks presented a summary report of the LEP's financial performance for the first quarter, and an updated forecast for the full financial year. The small operating deficit for the quarter, of £12,000, was not considered material and would be recovered during the remainder of the year. The full year forecast is for a small operating surplus.

5.2 The Committee noted the report.

#### **Agenda Item 6: Scheme of Delegation**

6.1 Ian Brooks presented an updated scheme of delegation. Last reviewed in 2017, the recent developments at the LEP, with new roles and management positions, required appropriate delegations to promote operational efficiency.

6.2 The Committee requested that additional emphasis be placed on sub-committees to refer to the full board, for approval, projects that might be considered “novel” or “contentious”.

6.3 Subject to the amendment in 6.2, the Committee approved the new scheme of delegation.

**ACTION: LEP Executive to introduce new scheme to staff with appropriate processes.**

#### **Agenda Item 7: Risk Register**

7.1 Ian Brooks presented a summary of the top risks identified by the LEP Executive, which are reviewed regularly during operational meetings and at the P&I Committee.

7.2 The Committee recommended that the full Board should take stock of the key risks including those that have emerged with the growing scale and complexity of the LEP and to confirm or re-set the level of risk appetite.

7.3 Graeme Bristow suggested that the presentation of risks should include raw assessments, mitigation measures and residual assessments, thereby providing a fuller picture of the risk management process.

**Action LEP Executive: To include Corporate Risk on a future Board agenda**

#### **Agenda Item 8: AOB**

8.1 Tim Wheeler led a discussion on whether to re-appoint the external auditors, Murray Smith. The Committee unanimously agreed to recommend re-appointment.

**Paper for: The Finance and Audit Committee**

**Title: Pension Liability**

**Date: 24 September 2019**

**Strategic Purpose: Risk management**

**Resource Implications: None**

**F&A Committee: For Information**

### Summary

At the Finance and Audit committee Meeting on 16<sup>th</sup> July 2019, the adverse movement in pension provisions was a matter for discussion. This paper sets out the financial risk to the LEP embedded within the pension commitments and provides information as to how the risk has materialised over the past few years.

### Background

In prior years several former employees of the LEP were employed with membership of the Local Government Pension Scheme. Nowadays no employee of the LEP is recruited with such benefits. As such the LEP has a legacy of 13 “admitted” members, for whom the LEP carries a pensions liability and a share of the assets of the Cheshire Pension Fund. In recent years until 2019, as evidenced in Table 1, the value of assets held in the fund has slightly exceeded the actuarial valuation of the obligations to the pensioners concerned.

Table 1: Pension assets and liabilities 2016 – 2019

£'000	31/3/2019	31/3/2018	31/3/2017	31/3/2016
Assets	2,678	2,611	2,601	2,570
Obligations	2,693	2,519	2,555	2,516
Net Pension Asset /(Deficit)	(15)	92	46	54

However, for the year ended 31<sup>st</sup> March 2019, despite growth in the asset base, the increase in liabilities was even more significant, reversing the net pension asset to a small deficit.

The key point to note is that assets remain broadly in balance with obligations and there is little financial exposure to the LEP. It was the accounting movement from one year to the next, a movement larger than those seen in recent prior years, and from a previously accrued asset to a small deficit, which has raised the profile of the pension in discussion.

Moreover, the obligation carried by the LEP is supported by a guarantee from the local authority that it will be met.

## Underlying Assumptions

In order to answer the question as to why there are movements in the value of the pension, we need to refer to the assumptions which govern the value of the obligations. This hinges on three key assumptions; expected life expectancy, the assumed growth in pensions and the discount rate applied to the estimated future obligations that calculates their value in today's prices.

Over last three years mortality assumptions have not changed. So, we can largely rule out any effect from this factor, except to say that obligations for those pensions already in payment will have reduced by payments made. The drivers for the increasing obligations seen in Table 1 sit with expectations of larger pension increases, and lower discount rates. Table 2 evidences how these have changed:

Table 2: Actuarial assumptions 2016 – 2019

% p.a.	31/3/2019	31/3/2018	31/3/2017	31/3/2016
Pension Increase Rate	2.5	2.4	2.4	2.2
Discount Rate	2.4	2.7	2.6	3.5

To put these changes in context, Table 3 shows the sensitivity of the pension obligations to movements in the pension increase rate and the discount rate. Quite small movements have quite large impacts.

Table 3: Key Sensitivities 2016 – 2019

£ '000	31/3/2019	31/3/2018	31/3/2017	31/3/2016
0.5% increase in the Pension Increase Rate	215	200	202	N/A
0.5% decrease in the Discount Rate	229	211	214	N/A

## Risks

The assumed level of increases in pensions and discount rates are a function of wider economic conditions. Pensions increases are linked to inflation and pay rises. Discount rates are linked to the long-term borrowing rates. In recent years we have seen upward pressure on inflation and pension increases and downward pressure on long term interest rates.

The LEP can therefore expect a degree of volatility in the value of its net pension position. On past evidence a movement in excess of £100k is less likely than a movement of less than £100k but, as this is less than 4% of the total value of the obligations, remains entirely possible. Economic uncertainties also increase volatility which, in turn, can increase the movement in the provisions.

**Ian Brooks**

**Finance and Commercial Director**

**September 2019**



**Paper for: The Finance and Audit Committee**

**Title: Financial Policy for Reserves**

**Date: 24 September 2019**

**Strategic Purpose: Risk management**

**Resource Implications: None**

**F&A Committee: For Decision**

Summary

At the Finance and Audit committee Meeting on 16<sup>th</sup> July 2019, discussion was held regarding the rationale and approach to the level of reserves which the LEP should hold. This paper explores this issue and makes recommendations for the F&A Committee to consider.

Background

The objective of the LEP is to create economic strategy and policy and to deliver services to the sub-region. It is a “not-for-profit” entity and is expected to use the money provided to it in pursuit of delivering those objectives. While achieving those aims it is recognised that in the normal course of business the LEP will encounter volatility and uncertainty and it is therefore prudent to retain a level of financial reserves, somewhat like holding savings, that will ensure its survival in all but the most extreme of cases, but creating reserves should not be seen as a primary objective.

As a further precaution, historically the LEP has operated an informal policy to retain broadly sufficient reserves to meet the costs of an orderly wind-down of activities. This rationale stems from the non-statutory status of the LEP and that a change in Government policy to reform or restructure the LEPs could trigger such a wind down at relatively short notice. This is a rather extreme or worst-case example and, it could be argued, inconsistent with holding sufficient reserves to survive the uncertainties experienced in the normal course of doing business.

Understanding of Reserves

Put in its simplest terms, the amount of financial reserves means the difference in the value of all the assets owned by, or due to, the LEP, less the value of all the liabilities due by the LEP.

Table 1 shows the level of reserves in recent years.

Table 1: General reserves 2016 – 2019

£'000	31/3/2019	31/3/2018	31/3/2017	31/3/2016
Reserves	270	359	390	274

The reserves do not represent a “pot of cash”. Cash funds would only arise if the assets were all converted into cash (equipment sold, amounts due paid, etc) and the liabilities paid, all at the values recorded in the accounts.

Two issues arise with this. The first is that many assets do not achieve their recorded value in a close down and the second is there will be additional expenses of closing down the organisation.

If we inspect the assets of the LEP further, a major asset, valued at £162k at 31<sup>st</sup> March 2019, is the value of investment made establishing the EZ fund. In a close down scenario this asset would not achieve any value and be written off. It may therefore be better to rely on the net current assets as a measure of the potential cash available to meet the costs of a close down. Table 2 shows the recent history of net current assets (with the reserves for comparison).

Table 2: Net Current Assets and General reserves 2016 – 2019

£'000	31/3/2019	31/3/2018	31/3/2017	31/3/2016
Net Current Assets	116	63	141	213
Reserves	270	359	390	274

#### Reserves required based on “normal business”

Based on historic movements, the difference between the highest and lowest figures for Net Current Assets and Reserves are £150k (£213k - £63k) and £120k (£390k-£270k) respectively, with the greatest movement in any one year around £120k.

#### Reserves required based on a “closing scenario”

The figures in Table 2 exclude the additional costs of closing down the LEP because there are no plans to do so. In order to pay the expenses arising on closure the reserves would need to be converted into cash and the closing costs paid from them. An estimate of the closing expenses is based on the following assumptions:

- It is considered very unlikely that notice to close the LEP would simultaneously result in no further funding for the core activities. More likely, staff would be issued notices of redundancy but would be required to work their notice period (typically 3 months) to ensure an orderly transfer of activities, such period to be funded through existing mechanisms. The additional cost would be the Statutory Redundancy Pay.
- Staff associated with programmes paid for by specific funding bids, e.g. Skills and Growth Hub, the Pledge etc, would TUPE to a new “host” organisation to complete the delivery of the programme. There would be no redundancy liability for the LEP.
- Some key contracts would require payment to the end of the contract period. The office rental agreement has a maximum period of 18 months before a break or termination. Some IT equipment and service costs have 12 month notice agreements.
- The LEP would incur some legal and accountancy costs to novate programme contracts and effect an orderly dissolution of the company.

The table below makes estimates for each:

Costs	Comments	Estimated cost
Employment termination costs	Based on only those staff not funded by a "programme", working contractual notice. Statutory redundancy only	£30k
Contract termination costs	E.g. Rental payments on the office.	£50k
Provision for legal work	Novation of contracts, final accounts, dissolution	£20k
Total		£100k

#### Reliance of the LEP on Enterprise Zone Retained Business Rates Funds

There is one further consideration with respect to the LEP capacity to absorb financial uncertainty. In recent years the LEP funding has changed with retained business rates arising in the EZ fund being utilised to finance some activity of the LEP. For the budget year 2019/20, approximately £600k of EZ funds are planned to support core activities. Business rate income is difficult to forecast, affected as it is by economic circumstances, valuations and re-valuations, exemptions and discounts. The LEP works closely with Local Authorities to make best estimates, but the actual funds received vary, potentially quite significantly, from those estimates. However, because the retained business rates are transferred to the EZ fund in the year after they are collected, the LEP has some advance warning of any impending shortfall.

The balance of EZ funds is not held directly by the LEP, they form part of the Local Authority funds. As such the balance does not form part of the LEP reserves. However, given the reliance on EZ funds to support day to day operations, it is considered prudent that the LEP retains a reserve of EZ funds to mitigate against any unexpected drop in business rate income.

#### Approaches to setting the level of reserves

Based on the historic fluctuation in financial reserves during the normal course of business, one approach might be for the LEP to maintain positive net reserves sufficient to cover, say, two consecutive years of "worst" case negative annual movements. Two years is chosen so as to (i) offer protection against a year in which double the expected worst case materialises and (ii) offer sufficient time to restructure the business to put it on a new footing to avoid further deficits and plan for surpluses (to restore the reserves to the minimum level). Based on the analysis of recent movements in normal business, this would equate to minimum reserves of approximately £250k.

Alternatively, because the LEP is now more reliant on retained business rates to fund its activities, an approach would be to retain a proportion of business rate income as reserves to cope with fluctuations of income receipts. Because the LEP has some advance warning of a drop of business rate income, it is recommended that the minimum reserve held in the LEP fund is equivalent to six months of budget funding, i.e. £300k, to provide time for expenditure plans to be adjusted.

Either of the above approaches would ensure sufficient reserves to cover the eventuality of a closure with a proviso that the LEP holds a net current asset position greater than £100k such that there is a good prospect of generating sufficient surplus funds to effect an orderly and solvent close down.

### Recommendation

Various approaches to setting the level of reserves are discussed in the foregoing section, but it is not necessary to treat these as cumulative requirements. So long as the approach that identifies the greatest financial risk is covered, then so are the risks associated with the other approaches. The greatest exposure for the LEP to financial risk stems from the possible fluctuation in income associated with retained business rates. Therefore, based on the foregoing analysis it is recommended that the LEP holds minimum reserves, either within its own books, or within the EZ fund, totalling £300k.

**Ian Brooks**

**Finance and Commercial Director**

**September 2019**

**Paper for: The Finance and Audit Committee****Title: Internal Audit Plan 2019-2020****Date: 24 September 2019****Strategic Purpose: Risk management, assurance****Resource Implications: None****F&A Committee: For Decision****Background**

In order to provide assurance to the board and to the s151 officer of our accountable body at Cheshire East Council (CEC) regarding governance arrangements for the LEP, an internal audit plan is conducted over the course of each business year. The draft plan for 2019/20 is attached to this paper. Several of the items are set by CEC in order to support the completion by the s151 officer of mandatory annual assurance statements which are required by MHCLG.

In addition, the LEP or CEC can propose other areas of its business which it considers are worthy of independent review as part of providing additional assurances over aspects of its work and to assist in the identification and management of risks to the organisation. For 2019/20, one such audit is proposed, which is a review of the governance and operational arrangements for the Enterprise Zone.

**Recommendation**

The Finance and Audit Committee is requested to approve the internal audit plan for 2019/20.

**Ian Brooks****Finance and Commercial Director****September 2019**



# Cheshire and Warrington Local Enterprise Partnership

Draft Internal Audit Plan 2019/20 V1.4

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## **1 Introduction**

1.1 This document sets out the proposed internal audit plan for the Cheshire and Warrington Local Enterprise Partnership (CWLEP) for 2019/20, developed by Cheshire East Council's Internal Audit Team. It also covers how the service will be delivered and developed in accordance with our Internal Audit Charter (Appendix B).

1.2 As Accountable Body for the CWLEP, Cheshire East Council has requirements to undertake certain assurance requirements on the use of specific funding streams administered by CWLEP, and to provide assurance to the Council's Section 151 Officer, in support of their own reporting requirements in relation to CWLEP.

1.3 Assurance reports have been included in the Council's Internal Audit work plan in previous years. However, as assurance requirements from central government have been extended and enhanced we will now formalise a regular programme of work to be undertaken by the Cheshire East Internal Audit team. This allows the CWLEP board and the Council in its role as Accountable Body to agree the coverage to be included in the programme of work and the assurances this will provide.

1.4 Following discussions between the Council's Internal Audit team, the Council's Section 151 Officer, and the

Deputy Chief Executive and the Chief Executive for the LEP, the programme of work in Appendix A is proposed, on the basis that it will provide a combination of the assurances required under legislation, and a further set of assurances identified following an assessment of risk.

1.5 This plan has been drawn up on the basis that the control environment and the risk profile of CWLEP and the Council will continue to change over the course of the year; for example, any further guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG). The plan will be monitored and re-aligned during the year to ensure it remains responsive, adaptable and resource is directed to those areas where assurance is most required.

1.6 This plan is resourced within the indicative allocation of work included in the Council's internal audit plan (approved by the Audit and Governance Committee on 14<sup>th</sup> March 2019). Further discussion between the Council and the CWLEP will be required to agree the final tasks to be undertaken and the exact resources required.

1.7 This draft plan (V1.2) has been prepared for agreement between the Council's Principal Auditor (acting up to cover the role of Head of Internal Audit responsibilities), the Council's Section 151 Officer and the LEP's Chief Executive/Deputy Chief Executive/finance &



Commercial Director. The plan will be adjusted as necessary following discussion and re-issued as final.

## **2 Responsibilities and Objectives of Internal Audit**

2.1 CWLEP is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Cheshire East Council, as the Internal Audit function of CWLEP's Accountable Body plays a vital part in providing assurance to the Council that these arrangements are in place and operating properly.

2.2 Internal Audit is described in the Public Sector Internal Audit Standards (PSIAS) as an "independent, objective assurance and consulting service designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

2.3 CWLEP's response to internal audit activity should lead to the strengthening of the control environment and, therefore, positively contribute to the achievement of the CWLEP's objectives.

## **3 Standards, Ethics and Independence**

3.1 Our Internal Audit Charter is designed to conform to the PSIAS which came into effect from 2013 and were revised with affect from 1<sup>st</sup> April 2017. All internal audit work will be delivered in line with the requirements of the Standards.

3.2 All Internal Audit staff comply with the mandatory local Code of Ethics, which is based upon the Code included in the PSIAS. Internal Audit staff are also bound by the code of ethics from their respective professional bodies. Declarations of Interest in line with the Council's Code of Conduct are made by the Internal Audit team; these are considered in the allocation of every engagement to ensure there are no conflicts of interest.

3.3 In order to provide effective assurance on the Council's arrangements for governance, risk and internal control across all aspects of service delivery, Internal Audit is independent of all the activities of the Council. Internal Audit's rights of access are outlined in the Internal Audit Charter. **(Appendix B)**

## **4 Planning Methodology**

4.1 The planning process undertaken recognises the requirements of the PSIAS in relation to planning. In accordance with PSIAS, the plan is fixed for a period of no longer than one year.

4.2 Internal Audit's own risk assessment, considers issues at an organisation, regional and national level as well as the results of previous audit work. Factors considered in the risk assessment include:

- Statutory assurance requirements; for example, the Local Assurance Framework
- Consideration of the objectives from the Cheshire and Warrington Local Economic Strategy
- Risks and opportunities recognised during consultation with key stakeholders.
- Other assurance providers and coverage from previous internal audit plans.

## **5 Access**

5.1 The Internal Audit service will require access to all records, information, officers and assets which it considers necessary to fulfil its responsibilities in completing the agreed work programme. Personal and sensitive data will be minimised or anonymised as far as is practically possible ahead of testing.

5.2 Internal Audit will have right of access to CWLEP's Chief Executive, and to the Finance and Audit Committee and Board if necessary. In turn, Internal Audit will comply with any requests from CWLEP in providing any information requested by CWLEP's external auditors to discharge their responsibilities.

## **6 Scoping, fieldwork and reporting**

6.1 For each piece of work on the plan, a Terms of Reference will be prepared for discussion and agreement with the client. This will outline:

- the objective of the work;
- the risks identified;
- recognised interdependencies on other work or reliance to be placed on other assurance work undertaken;
- the resources available;
- the methodology and approach;
- the output; and
- the distribution of the final Terms of Reference, draft report and final report.

6.2 A draft report will be issued promptly after the conclusion of the fieldwork. This will present our key findings and actions, which are reported on an exception basis. It is issued in order that we may confirm the factual accuracy of the findings and agree recommended actions with

management. Internal Audit will draw attention to any significant recommendations which have not been accepted by management, and to the risks arising.

6.3 A final report will be issued once the recommended actions, along with responsibilities and timescales have been agreed.

6.4 Internal Audit use a formal opinion system, details of which are given in **Appendix C**. Based upon the findings and actions raised, an overall opinion will be given on each piece of work.

6.5 In line with our Audit Charter, the agreed action plan will be subject to a follow up review to provide assurance that recommended actions have been implemented.

6.6 Any serious weaknesses, fraud or major accounting errors discovered during the course of the internal audit work will be reported to the CWLEP's Chief Executive. If the Chief Executive refuses to report these to Accountable Bodies' Section 151 Officer, and to the appropriate Committee/Board, the Internal Audit team will report them directly.

## 7 Progress Reporting

7.1 During the year, and in a cycle to be agreed, Internal Audit will produce interim progress reports for the

CWLEP Finance and Audit Committee. These will detail key issues arising from the work undertaken as well as progress against the plan.

7.2 Any significant issues affecting the delivery of the plan or requiring changes to the plan will also be reported to the Board.

7.3 Progress against the CWLEP internal audit plan will also be included in progress reports to the Council's Audit and Governance Committee. The work undertaken in the CWLEP plan will also inform the Annual Internal Audit Opinion, as it provides assurance in relation to the Council's role as Accountable Body. This will be based on the findings of work carried out through the year.

## 8 Quality Assurance and Improvement

8.1 Internal Audit undertakes quality assurance and improvement activity to support all aspects of its service delivery. This includes evaluation of Internal Audit's compliance with the PSIAS, reviewing compliance with internal auditor's application of the Code of Ethics, and an assessment of the efficiency and effectiveness of Internal Audit, identifying opportunities for improvement.

8.2 The outcomes of this activity are reported to the Council's Corporate Leadership Team and the Audit and Governance Committee, including results of ongoing

internal assessments and external assessments  
conducted at least every five years.

**Appendix A: Cheshire and Warrington Local Enterprise Partnership Summary Internal Audit Plan 2019/20**

<b>Audit Theme/Area</b>	<b>Nature of Assurance Provided</b>	<b>Assurance Provided to:</b>	<b>Context</b>	<b>Planned Audit Days</b>	<b>Scheduled Timing</b>
Growth Hub Funding 2018/19	Confirmation that funding was expended within agreed terms of grant with MHCLG/BEIS	Primarily S151 in line with funding agreement. Shared with LEP.	Requirement of funding. Assess operational level of controls in relation to specific grant within the Local Growth Fund umbrella.	4	Sign off required for 31 May 2019 – now completed.
overarching relationship of the C&WLEP and CE as the accountable Body	Review of the overarching arrangements for the relationship of the C&WLEP and CE as the accountable Body	Primarily provided to CEC's Section 151 Officer; revised document will be shared with LEP.	Various funding streams have specific requirements some with out of date agreements with between CE and C&WLEP. Have one overarching agreement under which all other arrangements sit.	2	30 June 2019 support provided to CE Finance/Legal.
Governance arrangements for new programme areas.	Review of the governance arrangements for new programme areas/schemes	Primarily provided to CEC's Section 151 Officer; documents will be shared with LEP.	There are a number of initiatives underway to fund growth schemes which sit outside of the main Local Growth and Growing Places Funds which are potentially of high value may involve different governance arrangements	2	30 June 2019 Support provided to CE Finance/Legal.
Annual Conversation	Support to the Section 151 Statement on Governance as required.	Primarily provided to CEC's Section 151 Officer; report	Statutory requirement. The specifics of the work programme to be determined through the Terms of Reference.	2	December 2019 To support the Section 151 Officer's Statement on

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Audit Theme/Area	Nature of Assurance Provided	Assurance Provided to:	Context	Planned Audit Days	Scheduled Timing
		will be shared with LEP.			Governance in the "Annual Conversation"
Section 151 Assurance Framework	That the Local Assurance Framework in operation meets MHCLG requirements and guidelines	Primarily provided to CEC's Section 151 Officer; report will be shared with LEP.	Statutory requirement. The specifics of the work programme to be determined through the Terms of Reference. Will be informed by the testing programme formerly undertaken on the use of the Local Growth Fund grant.	10	28 <sup>th</sup> February 2020. To support the S151 Officer sign off of Local Assurance Framework .
Ad- Hoc Advice and Guidance	Advice and guidance as requested on items arising during the year.	Primarily provided to the LEP Chief Executive and Finance Director	Note that further reports/ guidance on LEP governance will be issued during 2019-20. Internal Audit will assess any new requirements and impact on LAF and in operational practice.	2	Ad hoc throughout 2019-20.
			<b>Total Days Required</b>	<b>22</b>	
C&W LEP Proposed Audit					
Review of the governance and operational arrangements for the Enterprise Zone.	Review the governance and operational arrangements for the Enterprise Zone and the use of additional income generated	Primarily provided to CEC's Section 151 Officer; report will be shared with LEP	The Enterprise Zone is a separate programme subject to a separate agreement with central government.	10	To be scheduled in discussion with CWLEP

Cheshire and Warrington LEP

**Financial Report**Month Ended 31<sup>st</sup> August 2019Income and Expenditure

A summary of the income and expenditure account is presented below:

£'000	Actual YTD	Budget YTD	Variance YTD	Annual Budget	Current Forecast
<b>Core Activity</b>					
Core Income	631	596	35	1,349 <sup>a</sup>	1,349
Core Expenditure:					
Staff	(428)	(349)	(79)	(816)	(926)
Non-Staff	(129)	(184)	55	(533)	(506)
Core Projects Income	0	0	0	300	422
EZ Transfer for Core Projects	0	0	0	0	600
Core Projects Expenditure	(69)	(125)	56	(300)	(900)
<b>Sub-Total Core</b> +	<b>5</b>	<b>(62)</b>	<b>67</b>	<b>0</b>	<b>39</b>
<b>Programmes</b>					
DiT Income	28	28	0	68	68
DiT Expenditure	(27)	(28)	1	(68)	(68)
Digital Skills Partnership/SAP Income	7	0	7	150	150
Digital Skills Partnership/SAP Expenditure	(7)	0	(7)	(150)	(150)
Growth Hub Income	109	120	(11)	287	287
Growth Hub Expenditure	(95)	(120)	25	(287)	(287)
The Pledge Income (in. kickstart and CEC)	88	88	0	212	212
The Pledge Expenditure	(88)	(88)	0	(212)	(212)
Enterprise Zone Income	57	57	0	138 <sup>a</sup>	138
Enterprise Zone Expenditure	(69)	(57)	(12)	(138)	(163)
<b>Sub-Total Programmes</b> +	<b>3</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>(25)</b>
<b>Total Operating LEP Surplus/(Deficit)</b> =	<b>8</b>	<b>(62)</b>	<b>70</b>	<b>0</b>	<b>14</b>
Movement in Pension Provision	0	0	0	0	0
<b>Total LEP Surplus/(Deficit)</b> =	<b>8</b>	<b>(62)</b>	<b>70</b>	<b>0</b>	<b>14</b>

NP11 Income	96	335	(239)	805	805
NP11 Expenditure	(96)	(335)	239	(805)	(805)

Notes

a) Expressed after transfer of £593,000 EZ funds, including £125k as Local Authority "match".



### Five Months to 31<sup>st</sup> August 2019/2020

There has been a minor presentational change in the summary table, bringing the DiT funding, Digital Skills Partnership and Skills Advisory Panel down from “Core” activities into Programmes.

Overall the five months show a small operating surplus of £8k. This is made up of a surplus of £5k on core activities and a surplus of £3k, due to timing differences, on programmes.

Core income has recovered from a deficit position at the end of Q1 and now shows a surplus of £35k. The main contributor to this has been significantly higher interest income than planned from the unutilised balances of the LGF and GPF generating £70k more income than expected.

Core expenditure is running £32k ahead of plan after 5 months. There is an overspend on staff costs of £79k. For the most part, this relates to differences in costs (including the proportion of salaries allocation to programmes) compared to budget, which was explained in the report at Q1. However, also included in the overspend, for the short term, is the cost of temporary agency staff as we carry out our IT review, which amounts to ca. £25k. Professional Fees are also running ahead of budget by £29k, explained by the costs of HR consultants conducting a review of HR procedures and pay and grading. Offsetting the areas of overspend is a significant underspend (£62k) to profile for marketing and PR expenses. This is expected to reduce as we move into the second half of the year.

### Full Year Forecast

The full year forecast has not been updated since the end of Q1 and remains that the LEP will achieve a small surplus for the year, which will pass to general reserves. Movements in the pension provision cannot be estimated.

The table below shows the movement in the reserve:

	<b>Forecast £'000</b>	<b>Budget £'000</b>	<b>Variance £'000</b>
<b>Opening Reserves at 1/4/19</b>	<b>270</b>	<b>356</b>	<b>(86)</b>
Operating Surplus/(Deficit)	14	0	14
Movement in Pension Provision	0	0	0
<b>Closing Reserves at 31/3/20</b>	<b>284</b>	<b>356</b>	<b>(72)</b>

It is worth noting that the forecast includes the transfer of £600k from the EZ funds to promote the development of business cases (£400k), the running costs of Evergreen 2 and inward investment marketing. Expenditure in these areas, which has reached only £20k so far, is yet to have any significant effect on the accounts.

### Outlook for the EZ Fund

Having received confirmation of business rates obtained in 2018/19 by the Local Authorities, receipts to the EZ “fund” were £87k higher than forecast. The table below provides an indication of how the fund is being utilised:

	<b>Forecast £'000</b>	<b>Budget £'000</b>	<b>Variance £'000</b>
<b>Opening Balance at 1/4/19</b>	<b>1,014</b>	<b>1,014</b>	<b>0</b>
Receipts	843	756	87
EZ Local Authority “Match”	(125)	(125)	0
Drawn by LEP	(632)	(607)	(25)



LEP Core Programmes (Board approved)	(600)	0	(600)
<b>Closing Balance at 31/3/20</b>	<b>500</b>	<b>1,038</b>	<b>(538)</b>
Deferred Liabilities on EZ funds:			
Arrangement fee EZ loan	(225)	0	(225)
Interest / Unutilised fee	(286)	0	(286)
<b>Imputed Balance at 31/3/20</b>	<b>(11)</b>	<b>1,038</b>	<b>(1,049)</b>

Discussions are ongoing regarding the terms of the EZ loan and will be presented separately.

**Ian Brooks**

**Finance and Commercial Director**

**September 2019**

