The Audit Findings for The Skills & Growth Company Limited

Year ended 31 March 2019

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Dear Sirs

Audit Findings for The Skills & Growth Company Limited for the year ended 31 March 2019

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Michael Lowe

For Grant Thornton UK LLP

Contents

Status of the audit and audit opinion

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

- Going concern and subsequent events reviews to be updated to the point of approval of the financial statements
- Signed letter of representation (to be provided by GT at the point of signing the financial statements)

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

Our anticipated audit report opinion will be unmodified but include an Emphasis of Matter paragraph re the basis of preparation of the financial statements on a non-going concern basis. This is explained further on page 8.

There have been no changes to our audit approach as previously communicated in our Audit Plan.

Significant findings

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** • Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue	**Auditor commentary** • We have reviewed and tested the revenue recognition policies for appropriateness and consistency. The revenue recognition policy for each of the revenue streams has been documented and ensured to be applied consistently across the year. • During the year, the company has adopted IFRS 15 'Revenue from contracts with customers'. Management have performed an impact assessment and concluded that there are no material differences to the previous revenue recognition policies. This is mainly as a result of contracts completing as at 31 March each year and all performance obligations having been satisfied. We concur with this judgement. • We have analytically reviewed actual revenue against budget for each significant revenue stream and corroborated any significant variances observed. • For the management fee from Cheshire East Council, we have compared the actual amount received to the amount agreed in the signed management fee letter at the beginning of the year. Variations from the original fee agreed have been agreed to supporting documentation. • For other material revenue streams, we have selected a sample of transactions and agreed to evidence that the service had been provided, to ensure that the company was entitled to recognise the revenue. • We have performed cut-off testing for revenue by reviewing sales transactions around the year-end to check that they were recorded in the correct period. • We have not identified any issues in respect of revenue as a result of testing performed.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK) 315)

In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK) 550)

Significant findings (continued)

Risks identified in our Audit Plan	Commentary
2 **Management override of controls** • Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities	**Auditor commentary** • We have performed a review of all estimates, judgements and decisions made by management through discussions around the control environment. • We have performed work around journal entries during the year including a review of large and unusual transactions. • We did not note any instances of management override of controls during the course of the audit.

Financial statement level risks

Risks identified in our Audit Plan	Commentary
1 Disclosure of pension arrangements • The company has a deed of variation to its agency agreement with Cheshire East Council, under which the company is required to pay a fixed percentage of the pensionable pay of eligible employees throughout the term of its contract. • This is considered by management to be a pass-through arrangement, which enables the company to account for the contributions it pays into the LGPS as if they were contributions into a defined contribution scheme. • This means that company does not account for its share of the pension scheme assets and liabilities in its balance sheet and is not required to recognise actuarial gains or losses in its income statement. • During the prior year audit of Cheshire East Council, a control deficiency was identified in respect of the fact that there is not a tripartite agreement in place between the company, the council and the administering authority of the pension scheme. • A tripartite agreement would evidence which party is considered responsible by the pension scheme for any obligations to meet a shortfall in the plan assets to cover the post employment benefit obligations.	**Auditor commentary** • During the audit we discussed with management whether progress had been made during the year in drawing up a tripartite agreement. • We understand that this has not happened to date, because the Cheshire Pension Fund was initially of the opinion that a tripartite agreement was not required. This was on the basis that the pension fund was aware of the pass-through arrangements from the start and felt the nature of the arrangement was already adequately documented in the Deed of Guarantee and Deed of Variation of Contract. • We have sought further technical advice in this area, and also reviewed current market practice of similar arrangements between Councils and subsidiaries, and we remain of the view that a tripartite agreement is still required, because the existing agreements do not fully release the company from its obligations to the pension fund. • We understand that the Cheshire Pension Fund has now expressed willingness to put a tripartite agreement in place for other subsidiaries of the Council, although the intention is not to progress a tripartite agreement for The Skills & Growth Company on the basis that, as described on page 8, the services provided by the company have been moved back to the Council with effect from 1 August 2019 and the company will cease to trade after October 2019. • We have received confirmation from the Council's legal team that, in their opinion, the deeds of variation provide clear acceptance by the Council that it has retained all the investment and actuarial risks for the pensions of the employees of the company. • We have also received confirmation from the pension fund that they consider the contribution arrangements for the company to be fixed due to the compensation arrangement in place between the Council and the company, and that they consider the Council has responsibility to adjust any variations in the company's actuarial contribution rates. • It would be optimal for a tripartite agreement to be in place, however on the basis of the evidence described above, we are satisfied that management's treatment to account for the company's contributions to the scheme as if it were a defined contribution scheme is not materially incorrect.

Financial statement level risks (continued)

Risks identified in our Audit Plan	Commentary
2 **Going concern** • At the planning stage we identified going concern as an area of focus for our audit based on our awareness that Cheshire East Council was conducting an ongoing review into the future of its subsidiary companies, including The Skills & Growth Company. • From discussions with management during the audit, we understand that a decision has now been taken that the services provided by The Skills & Growth Company will be moved back into the Council and that The Skills & Growth Company will ultimately cease to trade.	**Auditor commentary** • The directors are required to assess the suitability of the going concern assumption in their preparation of the financial statements and include suitable disclosures in respect of going concern. • In considering the appropriateness of adopting the going concern basis of preparation for the financial statements, the directors are required to consider a period of not less than twelve months from the date of approval of the financial statements. • As a decision has now been taken which will result in the closure of the company, the directors have chosen to prepare the financial statements on a cessation basis. We concur with this judgement. • As the financial statements have been prepared on a basis other than the going concern basis, our audit report therefore includes an emphasis of matter paragraph in respect of the basis of preparation. • An emphasis of matter paragraph is not a qualification of the audit opinion, but draws attention to the fact that the financial statements have been prepared on a non going concern basis. • We have reviewed the financial statement disclosures and are satisfied that these are adequate.

Other significant classes of transactions findings

	Issue	Commentary
1	**Completeness of creditors** • At the planning stage we identified a risk that creditors could be understated or not recorded in the correct period.	**Auditor commentary** • We have reviewed significant accrual balances as at the year-end and understood the reason for any significant movements from expectations. • We reviewed open purchase orders to confirm that an appropriate liability had been accrued for where required, as well as reviewing post year end bank statements and purchase invoice journals to determine whether there were any additional liabilities which should have been accrued for at the year end. • We have not proposed any adjustments to creditors as a result of the work performed.
2	**Completeness of employee remuneration** • At the planning stage we identified a risk that employee remuneration could be understated or not recorded in the correct period.	**Auditor commentary** • We performed a payroll proof in total by reconciling the payroll reports to the year end financial statements. • We reviewed a sample of starters and leavers to ensure that employees are accurately recorded on the month end payroll reports. • We did not note any other issues as a result of the work performed.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK) 315)

Other communication requirements

	Issue	Commentary
1	**Matters in relation to fraud**	• We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance.
4	**Written representations**	• Standard representations will be requested from management in respect of the significant assumptions used in making accounting estimates and ensuring that the financial statements are free of material error. Our representation letter will be tailored for the fact that the financial statements have been prepared on a non-going concern basis.
5	**Confirmation requests from third parties**	• We have obtained written confirmation of the company's year end bank balance with Barclays and have not noted any issues.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Misstatements**	• Misstatements identified have been summarised on page 11.
8	**Internal controls**	• We have not noted any internal control findings which require reporting as a result of audit work performed.
9	**IFRS 16 'Leases'**	• IFRS 16 'Leases' is effective for annual periods on or after 1 January 2019 and provides new guidance for the accounting of leases. It is expected that the implementation of this standard will result in most leases being recognised on the balance sheet. This may have a significant impact on the financial statements as rental costs will be replaced by depreciation and an interest charge. • If not already done so then management will need to undertake and assessment of the expected impact on the financial records as this will be effective in the FY20 financial statements.

Misstatements - adjusted

		£000	£000	£000	£000	£000
		Profit and loss account		Balance sheet		
Journal reference	Detail	Debit	Credit	Debit	Credit	Profit effect
	Profit/(Loss) per draft accounts					**(36)**
1)	Dr Accruals			8		
	Cr Admin expenses		8			8
	Being reversal of accrued redundancy adjustment					
	Profit/(Loss) per final accounts					**(28)**

No misstatements remain unadjusted.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control 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)

Assessment

- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

Independence, ethics and fees

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.
- The table below sets out the total fees for audit services charged from the beginning of the financial year to September 2019. We did not provide any non-audit services to the company during this period.

	Fees £	Threat identified	Safeguards
Audit of company for the year ended 31 March 2019	**8,800**	N/A	N/A

- No non-audit services have been provided in respect of the year ended 31 March 2019.
- None of the above services were provided on a contingent fee basis
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to the company. The table summarises all services which were identified

This covers all services provided by us and our network to the company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (ES 1.69)

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with 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 and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.