

AGENDA

COBTREE MANOR ESTATE CHARITY COMMITTEE MEETING



Date: Wednesday 23 March 2016

Time: 4.30 pm

Venue: Town Hall, High Street,
Maidstone

Membership:

Councillors Mrs Blackmore, McLoughlin
(Chairman), Perry, Paterson and
Mrs Wilson

Page No.

1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members
4. Disclosures by Members and Officers
5. Disclosures of Lobbying
6. To consider whether any items should be taken in private because of the possible disclosure of exempt information.

Continued Over/:

Issued on Tuesday 15 March 2016

The reports included in Part I of this agenda can be made available in **alternative formats**. For further information about this service, or to arrange for special facilities to be provided at the meeting, **please contact Debbie Snook on 01622 602030**. To find out more about the work of the Committee, please visit www.maidstone.gov.uk

**Alison Broom, Chief Executive, Maidstone Borough Council,
Maidstone House, King Street, Maidstone Kent ME15 6JQ**

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PART II

To move that the public be excluded for the items set out in Part II of the Agenda because of the likely disclosure of exempt information for the reasons specified having applied the Public Interest Test.

	<u>Head of Schedule 12A and Brief Description</u>	
10.	Report of the Head of Commercial and Economic Development - Cobtree Manor Park Finances	3 – Financial/Business Affairs 47 - 53
11.	Report of Commercial and Economic Development - Cobtree Manor Golf Course	3 – Financial/Business Affairs 54 - 81

MAIDSTONE BOROUGH COUNCIL

COBTREE MANOR ESTATE CHARITY COMMITTEE

MINUTES OF THE MEETING HELD ON 27 JANUARY 2016

Present: Councillor McLoughlin (Chairman) and Councillors Paterson, Perry, Mrs Ring and Mrs Wilson

Also Present: Mr Roger Hext – Cobtree Charity Trust Ltd.

121. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Mrs Blackmore.

122. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Mrs Ring was substituting for Councillor Mrs Blackmore.

123. URGENT ITEM

The Chairman stated that, in his opinion, the report of the Head of Finance and Resources relating to the Management Letter and Letter of Representation 2014/15 should be dealt with as an urgent item as these documents had been prepared as part of the external audit of the Annual Report and Financial Statements of the Charity, which had to be approved for submission to the Charity Commission by 31 January 2016.

124. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

125. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

126. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

127. EXEMPT ITEMS

RESOLVED: That the items on Part II of the agenda be taken in private as proposed.

128. MINUTES (PART I) OF THE MEETING HELD ON 16 DECEMBER 2015

RESOLVED: That the Minutes (Part I) of the meeting held on 16 December 2015 be approved as a correct record and signed.

129. ACCOUNTS 2014/15

The Committee considered the report of the Head of Finance and Resources setting out the audited Report and Financial Statements for the year ended 31 March 2015 for approval prior to submission to the Charity Commission by 31 January 2016.

The Senior Finance Manager (Client Accountancy) explained that:

- The audit had been undertaken by UHY Hacker Young who had taken over as external auditors to the Charity from King and Taylor. The handover had taken place after the close of the financial year and the audit process had taken longer than in previous years as the new auditors had to understand and familiarise themselves with the background to the Charity and gain an understanding of the financial and operational arrangements. As a result, there had been quite a few queries to resolve not least because the new auditors did not agree with some of the accounting treatments applied in the accounts in previous years.
- The new auditors had indicated that they intended to issue an unmodified audit opinion. However, there had been some significant changes to the draft accounts submitted to the Committee in September 2015. It should be stressed that these changes were primarily of a technical nature to ensure that the accounts more accurately reflected the impact of the capital expenditure and funding of the Master Plan work at the Manor Park. There was no impact on the financial resources of the Charity going forward or on any previous operational decisions made.
- The two main elements to the changes which impacted on the figures for 2013/14 and 2014/15 were as follows:

Capital expenditure totalling £963k was originally shown in the Statement of Financial Activities, but the new auditors recommended that this approach was incorrect and that this expenditure should be reflected in the Balance Sheet rather than the Statement of Financial Activities, so capital spend had been taken out of the Statement of Financial Activities and transferred to the Balance Sheet under the Endowment Funds column.

Withdrawals from the Charifund investment totalling £506k to fund the Master Plan were also shown in the Statement of Financial Activities, but again the new auditors had recommended that this should be reflected in the Balance Sheet, with the Statement of Financial Activities just reflecting movements in the market value of investments. These were shown as income and then a revaluation

movement on the Statement of Financial Activities, but now the Statement of Financial Activities just showed the movement in market value of the investment with the withdrawal reflected in the Balance Sheet.

- These changes also needed to be reflected in 2013/14, so the comparative figures had been restated.
- The new auditors had also identified that a capital invoice for £50,781 relating to 2014/15 was paid in 2015/16 and not accrued for, so the figures had been adjusted to reflect this.
- The overall effect of the adjustments was that the total funds of the Charity had been increased by just over £900,000 which represented the total capital spend of just over £1m less some sums due to the Council.

In response to questions by Members, the Officers confirmed that:

- The current contract for the management of the Cobtree Golf Course would end in September 2016. The procurement process had begun with the aim of securing long term future investment to ensure the success of the facility. An update report would be submitted to the next meeting of the Committee.
- A detailed explanation would be sought from the previous auditors regarding the adjustments to the accounts.

RESOLVED:

1. That the Annual Report and Financial Statements for the financial year 2014/15 be approved for submission to the Charity Commission.
2. That the Officers be requested to report back to the next meeting with an explanation from the previous auditors regarding the adjustments to the accounts.

130. MANAGEMENT LETTER AND LETTER OF REPRESENTATION 2014/15

The Committee considered the report of the Head of Finance and Resources setting out the Management Letter and Letter of Representation which had been produced as part of the external audit of the accounts.

The Senior Finance Manager (Client Accountancy) explained that:

- The Management Letter was produced by the external auditors and its purpose was to bring to the attention of the Committee various matters that had arisen as a result of the audit.

- The first four sections of the Letter provided some background information and an overview to the audit process, and the final four sections dealt with more specific recommendations.
- In addition to recommending that the capital accounting treatment for income and expenditure identified in the report relating to the audited Report and Financial Statements for the financial year 2014/15 be applied in future years, the auditors had also recommended a review of the Charity's own financial records to ensure that the flow of transactions between the Charity and the Council was as clear as possible.
- The Officers accepted that greater clarity in the financial relationship between the Charity and the Council would be helpful in ensuring that future financial statements were accurate, and the auditors had made suggestions as to how this could be achieved. The Officers would discuss these possible approaches with the auditors, and consider which was the most appropriate.
- The auditors had also identified some possible issues around accounting for VAT. As a separate exercise to the audit the auditors had been asked to review the current arrangements whereby the majority of the Charity's financial transactions (including VAT) were processed through the Council's financial ledger. Following their review the auditors had recommended that the Council stop reclaiming input tax on the Charity's behalf, and this had been done. The Officers would discuss the options and potential implications going forward as a matter of urgency with the auditors and the Council's VAT advisor. A meeting with the auditors had been scheduled for the following month. The Officers were unable to quantify any financial impact at this stage, but intended to bring a report back to the Committee outlining the options and implications. The report would cover the VAT exemptions for charities.
- There was a further recommendation that consideration be given to changing the legal structure of the Charity. It was suggested that consideration be given to changing the legal structure to a company limited by guarantee or a charitable incorporated organisation. A report addressing the legal, financial and operational implications would be submitted to a future meeting of the Committee.
- The final recommendation was to ensure that an annual impairment review of the value of fixed assets be undertaken to ensure that their value was correct. Valuers would be instructed to undertake this review.
- The final part of the Letter detailed changes to accounting practice that would apply for 2015/16, and a summary of the changes made to the accounts.
- In overall terms the points raised around the accounting records, the VAT and the legal structure of the Charity were linked together to a

degree, and would be considered alongside each other rather than as separate work streams.

- The Letter of Representation was a form Letter written by the external auditors for approval by the Committee and signature by the Chairman. The Letter attested to the accuracy of the Financial Statements that the Charity had submitted to the auditors for their analysis. In essence, the Letter stated that all of the information submitted was accurate, and that all material information had been disclosed to the auditors. It also included a summary of the accounting adjustments included in the Management Letter.

In response to questions by Members, the Senior Finance Manager (Client Accountancy) confirmed that:

- The auditor's observation relating to the lack of an audit trail in respect of the general Charity accounts would be looked into and consideration would be given to where improvements could be made.
- Dates would be diarised for the follow-up of audit recommendations.
- The requirements of the new charity SORP particularly in relation to current value and fair value would be clarified.
- The report on the issue of VAT treatment would also clarify any possible implications for the introduction of car parking charges.
- The report on the auditor's recommendation relating to the legal status of the Charity would include an update on the status of Members of the Committee and indemnification.

RESOLVED:

1. That the Letter of Representation for the financial year 2014/15 be approved.
2. That the contents of the Management Letter be noted and that the Officers be requested to report back to the next meeting on the action being taken in response to the auditor's recommendations.

131. EXCLUSION OF THE PUBLIC FROM THE MEETING

RESOLVED: That the public be excluded from the meeting for the following items of business because of the likely disclosure of exempt information for the reason specified having applied the Public Interest Test:

**Head of Schedule 12A and
Brief Description**

Minutes (Part II) of the meeting held on 23 September 2015 3 – Financial/Business Affairs

Minutes (Part II) of the meeting held on 16 December 2015 3 – Financial/Business Affairs

132. MINUTES (PART II) OF THE MEETING HELD ON 23 SEPTEMBER 2015

RESOLVED: That the Minutes (Part II) of the meeting held on 23 September 2015 be approved as a correct record and signed.

133. MINUTES (PART II) OF THE MEETING HELD ON 16 DECEMBER 2015

RESOLVED: That the Minutes (Part II) of the meeting held on 16 December 2015 be approved as a correct record and signed.

134. DURATION OF MEETING

5.15 p.m. to 5.55 p.m.

**COBTREE MANOR ESTATE
CHARITY COMMITTEE**

23RD MARCH 2016

Is the final decision on the recommendations in this report to be made at this meeting?

No

Management Letter 2014/15 Update

Final Decision-Maker	Cobtree Manor Estate Charity Committee
Lead Head of Service	Head of Finance & Resources
Lead Officer and Report Author	Paul Holland, Senior Finance Manager – Client Accountancy
Classification	Public
Wards affected	Boxley

This report makes the following recommendations to this Committee:

1. That the Committee notes the current position with regards to the issues identified in the External Auditor’s Management Letter that accompanied the Accounts for 2014/15.

This report relates to the following corporate priorities:

- Keeping Maidstone Borough an attractive place for all – Ensuring that there are good leisure and cultural attractions.

Timetable

Meeting	Date
Cobtree Manor Estate Charity Committee	23 rd March 2016

Management Letter 2014/15 Update

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The External Auditor's Management Letter, which was presented to this Committee on 27th January 2016, identified a number of significant issues relating to the accounting records of the Charity, treatment of VAT and the legal status of the Charity.
 - 1.2 The Committee asked that an update report be brought to this meeting.
 - 1.3 The Committee is asked to note the progress made to date on dealing with the issues raised.
-

2. INTRODUCTION AND BACKGROUND

- 2.1 The accounts of the Charity for 2014/15 were audited by UHY Hacker Young, and their final document included a Management Letter which brought a number of issues to the attention of the Committee. A copy of the Letter is attached at **Appendix A**.
 - 2.2 The main issues raised were as follows:
 - Due to some difficulties in agreeing the figures in the accounts it was recommended that the Charity has its own accounting records separate from those of Maidstone Borough Council.
 - It was recommended that Maidstone Borough Council stop reclaiming input VAT on behalf of the Charity with immediate effect.
 - It was recommended that consideration be given to changing the legal status of the Charity.
 - 2.3 These issues are dealt with in more detail in the following sections of this report.
-

3. ACCOUNTING RECORDS

- 3.1 It was recommended that the Charity have its own accounting records separate from those of Maidstone Borough Council to ensure that transactions relating to the Charity can be more clearly identified, and to assist in providing a clearer audit trail.
- 3.2 It was suggested that this could be achieved by a spreadsheet or a separate piece of accounting software. Following discussions by officers in the Council's finance team work is currently being undertaken on the feasibility of creating a new company within Agresso, which is the Council's Financial Management System. This would allow the financial transactions of the

Charity to be processed completely separately.

- 3.3 As is detailed later in this report the Charity will now be registered as a separate body for VAT purposes, and the establishment of a separate company would be appropriate to ensure that VAT transactions are correctly recorded and accounted for. There would also be a need to use the Cobtree Charity Trust bank account for all day to day transactions rather than the Maidstone Borough Council account, and a new credit card account would also need to be set up to process transactions at the café.
 - 3.4 The possible change of legal structure for the Charity discussed later in this report could also require a new company to be set up.
 - 3.5 Setting up a new company could however incur a significant one-off expense for the Charity, and there would possibly be an increase in the recharge of staff time from the Council depending on the nature of any additional processes that may need to be undertaken.
 - 3.6 There would be two main processes that would need to be undertaken. Firstly the setting up of the new company itself, which would require the services of a consultant for 8 days at an estimated total cost of £7,000, and secondly the setting up a BACS payment facility, which would take around 3 days at an estimated total cost of £3,000, so total costs of £10,000.
 - 3.7 It should be stressed that these are estimated costs and that further work will be done to confirm both the likely timescales and costs. There are also likely to be some other minor costs around setting up the bank account for handling more transactions and the credit card facility. It should be possible for the Charity to fund these costs from existing resources.
 - 3.8 Members may be aware that the Council is undertaking a number of commercial initiatives that may result in the need to create new legal entities such as a trading company or a subsidiary. It is likely that such entities would also require a new company to be set up in Agresso. So the possibility does exist to share some of these set-up costs with the Council, as this would be first new company to be set up and would effectively be a pilot scheme for any that may follow.
 - 3.9 Given the timescales that are likely to be involved it is proposed that a spreadsheet based solution be implemented initially, with a view to moving to a separate system should this be agreed as the way forward. At present the finance team are committed to developing a new Agresso Contracts Register which will restrict the time they have available to work on a new Cobtree company so the likelihood is that it would be formally established at a later date during the next financial year.
 - 3.10 A report will be brought back to the Committee with a final recommendation once all the likely costs and timescales have been identified and confirmed. There is a meeting scheduled with the auditors in April to update them on the position with regards to the issues raised in this report.
-

4. VAT

- 4.1 The auditors considered the VAT status of the Charity in a separate report following a request from the Council, and it was recommended that Maidstone Borough Council stop reclaiming input VAT on behalf of the Charity with immediate effect.
 - 4.2 The auditors were of an opinion that the management fee paid to Mytime for running the golf course at Cobtree was in fact a lease payment. This would mean that as the income is exempt of VAT no input VAT could be reclaimed unless this is below a de minimis level, which would not be the case for Cobtree. Therefore, the auditors were thinking that the input VAT would need to be repaid to HMRC. However, from reading the management and lease agreements, the fee is a management fee for running a golf course on behalf of the Trust and not a fee for the lease, so this fee is a standard rated supply and therefore all input VAT can be reclaimed.
 - 4.3 Following further discussions with the auditors, it would appear that VAT has been claimed correctly and that no VAT would need to be repaid to HMRC.
 - 4.4 The Trust should be registered under its own right for VAT as the taxable supplies for the Trust are over the threshold for registering for VAT and these supplies are separate to Maidstone Borough Council's supplies. It is agreed that this will be discussed at the meeting, and the Council's VAT Officer will be present to answer any questions.
 - 4.5 Changes have also been implemented within the Council's payment processes to ensure that the VAT for transactions relating to the Charity is recorded separately so that it can be accounted for correctly with HMRC.
-

5. LEGAL STATUS OF THE CHARITY

- 5.1 There was a recommendation that consideration be given to changing the legal status of the Charity, and two alternative structures were suggested – a limited by guarantee company and a charitable incorporated organisation.
- 5.2 Attached at **Appendix B** is the Charity Commission guidance document that outlines the various structures that a charity can choose from. At present the Cobtree Manor Estate Charity Committee is an unincorporated trust, which means there is no limited liability for Maidstone Borough Council in its role as the corporate trustee.
- 5.3 To date there has not been the opportunity to fully consider the available options and the implications of adopting a new structure, so a more detailed report will be brought to the Committee once this work has been done. However it is hoped that a verbal update can be given at the meeting.

6. AVAILABLE OPTIONS

- 6.1 The Charity could continue with a spreadsheet based solution to ensure there is more clarity with its financial records, or it could choose to set up a new company within the Council's financial management system.
- 6.2 The Charity will set up a separate VAT registration with HMRC. There is no alternative option based on the advice that has been received.
- 6.3 The Charity will consider whether or not a change of legal structure would be appropriate, and if so which one of the two available options it should be.
-

7. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 7.1 Further reports will be brought to the Committee making final recommendations with regards to the accounting records and the legal structure of the charity.
- 7.2 This will ensure that the Charity has the most appropriate financial and legal structures in place for the future.
-

8. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 8.1 Not applicable.
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9. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 9.1 Not applicable.
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10. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	None	[Head of Service or Manager]
Risk Management	The Charity needs to ensure it has the most appropriate financial and legal structures in place to minimise the risk to both itself and Maidstone Borough Council.	[Head of Service or Manager]

Financial	It is important to ensure that both the financial and VAT records of the Charity are dealt with correctly and in such a way to minimise any risk to the available resources.	[Section 151 Officer & Finance Team]
Staffing	None	[Head of Service]
Legal	The correct legal structure needs to be in place to protect the interests of both the Charity and Maidstone Borough Council.	[Legal Team]
Equality Impact Needs Assessment	None	[Policy & Information Manager]
Environmental/Sustainable Development	None	[Head of Service or Manager]
Community Safety	None	[Head of Service or Manager]
Human Rights Act	None	[Head of Service or Manager]
Procurement	None	[Head of Service & Section 151 Officer]
Asset Management	None	[Head of Service & Manager]

11. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Management Letter 2014/15
- Appendix B: Charity Commission guidance on legal structures

12. BACKGROUND PAPERS

None

Audit management letter

for the year ended 31 March 2015 for

Cobtree Manor Estate

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Prepared by: Allan Hickie, Audit Partner

Date of issue: 22 January 2016



1. Introduction

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1. Introduction

This report has been prepared for the trustees of Cobtree Manor Estate (“Cobtree”), to bring attention to those charged with governance various matters arising from the audit of the charity for the year ended 31 March 2015.

Our audit procedures, which have been designed to enable us to express an opinion on the financial statements, have included an examination of the transactions and controls thereon of the charity.

The work we have done was not primarily directed towards identifying weaknesses in the charity’s accounting systems, other than those that would affect our audit opinion, nor to the detection of fraud. We have, however, designed our audit procedures in such a way that we felt would increase our chance of detecting any fraud.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures and, consequently, our comments should not be regarded as a comprehensive record of all weaknesses that may exist or improvements that could be made.

This report is to be regarded as confidential to the trustees of Cobtree and is intended only for use by them, and the charity’s staff. No responsibility is accepted to any other person in respect of the whole or part of its contents. Before this report, or any part of it, is disclosed to a third party our written consent must be obtained.

The report is designed to include useful recommendations that may help improve performance and avoid weaknesses that could result in material loss to the charity or misstatement of the financial statements and other financial data.

Roles and Responsibilities

The trustees are responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the trustees confirm that our understanding of all of the matters referred to in this report are appropriate, having regard to their knowledge of the particular circumstances.

2. Overview

Audit Status and overall opinion

We set out below the current status of the audit and our timetable to completion.

We have substantially completed our work, and intend to issue an unmodified audit opinion, subject to the trustees' approving the financial statements and any other minor outstanding items listed below being received and/or completed.

The follow matters are outstanding at the date of this report:

- Final review and approval by you of the final financial statements;
- Agreement of the final financial statements, including the Trustees' Annual Report, to the latest draft;
- Post balance sheet events review to the date of signing the financial statements, including review of latest minutes and management accounts;
- Receipt of signed letter of audit representations.



2. Overview

Independence and ethical standards

We have not identified any potential threats to our independence as auditors. Please see Section 3 for further details.

Audit scope and objectives

We set out the scope and objectives of our audit. See Section 4.

Overall audit strategy

We set out our overall audit approach. See Section 5.

Key audit and accounting issues

We have obtained sufficient, appropriate audit evidence for the significant issues and risks identified during our audit.

During our audit we found no instances of fraud.

Recommendations

We are required to report to you on the significant deficiencies we found in internal controls during the course of our audit, along with any other deficiencies identified.

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2. Overview

Misstatements and adjustments to the accounts

It is considered good practice to inform you of any material misstatements within the financial statements presented for audit that have been discovered during the audit. A material misstatement is one where the auditors believe that the misstatement is such as to affect the reader's understanding of the accounts. Materiality is considered in relation to the value of the misstatement and also its context and nature.

The adjustments agreed with you during the course of our audit are shown in Appendix I.

It is generally not practicable to make accounts completely accurate because judgements need to be made and it is difficult to obtain 100% of information about all transactions. Our role is to ensure that deviations from complete accuracy are not material to the reader of the accounts. During the course of our audit we did not identify any unadjusted audit differences.

Going concern

The trustees need to give consideration to the level of reserves maintained, and consider going concern for the period up to at least 31 January 2017, being an estimate of 12 months from the anticipated date of approval of the accounts, and ensure they agree with the assessment. The trustees have confirmed that they believe the financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the charity's needs. Our review supports the going concern status of the charity.

Thanks

We would like to take this opportunity to thank Maidstone Borough Council for the assistance afforded to us during the course of the audit.



3. Independence

Under current UK Ethical Standards we are required as auditors to confirm our independence to “those charged with governance” i.e. the trustees.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors.

The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. This document considers such matters in the context of our audit for the year ended 31 March 2015.

In addition to performing the statutory audit, we also provide the following non-audit services:

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Service	Possible threat	Safeguards
VAT advice	Self-review	The VAT advice is provided by our tax partner, Brian Carey, who has no involvement in the audit process.



4. Audit scope and objectives

Our statutory audit of the financial statements is carried out in accordance with International Standards on Auditing (UK and Ireland) of the statutory financial statements, with the aim of forming an opinion whether:

The financial statements give a true and fair view of the state of the charity's affairs as at 31 March 2015 and of the result for the year then ended.

The financial statements have been properly prepared in accordance with UK GAAP.

The financial statements have been prepared in accordance with the requirements of the Charity SORP.

The information given in the Trustees' Report for the financial year is consistent with the financial statements.

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We also report on whether:

The charity company has kept adequate accounting records.

The financial statements are in agreement with the accounting records and returns.

Other information contained in the annual report is not consistent with the audited financial statements.

Certain disclosures of trustees' remuneration specified by law are not made.

We have not received all the information and explanations we require for our audit.



5. Overall audit strategy

Risk-based audit

We performed a risk-based audit, focussing our work on key audit areas. We began by developing an understanding of the charity's activities and the specific risks it faces. We held an initial planning meeting with key management and finance staff to ascertain management's own view of potential audit risk, and to gain an understanding of the activities. We have also developed an in depth understanding of the accounting systems and controls so that we may ensure their adequacy as a basis for the preparation of the financial statements, and that proper accounting records have been maintained.

Our audit procedures were carried out, and then we ensured the presentation and disclosure in the accounts meet all the necessary requirements.

Significant risks

As part of our audit procedures we are required to consider the significant risks that require special audit attention.

Auditing Standards require us to consider:

- Whether there is a risk of fraud;
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;
- The complexity of transactions;
- Whether the risk involves significant transactions with related parties;
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.



5. Overall audit strategy

The identified significant audit risks were communicated to you in our audit planning report issued before our main fieldwork began. We now note the work performed and conclusions drawn on the following pages:

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Revenue recognition (mandatory risk)</p> <p>22</p>	<p>The auditor's responsibility is to conduct the audit on the basis that there is an assumption that revenue recognition is a fraud risk.</p> <p>Work is therefore required to ensure that all income is recognised appropriately and in line with the charity's accounting policies and the charity SORP.</p> <p>We are also required to confirm that income has been correctly classified between restricted and unrestricted funds.</p>	<p>Obtain an understanding of all sources of income, and any contracts or terms & conditions attached.</p> <p>Sample testing income, verifying to supporting documentation to ensure income has been recognised in the correct period.</p> <p>Cut off testing around the period-end to ensure all income is included in the relevant period.</p> <p>Review to ensure that income has been correctly classified between restricted and unrestricted funds, reviewing any terms and conditions etc.</p> <p>Analytical review.</p>	<p>A material error was identified in relation to other income, and a prior year adjustment has also been necessary to strip out income reflected in 2013/14 from brought forward funds.</p> <p>See Appendix I for more details.</p>



5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Management override (mandatory risk)</p> <p>23</p>	<p>The trustees and other management have the primary responsibility for the detection of fraud, as an extension of their role in preventing fraudulent activity. Trustees should ensure a sound system of internal controls is in operation to support these, and other, objectives.</p> <p>Auditing Standards presume a significant risk of management override of the system of internal controls, because management can often find themselves in a unique position where they could potentially override routine day to day financial controls.</p> <p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error.</p> <p>We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.</p>	<p>Management often find themselves in a unique position where potentially could override routine day to day financial controls.</p> <p>Our audit considers this risk and we adapt our procedures accordingly.</p> <p>During our audit we considered the possibility of manipulation of financial results, for example through the use of journals or management estimates, such as provisions and accruals.</p>	<p>Our audit procedures have not identified any instances of management override.</p>



5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Treatment of capital expenditure on the new buildings as a direct cost charged to the Statement of Financial Activities</p> <p>24</p>	<p>In the 2014 accounts a significant sum (£370k) was spent on the new building works. This was treated as an expense for the year, rather than being capitalised on the Balance Sheet.</p> <p>This looks strange at first glance, and potentially means that fixed and net assets are understated.</p>	<p>Review of the work to date to understand fully the nature of the works being carried out.</p>	<p>The treatment of capital expenditure, both in the current and previous years, has been incorrect.</p> <p>It has been agreed with Paul Holland, that the capital expenditure costs of £963k should be capitalised on the Balance Sheet.</p> <p>As the amounts involved in previous years are so significant (£666,882) a prior period adjustment was required.</p>
<p>Non-depreciation of freehold buildings</p>	<p>Where the accounting policy is not to depreciate it is necessary to complete an annual impairment review to consider the carrying value of the buildings.</p> <p>Due to the absence of depreciation there is a risk that the carrying value of the property is overstated.</p> <p>If this were to be the case funds will also be overstated.</p>	<p>Review and analysis of any impairment review undertaken.</p>	<p>No impairment review was carried out by the charity.</p> <p>However from our own impairment review carried out, the non-depreciation of freehold buildings appears appropriate.</p>



5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
<p>Classification as income and expenditure between restricted and unrestricted funds</p>	<p>The 2014 accounts included a large balance of £463k shown as unrestricted 'other income', some of which appears to relate to capital grants.</p> <p>It is possible that some of this funding was incorrectly classified as unrestricted since there may have been terms and conditions attached.</p>	<p>Review of any terms and conditions attached to incoming resources in both the current and prior years, to ensure income is correctly classified.</p> <p>Review of expenditure allocated against restricted funds to ensure that costs treated in this way meet the relevant criteria to be matched against restricted income.</p>	<p>The donations received for the costs of building have incorrectly been treated as unrestricted funds.</p> <p>This has been corrected in the final accounts.</p>

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6. Status of audit issues raised in prior year

This section updates you on the status of the issues your previous auditors brought to your attention last year, and confirms whether any further action is required.

Issue (& Cause)	Solution suggested	Follow up comments, including whether further action required
<p>The charity was made aware of the current statutory audit thresholds.</p> <p>Furthermore attention was drawn to the fact that, historically, the Corporate Trustee has taken the decision to appoint auditors. This decision was made taking into account of any independence issues raised by the Charity Commission.</p>	<p>It was noted that the Charity intends to continue this practice in future years.</p>	<p>No further points to note.</p>




7. Recommendations for the current year

Significant deficiencies in internal control

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you. As the purpose of the audit is for us to express an opinion on the charitable company's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We confirm that we have identified a significant deficiency in internal control during the 2015 audit and this is explained in detail below.

Area	Observation	Recommendations	Management response
<div style="display: flex; flex-direction: column; align-items: center;"> <div style="margin-bottom: 10px;">27</div>  <p>High</p> <p>General charity records</p> </div>	<p>During the audit we had significant difficulty in trying to agree the amounts included in the accounts and as a result had to spend a considerable amount of time in reworking the 2015 accounts to a position where we were comfortable with the figures.</p> <p>There is a distinct lack of an audit trail and this is mainly down to the fact that the charity's records are so intrinsically linked to MBC records that the accounts are effectively created from the council ledger and spreadsheets. This therefore appeared to result in some amounts being included in the charity's accounts as a balancing figure in order to get MBC's books to agree.</p>	<p>We would strongly recommend that MBC set up the charity's own accounting records. This could be done by way of a spreadsheet or alternatively it may be easier to use a simple piece of accounting software.</p> <p>This would enable MBC to record the double entry of all transactions which relate to the charity, even if the transaction goes through the MBC bank account. To do this a MBC loan/intercompany account would need to be set up in the charity's records and every time a CME transaction goes through the MBC bank account then an entry can be made to the loan account, with a corresponding debit to expenditure or credit to income.</p> <p>If something similar is set up in MBC then, as a double check, the two loan accounts should always agree.</p>	



7. Recommendations for the current year

We are also required to communicate other significant audit findings such:

- where we consider a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate in the particular circumstances of the entity;
- significant difficulties, if any, encountered during the audit; or
- other matters, if any, arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process are communicated to those charged with governance.

We have had some difficulties, with these mainly arising due to the treatment of certain items in previous years.

It has been necessary to advise the need for three significant prior year adjustments. These are explained in the notes to the accounts, but are also explained below:

- (1) to increase brought forward funds by £666,882 for capital assets that were expended as costs for the year in 2014 and 2013;
- (2) the 2014 SOFA included other incoming resources of £463,145, but it has become apparent that these were included here in error due to a misunderstanding of certain accounting treatments. Total incoming resources for 2014 have therefore been reduced by £463,145 and restated to £332,274.
- (3) the 2014 Statement of Financial Activities (“SOFA”) originally included a loss on investment assets of £363,069. A prior year adjustment for £509,304 has been made to leave a gain of £146,235 in the restated 2014 SOFA. £506,000 of this adjustment related to a disposal of fixed asset investments in 2014 which had incorrectly been reflected in the SOFA. The remaining £3,304 corrects a historical difference.

A further smaller prior adjustment was also needed to leave the correct balance on brought forward funds, and this is explained in the notes to the accounts. In total the prior year adjustments have been increased from a previously stated £3,764,342 to £4,484,876.



7. Recommendations for the current year

Other deficiencies in internal control

We also bring to your attention other deficiencies that came to our attention during our work, again along with our recommendations, and your own response:



Medium risk/priority




Low risk/priority

	Risk/Issue	Area	Observation	Recommendations	Management response
62 1.		Capital expenditure	<p>As part of our audit testing it was identified that capital costs of £963k for the visitor centre, Kent Life and playground had not been capitalised, instead incorrectly being treated as an income and expenditure item.</p> <p>A significant part of the £963k related to previous years, resulting in a prior period adjustment being required.</p> <p>Furthermore an additional capital accrual was identified as part of our after date invoice review.</p>	<p>In future we recommend that you carefully review any potential capital costs to ensure that they are treated correctly in the accounts.</p> <p>Any capital items that are deemed to be a work in progress should be treated as 'assets under construction'.</p> <p>It is recommended that material after date invoices received are reviewed to ensure that all amounts relating to 31 March are included in the accounts.</p>	





7. Recommendations for the current year

	Risk/Issue	Area	Observation	Recommendations	Management response
2.	 Med	Unincorporated legal status of the charity	<p>The charity is structured as an unincorporated trust, with no limited liability for the corporate trustee, Maidstone Borough Council.</p> <p>Whilst there can be some benefits from operating through such a structure, most charities of any size, or those with staff, will operate through a corporate structure, such as a limited by guarantee company or a charitable incorporated organization (CIO).</p> <p>There are various risks associated with continuing with the current set up:</p> <p>(a) The corporate trustee is personally liable in relation to contracts entered into on behalf of the trust and will remain so even once they cease to be trustees unless the contract is terminated or novated. Any indemnity will not assist them if the charitable funds are insufficient, even if they have acted perfectly properly. This will include employment contracts for staff.</p> <p>(b) The charity has no legal status of its own, and cannot be sued. The corporate trustee's assets are therefore potentially at risk since any individual or organization taking legal action would do so against the corporate trustee, and not the charity itself.</p>	<p>We recommend you give consideration to changing the legal structure of the charity, and consider both the limited by guarantee company and new CIO structure.</p> <p>There are pros and cons of both structures, and we would be pleased to explain these to you in more detail.</p> <p>As a minimum we recommend that you ensure each of the trustees fully understands the implications of the current structure, and that this is communicated to all potential new trustees so that they are aware of the legal responsibilities.</p>	

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7. Recommendations for the current year

	Risk/Issue	Area	Observation	Recommendations	Management response
3.	 Med	VAT	<p>As noted in the independence section, we have been asked to carry out a VAT review, separate to the audit.</p> <p>This VAT review and the report issued to you identified that the all sources of income received during the year were exempt from VAT.</p> <p>Therefore even if the charity were voluntarily registered for VAT, input VAT would not be able to be reclaimed on purchases as they are deemed to be exempt supplies.</p> <p>We noted from our audit testing that Maidstone Borough Council have been claiming input VAT on the charity's behalf for a number of years, and we believe that this is incorrect.</p> <p>We have not been able to quantify the amount involved but it is likely to be substantial.</p>	<p>We would recommend that Maidstone Borough Council stop reclaiming input VAT on the charity's behalf with immediate effect.</p> <p>We would also advise that you seek professional advice to quantify the amount likely to be recovered by HMRC.</p>	
4.	 Med	Fund accounting	<p>The charity has received some donations that were received specifically for capital purposes, however this income has been incorrectly recognised through the general unrestricted funds.</p>	<p>It would be normal for any income (grants or donations) received specifically for capital purposes to be allocated to a restricted fixed asset fund.</p> <p>This helps to ensure that the capital income is spent in line with the purposes intended.</p>	



7. Recommendations for the current year

	Risk/Issue	Area	Observation	Recommendations	Management response
5.	 Low	Fixed assets	<p>It was noted during our fixed assets testing that an impairment review had not been carried out.</p> <p>Where the accounting policy is not to depreciate it is necessary to complete an annual impairment review to consider the carrying value of the buildings.</p>	<p>In order to ensure that the carrying value of the property is not overstated, it is important that the charity carries out an annual impairment review.</p> <p>This should be done in advance of the audit fieldwork.</p>	
6.	 Low	MBC creditor	<p>Due to the number of changes made to the original accounts presented for audit, it was difficult to agree the year end MBC council to third party supporting documentation.</p> <p>Ideally there should be an easy way of agreeing and identifying the balance in the MBC accounts especially as it is such a significant number.</p>	<p>This is linked to the point raised re: the inadequacy of the charity's records so please see the significant deficiencies in internal control section.</p>	



7. Recommendations for the current year

The new charity SORP

There are also a number of points which we wish to bring to your attention in respect of the new charities SORP, which will apply to your next financial year end, 31 March 2016. Where necessary the comparative figures will need to be restated, and the opening balance position for the comparatives (1 April 2014) restated.

There are actually two new charity SORPs: one for larger charities (the FRS 102 SORP) and one for charities (the FRSSE SORP) which qualify as small. Cobtree Manor Estate is comfortably within the small charity thresholds and so will be able to adopt the FRSSE SORP, if you wish to do so.

Are there any benefits in opting for Charities SORP FRSSE?

Charities SORP FRS 102 generally requires more detailed disclosures than Charities SORP FRSSE, in particular for intangible fixed assets, investments, stock, financial instruments, liabilities, pension schemes, accounting policies, trustee and staff remuneration (including termination payments) and related party transactions. However there are few significant variations.

One such variation is that under the SORP FRSSE donated tangible fixed assets must be included at current value, whereas under SORP FRS 102 these must be recognised at fair value.

Note: The FRSSE is due to be withdrawn in the near future, and so any charity that initially opts to apply Charities SORP FRSSE will have to implement further changes to their accounting policies and future accounts at this point in time. It may therefore make sense to opt to prepare accounts in accordance with the SORP FRS 102 initially.

What will change under SORP FRS 102?

- You will be required to explain the financial effect of significant events, in addition to reporting the significant charitable activities undertaken;
- Instead of a statement on risk management you will need to provide a description of the principal risks and uncertainties facing the charity, together with a summary of your plans and strategies for managing those risks;



7. Recommendations for the current year

What will change under SORP FRS 102? - continued

- Arrangements for setting the pay and remuneration of the charity's key management personnel and any benchmarks, parameters or criteria used in setting their pay, will need to be disclosed;
- The governance costs heading in the SOFA is no longer relevant, and the costs that you have previously included in here, such as legal and professional costs, will need to be included within support costs;
- Under the new accounting framework, income is recognised if a charity has entitlement to the income, the likelihood of receipt is probable and the amount can be reliably measured.

Under the current framework income is recognised when the likelihood of receipt is 'virtually certain'. It may therefore be possible to account for some elements of your income in an earlier period than previously.

- The definition of related parties has been expanded to include key management personnel. As a result, the total remuneration and expense reimbursement for your senior management will need to be disclosed, and additional details are now required in respect of redundancy and termination payments;
- A holiday pay accrual will need to be included in the financial statements, if material. Under the current reporting regime this is optional. The accrual is accounted for by reference to the amount of untaken holiday at the year end, multiplied by the rate of pay for that individual. You may therefore wish to consider aligning your holiday year with the accounting year, if these two periods do not already coincide. (SORP FRS 102 only)
- Income categories introduced for the first time in Charities SORP 2005 have been replaced by five broad headings of income from Donations and legacies, Charitable activities, Other trading activities, Investments and Other.
- More detailed disclosures for income from government grants.
- The total amount of individual donations without conditions made by trustees will need to be disclosed (individual amounts do not).



8. Appendix I - Agreed accounting adjustments

A significant number of differences have been identified during the audit and posted to the statutory accounts, following agreement with your key management:

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	Effect on brought forward funds £
<i>Prior year adjustments</i>	
Certain qualifying fixed assets not capitalised in prior periods	665,946
Income incorrectly included due to misunderstanding of certain accounting treatments	(463,145)
Incorrect treatment of investment assets	509,304
Other historical differences re: opening balances of funds at 1 April 2013	8,429
Total impact of prior year adjustments on funds brought forward at 1.4.14	<u>720,534</u>
Funds per previous filed 2013/14 accounts	3,764,342
Restated funds at 1.4.14 following above prior year adjustments	4,484,876



8. Appendix I - Agreed accounting adjustments

Other adjustments agreed

	£	Effect on 2015 net income £
Removal of previously accumulated surpluses incorrectly included in other income	93,526	(93,526)
Correcting of capital expenditure incorrectly included in Income & Expenditure	296,508	296,508
Correcting gains/(losses) on investment assets	3,766	(3,766)
Additional capital accrual identified	50,781	-
		<u>199,216</u>

Reconciliation between draft accounts presented for audit and final accounts

Net surplus per original accounts	286,134
UHY adjustments above	199,216
Net movement in funds per Statement of Financial Activities	<u><u>485,350</u></u>



9. Appendix II – Unadjusted audit differences

We are required to bring to your attention audit adjustments that the trustees are required to consider. We confirm that no such adjustments were identified.





Setting up and running a charity (<https://www.gov.uk/topic/running-charity>) – guidance **Charity types: how to choose a structure (CC22a)**

- English
- Cymraeg (<https://www.gov.uk/guidance/charity-types-how-to-choose-a-structure.cy>)

From:	The Charity Commission (https://www.gov.uk/government/organisations/charity-commission)
First published:	30 May 2014
Last updated:	4 November 2014, see all updates
Part of:	Setting up a charity (https://www.gov.uk/topic/running-charity/setting-up), Setting up and running a charity (https://www.gov.uk/topic/running-charity) and Managing your charity (https://www.gov.uk/topic/running-charity/managing-charity)
Applies to:	England and Wales (see detailed guidance for Scotland (http://www.oscr.org.uk/) and Northern Ireland (https://www.charitycommissionni.org.uk/))

Decide whether to set up a charitable incorporated organisation (CIO), a charitable company or an unincorporated association or trust.

Too much detail?
See these quick guides
Set up a charity (<https://www.gov.uk/setting-up-charity>)

Types of charity structure

To set up a new charity, you must decide what sort of legal structure it will have.

Your charity structure is defined by its 'governing document' (the legal document that creates the charity and says how it should be run).

The type of structure you choose affects how your charity will operate, such as:

- who will run it and whether it will have a wider membership
- whether it can enter into contracts or employ staff in its own name
- whether the trustees will be personally liable for what the charity does

There are four main types of charity structure:

- charitable incorporated organisation (CIO)
- charitable company (limited by guarantee)

- unincorporated association
- trust

You need to choose the right structure for your charity, depending on whether you need it to have a corporate structure and whether you want to have a wider membership.

About corporate structures

Some charity structures are corporate bodies. If you choose a structure that forms a corporate body, the law considers your charity to be a person in the same way as an individual.

This gives your charity the legal capacity to do many things in its own name that a person can do, such as:

- employing paid staff
- delivering charitable services under contractual agreements
- entering into commercial contracts in its own name
- owning freehold or leasehold land or other property

If a charity structure is a corporate body, generally its trustees aren't personally liable for what it does.

If your charity isn't a corporate body ('unincorporated'):

- the trustees are personally liable for what it does
- it won't be able to enter into contracts or control some investments in its own name
- two or more trustees, a corporate custodian trustee or the charities' land holding service will have to 'hold' any land on your charity's behalf

About charities with a wider membership

Some charity structures have a wider membership. If you set up a charity with a wider membership, it can have members who vote on important decisions (usually at AGMs). For example:

- appointing committee members who will run the charity (usually for fixed terms)
- making changes to the charity's governing document

A charity with a wider membership may carry out its work wholly or partly through the voluntary effort and contributions of its members. Having people your charity helps as members can help you take account of their views.

If you set up a charity with a wider membership, it mustn't be set up only for the benefit of your members unless:

- a sufficient section of the public can access those benefits by becoming members – for example, anyone can join
- the membership structure is a suitable way of carrying out your charity's purposes for the public benefit – for example, members of an amateur sport club

Some charity structures don't have wider members – the trustees decide how their charity is run and make all decisions on:

- how it spends its money
- how new trustees are appointed

Charities with a corporate structure: which type to choose

With wider membership

Set up an association CIO if you want your charity to be a corporate body and have a wider membership, including voting members other than the charity trustees. You must:

- have a constitution as your governing document – use the Charity Commission's model association CIO constitution (or stay very close to it)
- register your CIO with the commission for it to legally come into existence
- keep a register of its members and trustees
- send its accounts and annual return to the commission each year, regardless of its income

Alternatively, you could set up a charitable company: a corporate body which can be set up with or without a wider membership. Choose articles of association as your governing document.

Charitable companies can never be the same as commercial companies. Unlike commercial companies, a charitable company:

- can't distribute its surpluses to its members or shareholders – a charitable company is usually limited by guarantee, not shares
- can only apply its assets to carry out its charitable purposes
- must operate in a way which is in the best interests of the charity

You must register your charitable company with both the commission (if eligible) and Companies House. You'll also need to provide detailed information on its finances and activities each year.

Without wider membership

Set up a foundation CIO if you want your charity to be a corporate body, the only members are the trustees and you don't want a wider membership. You must:

- have a constitution as your governing document – use the commission's model foundation CIO constitution (or stay very close to it)
- register your CIO with the commission for it to legally come into existence
- keep a register of its trustees (who are also the members)
- send its accounts and annual return to the commission each year, regardless of its income

If you are an existing charity wishing to convert to a CIO structure, choose the CIO model constitution which best matches your original charity. Use the association model if your original unincorporated charity:

- has a constitution as its governing document
- has a wider membership which votes on important decisions, such as electing trustees or committee members

Use the foundation model if your original charity:

- is governed by a trust deed, will, scheme or conveyance
- is run solely by its trustees
- doesn't have a voting membership

Complete the appropriate CIO constitution template as your new CIO's governing document. Once the trustees agree the constitution, register your new CIO with the commission.

Whichever CIO model constitution you choose, if in the future you decide that the other constitution better suits your charity, you can amend your constitution to make the changes.

Charities without a corporate structure: which type to choose

With wider membership

Set up an unincorporated association if you want your charity to have a wider membership but it doesn't need a corporate structure (for example, if it will be relatively small in terms of assets). Choose a constitution as your governing document.

Without wider membership

Set up a trust if your charity doesn't need a corporate structure or a wider membership. For example, if it:

- is unlikely to employ a significant number of staff or carry on any kind of business
- makes grants but doesn't do any other type of work

Choose a trust deed as your governing document. It must specify a sum of money, land or some other assets that your charity will start with (it doesn't matter how much). Otherwise you won't be able to register it with the commission.

How to write your governing document

Write your governing document once you've decided on a structure. This needs to set out your charity's purposes and how it will be run. Read [How to write your charity's governing document](https://www.gov.uk/how-to-write-your-charitys-governing-document) (<https://www.gov.uk/how-to-write-your-charitys-governing-document>) for more information.

How to change your charity's structure

A charity can usually change its structure if its trustees decide that a new structure would better suit the way it plans to operate.

This can be complex depending on what you want to do. Read [Change your charity's structure \(https://www.gov.uk/change-your-charity-structure\)](https://www.gov.uk/change-your-charity-structure) for more information.

More like this

Related detailed guidance

- [How to transfer charity assets \(https://www.gov.uk/guidance/how-to-transfer-charity-assets\)](https://www.gov.uk/guidance/how-to-transfer-charity-assets)
- [How to set up a charity \(CC21a\) \(https://www.gov.uk/guidance/how-to-set-up-a-charity-cc21a\)](https://www.gov.uk/guidance/how-to-set-up-a-charity-cc21a)
- [Get funding to start a charity \(https://www.gov.uk/guidance/get-funding-to-start-a-charity\)](https://www.gov.uk/guidance/get-funding-to-start-a-charity)
- [How to register a charity \(CC21b\) \(https://www.gov.uk/guidance/how-to-register-your-charity-cc21b\)](https://www.gov.uk/guidance/how-to-register-your-charity-cc21b)

**COBTREE MANOR ESTATE
CHARITY COMMITTEE**

23RD MARCH 2016

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Appointment of External Auditors

Final Decision-Maker	Cobtree Manor Estate Charity Committee
Lead Head of Service	Head of Finance & Resources
Lead Officer and Report Author	Paul Holland, Senior Finance Manager – Client Accountancy
Classification	Public
Wards affected	Boxley

This report makes the following recommendations to this Committee:

1. That UHY Hacker Young are appointed external auditors to the Charity for the financial years 2015/16 and 2016/17.

This report relates to the following corporate priorities:

- Keeping Maidstone Borough an attractive place for all – Ensuring that there are good leisure and cultural attractions.

Timetable

Meeting	Date
Cobtree Manor Estate Charity Committee	23 rd March 2016

Appointment of External Auditors

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 Following their decision not to provide external audit services King & Taylor ceased to be the appointed external auditors to the Charity at the end of the 2013/14 financial year.
 - 1.2 King & Taylor passed responsibility for the 2014/15 external audit to another local audit company, UHY Hacker Young. This report seeks to approve their continued appointment for 2015/16 and 2016/17.
-

2. INTRODUCTION AND BACKGROUND

- 2.1 Until 2013/14 external audit services were provided by King & Taylor. However they took a business decision to cease providing these services to all their existing clients, and they passed responsibility for the 2014/15 audit to another local company, UHY Hacker Young.
 - 2.2 The Charity follows Maidstone Borough Council's contracts procedures rules, and these specify that for contracts of a value of £10,000 or less at least one written quote must be obtained. For 2014/15 the cost of the audit was £4,775 plus VAT. UHY Hacker Young were asked to provide a quote, and they have responded with a figure of £4,860 plus VAT, which represents an inflationary increase of 1.75%.
-

3. AVAILABLE OPTIONS

- 3.1 Under the current statutory audit thresholds for charities there is no requirement for an external audit, an independent examination would suffice. This is a simpler form of scrutiny than an audit but it would still provide an assurance that the accounts have been the subject of an independent review. However the Charity has previously taken the decision that it would like an external audit to be undertaken.
 - 3.2 The Charity could chose to ask for more than one quote for the external audit service and possibly appoint a different auditor.
 - 3.3 The Charity could appoint UHY Hacker Young as external auditor for 2015/16 and 2016/17.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 It is recommended that UHY Hacker Young are appointed as external auditors to the Charity for 2015/16 and 2016/17. The nature of the Charity and its relationship with the Council means that the financial transactions and arrangements are somewhat complex, and as UHY Hacker Young have

started to develop an understanding of this it would seem appropriate to continue to use them. They have also developed a good working relationship with Council officers. Any new auditors would have to develop their own understanding of the Charity and develop new working relationships with officers.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 Not applicable.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 If the recommendation is agreed UHY Hacker Young will be formally requested to provide external audit services for 2015/16 and 2016/17.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	None	[Head of Service or Manager]
Risk Management	It is considered good financial practice for an external audit to be undertaken.	[Head of Service or Manager]
Financial	The cost of the audit will be £4,860 plus VAT.	[Section 151 Officer & Finance Team]
Staffing	None	[Head of Service]
Legal	There is no statutory requirement for an external audit, but the Charity has previously decided that it would like one to be undertaken.	[Legal Team]
Equality Impact Needs Assessment	None	[Policy & Information Manager]
Environmental/Sustainable Development	None	[Head of Service or Manager]
Community Safety	None	[Head of Service or

		Manager]
Human Rights Act	None	[Head of Service or Manager]
Procurement	Under Maidstone Borough Council's contract procedures rules at least one written quote is required for contracts with a value of £10,000 or less.	[Head of Service & Section 151 Officer]
Asset Management	None	[Head of Service & Manager]

8. REPORT APPENDICES

- None
-

9. BACKGROUND PAPERS

- None

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

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