

**COBTREE MANOR ESTATE
CHARITY COMMITTEE**

27th January 2016

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

Yes

Management Letter and Letter of Representation 2014/15

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. It is recommended that the Committee approves the Letter of Representation for the financial year 2014/15.
2. It is recommended that the Committee notes the contents of the Management Letter and the proposed courses of action from officers.

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	27 th January 2016

Management Letter and Letter of Representation 2014/15

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 As part of the external audit of the accounts a Management Letter and a Letter of Representation have been produced. These are shown at **Appendix A** and **Appendix B**.
 - 1.1 The Management Letter is for information, but the Letter of Representation is required to be approved by the Committee.
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2. INTRODUCTION AND BACKGROUND

- 2.1 The audit of the Report and Financial Statements is now complete, and this was considered as the first item on this agenda. As was reported the audit was undertaken by UHY Hacker Young, who have taken over as external auditors to the Trust from King & Taylor.
 - 2.2 As part of process the external auditors are required to produce a Letter of Representation and a Management Letter.
 - 2.3 As was indicated in the first report on this agenda the external auditors intend to issue an unmodified audit opinion, subject to dealing with the outstanding items listed in section 2 of the Management Letter.
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3. MANAGEMENT LETTER 2014/15

- 3.1 The Management Letter is attached at **Appendix A**. The purpose of this letter is to bring to the attention of the Committee various matters that have arisen from the external audit.
- 3.2 Sections 1 to 4 provide a background and overview to the audit and to the letter itself. Sections 5 to 8 deal with specific issues that arose from the audit. The most significant issues are dealt with below in this section of the report.
- 3.3 In addition to ensuring that the capital accounting treatment for income and expenditure identified in the first report on this agenda is applied in future years it has also been recommended that the way the Charity's own accounting records are maintained is reviewed to ensure that the flow of transactions between the Council and the Charity is as clear as possible. Officers accept that greater clarity in the financial relationship between the Charity and the Council would be helpful in ensuring future financial statements are accurate, and the auditors have made suggestions as to how this can be best achieved. Officers will discuss these with them and consider which one is most appropriate.

- 3.4 The actual adjustments made to the accounts are detailed in section 8 of the Management Letter.
- 3.5 The Letter also raises an issue around accounting for VAT. Due to the nature of the financial arrangements between the Charity and the Council the majority of the Charity's financial transactions are undertaken through the Council's financial ledger (including VAT transactions), with payments being made to or received by the Charity at the end of each financial year to ensure that the accounts of each party are correct and reflect the financial activities undertaken.
- 3.6 A number of questions around VAT treatment have been raised over the last year, so the auditors were asked to review the current arrangements. The recommendation is that the Council stop reclaiming input tax on the Charity's behalf with immediate effect. At the request of the Council the auditors have produced a separate report which looks the question of VAT treatment in more depth, and having considered this it has been agreed that the recommended action will be followed. Further discussions with the auditors and the Council's VAT advisors will continue, and a report outlining future options and the likely financial implications for the Charity will be brought to a future meeting of the Committee.
- 3.7 There is also a recommendation around the legal structure of the Charity going forward. It is suggested that consideration should be given to operating through a corporate structure such as a limited by guarantee company or a charitable incorporated organisation. The operating and financial implications of such a change will need to be considered by officers in discussion with the auditors and possibly the Charity Commission, and a report outlining the consequences will be brought to a future meeting of the Committee.
- 3.8 The final recommendation suggests an annual impairment review be undertaken to ensure that the carrying value of fixed asset land and buildings is correct. The valuer used by the Charity will be asked to undertake this review.
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4. LETTER OF REPRESENTATION

- 4.1 The Letter of Representation (attached at **Appendix B**) is a form letter written by the external auditors, which is approved by the Committee and signed by the Chairman. The letter attests to the accuracy of the financial statements that the Charity has submitted to the auditors for their analysis. In essence, the letter states that all of the information submitted is accurate, and that all material information has been disclosed to the auditors. It also includes a summary of the accounting adjustments included in the Management Letter.
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5. AVAILABLE OPTIONS

5.1 There are no alternative actions. The Letter of Representation is required to be approved by the Committee and signed by the Chairman.

6. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

6.1 That the Committee approves the Letter of Representation and notes the contents of the Management Letter and the proposed courses of action from officers.

7. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

7.1 Not applicable.

8. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

8.1 The signed Letter of Representation and a response to the Management Letter will be returned to the external auditors.

9. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	None	[Head of Service or Manager]
Risk Management	A number of risks have been identified which are outlined in the report.	Section 151 Officer & Finance Team
Financial	The financial implications are outlined in the report.	Section 151 Officer & Finance Team
Staffing	None	[Head of Service]
Legal	Consideration will need to be given to the future legal structure of the Charity.	Legal Team, Section 151 Officer & Finance 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]

10. REPORT APPENDICES

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

- Appendix A: Management Letter
- Appendix B: Letter of Representation

11. BACKGROUND PAPERS

None.