

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.