UHY Hacker Young
Chartered Accountants

APPENDIX 3

Audit findings report

for the year ended 31 March 2020 for

Cobtree Manor Estate

Prepared by: Allan Hickie, Audit Partner

Date of issue: 18 January 2021

1. Introduction

Appendices

1. Introduction

This report has been prepared for Maidstone Borough Council, which acts as the corporate trustee 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 2020.

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 corporate trustee and is intended only for use by them, and their finance 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 corporate trustee is 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 corporate trustee confirms 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 corporate trustee 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.

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. Any unadjusted audit differences are included in Appendix II.

Going concern

The corporate trustee needs to give consideration to the level of reserves maintained, and consider going concern for the period up to at least 31 January 2021, being an estimate of 12 months from the anticipated date of approval of the accounts, and ensure they agree with the assessment. The corporate trustee has confirmed that 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 corporate trustee.

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 2020.

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

Service	**Possible threat**	**Safeguards**
Preparation of the statutory financial statements from your underlying records and trial balance	Self-review	The process is largely a mechanical one, taking your financial results and putting them into statutory accounts which comply with the relevant legislation and financial reporting standards. All adjustments identified will be discussed with finance staff at Maidstone Borough Council (the corporate trustee), who are qualified accountants, and will be agree with them.

4. Audit scope and objectives

Our statutory audit of the financial statements is carried out in accordance with International Standards on Auditing (UK) 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 2020 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.
- The charity 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
Revenue recognition (mandatory risk)	The auditor's responsibility is to conduct the audit on the basis that there is an assumption that revenue recognition is a fraud risk. 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. We are also required to confirm that income has been correctly classified between restricted and unrestricted funds.	Obtain an understanding of all sources of income, and any contracts or terms & conditions attached. Sample testing income, verifying to supporting documentation to ensure income has been recognised in the correct period. Cut off testing around the period-end to ensure all income is included in the relevant period. Review to ensure that income has been correctly classified between restricted and unrestricted funds, reviewing any terms and conditions etc. Analytical review.	Nothing has come to our attention to suggest there is any fraud risk associated with revenue recognition, however we have made some general comments and recommendations relating to income from the café and car park meters in section 7 of this report.

5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
Management override (mandatory risk)	The corporate trustee and other management have the primary responsibility for the detection of fraud, as an extension of their role in preventing fraudulent activity. The Corporate trustee should ensure a sound system of internal controls is in operation to support these, and other, objectives. 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. Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.	Management often find themselves in a unique position where potentially could override routine day to day financial controls. Our audit considers this risk and we adapt our procedures accordingly. 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.	Our audit procedures have not identified any instances of management override.

5. Overall audit strategy

Significant risk	Explanation of the risk	Audit work performed	Conclusion
Non-depreciation of freehold buildings	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. Due to the absence of depreciation there is a risk that the carrying value of the property is overstated. If this were to be the case funds will also be overstated.	Review and analysis of any impairment review undertaken.	An impairment review was carried out by the valuers on behalf of the charity. From our own impairment review carried out, the non-depreciation of freehold buildings under the valuation model appears appropriate.
Post year end impact of Covid-19	A risk due to the pandemic having the potential to impact on the ability of the charity to operate normally.	Review and analyse forecasts provided. Ensure disclosures in the accounts are appropriate.	Review of cashflow forecast undertaken. Income is projected to decrease by £64k in 2020/21. Expenditure is projected to increase by £25k, however Paul Holland has indicated that actual costs have fallen lower than forecast. A going concern accounting policy has been included in the accounts in Note 2.2.

6. Status of audit issues raised in prior years

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.

	Brought forward issue / observation	Risk rating prior year	Previous solution suggested	Follow up comments, including whether further action required	New risk / priority rating
1.	**General charity records.** **This issue was first raised in the 2014/15 audit as a Red/High Priority Point** In 2014/15 we commented on the significant difficulty we had during the audit trying to agree the amounts included in the accounts and as a result had to spend a considerable amount of time reworking the 2015 accounts to a position where we were comfortable with the figures. We advised that the lack of a clear audit trail was mainly down to the fact that the charity's records are so intrinsically linked to MBC records, and because the accounts are effectively created from the council ledger and spreadsheets. This issue was downgraded to Medium in 2015/16 and has remained at this level since then because although the records have not yet been separated out, the records supporting the balance owing to MBC have been much clearer.	 Low	Since 2014/15 we have recommended that MBC set up the charity's own accounting records, either using spreadsheets or, perhaps more ideally, using accounting software. 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. If something similar is set up in MBC then, as a double check, the two loan accounts should always agree.	Sage has now been implemented and has been used from July 2020.	**Resolved**

6. Status of audit issues raised in prior years

	Brought forward issue / observation	Risk rating prior year	Previous solution suggested	Follow up comments, including whether further action required	New risk / priority rating
2.	**Potential tax on commercial trading** **Issue first raised in the 2015/16 audit** We commented on the significant income first generated during the 2015/16 year from two new income streams (the café and car parking) which could be seen to be commercial trading. We commented that information made available suggested that the café function has operated at a loss for the period from opening in August 2015 to 31 March 2016. With few costs associated with the car park the profit from the car park is likely to be close to the income figure of £26k. Income from both sources was expected to be substantially higher for the first full year of operation through to 31 March 2017, and so we highlighted the risk that the charity could find itself with a tax liability for 2016/17 (noting that any losses for 2015/16 should be available to offset against some of these profits).	Low	We had previously pointed out this potential tax issue (in an email from Brian Carey on 12 February 2017). We commented that whilst HMRC had never asked for a tax return to be completed, probably on the basis that the income from the golf course – historically the main source of income – was being applied for charitable purposes, the changes in the type and scale of income received by the trust going forward means this may need to be raised with HMRC. We recommended that the tax position of the charity is given some immediate thought.	**Follow up comment for 2019 audit:** The café was transferred to an external provider in 2020 and therefore this is no longer an issue. Car park income has increased to £96k from £89k last year due to increased visitor numbers. The relevant expenditure needs to be monitored to ensure a large surplus is not being made on the activity, in case of any tax implications. **Follow up comment from 2020 audit:** Car park income has increased from £96k to £110k with only £13k of expenditure being able to be attributed to this.	i

6. Status of audit issues raised in prior years

	Brought forward issue / observation	Risk rating prior year	Previous solution suggested	Follow up comments, including whether further action required	New risk / priority rating
3.	**Basis of investment property valuations** It has come to our attention this year that the valuations of the investment properties conducted by Harrisons are valued on the Existing Use Value (EUV) basis used by Maidstone Borough Council. The EUV is acceptable under the IFRS accounting standard to which MBC prepares its financial statements, however the charity prepared accounts under FRS 102 and this standard requires investment properties to be valued at fair value. Fair value does not reflect or allow the assumption within the EUV approach that the properties can be used for the foreseeable future only for their existing use. The EUV valuations, based on the market rent yield, are therefore considerably below the market value sales prices that would be a good basis for fair value. The investment properties have therefore been uplifted in value at 31 March 2020 and an explanation of the approach has been included in the accounts. The Tyland Barn (Farm) property continues to be carried at £nil based on an EUV approach since no other information is available, and this is disclosed in note 12 of the financial statements.	 Med	Harrisons should be asked to value the investment properties at a fair value basis ahead of the 31 March 2020 year end.	Following last year's audit discussions were held between Paul Holland and Harrisons. It was noted that the value reported has regard to the tenancies in place. Therefore, you would not be able to sell the houses subject to vacant possession without first terminating the tenancies. Harrisons have therefore valued the properties on the basis of their investment value until the end of the lease and then vacant possession thereafter. Therefore the valuations done by Harrisons were at fair value and the adjustments made in the prior year accounts have been reversed.	**Resolved**

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 charity'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 not identified any significant deficiencies in internal control during the 2020 audit.

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 nothing to bring to your attention in respect of the three bullet points above.

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:

High

High risk/priority. Potential for significant impact on operational performance, a major failure of your internal control processes and/ or imminent risk to charitable funds. Action needs to be taken to ensure this risk is managed.

Med

Medium risk/priority. Less significant failure of internal control processes or the other bullet points listed under High Risk, but where the finding would have only a moderate impact.

Low

Low risk/priority. Low level concern. Minor issues relating to immaterial items or more isolated failures where little on-going risk arises.

Advisory only. This point has been raised merely to bring something to your attention, for example to highlight areas of inefficiencies or good practice, or forthcoming changes in legislation.

We did not find any points to bring to your attention during the audit in 2019/20.

Appendix I - Agreed accounting adjustments

The following adjustments have been made to the financial statements, with your management's agreement:

	Effect on net income £
Move electricity works to repairs and maintenance	(25,907)
Investment property revaluation	(350,000)
Depreciation as per client	(115,205)
Adjustment to Will Trust income	7,280
Loan interest as per agreement	(8,859)
Audit adjustment 2018/19 recorded incorrectly	(7,057)
Electricity upgrade due from Cobtree Café Ltd	10,903
	(488,845)
Reconciliation between draft accounts presented for audit and final accounts	
Net deficit/reduction in funds per original accounts	(296,650)
UHY adjustments above	(488,845)
Net movement in funds per Statement of Financial Activities	**(785,495)**

Appendix II – Unadjusted audit differences

We are required to bring to your attention any unadjusted audit differences:

Unadjusted audit differences			
Accrual identified during purchase cut off testing			(1,500)
Prepayment identified during purchase testing			929
Profit/(loss) on part disposal of café set up costs			(2,036)
Impact of unadjusted audit differences			**(2,607)**