Appendix '1'

UHY Hacker Young
Chartered Accountants

Audit management letter

for the year ended 31 March 2017 for

Cobtree Manor Estate

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Date of issue: DRAFT

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 2017.

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. During the course of our audit we did not identify any unadjusted audit differences.

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 2018, 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 2017.

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. We can rely on the

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 2017 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.

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
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.	No impairment review was carried out by the charity. However from our own impairment review carried out, the non-depreciation of freehold buildings appears appropriate.

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.

	Issue / Observation arising in 2016	Risk rating prior year	Solution suggested in prior year	Follow up comments, including whether further action required	New risk / priority rating
1.	**General charity records.** 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. 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.	 Med	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. 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.	The records have still not been set up separately for the charity. We understand that MBC are working towards separate accounting records and assessing appropriate accounting software. Cost considerations are also part of this process. The accounts preparation process was improved this year and the accounting records supported the figures. We do , however, continue to recommend that completely separate records are established for the charity.	 Med

6. Status of audit issues raised in prior years

	Issue / Observation arising in 2016	Risk rating prior year	Solution suggested in prior year	Follow up comments, including whether further action required	New risk / priority rating
2.	**Capital expenditure.** 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. A significant part of the £963k related to previous years, resulting in a prior period adjustment being required. Furthermore an additional capital accrual was identified as part of our after date invoice review.	Low	In future we recommend that you carefully review any potential capital costs to ensure that they are treated correctly in the accounts. Any capital items that are deemed to be a work in progress should be treated as 'assets under construction'. 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.	There were no further capital additions during 2016/17. This is therefore just something to watch in the future.	**Resolved apart from on-going monitoring**
3.	**Unincorporated legal status of the charity.** The charity is structured as an unincorporated trust, with no limited liability for the corporate trustee, Maidstone Borough Council. Our management letter in 2015 set out various risks associated with this current set up, which we will not repeat again here.	Med	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.	We understand that this issue has been considered and, for now, the corporate trustee is comfortable with the position, however our previous advice in respect of this observation remains.	Med

6. Status of audit issues raised in prior years

	Issue / Observation arising in 2016	Risk rating prior year	Solution suggested in prior year	Follow up comments, including whether further action required	New risk / priority rating
4.	**Fixed assets.** It was noted during our fixed assets testing that an impairment review had not been carried out. 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.	Low	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. This should be done in advance of the audit fieldwork.	There was still no formal impairment review exercise. The carrying value of the golf course has been reduced this year by £194,453 as a result of a downwards revaluation.	Low
5.	**Amortisation of website costs.** No amortisation (depreciation) had been included in respect of the new website costs, and so an adjustment has been agreed with you for £12,500.	Low	The charge included will write off the cost of the £50k investment over a 4 year period. In future years you should ensure this amortisation charge is reflected in the accounts before the audit.	The amortisation costs were correctly charged in 2016/17	**Resolved**
6.	**Café records.** A number of observations were made in respect of the records over café income and expenditure: • The café records were not immediately available; • There was no clear record linking the daily takings to bankings; • For a period of time, takings were allowed to accumulate into larger sums before being banked. Holding large sums of cash like this is not ideal to the risk of theft etc.	Med	It is important that all accounting records, for all income streams, are passed through to the people responsible for maintaining the financial records. We understand that since April 2017, the amount recorded from the till daily has been the amount banked on each paying in slip, to ensure a clear audit trail.	The accounting records for café income and expenditure were clearer and a clear audit trail was observed, with till receipts matching amounts banked.	**Resolved**

6. Status of audit issues raised in prior years

	Issue / Observation arising in 2016	Risk rating prior year	Solution suggested in prior year	Follow up comments, including whether further action required	New risk / priority rating
7.	**Car park income.** The records relating to income from car parks could be improved. There was no clear record on the accounting system to breakdown income by car park, nor is there a clear record of season ticket parking sales.	Low	It would be helpful if income from each car park is recorded separately, which would enable comparisons between periods to be made easily. Season ticket sales should be recorded separately since if these straddle accounting periods it may be necessary, if sufficiently material, to consider deferring some income into the next period.	We note that the car park accounting records are for the three pay and display machines at the Manor Park site. Daily takings sheets and weekly summaries are maintained for each machine. Season ticket sales for 2016/17 were less than £5k.	**Resolved**
8.	**Potential tax on commercial trading** The charity has generated significant income in 2015/16 from two 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. With income from both the café and the car park expected to be substantially higher for the first full year of operation through to 31 March 2017, we highlighted the risk that the charity could find itself with a tax liability for 2016/17 (although any losses for 2015/16 should be available to offset against some of these profits).	Med	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. At the time of completing the 2015/16 audit we had not been asked to look into this further, and we were not aware that you had had any discussions with HMRC. We recommended that the tax position of the charity is given some immediate thought.	Café income has increased significantly to £235k from £99k last year (part year with c. 8 months income) but the accounting records indicate it has generated a deficit of £76k. As expected, car park income has increased, from £25k to £90k, but the Manor Park activities have also run at an overall deficit for the year. Based on this, there do not appear to be any tax implications for 16/17 but the position should be monitored in the future.	Low

6. Status of audit issues raised in prior years

	Issue / Observation arising in 2016	Risk rating prior year	Solution suggested in prior year	Follow up comments, including whether further action required	New risk / priority rating
9.	**Financial performance of the café.** The café made a significant loss (c. £90k) during 2015/16. We have drawn attention to this due to the need to put measures in place as soon as possible to improve the financial performance of the café.	Med	The loss in 15/16 largely arose due to high staff costs, and the use of expensive agency staff in particular. Last year you predicted a further loss of around £100k for 2016/17. We commented that the corporate trustee has a responsibility to ensure charitable funds are not put at risk, and that by 31.3.17 the café will have suffered a deficit of nearly £200k across the first year and a half of operation.	The café/visitor centre has generated a net deficit of £76k in 2016/17. We understand that The Trust Committee have received regular reports on this issue and have raised their concerns and asked for management to address the underlying issues in order to improve the financial performance. At the March 2017 meeting, it was noted that consideration is now being given to letting the management of the café/visitor centre out to an external contractor, and that this will continue to be a standing item on committee meeting agendas for the time being.	

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 not identified any significant deficiencies in internal control during the 2017 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

No other deficiencies came to our attention during our work.

Appendix I - Agreed accounting adjustments

There no audit differences posted to the statutory accounts, other than reallocation of certain income and expenditure balances for disclosure purposes..

Appendix II – Unadjusted audit differences

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

Name	Debit	Credit	Proposed Net Income (Loss)	Proposed Amount Chg
Net Income (Loss)				-184,619
Other creditors		2,244		
Will trust - Restricted funds	2,244			
Decrease in expected Will Trust income				
	2,244	2,244	-186,863	-2,244
Contract Cleaning	894			
Catering Provisions		894		
Being the adjustment found in purchase testing where an invoice was posted to catering not cleaning				
	894	894	-186,863	0
	3,138	**3,138**	**-186,863**	**-2,244**