

# Local Government Association Group Audit Findings Report to the Leadership Board

External Audit for the year ended 31 March 2017



Date of Issue: 7 June 2017

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# 1 Introduction

## PURPOSE AND USE OF OUR REPORT

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We are pleased to present our Audit Findings Report, summarising our findings from the audit of the financial statements of Local Government Association ('LGA') and its subsidiaries (together 'the Group') for the year ended 31 March 2017, which is substantially complete.

For the purposes of this report, the Group is defined as constituting the following entities:

- Local Government Association;
- Improvement and Development Agency;
- Local Government Association (Properties) Limited; and
- Local Government Management Board.

Our report has been prepared solely for the use of the Leadership Board and should not be shown to any other person without our express permission in writing. We would like to take this opportunity of thanking you and your staff for the assistance and co-operation we have received during the course of our work.

As auditors we are responsible for performing an audit and expressing an opinion on the financial statements in accordance with International Standards on Auditing (UK & Ireland) (ISAs). The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person to who it is shown or into whose hands it may come, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.



**Alastair Duke**

**Partner**

**For and on behalf of PKF Littlejohn LLP**

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# 2 Overview

## STATUS OF THE AUDIT

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We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2017, and anticipate issuing an unqualified opinion on the Group financial statements and those of the individual companies set out on the previous page.

The following matters are outstanding at the date of this report. We will update you on their current status at the Leadership Board meeting at which this report is considered:

- Receipt of third party bank confirmations;
- Inclusion of capital commitment disclosure in the Local Government Association (Properties) Limited financial statements;
- Final review and approval by you of the Annual Report and financial statements for the Group and subsidiaries;
- Subsequent events review to the date of signing of the financial statements; and
- Receipt of signed management representation letters as set out in Appendix I.

We look forward to receiving your confirmation that the financial statements have been approved, together with an explanation of any amendments to the existing draft, and the completed and signed representation letters. If you require any further information from us to finalise the financial statements, we shall be pleased to provide it.

## AUDIT PROCEDURES

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Our engagement contract dated 22 January 2016 sets out the terms of our audit appointment. There are no changes to the terms in that letter of which you should be aware.

When planning the audit we identified a number of risks as set out in Section 3 below. No additional significant audit risks were identified during the course of our audit. There were no significant changes to our planned audit approach and there were no restrictions placed on our work.

Our audit procedures, which are designed primarily to enable us to form an opinion on your financial statements, were carried out in accordance with ISAs. Our work continues to combine substantive procedures involving direct verification of balances and transactions, including obtaining confirmations from third parties where we considered this to be necessary, with a review of certain of your financial systems and controls.

We considered internal controls 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 have included in this report only 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 of all improvements that might be made.

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## MATTERS FROM OUR AUDIT

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In accordance with International Standards on Auditing (UK & Ireland) (ISAs), we are required to draw your attention to certain issues arising from our audit which we believe you should have in mind when considering whether to approve the financial statements.

- Detailed audit findings in response to identified risks, plus other matters of governance interest are provided in Section 3.
- Our observations on the control environment are provided in Section 4.
- A schedule of unadjusted and adjusted audit misstatements is provided in Section 5.

We are required under the ISAs to request that you correct the unadjusted misstatements. If you choose not to make these adjustments, each respective Board should let us know their reasons for not doing so via the relevant letter of representation in Appendix I. We have not included items which we consider to be trivial (see levels below).

A number of misstatements were identified during the audit and have been adjusted in the financial statements - details of these are provided on page 17.

## MATERIALITY

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Materiality was reviewed after planning materiality had been set. Final figures used for the audits were:

Entity	Materiality	Clearly trivial threshold	Basis for materiality
Consolidated financial statements of the LGA	£550,000	£27,500	1% of income
Parent Association figures in the group accounts	£240,000	£12,000	1% of income
Improvement and Development Agency	£400,000	£20,000	1% of income
Local Government Association (Properties) Limited	£11,000	£550	2% of income
Local Government Management Board	£8,000	£400	2% of income

## FINANCIAL STATEMENTS

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Each Board is responsible for the preparation of the financial statements on a going concern basis unless this basis is inappropriate. Each Board is also responsible for ensuring that the financial statements give a true and fair view and that any disclosure on going concern is clear, balanced and appropriate.

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## FRAUD INDICATORS

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Management has confirmed to us that it is not aware of any incidence of actual or suspected fraud in the year.

Our audit has not identified any instances of material misstatement to the financial statements due to fraud in the year. Further detail on our audit work in relation to the fraud risks arising from management override and revenue recognition is provided in Section 2.

## INDEPENDENCE

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We refer to our Audit Planning Report issued in April 2017 in which we set out the results of our review of our independence and objectivity as auditors in the light of Ethical Standards. We confirm that there have been no additional matters that might have an influence on our independence or objectivity.

## LETTERS OF MANAGEMENT REPRESENTATION

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There are a number of representations that we require before finalising our audit opinion. A copy of the draft letters are provided in Appendix I. Most of the representations are general and deal with such matters as confirming the Members' / Directors' responsibilities for preparing financial statements which show a true and fair view. Where there are specific representations, they are shown separately in each letter.

## SIGNIFICANT DIFFICULTIES ENCOUNTERED

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We believe that two-way communication between ourselves and those charged with governance has been adequate for the purpose of the audit.

# 3 Audit Findings

## SIGNIFICANT RISKS

The Audit Planning Report issued in April 2017 set out the significant audit risks which we identified in relation to the audit of the financial statements for the year ended 31 March 2017. A summary of the significant risks, audit approach and conclusions reached is shown below.

Significant Risk	Description	Audit Findings
Revenue recognition	<p>Under ISA 240 there is a presumption that revenue recognition is a fraud risk.</p> <p>For Local Government Association, the significant risk was viewed as relating to the recognition of subscription discounts.</p> <p>For Local Government Association (Properties) Limited and Local Government Management Board, the significant risk is viewed as relating to the timing of recognition of rental income.</p> <p>For Improvement and Development Agency the significant risk around fraud in revenue recognition is rebutted due to the nature of the income streams in that entity.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"><li>Updating our understanding of the internal control environment in operation for the significant income streams and undertaking a walk-through to ensure that the key controls within these systems were operating in the period under review;</li><li>Substantive transactional testing of income recognised in the financial statements, including deferred and accrued income balances recognised at year end;</li><li>A review of post year end receipts to ensure completeness of income recorded in the accounting period.</li></ul> <p>No issues were noted from the above procedures and we have obtained sufficient assurance that revenue is not materially misstated in the financial statements of the Group or subsidiaries for the year ended 31 March 2017.</p>

Significant Risk	Description	Audit Findings
<p>Management override</p>	<p>Under International Standard on Auditing (UK and Ireland) 240 “The Auditor’s responsibility to consider fraud in an audit of financial statements” (‘ISA 240’), there is a presumed significant risk of management override of the system of internal controls.</p> <p>We are not responsible for preventing fraud or corruption - the primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity.</p> <p>They are responsible for establishing a sound system of internal control designed to support the achievement policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Our audit is designed to provide reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.</p>	<p>We considered the potential for the manipulation of financial results through the use of manual journals and estimates to be a significant fraud risk for the Group and subsidiary companies.</p> <p>Our work in this area included:</p> <ul style="list-style-type: none"> <li>• A review of manual journals processed during the period under review and in the preparation of the financial statements to determine whether these were appropriate.</li> <li>• A review of key estimates, judgements and assumptions within the financial statements for evidence of management bias, and agree to appropriate supporting documentation. In this context we viewed the significant areas of estimation and judgement as: <ul style="list-style-type: none"> <li>- Apportionment of shared service costs in line with the use of resources (all entities);</li> <li>- The disclosures and accounting of the defined benefit pension schemes including consideration of assumptions used by the actuaries in the calculation of the liability under FRS 102 (Local Government Association and Improvement and Development Agency, see page 11 for more detail);</li> <li>- The useful economic lives of fixed assets used in the calculation of the annual depreciation charge for operational fixed assets (Local Government Association and Local Government Association (Properties) Limited); and</li> <li>- The valuation of investment properties including any assumptions used in these calculations (Local Government Association (Properties) Limited and Local Government Management Board, see page 8 for more detail).</li> </ul> </li> <li>• An assessment of whether the financial results and accounting records included any significant or unusual transactions where the economic substance was not clear.</li> </ul> <p>No issues were noted from our work in these areas and we found no evidence of material misstatement due to management override of controls for the year ended 31 March 2017.</p>



## OTHER AREAS OF AUDIT FOCUS

Area of Focus	Description	Audit Findings
Investment properties	<p>FRS 102 defines an investment property as property that is held to earn rentals or capital appreciation or both. Investment property must be accounted for at fair value at each reporting date, with any change in value recognised in profit or loss.</p> <p>Layden House is owned by Local Government Management Board. During 2015/2016 it was being rented out to third parties on normal commercial terms. It was correctly treated as an investment property in the financial statements of Local Government Management Board and the consolidated financial statements of Local Government Association at 31 March 2016.</p> <p>Local Government House is owned by Local Government Association Properties. During 2015/16 it was being rented out to other Group entities and to third parties on normal commercial terms. It was correctly treated as an investment property in the financial statements of Local Government Association Properties at 31 March 2016.</p> <p>Local Government House was treated differently in the consolidated financial statements of Local Government Association. 89% of the historical cost and accumulated depreciation of the property was accounted for as an operational fixed asset, which was the proportion being used by Group entities. The remaining 11%, available for use by third parties, was treated as an investment property and included at 11% of the valuation at 31 March 2016.</p> <p>In the year to 31 March 2017, Local Government House has been vacated and the operations of all Group entities have moved over to Layden House. This is to allow the completion of substantial capital works to Local Government House by September 2017 when the operations of the Group entities will move back in.</p> <p>At that point, capital works will commence at Layden House with the intention that this property will come back into use for rental to third parties from September 2018.</p> <p>The Directors will need to consider whether this temporary change of use for Local Government House and Layden House impacts on the accounting treatment of these properties in the accounts of Local Government Management Board, Local Government Association (Properties) Limited, and the consolidated financial statements of the Local Government Association.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> <li>• A review of the accounting policies for investment property to determine whether these are in line with FRS 102 Section 16 'Investment Property';</li> <li>• A review of the rationale for the treatment of Local Government House as an investment property or otherwise in the financial statements of Local Government Association (Properties) Limited and in the consolidated financial statements of Local Government Association, and to determine whether this is appropriate in line with the requirements of FRS 102;</li> <li>• A review of the rationale for the treatment of Layden House as an investment property or otherwise in the financial statements of Local Government Management Board and in the consolidated financial statements of Local Government Association, and to determine whether this is appropriate in line with the requirements of FRS 102; and</li> <li>• An examination of the valuations undertaken for investment properties at 31 March 2017 to conclude on whether these provide an appropriate fair value for accounting purposes (as defined in paragraph 16.7 of FRS 102), including consideration of the appropriateness of any assumptions used by the valuer(s).</li> </ul> <p>No issues have been noted in relation to the work performed above.</p> <p>We concur with management's rationale for the treatment of Layden House as an investment property in the financial statements of Local Government Management Board and Local Government Association for the year ended 31 March 2017, on the basis that the change of use is temporary and the intention is that once the works are completed this property will come back into use for rental to third parties from September 2018.</p> <p>We also concur with management's rationale for the treatment of Local Government House as an investment property in the financial statements of Local Government Association Properties, and split treatment (89% cost, 11% at valuation as an investment property) in the consolidated financial statement of Local Government Association. This too is on the basis that the intention is that the use of this property will revert back once the works to the property are completed.</p>

Area of Focus	Description	Audit Findings
Investment properties (continued)		<p>Farebrother provided a valuation of £28,175,000 for Layden House at 31 March 2017, which resulted in a gain of £2,024k being recognised in the financial statements of Local Government Management Board at that date.</p> <p>Farebrother provided a valuation of £22,970,000 for Government House at 31 March 2017, which resulted in a loss of £14,904k being recognised in the financial statements of Local Government Association Properties at that date. This loss was largely due to the fact that the valuation is provided at a point in time, when the refurbishment works were only partially complete.</p> <p>We challenged the key assumptions applied by Farebrother in their valuations of Layden House and Local Government House at 31 March 2017. These valuations were performed on the 'residual value' basis which starts with an assumed 'gross development value' – which is based on an estimated rental value once the refurbishment works are completed.</p> <p>Key assumptions included the estimated rental value and the costs to complete the refurbishment works (which are deducted from the 'gross development value' to provide the valuation for the financial statements). Both of these assumptions are deemed reasonable and appropriate based on audit work performed and no issues have been noted with the valuations provided.</p>

Area of Focus	Description	Audit Findings
Fixed Asset Additions	<p>As discussed above we understand that significant capital works are being planned within Local Government Management Board (at Layden House) and within Local Government Association (Properties) Limited (at Local Government House). The total costs of these works in anticipated to be in the region of £30m once complete.</p> <p>The works at Local Government House are scheduled to complete in September 2017 and those at Layden House in September 2018.</p> <p>Assets can only be recognised if it is probable that future economic benefits associated with the items will flow to the entity (FRS 102 paragraph 17.4), and therefore an item of expenditure can only be capitalised if it is 'directly attributable' to bringing the final asset into the location and condition needed for use.</p> <p>There is a risk that these costs are accounted for incorrectly, in particular there is a risk that costs are capitalised when they should be expensed (and vice versa). In particular, care should be taken around the capitalisation of fees, where these may not be directly attributable to the final asset.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> <li>Obtaining an update on the receipt of planning permission for the developments at Layden House, and consideration of any implications on the accounting treatment of expenses incurred to date;</li> <li>Substantive sample testing of fixed asset additions in the year to ensure that these were correctly capital in nature in line with FRS 102 Section 17 'Property, Plant and Equipment';</li> <li>Review of 'repairs and maintenance' ledger codes for any capital items which had been incorrectly expensed; and</li> <li>Substantive testing of retentions and capital commitments at year end, to ensure that these have been accounted for and disclosed correctly.</li> </ul> <p>At the time of writing we await confirmation of the capital commitment figure to be disclosed in the financial statements of Local Government Association Properties.</p> <p>Other than this, no issues arose from the above testing.</p>
Joint Ventures	<p>The Group has entered into joint venture arrangements as follows:</p> <ul style="list-style-type: none"> <li>Local Partnerships LLP is a joint venture between Local Government Association and Partnerships UK.</li> <li>GeoPlace LLP is a joint venture between Ordnance Survey and the Improvement and Development Agency.</li> <li>LGA Digital Services Limited is a joint venture between Local Government Association and London Borough of Brent.</li> </ul> <p>The consolidated and parent financial statements of Local Government Association and those of the Improvement and Development Agency must account for these arrangements in line with FRS 102 Section 15 'Investments in Joint Ventures'.</p>	<p>We have reviewed the accounting for these joint venture arrangements in line with FRS 102 Section 15 'Investments in Joint Ventures'.</p> <p>We have agreed the share of the results and post-acquisition reserves of the joint ventures to the audited financial statements of each entity.</p> <p>No issues noted from the above audit procedures.</p>

Area of Focus	Description	Audit Findings
Defined benefit pension schemes	<p>The Local Government Association is an admitted body to two defined benefit pension schemes, both of which are administered in accordance with the Local Government Pension Scheme Regulations 1997. These are the Merseyside Pension Fund and London Borough of Camden Pension Fund.</p> <p>The Improvement and Development Agency is an admitted body to one defined benefit pension scheme - the Local Government Pension Scheme as administered by London Borough of Camden.</p> <p>The pension fund deficit reported in the Local Government Association balance sheet at 31 March 2016 was £35,042,000 and that in the Improvement and Development Agency on the same date was £59,709,000. We understand that a full triennial review of the schemes has been undertaken as at 31 March 2016.</p> <p>The disclosures and accounting of the defined benefit pension schemes, in accordance with Financial Reporting Standard 102 Section 28 'Employment Benefits', is an area of risk that requires special consideration.</p> <p>In addition, within Local Government Association there are unfunded pension scheme liabilities outside of the Local Government Pension Scheme, estimated by an actuary to represent a liability of £1,652,000 at 31 March 2016.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> <li>• Obtaining the actuarial reports on both schemes as at 31 March 2017 and agreeing to the disclosures included within the financial statements to ensure these were sufficient and appropriate in line with FRS 102;</li> <li>• Reviewing the accounting for both schemes to ensure that these have been treated correctly within the financial statements, including the processing of the actuarial gain or loss in the year; and</li> <li>• Assessing the reasonableness of the assumptions used by the actuaries in their calculation of the gross liabilities of the schemes as at 31 March 2017 through comparison to publically available information.</li> </ul> <p>No issues were noted from the above procedures and we have sufficient assurance that there is no material misstatement in relation to the two defined benefit pension plans in the LGA Group for the year ended 31 March 2017.</p>

Area of Focus	Description	Audit Findings
Consideration of Related Party Transactions	<p>International Standard on Auditing (UK and Ireland) 550 Related Parties requires us as auditors to conclude whether:</p> <ul style="list-style-type: none"> <li>• There is sufficient audit evidence in respect of related party transactions and arrangements;</li> <li>• All related parties have been identified to ensure that all material related party transactions and arrangements have been disclosed in the financial statements;</li> <li>• Sufficient appropriate audit evidence has been obtained such that the risk of a material misstatement is reduced to an acceptably low level in respect of related parties; and</li> <li>• There is a fair presentation of related party transactions and arrangements in the financial statements which is not misleading.</li> </ul>	<p>We reviewed the systems of control around related party relationships and transactions. We considered if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of FRS 102.</p> <p>We reviewed the declaration of interest forms and register of interest for all Members and Key Management Personnel.</p> <p>We inspected bank and legal confirmations, minutes of meetings, and financial and accounting records as part of the audit for indications of the existence of related party relationships or transactions that management has not previously identified.</p> <p>We noted that a number of related party forms did not include all related parties when we completed our own checks via Companies House. This was particularly an issue with Local Government Management Board and the Improvement and Development Agency; the point has been raised as a control recommendation in Section 4. No unreported related party transactions were identified as a result of this.</p> <p>No issues were noted in relation to undisclosed related party transactions in the financial statements of the Group or subsidiary companies.</p>
Going Concern	<p>When preparing financial statements in the UK and Ireland, those charged with governance should satisfy themselves as to whether the going concern basis is appropriate.</p> <p>International Standard on Auditing 570 “Going concern” specifically requires the auditor, when planning and performing audit procedures and in evaluating the results, to consider the appropriateness of the Members and Directors use of the going concern assumption in the preparation of the financial statements and the adequacy of any relevant disclosures in the financial statements.</p> <p>We therefore recommended that the Members and Directors make a preliminary assessment of going concern at their meeting prior to the preparation of the financial statements if practicable. In making this assessment they will need to consider budgets, cash flow forecasts and projections.</p> <p>The assessment of whether or not it is appropriate to prepare the financial statements on the going concern basis involves an assessment for the period of at least 12 months from the date of signature of the financial statements.</p>	<p>The assessment of whether or not it is appropriate to prepare the financial statements on the going concern basis involves an assessment for the period of at least 12 months from the date of signature of the financial statements.</p> <p>Our work in relation to going concern included:</p> <ul style="list-style-type: none"> <li>• Consideration of the financial performance in the year ended 31 March 2017 and the financial position at the year-end; and</li> <li>• Review of the financial forecasts (including cash flows) for the next two years.</li> </ul> <p>From the work performed, we are satisfied that management’s assessment on the use of the going concern basis of preparation for the financial statements of the Group and subsidiaries is appropriate for the year ended 31 March 2017.</p> <p>In considering going concern we have reviewed the cash flows in supporting the pension scheme deficits, assuming that the deficit is not going to crystallise in the short to medium term.</p>

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## ACCOUNTING POLICIES

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We are required to communicate our views on significant qualitative aspects of your chosen accounting policies.

We have considered the accounting policies adopted by the Group in the preparation of the financial statements, to determine whether these are appropriate in line with the requirements of applicable accounting standards and the practices of other entities in your sector. There were no changes to the accounting policies adopted in the year to 31 March 2017. We are satisfied that the accounting policies adopted are appropriate.

We did not identify any accounting policies applied by subsidiary entities that were not consistent with the Group adopted policies.

## ACCOUNTING ESTIMATES

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We are required to communicate our views on significant estimates and judgements used in the preparation of the financial statements. We are satisfied that in all material respects, the financial statements show a true and fair view based on the entities use of accounting estimates.

In this context we viewed the significant areas of estimation and judgement as:

- Apportionment of shared service costs in line with the use of resources (all entities). No issues were noted from testing in this area;
- The disclosures and accounting of the defined benefit pension schemes including consideration of assumptions used by the actuaries in the calculation of the liability under FRS 102 (Local Government Association and Improvement and Development Agency, see page 11 for more detail);
- The useful economic lives of fixed assets used in the calculation of the annual depreciation charge for operational fixed assets (Local Government Association and Local Government Association (Properties) Limited). No issues were noted from our testing in this area, rates in use appear reasonable for the classes of asset held and have been calculated accurately; and
- The valuation of investment properties including any assumptions used in these calculations (Local Government Association (Properties) Limited and Local Government Management Board, see page 8 for more detail).

## FINANCIAL STATEMENT DISCLOSURES

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We have reviewed the financial statements in order to confirm compliance with the requirements of the financial reporting framework FRS 102, Companies Act 2006 and applicable regulations. Our review found no significant disclosure omissions in the financial statements.

## COMPLIANCE WITH LAWS AND REGULATIONS

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In our opinion, the areas of law and regulation which are relevant to the financial statements are as follows:

### Applicable law and regulation

- Company law;
- Financial Reporting Standard 102 ('FRS 102'); and
- Relevant employee legislation.

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Management has confirmed that it is not aware of any breaches. We did not identify any instances of non-compliance with these requirements.

## SCOPE OF THE AUDIT

Our audit scope consisted of an audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs) of the consolidated and individual entity statutory financial statements of Local Government Association, together with a statutory audit of the entities listed on page 2. Our work on the consolidated Group financial statements is designed to form an opinion on whether:

1. The financial statements give a true and fair view of the state of the Group's and Association's affairs as at 31 March 2017, and of the Group's and Association's result for the year then ended;
2. The financial statements have been prepared in accordance with the basis of preparation and accounting policies set out in note 1 to the accounts.

Our work on each of the other entities within the Group is summarised as follows:

Entity	Constitution	Overview of the type of work to be performed on the financial information
Improvement and Development Agency	Company limited by guarantee	Full audit of the financial statements in accordance with Companies Act 2006 and applicable regulations. Ensuring the financial statements have been prepared under Financial Reporting Standard 102 ('FRS 102').
Local Government Association (Properties) Limited	Company limited by guarantee	Full audit of the financial statements in accordance with Companies Act 2006 and applicable regulations. Ensuring the financial statements have been prepared under Financial Reporting Standard 102 ('FRS 102').
Local Government Management Board	Company limited by guarantee	Full audit of the financial statements in accordance with Companies Act 2006 and applicable regulations. Ensuring the financial statements have been prepared under Financial Reporting Standard 102 ('FRS 102').

## OTHER MATTERS OF GOVERNANCE INTEREST

In addition to the items reported above, the following matters arose from the audit that we believe are significant to the oversight of the financial reporting process. We also include any other matters that we believe will be of particular interest to those charged with governance.

Description	Conclusion
Departure from FRS 102	The Leadership Board has elected to prepare the Association's Financial Statements in accordance with FRS 102. In respect of the defined benefit pension schemes note to the Financial Statements, numbers and information in respect of the Association as a standalone entity have not been disclosed, which is not in compliance with FRS 102.  We do not believe that non-presentation of the above results in the Financial Statements not showing a true and fair view. Adequate disclosure has been made and we remain of the opinion that an unqualified audit opinion is appropriate.

# 4 Control Environment

## SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in the internal control environment which we have identified during the audit. It is the responsibility of the Members to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice.

We have included in this report only 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 of all improvements that might be made. 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.

Area	Observation	Risk	Recommendation	Management response
<b>Manual Journals</b>	<p>When a manual journal is raised, the existing control is that this should be logged on a control sheet and backing documentation retained.</p> <p>During testing of manual journals we noted a number where there was no backing documentation on file, and a number of transactions which are posted on a regular basis which we would not expect to see being posted via journal.</p> <p>We also note that there is no periodic review of the manual journal control sheet or backing documentation.</p>	<p>Lack of audit trail for manual journals or independent review of journal entries increases the risk of fraud or error in financial postings.</p>	<p>We recommend that all manual journal entries are recorded on the control sheet and backing documentation retained.</p> <p>We recommend that ledger codes are set up for transactions which are put through on a frequent basis e.g. bank and sweeper transactions.</p> <p>This would help to differentiate between true 'manual' journals and regularly occurring transactions.</p> <p>We further recommend that journal entries are reviewed and authorised by a senior member of the finance team on a periodic or ad-hoc basis</p>	<p>We accept that there needs to be a clear differentiation between manual journals versus system-generated, frequent or transactional journals that will be subject to controls through other methods such as bank reconciliations.</p> <p>We will set up a new Transaction Type for Treasury Management (TM) journals (such as bank and sweeper transactions) to aid that differentiation.</p> <p>We will ensure that all manual journals are included on the control sheets, with appropriate back-up, and subject to peer review (including electronic sign-off) on a monthly basis, either prior to posting, or via a retrospective monthly review process.</p> <p>We accept the recommendation for a periodic review by a senior member of the finance team – to include the control sheet and relevant backing documentation – and the finance processes will be updated to include review by the Strategic Finance Manager at least quarterly. [Strategic Finance Manager, September 2017]</p>



## OTHER DEFICIENCIES

Area	Observation	Risk	Recommendation	Management Response
Register of Member's Interest Confirmations	<p>During our review of declaration of interest forms, we identified discrepancies between disclosures made by members in their forms and Companies House searches for those particular individuals.</p> <p>This was particularly the case when reviewing for Local Government Management Board.</p> <p>This issue was also identified in the audit for year ended 31 March 2016.</p>	<p>Risk of unrecorded related parties increases the risk of conflicts of interest not being identified and managed appropriately, and also of undisclosed related party transactions in the financial statements.</p>	<p>We take this opportunity to remind all Members/Directors that the disclosures are a key control during the review of related parties and declarations should be kept up to date.</p>	<p>We will liaise with Member Services on a regular basis (at least quarterly) to ensure that Members/Directors are reminded of their obligations to keep their declarations up to date so that related parties can be appropriately identified. [Strategic Finance Manager, June 2017]</p>
Salary Update Letters	<p>Whilst completing wages testing across the group it was noted there are no formal letters to employees for automatic salary banding movements.</p>	<p>It is best practice to have signed salary update letters for all contracted employees, for example in the event of a dispute.</p>	<p>We recommend all increases or decreases of salaries including automatic banding movements should be confirmed to employees in writing.</p> <p>This correspondence should be retained the individual's personnel files.</p>	<p>The recommendation is noted, but the LGA and IDeA have determined that notifying automatic increases in writing is an unnecessary administrative burden. It would be required twice a year if incremental and National Joint Council (NJC - Local Government pay award) awards do not line up.</p> <p>All staff are on a grade range contractually and LGA terms and conditions explain incremental progression and the link with the NJC pay award. We publish any changes to the pay scales (in line with NJC) and staff have access to their pay and grade information in Agresso self-service.</p> <p>Where there are contractual changes (i.e. changes to job, hours etc) we do communicate this in writing to staff. [HR &amp; Payroll Manager]</p>

Area	Observation	Risk	Recommendation	Management Response
Credit Notes	<p>During our testing we noticed a significant volume of credit notes being raised during the year, primarily due to miscoding and error.</p> <p>Within the Improvement and Development Agency 133 were raised (total £1,526k) and in Local Government Association there were 498 were raised (total £537k).</p>	Increased risk of error in the financial records and financial statements.	We recommend the group look into any potential underlying reasons for these corrections and solutions to avoid such a high number occurring.	<p>We note the relatively high number of credit notes raised in the year. Initial investigation indicates that the majority of credit notes are related to corrections regarding the treatment and accounting of VAT.</p> <p>Therefore finance will undertake additional training with stakeholders across the business to reinforce the correct processes for invoice creation, and the control implications of high numbers of corrections. [Strategic Finance Manager, September 2017]</p>

## FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Entity	Original Observation	Original Recommendation	Audit Update	Management Response
<b>Local Government Association</b>	The ING Euro account reconciliation did not agree to the initial TB due to a mis-posting of a journal. The journal was trivial however reconciliations should agree to the underlying ledgers.	We recommend that all reconciliations agree to the accounting ledgers.	The ING Euro account did again not reconcile, whilst the difference was trivial it is good practice to ensure bank accounts reconcile back to the TB.	We note that all bank accounts should reconcile to the TB, and an additional control will be added to ensure that this is the case.
<b>Local Government Association</b>	We noted 2 instances where analysis and receipts had been provided by the employee after the 2 month timeframe outlined in the internal procedures for expense claims. We also noted 1 instance where no receipts had been received by the audit date when the deadline had already passed. This point was also identified by the internal auditors.	We recommend that employees are reminded if the procedures in providing their payment card expense receipts and analysis within the 2 month timeframe follow up action taken when this is not completed.	No issues have been identified in relation to this control point in the year and we are therefore satisfied the point has been resolved.	N/A
<b>Local Government Association</b>	January and February 2016 VISA statements had been posted to the trade creditor's ledger but the underlying analysis had not been provided by the year end. As a result expenses were understated. The understatement was trivial and not adjustments made.	We recommend that all payment card statements that relate to expenditure incurred in the year are analysed out into the correct expense codes by the year end.	No issues have been identified in relation to this control point in the year and we are therefore satisfied the point has been resolved.	N/A
<b>Local Government Association</b>	We identified that CEMR fees are posted when the instalment payments are made with no accrual or prepayment posted to correct the expense in the accounts for the year end. The differences were immaterial but this could lead to a material error in the future.	We recommend that the expense reflects the period that the fees relate to by posting appropriate accruals/prepayments at the year end.	No issues have been identified in relation to this control point in the year and we are therefore satisfied the point has been resolved.	N/A
<b>Improvement and Development Agency</b>	Assets which are individually trivial have not been capitalised. The cost of the assets is immaterial and individually all assets were trivial however this is a different treatment to assets in the parent entity.	Group entities are applying different treatment for assets which could lead to material differences in the future. Consistent accounting policies should be applied across the Group.	Consistent accounting policies are now in place across the group.	N/A

Entity	Original Observation	Original Recommendation	Audit Update	Management Response
<b>Improvement and Development Agency</b>	Two declaration of interest forms have discrepancies compared to information at Companies House.	We recommend that the conflicts of interest register is kept up-to-date and reviewed at least annually for all directors.	This has still not been resolved and was identified as another control point in the financial year under audit.	As noted above, finance will regularly liaise with Member Services to ensure declarations are up to date. [Strategic Finance Manager, June 2017]
<b>Local Government Association (Properties) Limited</b>	No signed rental contracts are kept with the Local Government Association or the Improvement and Development Agency, therefore there is no formal basis for the rent charged.	We recommend that rental agreements for all entities that rent space in Local Government House for good practice.	The Local Government Association and the Improvement Development Agency moved out of Local Government House in the financial year, this point was therefore not as relevant. However we recommend that new contracts are in place when the refurbishment of the building has been completed.	Noted. It is the intention to create formal rental agreements for all tenants of Local Government House when the refurbishment is completed. [Strategic Finance Manager, December 2017]
<b>Local Government Management Board</b>	The Boundary Commission were being overcharged for the footage they used from 2010 to 2014, the impact of which was rates were not being recharged to tenants on the previously agreed basis.	We recommend that when tenants return to the building that all expenses are recharged on the agreed basis and calculated correctly.	All tenants moved out from Layden House in the financial year, it is therefore not relevant for the financial year under audit. We recommend however when external tenants return to the building that this is kept in mind.	Noted. It is the intention that the square footage (and the related rates) of the new demises are clearly set out in the new rental agreements to come into force when Layden House is returned to its rentable condition, such that all expenses are calculated and charged on the correct basis. [Strategic Finance Manager, December 2018]
<b>Local Government Management Board</b>	There is a legal charge outstanding over Layden House as reported at Companies House, where the charge no longer needs to be in place.	We recommend that the charge is investigated.	This has now been removed from Companies House (done on the 26/07/2016).	N/A

# 5 Audit Adjustments

## UNADJUSTED MISSTATEMENTS

We identified the following non-trivial misstatements during the audit which management has not reflected in the financial statements. We are required under the ISAs to request that you correct the unadjusted misstatements. If you choose not to make these adjustments, you should let us know your reasons for not doing so in the representation letter as drafted at Appendix I.

Entity	Unadjusted Misstatements (Current period)	SOFA		Balance Sheet	
		Dr (£)	Cr (£)	Dr (£)	Cr (£)
<b>LOCAL GOVERNMENT ASSOCIATION</b>	Dr Income in advance	-	-	13,502	-
	Cr VAT control account	-	-	-	13,502
	<i>Being: Adjustment for recognition of VAT liability when tax point created (payment in advance)</i>				
<b>LOCAL GOVERNMENT ASSOCIATION (PROPERTIES)</b>	Dr P&L Various Expense Codes	10,117	-	-	-
	Cr Accruals	-	-	-	10,117
	<i>Being: Adjustment of various invoices relating to 2016/17 which were not accrued at the year end</i>				
<b>LOCAL GOVERNMENT MANAGEMENT BOARD</b>	Dr Trade Debtors	-	-	1,273	-
	Cr Trade Creditors	-	-	-	1,273
	<i>Being: Adjustment to reclassify a debit balance in the purchase ledger control account as a trade debtor</i>				

Entity	Unadjusted Misstatements (Current period)	SOFA		Balance Sheet	
		Dr (£)	Cr (£)	Dr (£)	Cr (£)
LOCAL GOVERNMENT MANAGEMENT BOARD	Dr Expenses	1,758	-	-	-
	Cr Accruals	-	-	-	1,758
<i>Being: Adjustment to account for an invoice not accrued at the year end</i>					
<b>Total</b>		<b>11,875</b>	<b>-</b>	<b>14,775</b>	<b>26,650</b>

## ADJUSTED MISSTATEMENTS

A number of misstatements were identified during the audit and have been adjusted in the financial statements. Of these a number were material and details of these are provided below. Copies of all adjusted items are available to the Members on request.

Local Government Association Adjusted Misstatements	Statement of Comprehensive Income		Balance Sheet	
	Dr (£)	Cr (£)	Dr (£)	Cr (£)
1. Dr Other creditors <1 year	-	-	52,000	-
Cr Other creditors 2-5 years	-	-	-	52,000
<i>Being: Presentational split in other creditors.</i>				
2. Dr Additional staff related payments	5,380	-	-	-
Cr Accruals	-	-	-	5,380
<i>Being: Adjustment to account for actuary fees.</i>				

Local Government Association (continued) Adjusted Misstatements	Statement of Comprehensive Income		Balance Sheet	
	Dr (£)	Cr (£)	Dr (£)	Cr (£)
3. Dr Intercompany investments	-	-	217,966	-
Cr Grant income	-	217,966	-	-
<i>Being: DCLG grant adjustment.</i>				
4. Dr Rent expense	100,301	-	-	-
Cr Room and equipment hire	-	100,301	-	-
<i>Being: Rent refund adjustment.</i>				
5. Dr LGMB related party recharge (debtor)	-	-	15,622	-
Cr Shared services recharges	-	15,622	-	-
<i>Being: Adjustment to account for recharged fees.</i>				
6. Dr Loans internal liability - debtor	-	-	11,000,000	-
Cr Loans internal liability - creditor	-	-	-	11,000,000
<i>Being: Adjustment to remove the netting off of the intercompany loans</i>				
<b>Total</b>	<b>105,681</b>	<b>333,889</b>	<b>11,285,588</b>	<b>11,057,380</b>

Improvement and Development Agency Adjusted Misstatements	Statement of Comprehensive Income		Balance Sheet	
	Dr (£)	Cr (£)	Dr (£)	Cr (£)
1. Dr Various expense codes	103,897	-	-	-
Cr Accruals	-	-	-	103,897
<i>Being: Adjustment of various invoices relating to 2016/17 which were not accrued at the year end</i>				
2. Dr Income in advance	-	-	11,375	-
Cr Various income codes	-	11,375	-	-
<i>Being: Reclassification of income which should have initially not been recognised in the 2016/17 financial year</i>				
3. Dr Accrued income	-	-	14,875	-
Cr Various income codes	-	14,875	-	-
<i>Being: Adjustment of various invoices relating to 2016/17 which were not accrued at the year end</i>				
<b>Total</b>	<b>103,897</b>	<b>26,250</b>	<b>26,250</b>	<b>103,897</b>



Local Government Association (Properties) Adjusted Misstatements	Statement of Comprehensive Income		Balance Sheet	
	Dr (£)	Cr (£)	Dr (£)	Cr (£)
1. Dr Loss on disposal	-	-	583,532	-
Cr Depreciation expense	-	-	-	583,532
Dr Tangible fixed assets – accumulated depreciation	1,900,338	-	-	-
Cr Tangible fixed assets	-	1,900,338	-	-
<i>Being: Reclassification of accelerated depreciation to disposal of asset</i>				
<b>Total</b>	<b>1,900,338</b>	<b>1,900,338</b>	<b>583,532</b>	<b>583,532</b>

# Appendix I - Draft Letters of Representation

We require a signed copy of the below letters on letter-headed paper before we can finalise our opinion on the financial statements.

## LOCAL GOVERNMENT ASSOCIATION

Dear Sirs

We confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation, sufficient to satisfy ourselves that we can properly make each of the following representations to you in connection with your audit of the Financial Statements of the Local Government Association (the "Company") for the year ended 31 March 2017.

### General representations

- 1 We have fulfilled our responsibilities under the Companies Act 2006 ("the Act"), and as set out in your engagement letter, for preparing Financial Statements that give a true and fair view of the state of the Group and Company's affairs at the end of the financial year and of the Group's profit for the financial year in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), and for making accurate representations to you.
- 2 All the accounting records and relevant information have been made available to you for the purpose of your audit. We have provided you with unrestricted access to all appropriate persons within the Group and Company, and with all other records and related information requested, including minutes of all management and shareholder meetings.
- 3 All the transactions undertaken by the Group and Company have been properly reflected and recorded in the accounting records.
- 4 The financial statements are free of material misstatements, including omissions.
- 5 We confirm that we have considered the unadjusted items advised to us by you as appended to this letter. We confirm we are not aware of any other unadjusted items that are not clearly trivial. In our opinion, the adjustments that you have identified and recommended us to make are not relevant to the financial statements because the combined effect of the unadjusted items is not material, and we do not consider that their absence from the financial statements affects the true and fair view given.
- 6 We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.
- 7 Each director has taken all the steps that he/she ought to have taken as a director in order to make himself aware of any relevant audit information (as defined in Section 418 of the Act) and to establish that you are aware of that information.

### Internal control and fraud

- 8 We acknowledge our responsibility for the design, implementation and maintenance of internal control systems to prevent and detect fraud and error. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud
- 9 We have disclosed to you all instances of known or suspected fraud affecting the Group and Company involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
- 10 We have also disclosed to you all information in relation to allegations of fraud or suspected fraud affecting the entity's financial statements communicated by current or former employees, analysts, regulators or others.

### Assets and liabilities

- 11 The Group and Company has satisfactory title to all assets and there are no liens or encumbrances on the company's assets, except for those that are disclosed in the notes to the financial statements.
- 12 All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.

- 13 We have no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

#### **Accounting estimates**

15. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

#### **Loans and arrangements**

16. The Group and Company has not granted any advances or credits to, or made guarantees on behalf of, directors other than those disclosed in the financial statements.

#### **Legal claims**

17. We have disclosed to you all claims in connection with litigation that have been, or are expected to be, received and such matters, as appropriate, have been properly accounted for and disclosed in the financial statements.
18. We are not aware of any material provisions, contingent liabilities, contingent assets or contracted-for capital commitments that need to be provided for or disclosed in the financial statements in accordance with the financial reporting framework.

#### **Laws and regulations**

- 19 We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations, including any breaches or possible breaches of statute, regulations, contracts, agreements or the Company's Memorandum and Articles of Association, whose effects should be considered when preparing the financial statements.

#### **Related parties**

- 20 Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements. We have disclosed to you all relevant information concerning such relationships and transactions and are not aware of any other matters which require disclosure in order to comply with the requirements of company law or accounting standards.

#### **Subsequent events**

- 21 All events subsequent to the date of the financial statements which require adjustment or disclosure have been properly accounted for and disclosed. Should further material events occur that may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

#### **Going concern**

- 22 We believe that the Group's and Company's 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 Group's and Company's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the Group's and Company's ability to continue as a going concern need to be made in the financial statements.

#### **Specific representations**

- 23 We confirm that the Merseyside Pension Plan is in deficit and that contributions have been made by the Association to the scheme during the year of £1,343,000.
- 24 With regard to the defined benefit pension scheme, we confirm that we are satisfied that the actuarial assumptions underlying the valuation are consistent with our knowledge of the business and the scheme membership, active and retired. There were current service costs of £1,403,000 and past service costs of £nil with the defined benefit pension scheme during 2016/17.

Yours faithfully

Signed on behalf of the board of Directors of the Local Government Association

## IMPROVEMENT AND DEVELOPMENT AGENCY

Dear Sirs

We confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation, sufficient to satisfy ourselves that we can properly make each of the following representations to you in connection with your audit of the Financial Statements of the Improvement and Development Agency (the "Company") for the year ended 31 March 2017.

### General representations

- 1 We have fulfilled our responsibilities under the Companies Act 2006 ("the Act"), and as set out in your engagement letter, for preparing Financial Statements that give a true and fair view of the state of the Company's affairs at the end of the financial year and of the Company's profit for the financial year in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), and for making accurate representations to you.
- 2 All the accounting records and relevant information have been made available to you for the purpose of your audit. We have provided you with unrestricted access to all appropriate persons within the Company, and with all other records and related information requested, including minutes of all management and shareholder meetings.
- 3 All the transactions undertaken by the Company have been properly reflected and recorded in the accounting records.
- 4 The financial statements are free of material misstatements, including omissions.
- 5 We confirm that we have considered the unadjusted items advised to us by you as appended to this letter. We confirm we are not aware of any other unadjusted items that are not clearly trivial. In our opinion, the adjustments that you have identified and recommended us to make are not relevant to the financial statements because the combined effect of the unadjusted items is not material, and we do not consider that their absence from the financial statements affects the true and fair view given.
- 6 We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.
- 7 Each director has taken all the steps that he/she ought to have taken as a director in order to make himself aware of any relevant audit information (as defined in Section 418 of the Act) and to establish that you are aware of that information.

### Internal control and fraud

- 8 We acknowledge our responsibility for the design, implementation and maintenance of internal control systems to prevent and detect fraud and error. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud.
- 9 We have disclosed to you all instances of known or suspected fraud affecting the Company involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
- 10 We have also disclosed to you all information in relation to allegations of fraud or suspected fraud affecting the entity's financial statements communicated by current or former employees, analysts, regulators or others.

### Assets and liabilities

- 11 The Company has satisfactory title to all assets and there are no liens or encumbrances on the company's assets, except for those that are disclosed in the notes to the financial statements.
- 12 All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.
- 13 We have no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

### Accounting estimates

19. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

### Loans and arrangements

20. The Company has not granted any advances or credits to, or made guarantees on behalf of, directors other than those disclosed in the financial statements.

**Legal claims**

21. We have disclosed to you all claims in connection with litigation that have been, or are expected to be, received and such matters, as appropriate, have been properly accounted for and disclosed in the financial statements.
22. We are not aware of any material provisions, contingent liabilities, contingent assets or contracted-for capital commitments that need to be provided for or disclosed in the financial statements in accordance with the financial reporting framework.

**Laws and regulations**

- 25 We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations, including any breaches or possible breaches of statute, regulations, contracts, agreements or the Company's Memorandum and Articles of Association, whose effects should be considered when preparing the financial statements.

**Related parties**

- 26 Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements. We have disclosed to you all relevant information concerning such relationships and transactions and are not aware of any other matters which require disclosure in order to comply with the requirements of company law or accounting standards.

**Subsequent events**

- 27 All events subsequent to the date of the financial statements which require adjustment or disclosure have been properly accounted for and disclosed. Should further material events occur that may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

**Going concern**

- 28 We believe that the Company's 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 Company's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the Company's ability to continue as a going concern need to be made in the financial statements.

**Specific representations**

- 29 We confirm that the Camden Pension Plan is in deficit and that contributions have been made by the Association to the scheme during the year of £4,114,000.
- 30 With regard to the defined benefit pension scheme, we confirm that we are satisfied that the actuarial assumptions underlying the valuation are consistent with our knowledge of the business and the scheme membership, active and retired. There were current service costs of £2,006,000 and past service costs of £32,000 with the defined benefit pension scheme during 2016/17.

Yours faithfully

Signed on behalf of the board of Directors of the Improvement and Development Agency

## LOCAL GOVERNMENT MANAGEMENT BOARD

Dear Sirs

We confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation, sufficient to satisfy ourselves that we can properly make each of the following representations to you in connection with your audit of the Financial Statements of Local Government Management Board (the "Company") for the year ended 31 March 2017.

### General representations

- 1 We have fulfilled our responsibilities under the Companies Act 2006 ("the Act"), and as set out in your engagement letter, for preparing Financial Statements that give a true and fair view of the state of the Company's affairs at the end of the financial year and of the Company's loss for the financial year in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and for making accurate representations to you.
- 2 All the accounting records and relevant information have been made available to you for the purpose of your audit. We have provided you with unrestricted access to all appropriate persons within the Company, and with all other records and related information requested, including minutes of all management and shareholder meetings.
- 3 All the transactions undertaken by the Company have been properly reflected and recorded in the accounting records.
- 4 The financial statements are free of material misstatements, including omissions.
- 5 We confirm that we have considered the unadjusted items advised to us by you as appended to this letter. We confirm we are not aware of any other unadjusted items that are not clearly trivial. In our opinion, the adjustments that you have identified and recommended us to make are not relevant to the financial statements because [the combined effect of the unadjusted items is not material, and we do not consider that their absence from the financial statements affects the true and fair view given.
- 6 We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.
- 7 Each director has taken all the steps that he/she ought to have taken as a director in order to make himself aware of any relevant audit information (as defined in Section 418 of the Act) and to establish that you are aware of that information.

### Internal control and fraud

- 8 We acknowledge our responsibility for the design, implementation and maintenance of internal control systems to prevent and detect fraud and error. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud
- 9 We have disclosed to you all instances of known or suspected fraud affecting the entity involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
- 10 We have also disclosed to you all information in relation to allegations of fraud or suspected fraud affecting the entity's financial statements communicated by current or former employees, analysts, regulators or others.

### Assets and liabilities

- 11 The company has satisfactory title to all assets and there are no liens or encumbrances on the company's assets, except for those that are disclosed in the notes to the financial statements.
- 12 All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.
- 13 We have no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

### Accounting estimates

- 14 Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

### Loans and arrangements

- 15 The company has not granted any advances or credits to, or made guarantees on behalf of, directors other than those disclosed in the financial statements.

**Legal claims**

- 16 We have disclosed to you all claims in connection with litigation that have been, or are expected to be, received and such matters, as appropriate, have been properly accounted for and disclosed in the financial statements.
- 17 We are not aware of any material provisions, contingent liabilities, contingent assets or contracted-for capital commitments that need to be provided for or disclosed in the financial statements in accordance with the financial reporting framework.

**Laws and regulations**

- 18 We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations, including any breaches or possible breaches of statute, regulations, contracts, agreements or the Company's Memorandum and Articles of Association, whose effects should be considered when preparing the financial statements.

**Related parties**

- 19 Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements. We have disclosed to you all relevant information concerning such relationships and transactions and are not aware of any other matters which require disclosure in order to comply with the requirements of company law or accounting standards.

**Subsequent events**

- 20 All events subsequent to the date of the financial statements which require adjustment or disclosure have been properly accounted for and disclosed. Should further material events occur that may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

**Going concern**

- 21 We believe that the company's 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 company's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the company's ability to continue as a going concern need to be made in the financial statements.

**Specific representations**

- 22 We confirm that the valuation of Layden House is materially correct to the best of our knowledge.

Yours faithfully

Signed on behalf of the board of Directors of the Local Government Management Board

## LOCAL GOVERNMENT ASSOCIATION (PROPERTIES) LIMITED

Dear Sirs

We confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation, sufficient to satisfy ourselves that we can properly make each of the following representations to you in connection with your audit of the Financial Statements of Local Government Association (Properties) (the "Company") for the year ended 31 March 2017.

### General representations

- 1 We have fulfilled our responsibilities under the Companies Act 2006 ("the Act"), and as set out in your engagement letter, for preparing Financial Statements that give a true and fair view of the state of the Company's affairs at the end of the financial year and of the Company's loss for the financial year in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and for making accurate representations to you.
- 2 All the accounting records and relevant information have been made available to you for the purpose of your audit. We have provided you with unrestricted access to all appropriate persons within the Company, and with all other records and related information requested, including minutes of all management and shareholder meetings.
- 3 All the transactions undertaken by the Company have been properly reflected and recorded in the accounting records.
- 4 The financial statements are free of material misstatements, including omissions.
- 5 We confirm that we have considered the unadjusted items advised to us by you as appended to this letter. We confirm we are not aware of any other unadjusted items that are not clearly trivial. In our opinion, the adjustments that you have identified and recommended us to make are not relevant to the financial statements because [the combined effect of the unadjusted items is not material, and we do not consider that their absence from the financial statements affects the true and fair view given.
- 6 We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.
- 7 Each director has taken all the steps that he/she ought to have taken as a director in order to make himself aware of any relevant audit information (as defined in Section 418 of the Act) and to establish that you are aware of that information.

### Internal control and fraud

- 8 We acknowledge our responsibility for the design, implementation and maintenance of internal control systems to prevent and detect fraud and error. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud
- 9 We have disclosed to you all instances of known or suspected fraud affecting the entity involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
- 10 We have also disclosed to you all information in relation to allegations of fraud or suspected fraud affecting the entity's financial statements communicated by current or former employees, analysts, regulators or others.

### Assets and liabilities

- 11 The company has satisfactory title to all assets and there are no liens or encumbrances on the company's assets, except for those that are disclosed in the notes to the financial statements.
- 12 All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.
- 13 We have no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

### Accounting estimates

- 14 Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.



**Loans and arrangements**

- 15 The company has not granted any advances or credits to, or made guarantees on behalf of, directors other than those disclosed in the financial statements.

**Legal claims**

- 16 We have disclosed to you all claims in connection with litigation that have been, or are expected to be, received and such matters, as appropriate, have been properly accounted for and disclosed in the financial statements.
- 17 We are not aware of any material provisions, contingent liabilities, contingent assets or contracted-for capital commitments that need to be provided for or disclosed in the financial statements in accordance with the financial reporting framework.

**Laws and regulations**

- 18 We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations, including any breaches or possible breaches of statute, regulations, contracts, agreements or the Company's Memorandum and Articles of Association, whose effects should be considered when preparing the financial statements.

**Related parties**

- 19 Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements. We have disclosed to you all relevant information concerning such relationships and transactions and are not aware of any other matters which require disclosure in order to comply with the requirements of company law or accounting standards.

**Subsequent events**

- 20 All events subsequent to the date of the financial statements which require adjustment or disclosure have been properly accounted for and disclosed. Should further material events occur that may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

**Going concern**

- 21 We believe that the company's 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 company's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the company's ability to continue as a going concern need to be made in the financial statements.

**Specific representations**

- 22 We confirm that the valuation of LGA House is materially correct to the best of our knowledge.

Yours faithfully

Signed on behalf of the board of Directors of Local Government Association (Properties)

# Appendix II - Emerging Issues

## EMERGING ISSUES

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Future financial reporting and legislative developments which may be of relevance to the Group are detailed below. This information is provided as a summary only. Where the Company requires further information it should obtain appropriate advice and assistance accordingly.

### The Small Business, Enterprise and Employment Act

The Small Business, Enterprise and Employment Act 2015 ('the SBEE Act') received royal assent on 26 March 2015 and makes significant changes to company and insolvency law.

The SBEE Act is being implemented in stages. The majority of measures have now come into effect, including the transparency and company filing measures which amended the Companies Act 2006. The following measure has not yet been implemented:

- Prohibition of corporate directors

The SBEE Act<sup>1</sup> prohibits companies, and other corporate entities, from becoming directors subject to limited exceptions<sup>2</sup>. The reason for the change is to stop corporate structures from hiding illegal activity. This element of the SBEE Act is expected to be implemented in October 2017.

For those entities which already have corporate directors, there will be a 12 month transitional period from the date of implementation in which to appoint replacement directors.

### Results of the EU referendum

The decision to leave the European Union has created greater uncertainty in the UK economy which has implications for the financial statements of all entities.

The Company and its subsidiaries should assess the impact of the EU referendum result and consider the reporting requirements within the Strategic Report.

The directors should consider the nature and extent of risks and uncertainties arising from the result of the EU referendum and the impact on the future performance and position of the business including solvency, liquidity and going concern. These may also have an impact on reported amounts which could lead to further consequences such as an effect on debt covenants.

### Non-financial information reporting requirements

The draft *Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016* ('the Regulations')<sup>3</sup> will introduce new reporting requirements for companies and qualifying partnerships within the Strategic Report for financial years commencing on or after 1 January 2017. Where an entity is a 'public interest entity' (PIE) and has more than 500 employees, a non-financial information statement must be included in the Strategic Report.

Additionally, the Regulations have clarified that, any undertaking which is part of a small group and includes a member that is a PIE established in an EEA State, will no longer be exempt from producing group accounts.

### UK GAAP

#### Amendments to FRS 101 and FRS 102: shareholder notification

FRS 101 and FRS 102 have been amended to remove the requirement to notify shareholders when seeking advantage of the disclosure exemptions in the two standards.

With effect for accounting periods beginning on or after 1 January 2016, qualifying entities are no longer required to notify shareholders in writing of the intention to apply the reduced disclosure framework under FRS 101 or FRS 102.

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<sup>1</sup> Part 7 S87-88 of SBEE Act

<sup>2</sup> The details of the exceptions are yet to be announced.

<sup>3</sup> Published on 7 November 2016

### Amendment to FRS 102: Optional interim relief for Directors' Loans (small entities)

The Financial Reporting Council (FRC) has issued an optional interim relief for small entities accounting for Directors' loans under FRS 102 in May 2017.

The relief will allow small entities to initially measure a loan from a Director, who is a natural person and a shareholder in the small entity (or a close member of the family of that person), at transaction price. FRS 102 previously required such loans ('financing transactions') to be initially measured at present value, with the discount rate being a market rate of interest for a similar debt instrument.

This amendment is effective immediately with retrospective application also available.

### Proposed amendments to FRS 101 (FRED 66)

The FRC has issued Financial Reporting Exposure Draft 66 (FRED 66) Draft amendments to FRS 101 - 2016/17 cycle which proposes limited amendments to FRS 101 as a result of the latest annual review.

FRED 66 suggests one minor exemption from the requirement to provide a single disclosure note for all lease-related information under IFRS 16 *Leases* for qualifying entities<sup>4</sup>.

### Proposed amendments to FRS 102 (Triennial review of UK and Ireland standards)

The FRC has issued a consultation on the proposed updates to FRS 102 to reflect the changes in IFRS. This consultation forms part of the triennial review of FRS 102 and follows on from the feedback request issued by the FRC earlier in 2016.

FRS 102 will be amended in a 'two phase' process.

1. Phase 1<sup>5</sup> will be implemented with effect from 1 January 2019 and the amendments to the Standard are intended to:
  - Incorporate relevant improvements from the 2015 Amendments to the IFRS for SMEs;
  - Incorporate the control model of IFRS 10 Consolidated Financial Statements;
  - Update definitions and the fair value hierarchy for greater consistency with IFRS 13 Fair Value Measurement; and
  - Improve the separation of contracts for the purposes of recognising and measuring revenue, so that it is similar in this regard to IFRS 15 Revenue from Contracts with Customers.
2. Phase 2<sup>6</sup>, which includes significant amendments to the Standard, will be effective from 1 January 2022 and proposes to amend FRS 102 in order to:
  - Incorporate the expected loss model for impairment of financial assets, based on IFRS 9 Financial Instruments; and
  - Update lease accounting by lessees for consistency with IFRS 16 Leases.

The reason for the differing effective dates is to allow entities more time to prepare for the transition and learn from the experience of listed groups already applying the IFRS standards.

### Proposed amendments to FRS 102 (FRED 67)

The FRC has issued the Financial Reporting Exposure Draft 67 (FRED 67) Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland which proposes incremental improvements and clarification to FRS 102 as a result of the recent triennial review.

The principal amendments proposed relate to:

- Intangible assets - fewer intangible assets will need to be separately identified and valued from goodwill in a business combination;

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<sup>4</sup> IFRS 16 is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted (subject to EU-endorsement) for entities that also apply IFRS 15 Revenue from Contracts with Customers.

<sup>5</sup> Phase 1 – Incremental improvements and clarifications.

<sup>6</sup> Phase 2 – Expected Loss model and leases.

- Undue cost or effort exemption – the undue cost or effort exemption will be removed for investment properties and investments in associates and joint ventures;
- Investment property rented to another group entity – an accounting policy choice will be available for entities which rent investment property to another group entity. Entities will be able to measure these investment properties at cost less depreciation and impairment or fair value through profit or loss;
- Classification of financial instruments – a new principal-based definition will be added which will result in more financial instruments being classified as 'basic'; and
- Statement of cash flows disclosure – entities will be required to disclose an analysis of changes in net debt.

The FRC aims to finalise the amendments to FRS 102 in December 2017 with a proposed effective date for accounting periods beginning on or after 1 January 2019.

# People with purpose

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