

Local Government Association Group

Report to the Leadership Board

May 2015



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1 Introduction

Our primary responsibility, as your auditor, is to report to the Association's members our opinion on whether the Consolidated and Association Financial Statements give a true and fair view, and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and the Association's constitution. Our audits are conducted in compliance with International Standards on Auditing ("ISAs") (UK and Ireland) issued by the Auditing Practices Board ("APB").

We report separately our audit opinion on the subsidiary organisations to the respective Boards.

This report forms part of the ongoing communications we are required to make under International Standard on Auditing (UK and Ireland) 260 "Communication of audit matters with those charged with governance" ("ISA 260").

The objective of all our communications is to provide appropriate and relevant feedback. Our audit strategy has been developed following discussions with management and a review of the key risks facing the Group. Our audit approach identified the key risks, as set out in our audit overview letter, and provided us with sufficient assurance that the Group is managing these risks effectively; and related transactions and balances (assets and liabilities) are properly reflected in the Financial Statements.

Our report is structured into the following sections:

- 2 Consolidation
- 3 Financial statements - highlights
- 4 Audit findings
- 5 Recommendations for system improvements
- 6 Adjustments to the Financial Statements
- 7 Representations from management and those charged with governance
- 8 Governance and control
- 9 Audit report

This report has been prepared for the sole use of Local Government Association and its related entities. It must not be disclosed to a third party, or quoted or referred to, without PKF Littlejohn LLP's prior written consent. No responsibility is assumed by PKF Littlejohn LLP to any other party.

We would like to take this opportunity to thank Helen Platts and her team for their invaluable assistance to us in the conduct of our audit. We would also like to thank Paul Brack and the team at Liberata who have been extremely accommodating and helpful throughout.

Yours faithfully

PKF Littlejohn LLP

29 May 2015

2 Consolidation

Those entities included in the consolidation are set out below, along with details of whom we report to, the statutory provisions under which we report and the accounting framework that is applied.

Organisation	Audit report addressed to	Relevant Statute	Accounting Framework
Improvement and Development Agency for Local Government ("IDA")	Members	Companies Act 2006	UK GAAP
Local Government Management Board ("LGMB")	Members	Companies Act 2006	UK GAAP
Local Government Association (Properties) Limited ("LGP")	Members	Companies Act 2006	UK GAAP
The Local Government Information House Limited ("LGIH")	Shareholders	Companies Act 2006	UK GAAP

In respect of the entities listed above, our audits are substantially completed and Financial Statements will be presented to the respective Boards for approval. Once all have been approved, and following the approval of the LGA's Financial Statements, we will be in a position to sign the audit reports. We will not be able to sign the audit report for the LGA until all subsidiary Financial Statements have been approved.

3 Financial statements – highlights

In considering the Consolidated Financial Statements for approval, there are a number of matters which we believe the Leadership Board should be aware of. These are set out below for each of the respective entities in which the issues arise.

3.1 Consolidated financial statements

- Departures from United Kingdom Generally Accepted Accounting Practice

The Leadership Board has elected to prepare the Association's Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice. In respect of the defined benefit pension schemes note to the Financial Statements, numbers and information in respect of the Association as a stand alone entity have not been disclosed, which is not in compliance with UK GAAP.

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.

3.2 Local Government Association

- Investment in Local Partnerships

A number of years ago there was a right down in value of the investment in Local Partnerships reflecting impairment due to loss making activities in the Joint Venture. As Local Partnerships has made surpluses in recent years, repaying loan stock and building a positive balance sheet, the previous impairment of £200,000 has been reversed in the year.

- Year end provisions

Two provisions have been recognised at the year end to reflect reorganisation costs for redundancies agreed before the year end and costs in relation to the termination of the Liberata contract.

- Bonds Agency

An investment in Local Capital Finance Company Limited of £500,000 has been included at cost in the year. At the year end the investment is considered to be fully recoverable.

The Association has also facilitated transactions on behalf of the Local Capital Finance Company Limited during the year. At the yearend a balance of £259,151 was due to the Association.

3.3 Improvement and Development Agency for Local Government

- New subsidiary

Disclosure has been made of the new subsidiary of the Company, the Public Sector Audit Appointments. No transactions have been entered into by the subsidiary during the year.

3.4 Local Government Management Board

- Layden House

- We understand that it is the intention of the Company's Board to redevelop Layden House to improve its future marketability. In preparing financial statements on the going concern basis the Directors should be satisfied that the longer term financial stability of the Company is secure, bearing in mind the need to finance the development and the reduction in income over the development period.

4 Audit findings

4.1 Overall approach

Our overall approach to each audit, including our identification of audit risk (defined as the risk of material misstatement in the financial statements) remains consistent with our approach in previous years.

Appendix 1 to this report sets out the detail of those risks identified when planning the audit, how we addressed them in our audit work and our conclusions.

4.2 Ethical Standards

We are required to comply with Ethical Standards issued by the APB at all times. In particular we are required to consider and confirm our independence as auditors, which we did at the outset of our audits. We confirm that no additional issues have arisen that impair our independence and objectivity.

4.3 Significant difficulties encountered

We did not encounter any significant difficulties during our audits.

4.4 Accounting policies and other disclosures in the financial statements

We have considered the accounting policies adopted by the respective Boards of each entity for its Financial Statements. Inter alia, we have considered the requirements of applicable Accounting Standards and UK GAAP generally and more specifically as applied in the respective sectors in which they operate. We are satisfied that the Financial Statements all give a true and fair view on the basis of the accounting policies adopted by each Board.

We have reviewed each set of Financial Statements and have formed the view that they comply with the requirements of the relevant legislation and applicable Accounting Standards and UK GAAP.

We refer in section 3.1 to the departure from UK GAAP for LGA.

This is the last year of preparing Financial Statements in accordance with existing UK GAAP. The Financial Statements for the year ending 31 March 2016 will be prepared under FRS102, which we reported on in our Report last year.

4.5 Going concern

We have reviewed the evidence to support the appropriateness of the going concern basis. Current guidance issued by the Financial Reporting Council looks for consideration of periods more than one year after the date of the signing of the Financial Statements.

We are satisfied that the going concern basis is appropriate for each set of Financial Statements, subject to any additional information becoming available. Our opinion is based on a review of budgets for the year to 31 March 2016, business plans and our understanding of the underlying funding and contractual arrangements.

The two main risks in relation to going concern beyond the one year horizon relate to the longer term future of RSG funding and the defined benefit pension scheme deficits. We do not believe that either issue is likely to impact on the going concern basis for a period of one year from the date of signing the financial statements, however, the risks should be managed. We understand that this is the case.

4.6 Accounting estimates

The Financial Statements of each entity includes amounts that are derived from the exercise of judgement and estimation as follows:

- Liability in respect of the defined benefit pension schemes – LGA and IDA

The required provision is determined by the Schemes' independent actuaries and the liabilities are accounted for in the associated employers' Financial Statements. Inherent in the valuation are a number of assumptions which the respective Boards should review to ensure that they are consistent with their knowledge of the companies. We have satisfied ourselves as to the competence and qualification of the actuaries but have otherwise relied on the information they have provided.

- Provision for bad and doubtful debts.

Provision should be made for debts which are not considered recoverable. The Group has a policy in place whereby debts of more than two years old are fully provided against and debts of more than one year old, but less than two years old, are provided for at 50%. This policy appears reasonable and we did not find any indications of the policy not being applied.

- Valuation of investment property – LGMB.

An external valuer was appointed to provide an assessment of the open market value of Layden House at the year end in accordance with RICS definitions. We have satisfied ourselves as to the competence and qualification of the valuer, Farebrother, but have otherwise relied on the valuation produced.

4.7 Compliance with laws and regulations

As part of our audit we consider compliance with laws and regulations. We do not carry out a full compliance audit but consider any breaches identified from the perspective of the impact on the amounts and disclosures in the financial statements. In our opinion the most relevant areas of legislation are:

- Company Law
- Health and Safety
- Employment Law
- Competition Law
- Data Protection.

Nothing came to our attention during the course of our audits to indicate that there had been any breaches of law and regulation although we ask you to note that we cannot guarantee that there have been none.

4.8 Fraud

We plan and perform our audits to enable us to obtain reasonable assurance that the Financial Statements are free from material misstatement as a result of fraud or other irregularity.

Management has confirmed to us that it is not aware of any instances of fraud during the year subject to audit and we have not identified any reason to doubt that confirmation.

5 Recommendations for system improvement

We have not identified any significant deficiencies relating to the systems of internal control in the course of our audit work.

At appendix 2 we have set out certain matters that arose during the course of our work, together with suggestions for improvements of controls and procedures operated by each entity. At appendix 3 we have followed up on the points raised in our 2014 report.

Our work during the audits included an examination of some of the transactions and procedures with a view to expressing an opinion on the Financial Statements of each entity for the year. This work was not directed primarily towards discovering weaknesses other than those that would affect our audit opinion or towards the detection of fraud. We have included in the appendices 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.

6 Adjustments to the Financial Statements

Draft Financial Statements were provided at the start of the audit fieldwork for each entity. During the subsequent period a number of accounting adjustments were identified, some by staff at Liberata and some as a result of our audit work.

The table below shows the effect of the journals from the draft surplus or deficit presented for audit, split between those identified by Liberata and those we identified. A comprehensive list of the individual journals can be found at appendix 4.

Entity	Cumulative increase/(decrease) on draft result following journals identified by Liberata	Cumulative increase/(decrease) on draft result following journals identified by PKF Littlejohn LLP
Local Government Association	(3,756,813)*	124,271
Improvement and Development Agency for Local Government	(17,260,411)*	100,401
Local Government Association (Properties) Limited	-	(1)
Local Government Information House	(2,000)	-

* - these adjustments relate mainly to the annual adjustments required in respect of the pension scheme under FRS17, due to the information arriving from the actuaries after the financial statements were drafted. These adjustments were anticipated given the quick turnaround of production of financial statements after the year end.

7 Representations from management and those charged with governance

On completion of the audit we are able to seek representations from those responsible for preparing the Financial Statements on those matters where we are unable to obtain sufficient audit evidence.

Our letter of representation contains general representations and specific representations. The general representations, applicable to all entities, is as set out in appendix 5. Below we set out specific representations relating to individual entities.

Entity	Specific representation required from the relevant Board
Local Government Association	<p>With regard to the defined benefit pension scheme, 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.</p> <p>With regard to the provisions for reorganisation and termination of the Liberata contract, we confirm that the calculation of these provisions are based on the most up to date and appropriate information available to us. We are not aware of any other relevant costs not provided for.</p>
Improvement and Development Agency for Local Government	<p>With regard to the defined benefit pension scheme, 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.</p>
Local Government Association (Properties) Limited	<p>We confirm, that in our opinion, there are no indications of impairment to the carrying value of Local Government House.</p> <p>We confirm that the value of land and the residual value of the property, not to be depreciated, is £13,449m.</p>

8 Governance and control

Future financial reporting and legislative developments which may be of relevance to entities within the Group are detailed below. This information is provided as a summary only. Where further information is required we recommend you 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 will make significant changes to company and insolvency law.

Part 7 and 8 of the SBEE Act contains transparency and company filing measures that will amend the Companies Act 2006. Part 9 will make changes to the disqualification regime in the company Directors Disqualification Act 1986 and Part 10 will make changes to insolvency legislation.

A staging timetable has been introduced to implement the SBEE Act. The first company law measure to take effect will be the prohibition on the issue of bearer shares which will come into force on 26 May 2015.

- Implementation dates

The implementation dates for the key changes made by the SBEE Act are set out in date order below

SBEE Act	Change in the law	Implementation date
<i>Part 7 S84 – 86</i>	Abolition of 'bearer shares'	26 May 2015 ¹
<i>Part 7 S87 – 88</i>	Prohibition of corporate directors	October 2015 ²
<i>Part 7 S89 – 91</i>	Application of directors' general rules to shadow directors	October 2015 ³
<i>Part 8 S96</i>	Protection of information about directors' dates of birth	October 2015
<i>Part 8 S99</i>	Registered office disputes	October 2015
<i>Part 8 S103</i>	Accelerated strike-off	October 2015
<i>Part 9 S104 - 116</i>	Directors disqualification	October 2015 ⁴
<i>Part 10 S117 - 146</i>	Insolvency	October 2015 ⁵
<i>Part 7 S81 – 83</i>	Public register of people with significant control for unlisted entities	January 2016 ⁶
<i>Part 8 S92 – 93</i>	Abolishment of the annual return ⁷	April 2016
<i>Part 8 S94</i>	Retention of statutory registers at Companies House ⁸	April 2016

- Further details on the changes in the law

- Directors' dates of birth*

The public register will only display the month and year the director was born. The day that a director was born will not be made public.

¹ Transitional period of 9 months for existing holders of bearer shares

² Transitional period of 12 months for existing corporate directors

³ Implementation date is unclear although it is envisaged as October 2015

⁴ Implementation date envisaged as October 2015

⁵ Implementation date envisaged as October 2015

⁶ Details to be provided to Companies House from April 2016

⁷ The annual return will be replaced with the annual confirmation statement

⁸ S95 of the SBEE Act includes details on recording of optional information on Companies House register

This change in the law is expected to come into force from October 2015 and is extended to include those people with significant control.

- *Disqualification of directors*

The SBEE Act updates the regime which deals with disqualified directors and makes it easier to pursue directors who have not complied with their legal obligations. The SBEE Act will effectively allow liquidators and administrators to bring legal cases against directors where there have been acts of wrongful or unlawful trading.

The powers given to the Secretary of State have also been extended to disqualify directors for misconduct in connection with companies that are overseas. The Secretary of State will have three years, instead of two years, to bring disqualification action against a director following formal insolvency of a company.

These changes in the law are expected to come into force in October 2015.

- *Public register of people with significant control*

The SBEE Act requires those individuals with significant control over an entity to be named on a public register.

A person has significant control when they hold, or control, more than 25% of the company's voting rights. A person can also hold significant control where they have the power to appoint or remove a majority of the board which can also be achieved directly, or indirectly, through a majority stake in another company. BIS is expected to provide additional guidance on how they define 'significant control' by October 2015.

Companies⁹ will be legally obliged to identify and keep up to date a register of people with significant control from January 2016. However, the requirement to file this information at Companies House will come into effect from April 2016. From then onwards, companies will be required to file the information on people with significant control on an annual¹⁰ basis.

The residential address of a person with significant control will be protected. Other information relating to the person with significant control may only be withheld in certain limited circumstances¹¹.

Where a person with significant control does not comply with their disclosure obligations, the company can impose sanctions which can include a loss of voting rights and transfer obligations. Where a company fails to comply, criminal penalties can be imposed which will also extend to the company's directors and, where applicable, company secretary.

- *Annual return*

The annual return lodged at Companies House will be replaced with an annual confirmation statement in April 2016.

Simplifications to the confirmation statement in respect of the statement of capital will be made due to the removal of the requirement for companies to include the amount paid up

⁹ Other than those who apply chapter 5 of the Disclosure Rules and Transparency Rules sourcebook issued by the FCA (i.e. listed companies including AIM-listed)

¹⁰ There are plans to increase the frequency of reporting to Companies House in order to bring the new rules in line with the EU Fourth Money Laundering Directive

¹¹ Final details concerning such circumstances have yet to be published

and unpaid on each share. Companies will instead be required to specify the total amount unpaid on the total number of issued shares.

- *Company registers*

With effect from April 2016, private companies will have the choice of maintaining certain information, such as information on shareholders, directors and secretaries, on the register held at Companies House as opposed to statutory registers.

A charge will be levied by Companies House for this service.

The future of UK GAAP

The Financial Reporting Council (FRC) has issued changes to the UK and Republic of Ireland financial reporting framework which will become effective for financial years beginning on or after 1 January 2015. Early adoption is permitted.

- *Overview*

The new financial reporting framework consists of the following Financial Reporting Standards (FRS):

- *FRS 100 “Application of Financial Reporting Requirements”* - the application of financial reporting requirements in the UK and Republic of Ireland.
- *FRS 101 “Reduced Disclosure Framework”*- the reduced disclosure framework available for use by qualifying entities choosing to report under International Financial Reporting Standards (IFRS).
- *FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”*- will replace all extant FRSs, SSAPs and UITF Abstracts and include the reduced disclosures available for qualifying entities reporting under FRS 102.
- *FRS 103 “Insurance Contracts”* - The accounting and reporting requirements for entities issuing insurance contracts.
- *FRS 104 “Interim Financial Reporting”* - The content, recognition and measurement principles for interim financial reports.

The framework will require all entities, other than qualifying small entities, to either report in accordance with FRS 102 or IFRS. It does not extend the compulsory use of IFRS for group accounts of those entities with securities admitted to trading on an EU regulated market or where other regulations and market rules require the use of IFRS. However, such group entities can opt to apply FRS 102 or FRS 101 in their individual accounts.

For qualifying small entities, the Financial Reporting Standard for Smaller Entities (FRSSE) will remain under the new financial reporting framework for one year only. Whilst the FRSSE (effective April 2008) is superseded by the FRSSE (effective January 2015) for accounting periods beginning on or after 1 January 2015, the FRC has proposed the replacement of the FRSSE with Section 1A of FRS 102. Under Section 1A of FRS 102, qualifying small entities will apply the recognition and measurement requirements of FRS 102 although different presentation and disclosure requirements will apply. The proposed effective date of Section 1A of FRS 102 is for accounting periods beginning on or after 1 January 2016. However, qualifying small entities are allowed to early adopt for accounting periods beginning on or after 1 January 2015. Where early adoption is taken, there will be no requirement to apply the FRSSE (effective January 2015).

- Considerations for the Group

The Group will need to decide which financial reporting framework to adopt for the accounting period beginning on or after 1 January 2015 (i.e. EU-adopted IFRS, FRS 102 or FRSSE (2015)).

In either case, each entity will need to undergo a transition from the existing UK GAAP to the new financial reporting framework. Under the mandated timetable, the Group would produce its first FRS 102 financial statements as at 31 March 2016 with a transitional balance sheet as at 1 April 2015.

Upon transition to the new financial reporting framework, there are likely to be recognition and measurement differences that the Company will need to address. These differences may impact on the reported profit or loss and the balance sheet position.

The Group will also need to consider the following operational issues when preparing for transition to the new financial reporting framework:

- Training requirements of staff, management and shareholders;
- Changes to IT systems, processes and controls to ensure all information required by the new framework is captured; and
- Potential need for additional resources to implement the new framework.

It is therefore important that an early understanding of the business and financial impact of the changes under the new financial reporting framework is obtained so as to resolve key strategic and operational issues as soon as possible.

9 Audit Report

Our audits are conducted in compliance with International Standards on Auditing (ISAs) (UK and Ireland) issued by the Auditing Practices Board. Our audit reports on the companies will be signed by a partner, Paul Hopper as Senior Statutory Auditor, for and on behalf of PKF Littlejohn LLP in accordance with the Companies Act 2006. Our audit report on the Consolidated Financial Statements will be signed under the name of PKF Littlejohn LLP as the LGA is not covered by the Companies Act.

At appendix 6 we have included the standard audit report for a company, along with the audit report for the LGA Consolidated Financial Statements.

Subject to further information becoming available, we expect to issue unqualified audit reports for each Group entity, and on the Consolidated Financial Statements.

Appendix 1 - Feedback on audit risks identified during our planning

The Group

Area	Approach	Conclusion
Outsourced accounting function	<p>Liberata are appointed as providers of shared services to the Group. There is therefore a detach between those directing and implementing activities, and those recording and reporting financial performance.</p> <p>Notice has been given that the contract will be terminated.</p>	<p>For a sample of transactions across all entities we investigated the approval and authorisation process ensuring that Liberata were only acting on appropriate direction when posting transactions.</p> <p>Audit testing yielded satisfactory results.</p> <p>As the contract is now ending, we have reviewed the terms and conditions of the agreement to ensure that sufficient provision has been made for the termination payment.</p>
Allocation of shared service costs	Calculation and apportionment of shared service costs across all entities reflecting use of resources.	We were able to agree a sample of apportioned costs throughout the Group.
Going concern	As a result of the reduction in RSG, coupled with the significant deficit on the defined benefit pension schemes, we will carefully consider the going concern assertion underlying the preparation of the Financial Statements.	Adequate supporting documentation was obtained across the Group to support the going concern assertion.
Income recognition	Income recognition is defined as an area of risk by International Standards on Auditing.	We tested income to supporting documentation to ensure that it was being recognised in the correct period.
Cut off	As the audit is conducted quite close to the year end there is a risk that events around the year end will not be reflected in the correct accounting period.	We identified adjustments, as set out in appendix 4, when testing cut off.

Local Government Association

Area	Proposed Approach	Conclusion
Accounting for joint ventures	We will review the consolidation of Local Partnerships LLP, being a joint venture arrangement. We will ensure the accounting and disclosures are in accordance with Financial Reporting Standard 9 'Associates and Joint Ventures'.	The consolidation of Local Partnerships LLP has been performed in accordance with FRS 9.
Compliance with banking covenants	Within the terms of agreement of the banking arrangements are covenants relating to financial performance which must be complied with. We will review compliance with banking covenants.	We reviewed the banking covenants and, based on the draft financial statements, there are no breaches.

Improvement and Development Agency

Area	Proposed Approach	Conclusion
Accounting for joint ventures	The company has invested, through the provision of loan financing, in the joint venture GeoPlace LLP. We will review the accounting and valuation of the investment in accordance with Financial Reporting Standard 9 'Associates and Joint Ventures'.	The accounting for Geoplace LLP has been performed in accordance with FRS 9.

Local Government Association and Improvement and Development Agency

Area	Proposed Approach	Conclusion
Pensions	The disclosures and accounting, in accordance with Financial Reporting Standard 17 'Retirement Benefits', of the defined benefit pension schemes is an area of risk that requires special consideration.	We reviewed the disclosures and accounting to confirm adherence with FRS17.

Appendix 2 - Management letter points for the year ended 31 March 2015

Group

Observation	Recommendation	Management response
We identified that the completion of disclosure of interest forms was not complete, with some members' forms over one year old. There is a risk that related party relationships will not be identified, managed and monitored.	We recommend that those charged with Governance and senior staff completed a disclosure of interest form at least annually.	Accepted – we will once again remind members of the need to supply this information for the annual review by our external auditors.
Differences existed between intercompany balances in the various entities.*	We recommend that on a monthly, or at least quarterly basis, that an intercompany balance matrix is completed to prove the elimination of all intercompany balances. Included as part of the process, we recommend that intercompany income and expenditure is recorded and reconciled.*	Accepted – this process is already in place throughout the year. The difficulty with year end transactions is that they are continually being updated by accruals, and tying up all the intercompany accounts for the initial draft is difficult with existing processes. We will look to further automate next year.

Improvement and Development Agency

Observation	Recommendation	Management response
Purchase orders previously raised and no longer required, are not notified to Liberata, meaning they remain open.	We recommend that all those responsible for raising purchase orders are reminded of the importance of informing finance staff of those open orders no longer needed.	Agreed - Budget Holders are reminded each year as part of the process that they must update a provided list of open purchase orders for those that should be closed.

Local Government Association

Observation	Recommendation	Management response
The following recommendation from 2014 has not been addressed: The Association provides, through Bevan Britten, legal services to members. This work is initially charged from Bevan Britten to LGA, then on to those members who have subscribed. There is an irregular billing profile from Bevan Britten meaning that LGA only invoices for costs	We recommend that Bevan Britten are asked to raise invoices to LGA on a more regular basis to facilitate prompter invoicing from LGA to Councils.	Accepted as an issue – we will look to resolve the issues both of obtaining invoices from Bevan Brittan, as well as then obtaining purchase orders from councils before the LGA issues invoices.

Local Government Association

Observation	Recommendation	Management response
twice a year. As a result there is a risk that lengthy delays may arise due to Council purchase orders not being recognised because of the delay or queries from Councils due to staff changes from initial commitment of service.		

Local Government Information House

Observation	Recommendation	Management response
<p>The following recommendation from 2014 has not been addressed:</p> <p>The annual return of the Company was reviewed where we identified that LGMB holds one share (of three issued) in the Company. The Financial Statements currently disclose the IDA as the parent. We understand that this is being investigated as the intention is to transfer the assets, liabilities and activities of the Company into IDA post year end.</p>	<p>We recommend that the shareholding structure is established and appropriate disclosures made in the Financial Statements.</p>	<p>Agreed steps are being taken to deal with this as part of the planned dissolution of the Company.</p>

Appendix 3 - Follow up to management letter points raised in the year ended 31 March 2014

Local Government Association

Observation	Recommendation at 31 March 2014	Management response – 2014	Follow up – 2015
<p>The Association provides, through Bevan Britten, legal services to members. This work is initially charged from Bevan Britten to LGA, then on to those members who have subscribed. There is an irregular billing profile from Bevan Britten meaning that LGA only invoices for costs twice a year. As a result there is a risk that lengthy delays may arise due to Council purchase orders not being recognised because of the delay or queries from Councils due to staff changes from initial commitment of service.</p>	<p>We recommend that Bevan Britten are asked to raise invoices to LGA on a more regular basis to facilitate prompt invoicing from LGA to Councils.</p>	<p>Agreed.</p>	<p>Similar issues existed at the year end and our recommendation remains.</p>
<p>A number of 'ring fenced' creditors are maintained on the Balance Sheet of the Association, treated as deferred income. Having reviewed the underlying agreements relating to the funding, we have proposed and management has accepted adjustments to correct the calculation and accounting treatment of these balances. In two instances the income has been released as no liability exists at the year end. In one further instance an adjustment was</p>	<p>We recommend that deferred income balances arising from 'ring fenced' projects are regularly reviewed to ensure that income is recognised in the correct accounting period.</p>	<p>Agreed – new in year review and year end processes will be put in place.</p>	<p>No further issues identified during our audit work.</p>

Local Government Association

Observation	Recommendation at 31 March 2014	Management response – 2014	Follow up – 2015
made to spread the income over a three year period.	We recommend that expenses are recorded in the correct entity to ensure that income and expenditure are not materially understated.	Agreed.	No such issues identified during our audit work.
From a review of expenditure we identified costs in the Association’s accounting records relating to Local Government House and Layden House that should have been borne by LGP or LGMB. Adjustments have been made in the Financial Statements to reallocate these costs, totalling £120,040.			

Local Government Association (Properties) Limited

Observation	Recommendation at 31 March 2014	Management response – 2014	Follow up – 2015
<p>There are no formal tenancy agreements in place with National Parks England and Early Intervention Foundation.</p>	<p>We recommend that tenancy agreements are signed by each tenant and the Company with copies retained for future reference.</p>	<p>Agreed – draft tenancy agreements are in place and will be signed once AMA (Properties) Ltd has appointed new Directors to its Board so that the decision can be taken by them to agree to the lease as required by the terms of the agreement between LGA (Properties) Ltd, the LGA and AMA (Properties) Ltd.</p>	<p>New leases were prepared in September and October 2014 for NPE and EIF respectively, however, those provided to us were only signed by Local Government Association (Properties) Limited.</p>
<p>The following recommendation from 2013 has not been addressed:</p> <p>The accounting policy for fixtures and fittings, which includes furniture and similar assets, is to depreciate over 15 years.</p>	<p>We recommend that our previous recommendation is given further consideration.</p>	<p>We will further consider this recommendation as part the imminent review of the LGA's property strategy for Local Government House due to take place during 2014/15.</p>	<p>There has been no change to the accounting policy.</p>

Local Government Information House

Observation	Recommendation at 31 March 2014	Management response – 2014	Follow up – 2015
<p>The annual return of the Company was reviewed where we identified that LGMB holds one share (of three issued) in the Company. The Financial Statements currently disclose the IDA as the parent. We understand that this is being investigated as the intention is to transfer the assets, liabilities and activities of the Company into IDA post year end.</p>	<p>We recommend that the shareholding structure is established and appropriate disclosures made in the Financial Statements.</p>	<p>Agreed.</p>	<p>There has been no change to the shareholding as at the date of the Annual Return which was submitted on 8 January 2015. We reiterate our recommendation.</p>

Appendix 4 - Accounting adjustments

Accounting adjustments

(i) Local Government Association

Adjusted items – identified by Liberata

Journal	Income and Expenditure account		Balance sheet	
	Dr	Cr	Dr	Cr
Actuarial gains Income and Expenditure account Pension scheme deficit <i>Being adjustments to account for defined benefit pension schemes valuations at year end.</i>	7,295,000	3,550,000		3,745,000
Income suspense transfer account Creditors <i>Being grant paid to LGA in error</i>			41,316	41,316
Shared services recharge LGIH <i>Being audit fee recharge.</i>		6,000	6,000	
Expenditure Creditors <i>Recharge of staff payment</i>		3,462	3,462	
Expenditure Accruals <i>Accrual for actuarial valuation costs</i>	21,275			21,275
Intercompany – IDA VAT creditor <i>Being correction of intercompany balance</i>			2,790	2,790

Adjusted Items – identified by PKF Littlejohn LLP

Journal	Income and Expenditure account		Balance sheet	
	Dr	Cr	Dr	Cr
Expenditure Creditors <i>Being understated payroll costs.</i>	42,106			42,106
Income Expenditure <i>Being removal of Bonds Agency transactions</i>	595,276	595,276		
Expenditure Intercompany – LGA Properties <i>Being rent charge refund</i>	33,623			33,623
Expenditure Investment <i>Being reversal of impairment on Local Partnerships.</i>		200,000	200,000	

(ii) Improvement and Development Agency for Local Government

Adjusted items – identified by Liberata

Journal	Income and Expenditure account		Balance sheet	
	Dr	Cr	Dr	Cr
Actuarial losses Income and Expenditure account Pension scheme deficit <i>Being adjustments to account for defined benefit pension scheme valuation at year end.</i>	19,174,000	1,996,000		17,178,000
Intercompany - LGA Income <i>Being the DCMS Councillor grant due to LGA received in error.</i>	41,316			41,316
Intercompany – LGA(P) Expense <i>Being the rent charge refund from LGA(P)</i>	41,095			41,095

Adjusted Items – identified by PKF Littlejohn LLP

Journal	Income and Expenditure account		Balance sheet	
	Dr	Cr	Dr	Cr
Expenditure Accruals <i>Being post year end invoices relating to the year.</i>	43,385			43,385
Accrued income Income <i>Being the income due from Basildon Council invoiced after the year end.</i>		25,311	25,311	
Accruals Expenditure <i>Being the over-accrual of expenses at the year end.</i>		72,339	72,339	
Intercompany – PSAA Income <i>Being the recharge of set up costs to PSAA</i>		46,136	46,136	
Intercompany – PSAA Accrued income <i>Being the presentational journal for the</i>			320,000	320,000

Journal	Income and Expenditure account		Balance sheet	
<i>recognition of the PSAA intercompany balance in the financial statements.</i>				
Trade debtors Accrued income <i>Being the presentational journal for the recognition of post year end credit notes.</i>			312,649	312,649
VAT Intercompany – LGA <i>Being adjustment to resolve the reconciliation of intercompany balances.</i>			46,113	46,113

(iii) Local Government Association (Properties) Limited

Adjusted Items – identified by PKF Littlejohn LLP

Journal	Income and Expenditure account		Balance sheet	
	Dr	Cr	Dr	Cr
Expenditure Creditors <i>Being mortgage interest</i>	74,719			74,719
Expenditure Intercompany – LGA <i>Being rent refund.</i>		33,623	33,623	
Expenditure Intercompany – LGA <i>Being rent refund.</i>		41,095	41,095	

(iii) Local Government Information House

Adjusted Items – identified by Liberata

Journal	Income and Expenditure account		Balance sheet	
	Dr	Cr	Dr	Cr
Expenditure Intercompany	2,000			2,000
<i>Being 2014/15 audit fee</i>				

Appendix 5 - Letter of representation – standard representations

Letter of representation – standard representations

Note – the references in bold italics below are for a Company and will be amended to reflect the nature of the entity where appropriate.

PKF Littlejohn LLP
1 Westferry Circus
Canary Wharf
London
E14 4HD

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 **Company's** Financial Statements for the year ended 31 March 2015.

General representations

- 1 We have fulfilled our responsibilities under the **Companies Act 2006 (“the Act”)** 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 surplus** 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, including minutes of all management and Board meetings, have been made available to you for the purpose of your audit.
- 3 All the transactions undertaken by the **Company** have been properly reflected and recorded in the accounting records.
- 4 We confirm that we have provided you with:
 - access to all information of which we are aware that is relevant to the preparation of the Financial Statements such as records, documentation and other matters. **Each Director has confirmed that, so far as he/she is aware, there is no relevant audit information (as defined in Section 418 of the Act) of which you are unaware, and that each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information, and to establish that you have been made aware of that information;**
 - additional information that you have requested from us for the purposes of your audit; and
 - unrestricted access to persons within the **Company** from whom you determined it necessary to obtain audit evidence.
- 5 We acknowledge our responsibilities for maintaining such internal control as we determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error. We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud. We are unaware of any irregularities, including fraud or suspected fraud, involving management, employees who have

significant roles in internal control, or those employed by the **Company**, where the fraud could have a material effect on the Financial Statements. No allegations of such irregularities or breaches have come to our notice.

- 6 We confirm that the accounting policies adopted for the preparation of the Financial Statements are the most appropriate to the circumstances in which the **Company** operates.
- 7 In relation to accounting estimates, we confirm that, in our opinion:
 - the measurement processes, assumptions and models used by management in determining accounting estimates are appropriate and consistently applied;
 - the assumptions reflect appropriately management's intent and ability to carry out specific courses of action, as relevant to the accounting estimate;
 - the disclosures in the Financial Statements are complete and appropriate; and
 - we are not aware of any event after the balance sheet date that requires adjustment to the accounting estimates or the disclosures in the Financial Statements.
- 8 We confirm that all known actual or possible litigation and claims whose effects should be considered when preparing the Financial Statements have been disclosed to you and accounted for and disclosed in accordance with UK GAAP. 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.
- 9 We confirm that we have disclosed to you all related parties of the **Company**, and have disclosed in the Financial Statements all related party transactions. We confirm that all related party transactions have been entered into on an arm's length basis. Other than those included in the Financial Statements, the **Company** has not entered into any transactions involving **Directors**, officers or other related parties requiring disclosure under **the Act** or UK GAAP. Appropriate disclosure has been made of the control of the **Company**.
- 10 There have been no 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**, that might result in the **Company** suffering significant penalties or other loss or whose effects should be considered when preparing Financial Statements.
- 11 We confirm that the **Company** is exempt from tax on its income and gains by virtue of its status as a Local Authority under section 519(3) of the Taxes Act 1988. We confirm that the **Company** is exempt from capital gains under Section 271(3) of the Taxation of Chargeable Gains Act 1992.
- 12 There have been no events since the balance sheet date that necessitate revision of the figures included in the Financial Statements or inclusion of a note thereto. 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.
- 13 We have been notified by you that there are no matters which you are required to raise with us to comply with your profession's ethical guidance.
- 14 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.

Specific representations

- 15 We believe that adequate cash resources will be available to cover the **Company's** requirements for working capital and capital expenditure for at least the next twelve months, and we are not aware of any other factors that we believe could put into jeopardy the **Company's** going concern status. The Financial Statements have therefore been prepared on the going concern basis, and we are satisfied that the disclosures in the Financial Statements in respect of this matter are adequate.

Appendix 6 - Draft Audit report – Consolidated Financial Statements

Draft Audit report – Consolidated Financial Statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LOCAL GOVERNMENT ASSOCIATION

We have audited the financial statements of the Local Government Association (LGA) for the year ended 31 March 2015 which comprise the Consolidated Income and Expenditure Account and Statement of Total Recognised Gains and Losses, Association Income and Expenditure Account and Statement of Total Recognised Gains and Losses, Consolidated and Association Balance Sheets, Consolidated Cash Flow Statement and the related notes x to xx. The financial reporting framework that has been applied in their preparation is as set out within Note 1 to these accounts.

This report is made solely to the Members, as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Members those matters we have been engaged to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Resources Panel and auditors

As explained more fully in the Statement of Resources Panel's Responsibilities set out on page 6, the Members of the Resources Panel are responsible for the preparation of the financial statements and for being satisfied that they have been properly prepared. Our responsibility is to audit, and express an opinion on, the financial statements in accordance our contract dated 20 January 2012 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the LGA's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the Group's and Association's affairs as at 31 March 2015 and of the Groups and Association's surplus for the year then ended; and
- have been properly prepared in accordance with the basis of preparation and accounting policies set out in Note 1 to the accounts

In our opinion the information given in the Report of the Leadership Board for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Statutory auditors
1 Westferry Circus
Canary Wharf
London
E14 4HD

PKF Littlejohn LLP

Date:

PKF Littlejohn LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

Statutory audit report – incorporated under Company Law

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF [] LIMITED

We have audited the Financial Statements of [name of entity] for the year ended 31 March 2015 which comprise [specify the titles of the primary statements such as the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders’ Funds] and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors’ Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company’s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company’s affairs as at 31 March 2015 and of its profit [loss] for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors’ Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Paul Hopper (Senior statutory auditor)
For and on behalf of PKF Littlejohn LLP
Statutory auditor

1 Westferry Circus
Canary Wharf
London E14 4HD

2015