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| **Audit Findings Report**    To the Leadership Board of the Local Government Association Group  Year ended 31 March 2016 |

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| May 2016 |

[Company]

[Title]

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[Date]

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1. Introduction

This report summarises the findings from the audit for the year ended 31 March 2016 which is substantially complete. It includes the findings arising from our audit of your Financial Statements.

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

This report is for your private use only. It has been prepared on the understanding that it will not be disclosed to any third party, or quoted to or referred to, without our prior written consent and we assume no responsibility to any other party.

Financial statements

You are responsible for the preparation of the Financial Statements on a going concern basis unless this basis is inappropriate. You are 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.

Matters from our audit

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 final draft Financial Statements. The matters are set out in Sections 2 and 3 of this report.

Our audit work included an examination of some of the transactions and procedures with a view to expressing an opinion on the Financial Statements for the year ended 31 March 2016. 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 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.

Audit procedures

We refer to our contract dated 22 January 2016 which sets out the terms of our audit appointment. There are no changes to the terms of which you should be aware.

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.

Independence

We confirm that there have been matters that might have an influence on our independence or objectivity.

Status of audit

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 (“IDEA”) | Members | Companies Act 2006 | FRS 102 |
| Local Government Management Board (“LGMB”) | Members | Companies Act 2006 | FRS 102 |
| Local Government Association (Properties) Limited (“LGP”) | Members | Companies Act 2006 | FRS 102 |

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.

Letter of management representation

We have provided you with a draft letter for each entity setting out the representations that we require before finalising our audit opinion. You will see that most of the representations are general and deal with such matters as confirming the Members’/Directors’ responsibilities for preparing Financial Statements showing a true and fair view.

There are a number of specific representations in respect of matters where we have not been able to satisfy ourselves from the available information. Under ISAs, we are permitted to rely on representations from the Members/Directors where audit evidence, other than that obtained by enquiry, is not reasonably expected to be available.

The Members/Directors should carefully review each of the representations within the draft letter, in the light of their own knowledge, before it is approved by the relevant Board. If any Members/Director believes that additional information should be included, or further explanation is required, please let us know.

**PKF Littlejohn LLP**

1. Financial Statement – highlights

Consolidated financial statements

**Departures 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 stand alone 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.

Local Government Association

**Year End Provisions**

Two provisions have been released in the year regarding reorganisation costs for redundancies agreed before the 2015 year end and costs in relation to the termination of the Liberata contract. There is now an immaterial amount held as a provision in the Association’s balance sheet.

Improvement and Development Agency for Local Government

**PSAA**

Disclosure has been made of the relationship, as sole member, with the Public Sector Audit Appointments. This has not been included within the consolidated figures as control cannot be exercised over the entity.

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 and that these plans are due to begin in 2016/17. 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.

Local Government Association (Properties) Limited

**Local Government House**

We understand that it is the intention of the Company’s Board to redevelop Local Government House to improve its future marketability and that these plans are due to begin in 2016/17. 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 associated relocation costs over the development period.

1. Findings from our audit

Opinion on the Financial Statements

We expect to issue an unqualified audit opinion on the consolidated Financial Statements and on each of the subsidiary entities.

Please note that if additional relevant audit information is identified in the course of your consideration of the draft Financial Statements and representation letters, it may cause us to revise our audit opinion.

Accounting misstatements

The adjusted and unadjusted misstatements identified during our audit are detailed within Section 3 of this report.

Significant risks and findings

The significant matters within the Group are:

| **Risk** | **Finding** |
| --- | --- |
| Risk of material misstatement due to fraud related to management override of controls (ISA 240) | We have tested all material movements and journals in the year and found no reason to believe a material misstatement has occurred due to management override.  All bank accounts have been reviewed for any large and unusual items and we are satisfied that those included in our sample were not outside the normal course of business. |
| Risk of material misstatement due to fraud related to revenue recognition (ISA 240) | As the audit is conducted close to the year end there is a risk that events around the year end will not be reflected in the correct accounting period.  Income cut off testing has been undertaken across the entities with satisfactory results. Accrued income and income in advance have been reviewed and found to be appropriately recognised.  The above testing was completed with satisfactory results any related adjustments have been now accounted for correctly. |
| Allocation of shared service costs | We reviewed the 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 back to source documentation. |
| 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. Our review focussed on the ability of each entity to meet its liabilities for 12 months from the date of approval of the financial statements. |
| Public Sector Audit Appointments (PSAA) | PSAA are not being consolidated into the group accounts as the sole member (IDeA) is unable to exercise control of the entity. The basis of this non-consolidation was discussed and agreed. |
| The transition in the year to new UK GAAP has potentially increased the risk of misstatement in the accounts.  The old UK GAAP accounting framework has been replaced with FRS 102 and the relevant companies are therefore presenting their respective financial statements under FRS 102 for the first time, including the restatement of comparative information.  The key risks of the implementation of FRS102 were; increasing the likelihood of accounting estimates or fair values in each of the relevant entities’ financial statements; omissions of any one of the extensive disclosures now required, and the increased likelihood of previous period adjustments. | As a result of the change in accounting framework the financial statements now include more narrative disclosures, particularly regarding accounting judgements and estimations and financial instruments.  During the course of our work we have considered entity specific matters in relation to the impact of the transition to FRS 102. We provided a number of comments and observations on the draft Financial Statements, relating to additional disclosures required under FRS 102.  Transitional adjustments and accounting policies were reviewed to ensure any changes arising from transition had been appropriately identified and applied. |
| Accounting for joint ventures. | We have reviewed the accounting and disclosures for Local Partnerships (LGA) and Geoplace (IDEA), concluding that these have been appropriately reported in accordance with FRS 102. |
| Risk that the accounting for Pension Schemes has been performed incorrectly. The disclosures and accounting, in accordance with FRS 102, 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 FRS 102.  We also reviewed the reports from the actuaries, benchmarking assumptions against published industry averages. We have requested representations from IDEA and LGA members regarding the respective Board’s agreement to the underlying assumptions. |
| Compliance with banking covenants - specific to Local Government Association (Properties) Limited. Within the terms of agreement of the banking arrangements are covenants relating to financial performance which must be complied with. | We reviewed the banking covenants and, based on the draft financial statements, there are no breaches. |

Audit difficulties encountered

We did not identify any significant audit issues or encounter any significant difficulties which we believe should be brought to your attention.

Weaknesses in internal control identified in the audit process

It is the responsibility of the Members/Directors to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Members/Directors have put adequate arrangements in place to satisfy themselves that the systems of internal financial control are both adequate and effective in practice.

Our work during the audit included an examination of some of the respective entities’ transactions and procedures with a view to expressing an opinion on the Financial Statements for the year. This work was not directed primarily towards discovering weaknesses or towards the detection of fraud. We have only considered 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.

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

At appendix 1 we have set out certain matters that arose during the course of our work, together with suggestions for improvements to controls and procedures operated by each entity. At appendix 2 we have followed up on the points raised in our 2015 report.

Matters of governance interest

We identified the following issue relating to the governance of the Group which we feel should be drawn to your attention in the context of the approval of the Financial Statements:

* On a small number of occasions, we identified discrepancies between a disclosures made by members in their declaration of interest forms and Companies House searches for those particular individuals. 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.

Other matters to be reported by exception

Where applicable, under the Companies Act, we are required to report if we are not satisfied with the position in relation to:

* the adequacy of accounting records;
* the adequacy of returns received from branches not visited by us;
* whether the financial statements are in agreement with the accounting records and returns;
* whether certain disclosures of Directors’ remuneration specified by law have been made; and
* whether we have received all of the information and explanations we require for our audit.

We confirm that we are satisfied in these respects, and will confirm in our audit reports that we have nothing to report in respect of these matters.

Going concern basis of accounting

The Financial Statements of each entity have been prepared on the going concern basis of accounting.

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 2017, business plans and our understanding of the underlying funding and contractual arrangements.

The two main risks regarding going concern beyond the one year timescale relate to firstly the long term future of RSG funding, which is a key area of revenue, and secondly the defined benefit pension scheme deficits. We do not believe that either issue is likely to impact on the going concern basis for the period of one year from the date of signing the Financial Statements, however, the risks should continue to be monitored going forward.

We are satisfied, on the basis of our review, that the going concern basis is appropriate for each set of Financial Statements.

Accounting policies

A full review by Management of the accounting policies and their appropriateness was carried out in 2016 following the change in the financial reporting framework from UK GAAP to FRS 102. We draw your attention to the specific note included within the Financial Statements of each relevant entity that outlines the key transition adjustments that have been made to the opening reserves at 1 April 2014 and the previously reported result for the year end 31 March 2015.

The primary changes include:

* Additional disclosures have been made with regards to financial instruments, critical accounting judgements and analysis of turnover.
* Treatment of pension scheme movements.
* The Barclays bank loan and associated interest rate swap are now held at fair value in the accounts leading to an increase in creditors of £1,131,000.
* Local Government House is now shown as an investment property in the LGP entity Financial Statements but as mixed use property (and therefore split between investment property and property, plant and equipment) in the consolidated Financial Statements.
* Holiday pay accruals have now been separately classified in all of the entities resulting in a restatement of prior year results.

We have considered the accounting policies adopted by the entities for their Financial Statements. Inter alia we have considered the requirements of applicable accounting standards and the practices of other similar organisations.

We refer in section 3.1 to the departure from FRS 102 for LGA.

We are satisfied that each entity’s Financial Statements give a true and fair view on the basis of the accounting policies adopted.

Accounting estimates

We have reviewed the accounting estimates adopted by the Group. 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 IDEA

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 entities.

* 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.

An external valuer was appointed to provide an assessment of the open market value of Layden House and Local Government House at the year end in accordance with RICS definitions. We have satisfied ourselves as to the competence and qualifications of the valuer, Farebrother.

* Impairment of joint ventures and investments

The joint ventures and investments have been reviewed for signs of impairment and none were noted.

* Provisions for redundancy costs.

We have reviewed provisions across the group in relation to redundancy costs as the group continues to restructure. The provisions have been deemed reasonable and a specific representation has been included for Improvement and Development Agency.

More generally, we have reviewed the procedures and documentation maintained by Management when considering the accounting estimates within the Financial Statements.

We are satisfied that, in all material respects, the Financial Statements show a true and fair view with the existing estimates.

Related party transactions

We have been provided with a list of related parties by Management, together with a list of related party transactions. We recommend that you review each list to check its completeness. We also recommend that you carefully review the related party transactions disclosures in the Financial Statements to ensure that they include the required information.

We have not identified any further related parties or relevant transactions during our audit.

The representation letters we have drafted confirm the view of Management that all related party transactions reflect arm’s length terms. We have considered this in our audit and have not identified any reason to question the representation.

Fraud indicators

Management has confirmed to us that it is are not aware of any incidence of fraud or suspected fraud during the year. We have not identified any reason to doubt that confirmation.

Compliance with laws and regulations

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

* Data Protection;
* United Kingdom Generally Accepted Accounting Practice;
* The Companies Act 2006;
* Employment legislation; and
* The Bribery Act.

Management has confirmed that it is not aware of any breaches. We did not identify any instances of non-compliance during the course of our audit work.

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1. Audit adjustments

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 LGA accounting staff and some as a result of our audit work.

ISAs require that we report to you all misstatements which we identified as a result of the audit process and which were not adjusted, unless those matters are clearly trivial in size or nature. We bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatements

Management have identified and made a number of adjustments or corrections when finalising the accounting ledgers. The effect of these, and adjustments we identified, has been summarised in Appendix 3.

Unadjusted misstatements

We identified errors during the audit which Management has not reflected in the current draft of the Financial Statements.

We are required by auditing standards to request that these be amended; however, we understand that Management have taken the decision not to make these adjustments on the grounds of materiality. We do not believe that the Financial Statements fail to show a true and fair view with these errors unadjusted, and therefore accept Management’s decision.

There is no impact on the audit opinion as a result of these unadjusted misstatements which are summarised in Appendix 4.

Appendix 1 – Management letter points for the year ended 31 March 2016

| Local Government Association | | |
| --- | --- | --- |
| Observation | Recommendation | Management response |
| 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. | Agreed. |
| 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. | This will be adjusted in next year’s accounts. |
| 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. | Employees are and will continue to be reminded to keep on top of accounting for payment card expenses. |
| January and February 2016 VISA statements had been posted to the trade creditors 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. | Employees are and will continue to be reminded to keep on top of accounting for payment card expenses. |

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| Improvement and Development Agency | | |
| Observation | Recommendation | Management response |
| 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. | Agreed - although this treatment is unlikely to cause problems in the future as replacement assets (PC's, Phones etc) will fall below minimum capitalisation levels. |
| 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. | Members will be reminded to keep records up to date. One discrepancy has already been corrected. |

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| Local Government Association (Properties) Limited | | |
| Observation | Recommendation | Management response |
| 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. | These agreements will be introduced for the next Financial Year as part of move to commercialisation of Local Government House property rentals. |

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| Local Government Management Board | | |
| Observation | Recommendation | Management response |
| 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. | These arrangements will form part of the management of new tenants within Layden House Asset Management following the refurbishment project. |
| 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 charge is incorrect, and not shown at the Land registry. This charge will be removed. |

Appendix 2 – Follow up to management letter points raised in the year ended 31 March 2015

| Group | | | |
| --- | --- | --- | --- |
| Observation | Recommendation at 31 March 2015 | Management response – 2015 | Follow up – 2016 |
|  |  |  |  |
| 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. | Agreed. | Similar issues existed at the year end and our recommendation remains. |
| 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. | Agreed. | Differences existed in 2016 but all immaterial and all identifiable. |

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| Local Government Association (Properties) Limited | | | |
| Observation | Recommendation at 31 March 2015 | Management response – 2015 | Follow up – 2016 |
| The following recommendation from 2013 has not been addressed:  The accounting policy for fixtures and fittings, which includes furniture and similar assets, is to depreciate over 15 years. | We recommend that our previous recommendation is given further consideration. | 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. | There has been no change to the accounting policy in 2016. |

Appendix 3 – Accounting Adjustments

|  |  |  |
| --- | --- | --- |
| **Entity** | **Income and Expenditure Account** | **£’000** |
| **Local Government Association** | Surplus per draft trial balance | 220 |
|  | Adjustments made: |  |
| Auditor Proposed | Accruals Error | 20 |
| Auditor Proposed | Correction of ING Euro bank account year end balance | 9 |
| Client Proposed | Additional pensions accrual | (3) |
| Client Proposed | Intercompany Salary Recharges | 315 |
| Client Proposed | Intercompany Rent Refund Adjustment | 100 |
| Client Proposed | Actuarial Gain from pension plan | 4,107 |
| Client Proposed | Current and past service costs of pension plan | (1,645) |
|  | **Surplus per Financial Statements** | **3,123** |
|  |  |  |
| **Improvement and Development Agency** | Surplus per draft trial balance | 1,416 |
|  | Adjustments made: |  |
| Auditor Proposed | Presentation between debtors and creditors | 0 |
| Client Proposed | Intercompany Rent Refund Adjustment | 89 |
| Client Proposed | Accrual Adjustment | (6) |
| Client Proposed | Accrual adjustment | (25) |
| Client Proposed | Redundancy costs paid in April 2016 | (33) |
| Client Proposed | Intercompany Salary Recharges | (315) |
| Client Proposed | Actuarial Gain from pension plan | 15,817 |
| Client Proposed | Current and past service costs of pension plan | (170) |
|  | **Surplus per Financial Statements** | **16,773** |
|  |  |  |
| **Local Government Management Board** | Surplus per draft trial balance | 2,842 |
|  | Adjustments made: |  |
| Client Proposed | Credit Note Adjustment | (36) |
|  | **Surplus per Financial Statements** | **2,806** |
|  |  |  |
| **Local Government Association (Properties) Limited** | Surplus per draft trial balance | **4,490** |
|  | Adjustments made: |  |
| Client Proposed | Bank Loan Interest Swap Movement | 156 |
| Client Proposed | Intercompany Rent Refund Adjustment | (189) |
| Client Proposed | Deferral of Rent Income | (8) |
|  | **Surplus per Financial Statements** | **4,449** |

Appendix 4 – Unadjusted Items

**Local Government Association**

|  |  |  |  |  |
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| **Description** | **Balance sheet** | | **Income and Expenditure Account** | |
| **Dr** | **Cr** | **Dr** | **Cr** |
| Income  Debtors  *Being prepayment of CEMR 2016/17 fees.* | £68,321 |  |  | £68,321 |

**Improvement and Development Agency**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description** | **Balance sheet** | | **Income and Expenditure Account** | |
| **Dr** | **Cr** | **Dr** | **Cr** |
| Fixed assets  Intercompany – LGA  *Being capitalization adjustment.* | £27,379 | £27,379 |  |  |