

Local Government Association Group Audit Findings Report to the Leadership Board

External Audit for the year ended 31 March 2018



Date of Issue: 29 May 2018

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1 Introduction

PURPOSE AND USE OF OUR REPORT

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 2018, 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;
- Local Government Management Board; and
- LGA Commercial Services Limited.

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) (ISAs (UK)). 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

2 Overview

STATUS OF THE AUDIT

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2018, and anticipate issuing an unqualified audit 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 Audit Committee meeting at which this report is considered:

- Receipt of outstanding third-party bank confirmations;
- Receipt of updated financial statements to reflect agreed adjustments and drafting comments;
- 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.

We would also like to draw your attention to the link given to the FRC's website in the draft audit report. We have elected not to include the description of the auditor's responsibilities in the body of our audit report as permitted by ISA 700. Full details on our responsibilities are available via the link and are also reflected in the engagement contract dated 22 January 2016.

AUDIT PROCEDURES

Our engagement contract referred to above 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 to enable us to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, 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 accounting systems and internal 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.

MATTERS FROM OUR AUDIT

In accordance with International Standards on Auditing (UK) ("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 your 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 in Section 5.

MATERIALITY

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	£1,170,000	£58,500	2% of income
Parent Association figures in the group accounts	£415,000	£20,750	2% of income
Improvement and Development Agency	£750,000	£37,500	2% of income
Local Government Association (Properties) Limited	£16,000	£800	2% of income
Local Government Management Board	£11,000	£550	2% of income
LGA Commercial Services Limited	£8,480	£425	2% of expenditure

FINANCIAL STATEMENTS

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.

FRAUD INDICATORS

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

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’ (the Members or Directors as applicable).

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to impact upon our objectivity and independence as auditors. The principal statements of policies are set out in our Firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes.

The procedures require that audit partners are made aware of any matters which may reasonably be thought to impact on the Firm’s integrity, independence and the objectivity of the audit partner and the audit staff. This document considers such matters in the context of our audits for the period ending 31 March 2018.

We have provided services other than audit to the Group as set out in the table below. We have provided details below of the potential threats to independence and objectivity identified and the safeguards that have been put in place. We are satisfied that the safeguards implemented, as detailed in the below table, are sufficient to mitigate any threat to our objectivity and independence.

We confirm that the Firm complies with the FRC Ethical Standards and the Code of Ethics issued by the ICAEW. In our professional judgement, the Firm is independent and objective within the meaning of the Standards and the Code. Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.

ANALYSIS OF NON-AUDIT SERVICES

Non-audit Services	Independence and Objectivity Threat	Safeguard
Taxation advice	Self-interest and Self-review	We are engaged on an ad hoc basis to provide tax advice to the Group. Where such advice is provided, the work is performed by our tax department, reporting to a tax partner. The tax team is independent of the audit team. We have correspondence with Jonathan Gratte who we believe is “informed management” for this purpose.

LETTERS OF MANAGEMENT REPRESENTATION

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

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

Below are the significant audit risks which we identified in relation to the audit of the financial statements for the year ended 31 March 2018. A summary of the significant audit risks together with the findings resulting from our audit work, was as follows:

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">• 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;• Substantive transactional testing of income recognised in the financial statements, including deferred and accrued income balances recognised at year end;• A review of post year end receipts to ensure completeness of income recorded in the accounting period. <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 2018.</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"> • 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. • 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"> - Apportionment of shared service costs in line with the use of resources (all entities); - 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 12 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); 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 9 for more detail). • An assessment of whether the financial results and accounting records included any significant or unusual transactions where the economic substance was not clear. <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 2018.</p>

OTHER AREAS OF AUDIT FOCUS

Area of Focus	Description	Audit Findings
Investment properties	<p>FRS 102 defines investment property as property that is held by the owner to earn rentals or capital appreciation or both. Investment property must currently be accounted for at fair value at each reporting date, with any change in value recognised in profit or loss.</p> <p><u>Local Government House</u></p> <p>Local Government House is owned by Local Government Association Properties. During the year to 31 March 2017 the property was completely vacated and the operations of all Group entities moved over to Layden House, to allow the completion of substantial capital works to Local Government House. During the year to 31 March 2018 the operations of all Group entities have moved back over to Local Government House following completion of the capital works.</p> <p>Local Government House is 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 2017 (the temporary change of use was not deemed to affect the accounting treatment). We anticipate the same treatment at 31 March 2018, however the completion of the refurbishment works is likely to lead to a significant increase in the value.</p> <p>Local Government House has historically been 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 at 31 March 2017, which was the proportion being used by Group entities. The remaining 11%, available for use by third parties, was treated as investment property and included at 11% of the valuation.</p> <p><u>Layden House</u></p> <p>Layden House is owned by Local Government Management Board, and has historically been rented out to third parties on normal commercial terms. During the year to 31 March 2017 the operations of the Group entities were temporarily moved over to Layden House.</p> <p>This was correctly not deemed to affect the accounting treatment, and it was 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 2017.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> • Review of the accounting policies for investment property to determine whether these are in line with FRS 102 Section 16 'Investment Property'; • Examination of Land Registry records to confirm ownership; • Examination of the valuations undertaken for investment properties at 31 March 2018 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 valuers; and • Review of the accounting and disclosures in the financial statements to determine whether this is sufficient and appropriate and in line with valuations performed, and that any change in value since 31 March 2017 has been accounted for correctly (including the impact on the revaluation reserve). <p>No issues have been noted in relation to the work performed.</p> <p>We 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 (66% cost, 34% at valuation as an investment property) in the consolidated financial statement of Local Government Association. This is in line with the use of the property by the LGA group.</p> <p>(Continued on next page)</p>

Area of Focus	Description	Audit Findings
Investment properties	<p>(Continued from above)</p> <p>Layden House is currently vacant with a significant refurbishment programme under way, due to be completed in June 2019. Due to the way in which the property is valued, the current position of the refurbishment works at 31 March 2018 <i>could</i> lead to a temporary reduction in the value of this investment property in the financial statements at that date.</p>	<p>(Continued from above)</p> <p>Farebrother provided a valuation of £36,750k for Layden House at 31 March 2018, which resulted in a gain of £8,575k being recognised in the financial statements of Local Government Management Board at that date. Despite the refurbishment works at this property being only partially complete at 31 March 2018, increases in rental value in Farringdon have led to an overall increase in the value of the property provided by Farebrother.</p> <p>Farebrother provided a valuation of £53,550k for Government House at 31 March 2018, which resulted in a gain of £30,580k being recognised in the financial statements of Local Government Association Properties at that date. This gain is largely due to the completion of the refurbishment work, which led to a temporary reduction in value at 31 March 2017 as the works were only partially complete at that date.</p> <p>We challenged the key assumptions applied by Farebrother in their valuations of Layden House and Local Government House at 31 March 2018. 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> <p><u>Note on accounting treatment going forwards</u></p> <p>The FRC has issued the Financial Reporting Exposure Draft 67 (FRED 67) which proposes incremental improvements and clarification to FRS 102 as a result of their recent triennial review. The effective date for these changes will be for accounting periods commencing on or after 1 January 2019, though early adoption will be permitted (so long as all changes are adopted).</p> <p>One of the changes is that where an investment property is rented to another group entity, that property can now be measured either at cost (less depreciation and impairment) or at fair value.</p> <p>This accounting policy choice could therefore be used by Local Government Association Properties, for the element of Local Government House which is rented to Group entities and currently accounted for at valuation. An overall valuation of the property would still need to be obtained, in order to account for the element rented out to third parties.</p>

Area of Focus	Description	Audit Findings
Fixed Asset Additions	<p>We understand that significant capital works have now been completed at Local Government House (Local Government Association Properties Limited) and are in progress at Layden House (Local Government Management Board), expected to complete in June 2019. The total costs of the works to the two properties is anticipated to be in the region of £30m.</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 will include:</p> <ul style="list-style-type: none"> • Substantive sample testing of fixed asset additions in the year to ensure that these are correctly capital in nature in line with FRS 102 Section 17 'Property, Plant and Equipment'; • Review of 'repairs and maintenance' ledger codes for any capital items which have been incorrectly expensed; and • Substantive testing of retentions and capital commitments at year end, to ensure that these have been accounted for and disclosed correctly. <p>No issues noted from the above audit procedures.</p>
Joint Ventures	<p>The Group has entered into joint venture arrangements as follows:</p> <ul style="list-style-type: none"> • Local Partnerships LLP is a joint venture between Local Government Association and Partnerships UK. • GeoPlace LLP is a joint venture between Ordnance Survey and the Improvement and Development Agency. • LGA Digital Services Limited is a joint venture between Local Government Association and London Borough of Brent. <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
<p>Defined benefit pension schemes</p>	<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 net liability reported in the Local Government Association balance sheet at 31 March 2017 was £38,378,000 and that in the Improvement and Development Agency on the same date was £86,613,000. We understand that the next triennial review of the schemes is due to be undertaken as at 31 March 2019, with an actuarial update valuation to be performed as at 31 March 2018.</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 £1,621,000 at 31 March 2017.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> Obtaining the actuarial reports on both schemes as at 31 March 2018 and agreeing to the disclosures included within the financial statements to ensure these were sufficient and appropriate in line with FRS 102; 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 Assessing the reasonableness of the assumptions used by the actuaries in their calculation of the gross liabilities of the schemes as at 31 March 2018 through comparison to publicly available information. <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 2018.</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"> • There is sufficient audit evidence in respect of related party transactions and arrangements; • All related parties have been identified to ensure that all material related party transactions and arrangements have been disclosed in the financial statements; • 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 • There is a fair presentation of related party transactions and arrangements in the financial statements which is not misleading. 	<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.</p>

Area of Focus	Description	Audit Findings
<p>Going Concern</p>	<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"> • Consideration of the financial performance in the year ended 31 March 2017 and the financial position at the year-end; and • Review of the financial forecasts (including cash flows) for the next two years. <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 2018.</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>

ACCOUNTING POLICIES

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 groups in your sector. There were no changes to the accounting policies adopted in the year to 31 March 2018. We are satisfied that the accounting policies adopted are appropriate.

ACCOUNTING ESTIMATES

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 12 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 9 for more detail).

FINANCIAL STATEMENT DISCLOSURES

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

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.
-

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) (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 2018, 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').
LGA Commercial Services Limited	Limited Company	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 IN INTERNAL CONTROL

We are required to report to you, in writing, significant deficiencies in the internal control environment which we have identified during the audits.

No significant deficiencies have been noted during the audit for the year ended 31 March 2018. We have noted one other deficiencies to report to you below, and we also provide an update on deficiencies reported in the prior period.

It is the responsibility of the Trustees to develop and implement systems of internal control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider the internal control system that has been put in place by the Trustees in order to assess the adequacy as a basis for the preparation of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the systems 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. 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.

OTHER DEFICIENCIES

Area	Observation	Risk	Recommendation	Management Response
Formal rent agreements	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.	Risk of disputes and lack of audit trail on which to base the charges.	We recommend that rental agreements for all entities that rent space in Local Government House for good practice.	Noted. It is intended that formal rental contracts to LGA Group companies are issued once the LGA group restructuring is complete (to avoid having to novate contracts in the future). Formal rental contracts to Third Party tenants are already prepared.

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Original Observation	Original Recommendation	Audit Update	Management Response
Manual Journals	<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>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>For 2018 LGA have implemented treasury journals which are used for the sweeping of bank accounts each evening.</p> <p>All journals we reviewed as part of the audit were for business purposes and the supporting documentation was provided.</p> <p>It was noted that the treasury journals have only been implemented in LGA and not in the other group companies.</p> <p>There remains no formalised approval process for other types of manual journal entry.</p> <p>Recommendation partially implemented.</p>	<p>Noted. New processes were introduced from 1 October 2017 to better distinguish between 'manual' journals and regularly occurring journals (system journals such as bank sweeping). Monthly review of journals is undertaken. Further quarterly review of journals will be undertaken from 2018/19 by the Strategic Finance Manager as an additional check.</p>
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>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>For 2018 we have found this deficiency to still be valid as many declaration forms did not disclose members' other interests.</p> <p>Recommendation not implemented.</p>	<p>Noted. Member Services to continue to check with Members to ensure declarations are as accurate as possible.</p>

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Original Observation	Original Recommendation	Audit Update	Management Response
Salary Update Letters	Whilst completing wages testing across the group it was noted there are no formal letters to employees for automatic salary banding movements.	<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>Letters are provided for changes in salary band however no letter is provided for when an employee moves <i>within</i> a band, which is deemed reasonable as these bandings are known and each employee will be made aware of this within their appraisal.</p> <p>Recommendation fully implemented.</p>	N/A
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>	We recommend the group look into any potential underlying reasons for these corrections and solutions to avoid such a high number occurring.	<p>The number of credit notes raised has fallen for 2018 and our testing found the credit notes to be for a valid business reason.</p> <p>Recommendation fully implemented.</p>	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.

Unadjusted Misstatements (Local Government Management Board)	SOCl		Balance Sheet	
	Dr (£)	Cr (£)	Dr (£)	Cr (£)
1. Dr Expenditure (legal and professional fees)	806.25	-	-	-
Cr Accruals	-	-	-	806.25
<i>Being: Item of expenditure which was incorrectly not accrued for at year end.</i>				
2. Dr Expenditure (Corporation tax)	1,848.05	-	-	-
Cr Accruals	-	-	-	1,848.05
<i>Being: Incorrect calculation of unpaid corporation tax interest (PKF estimate).</i>				
Total unadjusted in Local Government Management Board:	2,564.30	-	-	2,564.30
	Net Dr £2,564.30		Net Cr £2,564.30	

Unadjusted Misstatements (Improvement and Development Agency)	SOI		Balance Sheet	
	Dr (£)	Cr (£)	Dr (£)	Cr (£)
1. Dr Income (donations and grants)	124,126.51	-	-	-
Cr Income (project delivery income)	-	124,126.51	-	-
<i>Being: Adjustment to correct miscoding of NHS income item which was incorrectly coded to donations income.</i>				
Total unadjusted in Improvement and Development Agency:	124,126.51	124,126.51	-	-
		Net Nil	-	

ADJUSTED MISSTATEMENTS

A number of misstatements were identified during the audit and have been adjusted in the financial statements.

Adjusted Misstatements (Improvement and Development Agency)	SOCl		Balance Sheet	
	Dr (£)	Cr (£)	Dr (£)	Cr (£)
1. Dr Expenditure (shared services costs)	599,880.00	-	-	-
Cr Income (miscellaneous sales and charges)	-	599,880.00	-	-
<i>Being: Correction of PENSID income which was incorrectly netted off expenditure rather than being shown as income.</i>				
2. Dr Expenditure (additional staff expenses)	201,500.00	-	-	-
Cr Accruals (superannuation)	-	-	-	201,500.00
<i>Being: Adjustment to include March 2018 pension scheme fees.</i>				

Adjusted Misstatements (Improvement and Development Agency)	SOI		Balance Sheet	
	Dr (£)	Cr (£)	Dr (£)	Cr (£)
3. Dr Income (Royalties)	141,243.00	-	-	-
Cr Income (GeoPlace profit share)	-	141,243.00	-	-
Dr Income (Royalties)	141,243.00	-	-	-
Cr Income (Royalties)	-	141,243.00	-	-
<i>Being: Correction of reversal of prior year accrued income which was also posted to the incorrect code.</i>				
Total adjusted in Improvement and Development Agency:	942,623.00	741,123.00	-	201,500.00
	Net Dr £201,500		Net Cr £201,500	

Appendix I - Draft Letters of Representation

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

LOCAL GOVERNMENT ASSOCIATION

Letter of Representation - to be typed on letter headed paper

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

[Date]

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 2018.

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 detailed below. 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.

	SoCI		Balance Sheet	
	Dr £	Cr £	Dr £	Cr £
Dr Income (donations and grants)	124,126.51			
Cr Income (project delivery)		124,126.51		
<i>Being: An item of income which was classified incorrectly (IDA)</i>				

-
- 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

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

Loans and arrangements

- 15 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

- 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 Group'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 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 ability to continue as a going concern need to be made in the financial statements.

Specific representations

- 22 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 £3,104,000.
- 23 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 £2,276,000 and past service costs of £nil with the defined benefit pension scheme during 2017/18.

Yours faithfully

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

Date:

IMPROVEMENT AND DEVELOPMENT AGENCY

Letter of Representation - to be typed on letter headed paper

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

[Date]

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 2018.

General representations

- 1 We have fulfilled our responsibilities under the Companies Act 2006 ("the Act"), and as set out in the engagement contract, 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 result 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 detailed below. 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.

	SoCI		Balance Sheet	
	Dr £	Cr £	Dr £	Cr £
Dr Income (donations and grants)	124,126.51			
Cr Income (project delivery)		124,126.51		
<i>Being: An item of income which was classified incorrectly.</i>				

-
- 6 We have informed you of all documents that we expect to issue comprising of other information (e.g. Directors' Report and if applicable, Strategic Report) and that the information included therein is consistent with the financial statements and does not contain any material misstatements.
 - 7 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.
 - 8 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

- 9 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
- 10 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.
- 11 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

- 12 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.
- 13 All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.
- 14 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 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 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

- 23 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 £3,830,000.
- 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 £3,375,000 and past service costs of £2,000 with the defined benefit pension scheme during 2017/18.

Yours faithfully

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

Date:

LOCAL GOVERNMENT MANAGEMENT BOARD

Letter of Representation - to be typed on letter headed paper

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

[Date]

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 2018.

General representations

- 1 We have fulfilled our responsibilities under the Companies Act 2006 ("the Act"), and as set out in the engagement contract, 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 result 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 detailed below. 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.

	SoCI		Balance Sheet	
	Dr £	Cr £	Dr £	Cr £
Dr Expenditure	806.25			
Cr Accruals				806.25
<i>Being: An item of expenditure which was incorrectly not accrued at year end.</i>				
Dr Expenditure	1,848.05			
Cr Accruals				1,848.05
<i>Being: Incorrect calculation of unpaid corporation tax interest.</i>				

-
- 6 We have informed you of all documents that we expect to issue comprising of other information (e.g. Directors' Report and if applicable, Strategic Report) and that the information included therein is consistent with the financial statements and does not contain any material misstatements.
 - 7 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.
 - 8 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

- 9 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
- 10 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.
- 11 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

- 12 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.
- 13 All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.
- 14 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 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 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

- 23 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 Local Government Management Board

Date:

LOCAL GOVERNMENT ASSOCIATION (PROPERTIES) LIMITED

Letter of Representation - to be typed on letter headed paper

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

[Date]

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) Limited (the "Company") for the year ended 31 March 2018.

General representations

- 1 We have fulfilled our responsibilities under the Companies Act 2006 ("the Act"), and as set out in the engagement contract, 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 result 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 have informed you of all documents that we expect to issue comprising of other information (e.g. Directors' Report and if applicable, Strategic Report) and that the information included therein is consistent with the financial statements and does not contain any material misstatements.
- 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 Local Government 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) Limited

Date:

LGA COMMERCIAL SERVICES LIMITED

Letter of Representation - to be typed on letter headed paper

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

[Date]

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 LGA Commercial Services Limited (the "Company") for the period ended 31 March 2018.

General representations

- 1 We have fulfilled our responsibilities under the Companies Act 2006 ("the Act"), and as set out in the engagement contract, 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 result 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 have informed you of all documents that we expect to issue comprising of other information (e.g. Directors' Report and if applicable, Strategic Report) and that the information included therein is consistent with the financial statements and does not contain any material misstatements.
- 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.

Yours faithfully

Signed on behalf of the Board of Directors of LGA Commercial Services Limited

Date:

Appendix II - Emerging Issues

EMERGING ISSUES

Guidance

Charity Commission - updates and guidance

The following guidance has recently been updated by the Charity Commission:

Date	Title
September 2017	How to report a serious incident in your charity
August 2017	Grant funding an organisation that isn't a charity

A summary of each of these publications is provided below along with a link to the full text.

How to report a serious incident in your charity

This guidance was first published in 2014, and was updated in September 2017. The purpose of the guidance is to assist trustees in identifying serious incidents, and ensure that they are reported to the Charity Commission.

A serious incident is an adverse event, whether actual or alleged, which results in or risks significant loss of a charity's assets, damage to a charity's property, or harm to a charity's work, beneficiaries or reputation. Examples include fraud, theft, terrorism or extremism allegations, and safeguarding issues.

The guidance covers in detail the types of incidents to be reported, when and how reporting should be undertaken, and further actions needed. The Commission requires reporting of significant incidents even if it has already been reported to the police or another regulator.

The full document is available here:

[How to report a serious incident in your charity](#)

Action: Charities should familiarise themselves with the updated guidance, in particular the range of incidents that would be considered 'serious' and therefore require reporting to the Charity Commission.

Grant funding an organisation that isn't a charity

This guidance covers the situation where a charity is considering making a grant to an organisation that isn't a charity. It was first issued in February 2016 and was updated in August 2017.

Grant-funding can be an effective way for charities to further their purposes and allow them to impact beneficiaries that they may otherwise not be able to reach. Making grants to organisations that aren't charities can be a good method of reaching new beneficiaries, or assisting existing beneficiaries in new ways.

However, there are risks. Every grant a charity makes must only be used in line with the charity's purposes. Organisations that aren't charities do not have to deliver public benefit, comply with charity law or undertake activity with charitable purposes.

The guidance assists charities through the decision-making process of whether to make a grant to a non-charity and undertake an appropriate risk assessment to support this. If the decision is 'yes', it goes on to assist in defining appropriate terms and conditions, put monitoring systems in place, and take necessary actions if things go wrong.

The guidance encourages proportionality for example in the extent of due diligence on a potential grant recipient and the level of monitoring needed to ensure compliance with terms and conditions (and ultimately with the charities purposes). Trustee judgement will therefore still be needed, however this provides a useful reference point for the types of considerations needed.

The full document is available here:

[Grant funding an organisation that isn't a charity](#)

Action: For information.

Law and regulation

Charity Commission Annual Return

The Charity Commission Annual Return for 2018 ('AR18') has been launched, following a consultation with the sector which closed in November 2017. The new return will be applicable for accounting periods ending on or after 1 January 2018, so does not yet affect charities with a 31 December 2017 year end.

The Commission has stated that on average charities will have to answer 15 fewer questions, though AR18 includes new questions in eight areas. In particular, there are new questions in relation to grants and contracts with central and local Government, and overseas income and expenditure:

- AR18 will ask whether a charity received income from outside the UK, the value by country, and the value by source (e.g. Governments, NGOs, charities etc.) Values from individual donors or private institutions will be voluntary for 2018, but mandatory for 2019. AR18 will also ask for total expenditure by country, and methods of money transfer (with totals) if this was outside of the banking system (e.g. PayPal).
- AR18 will ask for the total number and total value of grants and contracts from central and local government (separate totals). There are complications around the definition of central and local government, the definition of grants and contracts, and how multi-year agreements should be treated. The Commission has said that more guidance will be issued in due course.

The Commission has also launched a new 'Update Charity Details' service to allow charities to inform them of changes to their registered details, key activities and policies as and when changes arise (and has removed these questions from the Annual Return).

Full detail of the consultation and outcomes can be found here:

[Charity Commission AR18 consultation](#)

Action: *We encourage charities to familiarise themselves with the questions in the new return in good time, to ensure that the necessary information is available to complete the return. This will affect in particular those with overseas operations and those receipt of funding from the UK government.*

Draft Charities Bill

On 14 September the Law Commission published a report entitled 'Technical Issues in Charity Law'. This is the result of an extensive consultation launched in 2015 and a supplementary consultation in 2016, the focus of which was to identify which areas of charity law the sector finds unduly complex, time-consuming or restrictive. Alongside the report, a new Draft Charities Bill was published for consideration by the government.

Recommendations include:

- Allowing trustees to borrow from their permanent endowment (with appropriate checks);
- Making it easier for charities to amend their governing documents;
- Giving charities more flexibility over land sales;
- Removing barriers to mergers where this is in the charities best interests;
- Extending the ability to pay trustees to enable supply of goods as well as services; and
- Allowing ex gratia payments to trustees without Commission approval.

Proposed increased powers for the Charity Commission include increased powers to prevent charities using misleading names, and the ability to confirm that trustees were properly appointed.

Whilst many of the recommendations are technical in nature, in combination they should allow charities to operate more effectively and have more control over their resources. The Charity Commission expects to work with government to implement the changes over the coming months, having accepted the recommendations as 'sensible and timely'.

The full report is on the Law Commission website, with the list of recommendations on page 355:

[Technical Issues in Charity Law](#)

Action: *For information only at this stage until the government response is issued.*

Law and regulation

Data security and GDPR

Charities rely heavily on personal data relating to beneficiaries, donors and other stakeholders. But many organisations face serious challenges regarding the capture, processing and securing of this information.

What are the penalties for getting it wrong?

Both the risks and the likely penalties for suffering a data loss are increasing. The Information Commissioner (ICO) stated recently that organisations need to rethink their approach to data protection and is backing up this warning with decisive action.

The ICO fined 13 major fundraising charities in early 2017 for breaching the Data Protection Act, in relation to misuse of donors' personal data. This was followed by an announcement by the ICO in September that the charity sector was responsible for a further 21 data security incidents in the period April to June 2017.

The difficulty for most charities is that they typically have limited financial resources and relevant expertise, and the focus is almost certainly on fundraising and the provision of services. But none of that will count as mitigating factors if you suffer a data breach or use personal information inappropriately.

How are the rules changing?

All personal data held by any organisation for any purpose is governed by the Data Protection Act 1998 (DPA) and the Privacy and Electronic Communications (EC Directive) Regulations 2003 (PECR).

However, there is a new EU Directive, the General Data Protection Regulation (GDPR), which is due to come into force on 25 May 2018. GDPR increases the size of the fines that can be levied in the event of a data breach or non-compliance with the Directive to as much as 4% of the annual worldwide turnover of an organisation or €20 million (whichever is the greater).

The GDPR also introduces stricter rules about contacting individuals, seeking and recording consent, and individual's rights to 'be forgotten.' There is a greater emphasis on being able to *demonstrate* compliance, as well as having the systems in place to ensure this.

What can you do?

The ICO has prepared a useful '12 steps to take now' guide in relation to the GDPR:

[Preparing for the GDPR \(12 Steps\)](#)

There are a number of steps you can take to minimise the risk of your charity suffering a data loss or using information inappropriately.

- Security and confidentiality of data must be at the heart of your IT decision-making, not just an afterthought.
- Ensure you have explicit consent or another legally valid justification for storing and using any personal information for the specific process you wish to use it for.
- Encrypt personal data. The ICO has said categorically that it will not accept any excuse for a data breach if the data were not encrypted, regardless of any other measures in place.
- Make sure you know what data you're capturing, where it is stored and how it is protected. Take particular care before entering into agreements with third-parties for data storage and processing, such as specialist emailing services or data centres. Remember that you are responsible for your data at all times, regardless of where it is located or who is processing it.
- Ensure you have well-defined policies and procedures that are communicated regularly to all relevant personnel regarding both the security and use of personal information.
- Commit to an independent review of your measures and policies on at least an annual basis to identify issues and gaps.
- As a general rule, don't do anything with data unless you are certain that it is appropriate and secure to do so.

If you require any further advice about data protection, please contact Ian Singer at isinger@pkf-littlejohn.com or +44 (0)20 7516 2200.

Law and regulation

Charitable Incorporated Organisations

Legislation was placed before parliament in September 2017 to allow charitable companies and community interest companies to directly convert to be charitable incorporated organisations (CIOs). This has now come into place.

CIOs are an incorporated form of a charity that is not a company, only have to register with the Charity Commission (not Companies House), and which can enter into contracts in its own right meaning the trustees will normally have limited or no liability for any debts. They were introduced in 2013, with more than 12,500 currently in existence.

Prior to this new legislation there was no method (in England and Wales) for a charitable company or community interest company to directly convert to CIO status. Instead the CIO had to be set up first, followed by a transfer of assets, liabilities and operations from the existing body, followed by closure of the existing body and de-registration.

Direct conversion makes the process easier and allows the organisation to keep its name, bank accounts and existing charity number. Advantages conferred by being a CIO include not having to submit accounts to Companies House.

Action: *It is important to bear in mind that there are several issues to be considered before converting or setting up a CIO, for example as CIOs are relatively new structure some lenders and funders may be less willing to provide finance. Trustees should ensure that this is a fully-informed decision with professional advice being sought where appropriate.*

Reporting of 'Significant matters' to the Charity Commission

The Charity Commission has issued a revised list of "significant matters" on which auditors and independent examiners must report.

The key new "significant matters" include:

- Notification of the nature of any modification / qualification / emphasis of matter included in an audit opinion with supporting reasons, and detail of any subsequent action taken by the trustees; and
- Any evidence that conflicts of interest have not been managed by the trustees in accordance with guidance issued by the charity regulator and/or related party transactions have not been fully disclosed in line with the requirements of the applicable SORP.

Action: *For information, however charities should continue to ensure that their internal processes for identifying and recording conflicts of interest and related parties (as well as taking necessary actions) remain appropriate.*

Fundraising disclosures

The Charity Commission issued a regulatory alert (CC15d) on 1 November 2016 setting out new fundraising rules – covering disclosures in the Trustees' Report and agreements with third parties.

The new disclosures are mandatory for all charities registered in England and Wales above the audit threshold, for accounting periods commencing on or after 1 November 2016. The first annual reports impacted by these changes will therefore be dated 31 October 2017 onwards (early adoption is permitted).

The information required includes the charity's approach to fundraising, whether or not they work with any commercial participators and how they monitor their activity, how they deal with complaints, and how they ensure protection of the public, including vulnerable people, from intrusive or persistent approaches.

The full requirements are set out in the 'Charities (Protection and Social Investment) Act 2016' (Section 13, Paragraph 4.1):

<http://www.legislation.gov.uk/ukpga/2016/4/section/13/enacted>

Action: *Affected charities should think about who will draft this section of the report and build this into their year-end reporting timetable.*

Law and regulation

Third party fundraisers

The Act above has also introduced new requirements where a charity (registered or unregistered) uses a professional fundraiser or other business to raise funds.

The new rules state that there must be written agreements between the charity and third party. The agreement must include information on how the third party will adhere to relevant fundraising regulation, how the third party will protect the public, including vulnerable people, from unreasonably persistent or intrusive fundraising approaches and pressure to donate, and how the charity will monitor the third party's compliance with the agreement.

Any new agreement signed on or after 1 November 2016 is required to include the new clauses. The Act does not specify whether agreements entered into before 1 November 2016 have to comply with the new rule; however, the Regulator has stated that it expects all existing agreements to be compliant.

The revised 'Code of Fundraising Practice' also contains requirements for working with third parties specifically section 4. There are a number of items which must be included in agreements, and also areas where charities must ensure that they can evidence all reasonable efforts have been taken to ensure effective ongoing compliance. This includes for example approving and regularly reviewing agency compliance training, conducting call monitoring, and setting out a clear policy for dealing with complaints and feedback.

The full list of requirements: [Working with Third Parties](#)

Action: *We encourage charities who use third parties to undertake fundraising to review section 4 of the Code in full (as well as Section 3 of the Act, linked above), ensure that they have appropriate procedures in place, and also review existing and new agreements with third party fundraisers to ensure the required clauses are included.*

Lobbying Act

The government announcement in September that the Lobbying Act will not be reviewed until 2019 has been widely criticised by the charity sector.

The Act has been blamed for discouraging charities from engaging in debates around the 2017 General Election. The Act was introduced in 2014 and subject to a review by Lord Hodgson in 2015, the results being published in March 2016.

Lord Hodgson recommended a number of changes to the Act which charities had hoped would be implemented. This included removing the 'purpose test' which states that any activity which appears to be intended to influence elections could be caught by the Act – which requires charities to speculate as to how the Electoral Commission will interpret their activities.

The government announcement that the Act will not be looked at until 2019 has been viewed by many in the sector as a rejection of the recommendations made by Lord Hodgson, and puts at risk the vital role that charities play in non-party political campaigning.

Action: *We recommend that charities undertaking (or intending to undertake) such activities take note of any guidance or clarification issued, once this is available.*

Governance

Charity Governance Code

The new Charity Governance Code was published on 13 July 2017, following a joint consultation undertaken by the Charity Commission for England and Wales, ACEVO NCVO, ICASA, Small Charities Coalition and WCVA. This is the third iteration of the code which was originally published in 2005.

Governance is the process through which charities are directed and controlled, to ensure that they deliver sustainable public benefit and comply with all legal and regulatory requirements. Good governance has arguably never been more important than it is now. Increased public scrutiny over the charity sector in the wake of several high profile news stories in recent years - coupled with increased regulatory powers of the Charity Commission - mean that there are greater consequences of 'getting it wrong.'

Key changes within the Code include:

- A greater emphasis on values and behaviours - recognising that governance is about much more than systems and processes, and not just about the trustees. The correct behaviours must be embedded throughout a charity for effective governance.
- More detail on what is expected in practice, so the Code can be used as a tool for continuous improvement. There are recommendations, for example, around board size, performance reviews and trustees' terms of office.
- Guidance on which elements of the Code are applicable to larger, more complex charities – thereby seeking to ensure that the Code is sufficiently rigorous for larger charities but also flexible enough to be useful for smaller charities. Larger charities are encouraged to publish a statement in their annual report setting out how they apply the Code.
- The introduction of a 'Foundation Principle' that sets out the basic legal and regulatory compliance requirements for all charities. Central to this is the need for trustees to understand their roles and legal responsibilities.
- A new principle around diversity, bringing together these issues under one heading for the first time in the Code. Boards are encouraged to recognise diversity in its widest sense and to use this as a tool to drive more effective and balanced decision-making.

The full document is available here:

[Charity Governance Code](#)

We have also pulled together a self-assessment tool, to use the 'apply or explain' approach in practice:

[PKF Littlejohn Charity Governance Code Self-Assessment Tool](#)

Action: *We encourage charity trustees to familiarise themselves with the new Code and to think about how the governance processes at their charity compare – and whether any changes are needed in light of this new guidance. The Code is best viewed as a tool to reflect upon and improve governance.*

Financial reporting

FRS 102 triennial review

NOTE: Detail on a specific impact of the FRS 102 triennial review on the Group is provided on page 12 above.

Following the recent publication of the Financial Reporting Council's triennial review of Financial Reporting Standard 102 (FRS 102), the Charity Commission for England and Wales and the Office of the Scottish Charity Regulator have issued a consultation on the likely impact that these changes will have on the Charities Statement of Recommended Practice (SORP).

The Financial Reporting Council's triennial review is intended to provide incremental improvements and clarifications to FRS 102, rather than a full re-write of the standard. Its findings were announced last December.

FRS 102 is the financial reporting standard applicable in the UK, with the Charities SORP providing guidance in applying it to charities. Any changes to the underlying FRS 102 must therefore be incorporated into the Charities SORP, and the consultation explains what these changes are, inviting feedback and comment by 4 April 2018. Overall there are 21 proposed amendments to the Charities SORP.

The impacts are split into two categories. The bulletin includes the following clarification points. These will be applied immediately once the new SORP is released:

- 1) Comparative information must be provided for *all* amounts presented in the accounts, including the notes. This means for example the split of net assets between funds note must present two years' worth;
- 2) The undue cost or effort exemption has been removed for depreciating assets comprised of two or more components which have substantially different economic lives – such assets must now be split into separate components and depreciated separately; and
- 3) A legal (rather than constructive) obligation must exist at the balance sheet date, in order for an expected gift aid payment from a subsidiary to a charitable parent to be recognised as a liability at the balance sheet date. A deed of covenant provides such a legal obligation. Note, there is no corporation tax impact of this change as the post year end gift aid payment (if probable) will be taken into account.

The bulletin includes a number of more significant amendments, to be applied for accounting periods commencing on or after 1 January 2019. These include the following:

- 1) Where investment property is rented to another group entity, that property can now be measured either at cost (less depreciation and impairment) or at fair value;
- 2) Mixed use property will require the investment property element to be held at fair value, as the undue cost or effort exemption has been removed (unless of course that element is rented to another group entity where a choice can be made);
- 3) A reconciliation of net debt must be provided as a note to the cash flow statement;
- 4) Transfer of activities to a subsidiary undertaking is included as an example of a reconstruction that may be accounted for as a merger (e.g. establishment of a subsidiary to undertake non-charitable trading activities previously undertaken by the parent charity); and
- 5) The definition of a 'financial institution' has been widened, which could lead to more charities being classed as such, and required to include disclosures in the accounts. Charities undertaking lending at market rate or to achieve an element of market return are likely to be affected.

There are a number of more minor changes and changes only expected to impact a minority of charities. The full detail is provided in the Update Bulletin below:

[Charities SORP Update Bulletin](#)

Action: We recommend that charities review the proposed changes and consider responding to the consultation.

Financial reporting

Consultation on Charity SORP 2015

Alongside the above, a separate consultation on the Charities SORP (FRS 102) is being undertaken by the Charity Commission for England and Wales, the Office of the Scottish Charity Regulator and the Chartered Institute of Public Finance and Accountancy.

The purpose of the consultation is to identify any changes needed to improve the SORP. The invitation to comment (which closed back in December 2016) set out five areas where views are sought, covering the SORP's structure, format and accessibility, implementation issues, and suggestions for changes.

The proposed requirement to identify by name and amount any material individual, corporate, government or organisational donations and/or contracts has been removed, as confirmed by the SORP Committee in August 2017.

The Committee has now set up working groups to consider three specific areas:

- A third 'tier' of reporting. The initial consultation proposed that this would be used to increase the level of disclosure needed from the largest charities (defined as those with income over £10.2m). It now seems possible that this could instead be used to reduce the disclosures needed from small charities, but exactly what this would look like is yet to be announced.
- Introduction of a 'Key facts summary'. This is described as a 'simple summary containing key information' and would form part of the Trustees' Report. Concerns over comparability and incorrect conclusions being drawn have been raised by the sector.
- How governance arrangements are disclosed in the Trustees' Report, in particular with a view to ending the use of 'boiler plate' and unhelpful disclosures.

An exposure draft of the changes to the existing SORP could be available in 2018. It was previously anticipated that these changes would take effect from 1 January 2019, though the Commission recently announced this will be delayed.

A whole new SORP is then expected to be issued for accounting periods commencing 1 January 2022.

Action: Charities should look out for the updated exposure draft, ensure that they understand the impacts of the changes and build these into their reporting processes for the first year affected. In the meantime, charity accounts will need to comply with any changes introduced to FRS 102 from 1 January 2019.

Gift aid payments from subsidiaries

On 20 September 2017 the Financial Reporting Council (FRC) issued exposure draft [FRED 68](#) in relation to the accounting for gift aid payments made by a subsidiary to its charitable parent.

The purpose is to tackle significant differences being adopted across the sector in how these payments are treated in the accounts of subsidiary companies. The proposal is that:

- The gift aid payment should be shown as a distribution of reserves in the subsidiary financial statements (i.e. recognised in equity, not profit or loss); and
- The tax effects of the gift aid payment should be recognised in profit or loss (i.e. no taxation payable in most cases, see below).

This will leave the Profit and Loss account potentially showing a profit (since the post year end gift aid payment will flow through a Statement of Changes in Equity), but no taxation being payable.

The tax effects of the payment taking place within 9 months following the reporting date will be taken into account at the reporting date – on the basis that it is 'probable' that the gift aid payment will be made in the 9 months following the reporting date.

At the date the subsidiary accounts are signed, consideration will need to be given to how it can be demonstrated that the post year end payment of gift aid from the subsidiary to the charitable parent is 'probable', if this payment has not yet been made.

Action: The consultation closed on 20 October 2017, and the resulting changes are expected to come into place for accounting periods commencing on or after 1 January 2019 (with early adoption permitted). Charities with trading subsidiaries should keep this under review.

Tax and VAT

Salary sacrifice and remuneration arrangements

Guidance was published in March 2017 in relation to changes to tax and Class 1A NI contributions on benefits in kind. The new rules result in most benefits provided in connection with salary sacrifice arrangements being liable to tax on the higher of either the cash pay given up or the normal benefit in kind value.

Some benefits - pension contributions and pension advice, childcare and cycle to work - are exempt. Some others - such as most company cars, accommodation benefits and school fees - are not brought within the rules until 2021. Other than these, the rules apply to all new arrangements entered into from 6 April 2017, changes to existing arrangements after 6 April 2017 and at the latest 5 April 2018. The draft guidance is available here:

[Optional remuneration arrangements](#)

Action: *If your organisation is affected by these rules, you should take immediate action to identify the tax implications for you and your staff.*

Off-payroll working for public bodies

Public bodies, as defined by the Freedom of Information Acts, are required to determine if new rules are relevant in connection with payments to intermediaries they engage for the provision of personal services, such as IT. The public body needs to determine if, in the absence of the intermediary, its relationship with the individual providing the services is in effect an employment arrangement. There is an online tool on HMRC's website that can be used to determine if the arrangement is caught.

For a relevant arrangement, the public body is responsible for deducting PAYE and NIC on the payments to the intermediary, and paying those amounts direct to HMRC. Failure to do so, would result in the usual penalties for non-compliance with the PAYE regime. The full document is available here:

[Off payroll working in the public sector](#)

Action: *Even if your organisation is not a public body, we recommend familiarising yourself with the new rules, as it is anticipated that they will apply to all sectors of the economy at some point in the near future.*

VAT and social media

Whilst advertising services are usually zero-rated, this does not apply to adverts distributed to a 'selected audience.' The relevant legislation is in Items 8 and 8a of Group 15, Schedule 8, VAT Act 1994, which provides relief on supplies of advertising services but only where the advertisements are placed for general consumption.

Charities are increasingly using social media as a mean of reaching their target audience. As a result of the tendency of advertisers to make use of features such as advanced targeting options and reliable conversion tracking, it is understood that HMRC is challenging the application of zero rating to social media advertising since this could constitute advertising to a selected audience.

Action: *Charities which pay for social media adverts should ensure they understand the VAT implications.*

Changes to the taxation of termination payments

Proposals to change how termination payments are subject to Income Tax and NIC were first published in the summer of 2016, and there have been a number of updates and changes since then, but the effective date has not changed and there will be a new regime in place from 6 April 2018.

There are a number of new concepts to understand in determining the Income Tax and NIC liabilities arising on termination payments, such as "Relevant Termination Awards" and "Post-employment notice pay". The "tax-free" element remains at £30,000, but there are changes to how the qualifying element of a termination payment is determined. In addition, whilst the qualifying termination payment will still not be liable to employee NIC, the excess of the payment over £30,000 will be liable to employer NIC.

Foreign Service relief included in the old rules will be scrapped, though until the actual legislation is published as part of the 2018 Finance Bill, what replaces it is not fully known. The changes to the rules are included in a number of HMRC publications, and the most recent summary can be found here:

[Income tax and NI contributions \(treatment of termination payments\)](#)

Action: *If you are considering having to make staff redundant in the next few months you should take advice to ensure you understand the implications of the new rules which will apply from 6 April 2018.*

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