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Local Government Association Group

Report to the Leadership Board

May 2014

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1 Introduction

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

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

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

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

Our report is structured into the following sections:

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

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

Yours faithfully

PKF Littlejohn LLP

xx May 2014

2 Consolidation

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

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

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

Following rationalisation of the Group structure, and reassessment of strategic direction, the following entities, that formed part of the consolidation in 2013, are not individually included in the 2014 consolidation:

Organisation	**Reason for exclusion**
Local Authorities' Co-ordinators of Regulatory Services	This company has been merged into LGA.
Employers' Organisation for Local Government	This company has been merged into IDA.
Leadership Centre for Local Government	Having reviewed the relationship between the charity and the LGA, it was considered that the LGA no longer exercised control as the charity did not, and will not, receive any RSG funding, and does not form part of the strategy of the LGA.

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3 Financial statements – highlights

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

3.1 Consolidated financial statements

- Departures from United Kingdom Generally Accepted Accounting Practice

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

    We do not believe that non-presentation of the above results in the Financial Statements not showing a true and fair view. Adequate disclosure has been made and we remain of the opinion that an unqualified audit opinion is appropriate.

- Where activities are discontinued these must be disclosed in the Financial Statements in accordance with Financial Reporting Standard 3 'Reporting Financial Performance'. Following the change in strategy relating to The Leadership Centre the consolidated financial statements reflect the results of the charity as discontinued in the prior year.

3.2 Local Government Association

- With effect from 1 April 2013 the activities, assets and liabilities of Local Authorities' Co-ordinators of Regulatory Services were transferred to the LGA. This has been accounted for under the merger accounting policies as prescribed under Financial Reporting Standard 6 'Acquisitions and Mergers'. This means that the comparative figures have been restated to reflect a combined entity for both the current and previous years. Appropriate disclosure has been made in the financial statements.

- Pensions reserve

  - We understand that a decision was taken a number of years ago to create a reserve, out of General Reserves, and "designate" it for the purposes of meeting pension scheme deficits. Following review, it was concluded that this reserve is no longer required and the balance has been transferred into the general reserve.

3.3 Improvement and Development Agency for Local Government

- With effect from 1 April 2013 the activities, assets and liabilities of Employers' Organisation for Local Government were transferred to the Company. This has been accounted for under the merger accounting policies as prescribed under Financial Reporting Standard 6 'Acquisitions and Mergers'. This means that the comparative figures have been restated to reflect a combined entity for both the current and previous years. Appropriate disclosure has been made in the financial statements.

- Strategic Report

  With effect for accounting periods ending on or after 30 September 2013, all large and medium sized companies must produce a Strategic Report within their Annual Report and Financial Statements. This requirement was introduced by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (SI 2013/970) and amendments to Part 15 of CA 2006 and Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). The disclosure requirements have been provided to management and a Strategic Report has been produced within the Annual Report and Financial Statements.

3.4 Local Government Management Board

- Layden House

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

4 Audit findings

4.1 Overall approach

Our overall approach to each audit, including our identification of audit risk (defined as the risk of material misstatement in the financial statements) was set out in our audit overview letter.

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

4.2 Ethical Standards

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

4.3 Significant difficulties encountered

We did not encounter any significant difficulties during our audits.

4.4 Accounting policies and other disclosures in the financial statements

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

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

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

4.5 Going concern

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

We are satisfied that the going concern basis is appropriate for each set of Financial Statements, subject to any additional information becoming available. Our opinion is based on a review of budgets for the year to 31 March 2014, business plans and our understanding of the underlying funding and contractual arrangements.

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

4.6 Accounting estimates

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

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

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

- Provision for bad and doubtful debts.

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

- Valuation of investment property – LGMB.

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

4.7 Compliance with laws and regulations

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

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

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

4.8 Fraud

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

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

5 Recommendations for system improvement

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

At appendix 2 we have set out certain matters that arose during the course of our work, together with suggestions for improvements of controls and procedures operated by each entity. At appendix 3 we have followed up on the points raised in our 2013 report.

Our work during the audits included an examination of some of the transactions and procedures with a view to expressing an opinion on the Financial Statements of each entity for the year. This work was not directed primarily towards discovering weaknesses other than those that would affect our audit opinion or towards the detection of fraud. We have included in the appendices only matters that have come to our attention as a result of our normal audit procedures and consequently our comments should not be regarded as a comprehensive record of all weaknesses that may exist or of all improvements that might be made.

6 Adjustments to the Financial Statements

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

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

Entity	**Cumulative increase/(decrease) on draft result following journals identified by Liberata**	**Cumulative increase/(decrease) on draft result following journals identified by PKF Littlejohn LLP**
Local Government Association	1,782,613*	69,804
Improvement and Development Agency for Local Government	(18,108,832)*	(63,000)
Local Government Association (Properties) Limited	-	(80,837)
Local Government Management Board	-	(30,912)
Local Government Information House	-	-

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

7 Representations from management and those charged with governance

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

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

Entity	Specific representation required from the relevant Board
Local Government Association	With regard to the defined benefit pension scheme, we are satisfied that the actuarial assumptions underlying the valuation are consistent with our knowledge of the business and the scheme membership, active and retired.
Improvement and Development Agency for Local Government	With regard to the defined benefit pension scheme, we are satisfied that the actuarial assumptions underlying the valuation are consistent with our knowledge of the business and the scheme membership, active and retired.
Local Government Association (Properties) Limited	We confirm, that in our opinion, there are no indications of impairment to the carrying value of Local Government House. We confirm that the value of land and the residual value of the property, not to be depreciated, is £13,449m.

8 Governance and control

A copy of our current Transparency Statement is attached in appendix 6, which details our governance and quality assurance procedures, which have underpinned the audit service we have provided to you.

Changes to UK GAAP

The new financial reporting framework in the UK comes into effect for accounting periods beginning on or after 1 January 2015. All existing accounting standards (Statements of Standard Accounting Practice and Financial Reporting Standards) have been replaced by three new standards:

- FRS100 – the application of financial reporting requirements in the UK and Republic of Ireland.
- FRS101 – International Financial Reporting Standards (IFRS) with reduced disclosure available for qualifying entities.
- FRS102 – a standalone standard setting out the recognition, presentation and disclosure requirements for all entities that are not subject to IFRS. In practice, this will be the most widely used standard.

FRS102 was issued on 14 March 2013. The new framework will affect financial years beginning on or after 1 January 2015 (and therefore comparative figures for years ended 31 December 2014 and thereafter), although earlier adoption is permitted. The first year of application for the Group will be that ending 31 March 2016. The comparative figures, i.e. those for the year ending 31 March 2015, will have to be restated to comply with the new UK GAAP. The main changes arising from the introduction of FRS 102 relevant to the Group are:

Topic	Current UK GAAP	FRS 102
Primary statements	Profit and loss account.	Income statement.
	Statement of total recognised gains and Losses ('STRGL').	Statement of comprehensive income. May be combined with income statement to show a single statement of comprehensive income.
	Note of historical profits and losses.	No equivalent.
	Balance sheet.	Statement of financial position.
	Cash flow statement – cash flows categorised into potentially nine separate headings.	Statement of cash flows – cash flows classified as operating, investing or financing.
Volume of disclosures	More than FRS 102.	Less than current UK GAAP.
Consolidated financial statements	Exemptions based on Companies Act 2006 rules.	Same as current UK GAAP – exemptions based on Companies Act 2006 rules.
Prior year adjustments	Prior year adjustment required for fundamental errors, which is generally understood to be a higher threshold than a material error.	Prior year adjustments required for material errors.
Financial instruments	For companies not adopting FRS 26, FRS 4 and FRS 25 deal broadly with the accounting for debt and equity issued. Accounting for other financial	Requires instruments issued to be categorised as debt or equity or a compound. Covers many types of financial instruments setting out

	instruments determined by convention (ie initially recognised at proceeds, then at amortised cost), unless the alternative accounting rules are applied such that financial assets can be revalued through a revaluation reserve. Financial assets and liabilities are only held at fair value through profit or loss if an election is made under the Companies Act (by taking this election, a company subjects itself to the full provisions of FRS 26) or if the company is listed and is required to adopt FRS 26.	requirements for those to be measured at amortised cost ('basic financial instruments') and those to be measured at fair value through profit or loss ('other financial instruments') depending on characteristics. An election may be made on initial recognition for certain basic debt instruments to be measured at fair value through profit or loss. The revaluing of financial assets through a revaluation reserve will no longer be possible.
Investments in Associates (group accounts)	Share of all losses recognised even when this leads to an interest in net liabilities, unless the investor has irrevocably withdrawn from the relationship.	The default treatment is the opposite of current UK GAAP, ie the investor stops recognising losses when its investment reaches zero, unless it has a legal or constructive obligation to make good its share.
Investments in Joint Ventures (group accounts)	Distinction made between JVs and JANEs (Joint Arrangements Not an Entity).	Distinction made between jointly controlled entities, jointly controlled assets and jointly controlled operations.
	Classification as a JV where the substance of the arrangement constitutes a separate trade, irrespective of whether a separate legal entity is created.	Classification as a jointly controlled entity driven by whether the arrangement involves the creation of a separate legal entity.
	Gross equity accounting required for JVs.	Equity accounting required for jointly controlled entities.
	Share of all losses recognised.	No recognition of share of losses in excess of cost of investment unless the entity has incurred legal or constructive obligations.
Investment property	Measurement is at open market value with changes are shown as revaluations through the statement of total recognised gains and losses.	Measurement is at fair value, if reliably determinable, with changes in profit or loss. Otherwise, measured at depreciated cost.
	Definition of investment property excludes properties leased to other members of the same group.	Definition of investment property includes properties leased to other members of the same group in the individual accounts of the lessor but not in the consolidated accounts.
	Interests held under an operating lease are usually measured at the fair value of net cash flows (net leasehold interest).	Interests held under a lease to be accounted for as a finance lease with obligations payable recognised separately.

Mixed use property	For property that is partially owner occupied and partially held for investment, split accounting permitted, or alternatively classification of property based on the preponderance of use.	Split accounting required for mixed use properties.
Property, plant and equipment	Revaluation of tangible fixed assets is available as an accounting policy choice (EUV in most cases).	Revaluation of PPE at fair value is available as an accounting policy choice.
	Material residual values should be reviewed to take into account reasonably expected technological changes. Any revisions should be based on prices prevailing at the date of acquisition or last revaluation.	If there are indicators that residual value has changed then the estimate should be reviewed and, where necessary, revised based on prices at the date of the revision.
Intangible assets other than goodwill	Choice of capitalising or writing off development costs. Specific criteria must be met in order to capitalise.	Choice of capitalising or writing off development costs. Specific criteria must be met in order to capitalise.
	Intangible assets amortised over UEL, with a rebuttable presumption that this will not exceed 20 years.	If a reliable estimate of the UEL cannot be made the life should not exceed 5 years.
	Software costs classified as tangible fixed assets if they are directly attributable to bringing a computer system into working condition for intended use within the business.	Classification of software costs not addressed. Therefore appropriate accounting policy should be selected (having regard to sections 10.4 to 10.6 of FRS 102) to classify as either a tangible fixed asset or an intangible asset.
Business combinations and goodwill	Merger accounting permitted if certain criteria are met.	Group reconstructions may be accounted for by using the merger accounting method (as for current UK GAAP for group reconstructions) Otherwise merger accounting not permitted, except in some forms of combinations of public benefit entities.
	Intangible assets rarely recognised separately from goodwill on a business combination.	Recognise identifiable intangibles (eg: customer relationships and brands) on a business combination that can be measured reliably at fair value.
	Direct costs capitalised as part of the cost of acquisition.	Direct costs capitalised as part of the cost of acquisition.
Fair value adjustments after acquisition	Adjustments may be made to the fair values of assets and liabilities acquired in a business combination in the first and	Adjustments may only be made to amounts recognised at the acquisition date if they are identified within 12 months of

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	second balance sheets after the acquisition (ie to the end of the first full year post acquisition).	the business combination, and are adjusted retrospectively. Thereafter they are only treated as adjustments to the initial accounting in order to recognise an error.
Leases	Lease incentives spread over the period to first rent review.	Leases incentives spread over the lease term.
	Disclosure required of the annual lease commitment.	Disclosure required of the total future minimum lease commitment.
Government grants	Recognition of grant income in P&L matched to the related expense.	Accounting choice. Recognise in income when performance-related conditions have been met (performance model) or recognise in income matched to the related expense (accrual model).
Borrowing costs	Choice of capitalising or expensing borrowing costs during period it takes to make or construct an asset.	Choice of capitalising or expensing borrowing costs during period it takes to make or construct a qualifying asset.
Employee benefits	Holiday pay generally not accounted for.	Holiday pay to be recognised as an accrual or prepayment as appropriate.
	Actuarial gains and losses recognised in the statement of total recognised gains and losses.	Actuarial gains and losses recognised in other comprehensive income.
	Projected unit credit method to be applied in full in measurement of the surplus or deficit.	Simplifications to projected unit credit method of measuring defined benefit liabilities permitted on grounds of 'undue cost or effort'.
Group defined benefit plans	The multi-employer exemption can allow groups not to reflect a defined benefit plan surplus or deficit in the individual accounts of any entity within the group – ie: only reflected in the group accounts.	A plan surplus or deficit must be reflected in the individual accounts of the sponsoring entity or in the individual accounts of other group entities as appropriate.
Related party disclosures	Name of related party needs to be disclosed.	Name of related party does not need to be disclosed, only their relationship to the reporting entity.
	No requirement to disclosure transactions between wholly owned entities of a group or between the parent and a wholly owned subsidiary.	No requirement to disclosure transactions between wholly owned entities of a group or between the parent and a wholly owned subsidiary.
	Remuneration of directors covered by Company legislation.	The total of key management compensation must be disclosed, including social security costs such as employer's National Insurance

		Contributions and share based payment expense. Key management may be a wider body of employees than just statutory directors. This is in addition to requirements of Company legislation.
Presentation of discontinued operations	Operations must have ceased during the year or within three months of the balance sheet date to be classified as discontinued.	A component of an entity that has been disposed of and meets certain other criteria.
	Provide an analysis between continuing operations and discontinued operations of each of the line items on the profit and loss account. Gain or loss on the sale of a discontinued operation shown as an exceptional item below operating profit.	Provide an analysis between continuing operations and discontinued operations of each line item of profit or loss on the face of the statement of comprehensive income, or income statement. In addition, show the total of the post-tax profit or loss of a discontinued operation; and the post-tax gain or loss recognised on the impairment or on the disposal of the net assets constituting a discontinued operation.

New statements of recommended practice (SORPs) will be issued in due course that provide guidance to specific sectors in applying FRS102. Those that should be of interest to the Leadership Board, whilst not directly impacting on the Group, are:

- Limited Liability Partnerships SORP – this will impact on Local Partnerships which is a joint venture in LGA
- Charities' SORP – this will impact on the Leadership Centre for Local Government and Centre for Public Scrutiny

9 Audit Report

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

At appendix 7 we have included the standard audit report for a company, along with the audit report for the LGA Consolidated Financial Statements.

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

Appendix 1 - Feedback on audit risks identified during our planning

The Group

Area	Approach (as set out in our audit overview letter)	Conclusion
Outsourced accounting function	Liberata are appointed as providers of shared services to the Group. There is therefore a detach between those directing and implementing activities, and those recording and reporting financial performance.	For a sample of transactions across all entities we investigated the approval and authorisation process ensuring that Liberata were only acting on appropriate direction when posting transactions. Audit testing yielded satisfactory results.
Allocation of shared service costs	Calculation and apportionment of shared service costs across all entities reflecting use of resources.	We were able to agree a sample of apportioned costs throughout the Group.
Going concern	As a result of the reduction in RSG, coupled with the significant deficit on the defined benefit pension schemes, we will carefully consider the going concern assertion underlying the preparation of the Financial Statements.	Adequate supporting documentation was obtained across the Group to support the going concern assertion.
Income recognition	Income recognition is defined as an area of risk by International Standards on Auditing.	We tested income to supporting documentation to ensure that it was being recognised in the correct period. Our audit testing identified immaterial adjustments that have been made – see appendix 4.
Cut off	As the audit is conducted quite close to the year end there is a risk that events around the year end will not be reflected in the correct accounting period.	We identified adjustments, as set out in appendix 4, when testing cut off. The adjustments, in number and value, have decreased from those identified in the previous year.
Accounting and disclosures regarding company rationalisation	It was approved in the prior year to effect a transfer of the liabilities of Employers' Organisation for Local Government to the Improvement and Development Agency, and similarly those of Local Authorities Coordinators of Regulatory Services to Local Government Association. We will review the accounting treatment to ensure that the assets and liabilities have been transferred correctly. We will also review the disclosures in the respective Financial Statements and consolidated Financial Statements.	Adequate disclosure has been made in the relevant entities – see section 3 of this report.

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Local Government Association

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

Improvement and Development Agency

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

Local Government Association and Improvement and Development Agency

Area	Proposed Approach	Conclusion
Pensions	The disclosures and accounting, in accordance with Financial Reporting Standard 17 'Retirement Benefits', of the defined benefit pension schemes is an area of risk that requires special consideration.	We reviewed the disclosures and accounting to confirm adherence with FRS17.
	Due to changes in staff numbers as a result of reorganisation, the liabilities should be recalculated to reflect the new profile.	The valuations were reperformed to reflect the structure.

Appendix 2 - Management letter points for the year ended 31 March 2014

Local Government Association		
Observation	Recommendation	Management response
The Association provides, through Bevan Britten, legal services to members. This work is initially charged from Bevan Britten to LGA, then on to those members who have subscribed. There is an irregular billing profile from Bevan Britten meaning that LGA only invoices for costs twice a year. As a result there is a risk that lengthy delays may arise due to Council purchase orders not being recognised because of the delay or queries from Councils due to staff changes from initial commitment of service.	We recommend that Bevan Britten are asked to raise invoices to LGA on a more regular basis to facilitate prompter invoicing from LGA to Councils.	Agreed.
A number of 'ring fenced' creditors are maintained on the Balance Sheet of the Association, treated as deferred income. Having reviewed the underlying agreements relating to the funding, we have proposed and management has accepted adjustments to correct the calculation and accounting treatment of these balances. In two instances the income has been released as no liability exists at the year end. In one further instance an adjustment was made to spread the income over a three year period.	We recommend that deferred income balances arising from 'ring fenced' projects are regularly reviewed to ensure that income is recognised in the correct accounting period.	Agreed – new in year review and year end processes will be put in place.
From a review of expenditure we identified costs in the Association's accounting records relating to Local Govenment House and Layden House that should have been borne by LGP or LGMB. Adjustments have been made in the Financial Statements to reallocate these costs, totalling £120,040.	We recommend that expenses are recorded in the correct entity to ensure that income and expenditure are not materially understated.	Agreed.

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Local Government Information House		
Observation	Recommendation	Management response
The annual return of the Company was reviewed where we identified that LGMB holds one share (of three issued) in the Company. The Financial Statements currently disclose the IDA as the parent. We understand that this is being investigated as the intention is to transfer the assets, liabilities and activities of the Company into IDA post year end.	We recommend that the share holding structure is established and appropriate disclosures made in the Financial Statements.	Agreed.

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Local Government Association (Properties) Limited

Observation	Recommendation	Management response
There are no formal tenancy agreements in place with National Parks England and Early Intervention Foundation.	We recommend that tenancy agreements are signed by each tenant and the Company with copies retained for future reference.	Agreed – draft tenancy agreements are in place and will be signed once AMA (Properties) Ltd has appointed new Directors to its Board so that the decision can be taken by them to agree to the lease as required by the terms of the agreement between LGA (Properties) Ltd, the LGA and AMA (Properties) Ltd.
The following recommendation from 2013 has not been addressed (see appendix 3): The accounting policy for fixtures and fittings, which includes furniture and similar assets, is to depreciate over 15 years.	We recommend that our previous recommendation is given further consideration.	We will further consider this recommendation as part the imminent review of the LGA's property strategy for Local Government House due to take place during 2014/15.

Appendix 3 - Follow up to management letter points raised in the year ended 31 March 2013

Improvement and Development Agency for Local Government

Observation	Recommendation at 31 March 2013	Management response – 2013	Follow up – 2014
Our review of year end accruals included a review of accrued costs relating to purchase orders, as notified by budget holders. We identified one instance were an input error resulted in an over accrual of £52,187.	We recommend that care is taken in completing accrual schedules, and in their review, to ensure that no such errors are made.	We will instruct budget holders to take greater care in completing and reviewing year end adjustments, We will design systems to automate tolerance review in relation to purchase order value of all year end accruals, enabling greater focus to eliminate future such errors.	We did not identify any similar instances during our audit and make no further recommendations.

Employers' Organisation for Local Government
(now forming part of IDeA)

Observation	Recommendation at 31 March 2013	Management response – 2013	Follow up – 2014
Invoices for members' subscriptions were not issued until November 2012, covering the year from 1 April 2012 to 31 March 2013. There is a detrimental cashflow impact as a result of leaving issuing renewals until later in the year. There is also a risk that some members benefit from the services of LGE but do not renew their subscriptions.	We recommend that invoices for member subscriptions are issued prior to the start of the membership year, or as close to the beginning of the year as possible.	This relates to Pensions subscriptions and the recommendation is accepted.	We did not identify any similar instances during our audit and make no further recommendations.

Local Authorities' Co-Ordinators for Regulatory Services
(now forming part of LGA)

Observation	Recommendation at 31 March 2013	Management response – 2013	Follow up – 2014
From our review of VAT returns we identified an adjustment made to a quarterly return in the year to correct a previous error for VAT recoverable previously overstated by c.£12,000. Under HMRC regulations, any corrections over £10,000 must be made by voluntary disclosure rather than through adjusting quarterly returns.	We recommend that any VAT corrections, greater than £10,000 in value, are notified to HMRC through completion of a voluntary disclosure.	Agreed, we will make sure that Liberata complete future VAT returns within this voluntary disclosure.	We did not identify any similar instances during our audit and make no further recommendations.

Local Government Management Board

Observation	Recommendation at 31 March 2013	Management response – 2013	Follow up – 2014
The Company has a number of loans secured against the property, containing both financial and non-financial covenants. We did not identify any breaches of the covenants during our audit, however, we understand that there is no formal monitoring regime in place.	We recommend that the loan covenants are centrally recorded with responsibility for monitoring compliance delegated to a member of staff to ensure that no breaches occur. We also recommend that the Board should be provided with regular positive confirmation of this.	Agreed we will set up a process to ensure compliance and report to the Board annually on this.	A workbook is now maintained that captures the covenants under each loan agreement and confirms if each has been complied with.
Our audit testing identified one occasion during the year when a rental invoice for £32,601 was not raised to the tenant. An audit adjustment to accrue for the rental income has been made.	We recommend that a reconciliation is performed on a quarterly basis between income as recorded in the nominal ledger and the expected income based on the tenancy agreements. This will identify any discrepancies which can be investigated further.	Agreed we will make sure quarterly reconciliations are performed to avoid future discrepancies.	We did not identify any similar instances during our audit and make no further recommendations.

Local Government Association (Properties) Limited

Observation	Recommendation at 31 March 2013	Management response – 2013	Follow up – 2014
The Company has a number of loans secured against the property, containing both financial and non-financial covenants. We found that within the loan agreement with Barclays there is a covenant requiring written approval should any additional debt be assumed. During the year a loan was obtained from LGA; Barclays was not informed of this.	We recommend that the loan covenants are centrally recorded with responsibility for monitoring compliance delegated to a member of staff to ensure that no breaches occur. We also recommend that the Board should be provided with regular positive confirmation of this.	Agreed we will set up a process to ensure compliance and report to the Board annually on this.	A workbook is now maintained that captures the covenants under each loan agreement and confirms if each has been complied with.
The fixed asset register does not separately identify assets purchased. Purchases of furniture and similar assets are recorded as a lump sum value rather than breaking the balance into groups of items. As a result it is not possible to ensure that any such assets disposed of are written out of fixed assets.	We recommend that, if possible, past lump sum purchases are analysed to separately identify groups of assets to enable a more accurate reconciliation between those assets in existence and those reflected in the financial statements.	This data is not available as the majority of fixed asset investments in the building were completed in Accounts prior to 2006/07 and detailed records are no longer easily available.	The response is noted.
The accounting policy for fixtures and fittings, which includes furniture and similar assets, is to depreciate over 15 years.	We recommend that consideration is given to reviewing the policy to identify any fixed assets where a lower depreciation period is more appropriate.	We will consider this recommendation as part the proposed wider review of the LGA's property strategy due to take place during 2013/14.	The policy has not changed and we recommend that further consideration is given.
The tenancy agreement with Local Partnerships is unsigned.	We recommend that tenancy agreements are signed by both tenant and landlord with copies retained for future reference.	Agreed – we will prioritise securing this signed documentation by the end of June 2013.	The document has now been signed.

PKF LITTLEJOHN

Appendix 4 - Accounting adjustments

Accounting adjustments

(i) Local Government Association

Adjusted items – identified by Liberata

Journal	Income and Expenditure account		Balance sheet	
	Dr	Cr	Dr	Cr
Actuarial gains Income and Expenditure account Pension scheme deficit Income and Expenditure reserve Pensions reserve *Being adjustments to account for defined benefit pension schemes valuations at year end.*		1,191,000 1,646,000	2,837,000 2,837,000	2,837,000
Income – recharges Debtors – related parties *Being adjustment to recharges to Leadership Centre for Local Government.*	1,793			1,792
Income – RSG Debtors – related parties *Being adjustment to RSG income receivable from Improvement and Development Agency for Local Government.*	1,091,729			1,091,729
Accrued liabilities Project delivery expenses *Being adjustment to year end accrual for delivery of leadership events for Councillors.*		5,348	5,348	
Expenditure Debtors – related parties *Being adjustment to reallocate costs to Improvement and Development Agency for Local Government.*		13,787		13,787

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Adjusted Items – identified by PKF Littlejohn LLP

Journal	Income and Expenditure account		Balance sheet	
	Dr	Cr	Dr	Cr
Debtors – related parties Trade debtors *Being disclosure of Local Partnership and LGMB balances included within trade debtors.*			128,289	128,289
Expenditure Creditors *Being adjustment to reflect VAT liability arising following inspection.*	12,000			12,000
Debtors due in less than one year Debtors due in more than one year *Being disclosure in the financial statements of correct aged profile of loans due from LGA Properties and LGMB.*			3,000,000	3,000,000
Creditors Income *Being adjustment to reflect income incorrectly deferred at the year end.*		65,719	65,719	
Debtors – related parties Expenditure *Being adjustment to recharge costs relating to Layden House to Local Government Management Board.*		20,075	20,075	
Expenses Creditors – related parties *Being the reallocation of audit fees to Local Government Information House.*	4,000			4,000
Expenses – rent Expenses – repairs and maintenance *Being reclassification of expenses relating to Local Government House.*	99,965	99,965		

(ii) Improvement and Development Agency for Local Government

Adjusted items – identified by Liberata

Journal	Income and Expenditure account		Balance sheet	
	Dr	Cr	Dr	Cr
Actuarial losses Income and Expenditure account Pension scheme deficit Income and Expenditure reserve Pensions reserve *Being adjustments to account for defined benefit pension scheme valuation at year end.*	20,242,000	1,038,000	19,204,000	19,204,000 19,204,000
Creditors – related parties Grants – RSG *Being adjustment to RSG grant payable to Local Government Association.*		1,091,729	1,091,729	
Accrued income Subscriptions *Being adjustment to Scottish Fire & Rescue Services subscription 2013/14.*		17,226	17,226	
Expenditure Creditors – related parties *Being adjustment for reallocated costs from Local Government Association.*	13,787			13,787

Adjusted Items – identified by PKF Littlejohn LLP

Journal	Income and Expenditure account		Balance sheet	
	Dr	Cr	Dr	Cr
Interest receivable and similar income Joint venture income *Being to correct categorisation of income received from Geoplace LLP.*	250,000	250,000		
Debtors Income *Being credit note issued after the year end against a debtor balance.*	33,000			33,000
Expenditure	30,000			

Journal	**Income and Expenditure account**		**Balance sheet**	
Creditors *Being additional creditor identified relating to financial year.*				30,000

(iii) Local Government Association (Properties) Limited

Adjusted items – identified by Liberata

Journal	Income and Expenditure account		Balance sheet	
	Dr	Cr	Dr	Cr
Bank loan due in less than one year Bank loan due in more than one year *Being reclassification of bank loan due to Barclays.*			90,000	 90,000

Adjusted Items – identified by PKF Littlejohn LLP

Journal	Income and Expenditure account		Balance sheet	
	Dr	Cr	Dr	Cr
Creditors Expenditure – interest payable *Being mortgage interest not accrued for.*		 80,837		80,837
Creditors due in less than one year Creditors due in more than one year *Being reclassification of aged profile of loan from LGA due to be repaid by 31 March 2015.*			 1,500,000	1,500,000
Expenditure Income *Being repairs and maintenance costs incurred by LGA instead of Local Government Association (Properties) Limited.*	99,965	 99,965		

(iii) Local Government Management Board

Adjusted Items – identified by PKF Littlejohn LLP

Journal	Income and Expenditure account		Balance sheet	
	Dr	**Cr**	**Dr**	**Cr**
Creditors due in less than one year Creditors due in more than one year *Being reclassification of aged profile of loan from LGA due to be repaid by 31 March 2015.*			 1,500,000	1,500,000
Expenses Creditors – related parties *Being Layden House costs incurred by Local Government Association.*	20,075			 20,075
Expenses VAT control Creditors *Being invoices identified that were dated before the year end.*	887		 178	 1,065
Interest cost Creditors *Being interest incurred on deposits due to tenants.*	1,631			 1,631
Expense Accruals *Being adjustment for EDF accrual at the year end.*	8,319			 8,319

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(iii) Local Government Information House

Adjusted Items – identified by PKF Littlejohn LLP

Journal	Income and Expenditure account		Balance sheet	
	Dr	**Cr**	**Dr**	**Cr**
Creditors - accruals Creditors – amounts due to LGA *Being presentational adjustment to separately disclose related party balance.*			4,000	 4,000
Debtors Issued share capital *Being adjustment to reflect shares issued to LGMB.*			2	 2

Appendix 5 - Letter of representation – standard representations

Letter of representation – standard representations

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

PKF Littlejohn LLP

1 Westferry Circus

Canary Wharf

London

E14 4HD

Dear Sirs

We confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation, sufficient to satisfy ourselves that we can properly make each of the following representations to you in connection with your audit of the ***Company's*** Financial Statements for the year ended 31 March 2014.

General representations

1 We have fulfilled our responsibilities under the ***Companies Act 2006 ("the Act")*** for preparing Financial Statements that give a true and fair view of the state of the ***Company's*** affairs at the end of the financial year and of the ***Company's surplus*** for the financial year in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and for making accurate representations to you.

2 All the accounting records and relevant information, including minutes of all management and Board meetings, have been made available to you for the purpose of your audit.

3 All the transactions undertaken by the ***Company*** have been properly reflected and recorded in the accounting records.

4 We confirm that we have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the Financial Statements such as records, documentation and other matters. ***Each Director has confirmed that, so far as he/she is aware, there is no relevant audit information (as defined in Section 418 of the Act) of which you are unaware, and that each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information, and to establish that you have been made aware of that information***;
- additional information that you have requested from us for the purposes of your audit; and
- unrestricted access to persons within the ***Company*** from whom you determined it necessary to obtain audit evidence.

5 We acknowledge our responsibilities for maintaining such internal control as we determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error. We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud. We are unaware of any irregularities, including fraud or suspected fraud, involving management, employees who have

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

6 We confirm that the accounting policies adopted for the preparation of the Financial Statements are the most appropriate to the circumstances in which the ***Company*** operates.

7 In relation to accounting estimates, we confirm that, in our opinion:

- the measurement processes, assumptions and models used by management in determining accounting estimates are appropriate and consistently applied;
- the assumptions reflect appropriately management's intent and ability to carry out specific courses of action, as relevant to the accounting estimate;
- the disclosures in the Financial Statements are complete and appropriate; and
- we are not aware of any event after the balance sheet date that requires adjustment to the accounting estimates or the disclosures in the Financial Statements.

8 We confirm that all known actual or possible litigation and claims whose effects should be considered when preparing the Financial Statements have been disclosed to you and accounted for and disclosed in accordance with UK GAAP. We are not aware of any material provisions, contingent liabilities, contingent assets or contracted-for capital commitments that need to be provided for or disclosed in the Financial Statements.

9 We confirm that we have disclosed to you all related parties of the ***Company***, and have disclosed in the Financial Statements all related party transactions. We confirm that all related party transactions have been entered into on an arm's length basis. Other than those included in the Financial Statements, the ***Company*** has not entered into any transactions involving ***Directors***, officers or other related parties requiring disclosure under ***the Act*** or UK GAAP. Appropriate disclosure has been made of the control of the ***Company***.

10 There have been no known instances of non-compliance or suspected non-compliance with laws and regulations, including any breaches or possible breaches of statute, regulations**,** contracts, agreements or the ***Company's Memorandum and Articles of Association***, that might result in the ***Company*** suffering significant penalties or other loss or whose effects should be considered when preparing Financial Statements.

11 We confirm that the ***Company*** is exempt from tax on its income and gains by virtue of its status as a Local Authority under section 519(3) of the Taxes Act 1988. We confirm that the ***Company*** is exempt from capital gains under Section 271(3) of the Taxation of Chargeable Gains Act 1992.

12 There have been no events since the balance sheet date that necessitate revision of the figures included in the Financial Statements or inclusion of a note thereto. Should further material events occur that may necessitate revision of the figures included in the Financial Statements or inclusion of a note thereto, we will advise you accordingly.

13 We have been notified by you that there are no matters which you are required to raise with us to comply with your profession's ethical guidance.

14 We confirm that we have considered the unadjusted items advised to us by you as appended to this letter. We confirm we are not aware of any other unadjusted items that are not clearly trivial. In our opinion, the adjustments that you have identified and recommended us to make are not relevant to the Financial Statements because [the combined effect of the unadjusted items is not material, and we do not consider that their absence from the Financial Statements affects the true and fair view given.

Specific representations

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

Appendix 6 - Transparency statement

We are pleased to present our Transparency Statement for 2014, designed to give information on the ownership and governance of the firm and the measures we take to maintain high quality standards in our audit and other services.

Legal structure and ownership

PKF Littlejohn LLP is a limited liability partnership governed by the terms of its Members' Agreement and is owned by its equity partners. As at 31 January 2014 there were 14 full equity and 15 fixed equity partners.

The firm operates from its offices at 1 Westferry Circus, Canary Wharf, London E14 4HD and has no branches in the UK or elsewhere.

The firm offers a range of services comprising business advice, audit, accountancy, internal audit, taxation (corporate and personal), corporate finance, IT consultancy and litigation support.

We have two active subsidiary companies:

- PKF Littlejohn Payroll Services Limited which is managed on our behalf by Clement Keys & Co, Chartered Accountants from its Birmingham office. Its principal activity is the provision of outsourced payroll services.
- PKF Littlejohn Accounts Limited. Its principal activity is the provision of accounting and tax services.

Regulation

PKF Littlejohn LLP is a Registered Auditor and is regulated in the conduct of its services by the Institute of Chartered Accountants in England & Wales (ICAEW), including as a Designated Professional Body for investment business. The firm is subject to periodic audit and whole firm practice assurance reviews by the Quality Assurance Department (QAD) of the ICAEW. The QAD carried out an audit monitoring visit and a whole firm practice assurance review in 2013.

The firm acts for a number of clients audit clients listed on the AIM and ISDX market.

The firm is also registered with the Public Company Accounting Oversight Board and the Canadian Public Accountability Board to undertake audit work in connection with US and Canadian listed entities respectively.

International affiliation

PKF International Network

PKF Littlejohn LLP is a member of PKF International (PKFI), a worldwide network of independent firms offering a range of professional services including auditing and accounting, taxation and business consulting.

Introduction

PKFI has 300 member firms and correspondents in 440 locations in 125 countries. PKFI member firms have an aggregate fee income of £1,535 million (US$,2,523 million, ,000, €,1,871milliom) (source: IAB World Survey 2014).The network is a member of the Forum of Firms - an organisation dedicated to consistent and high quality standards of financial reporting and auditing practices worldwide.

Legal Basis

The PKFI network is regulated by adherence to an Operating Licence Agreement (OLA) signed on behalf of the network by a Licensor and each member firm (the Licensee). The form of the OLA authorises the member firms to use the PKF name as defined under specific circumstances, under specific conditions, for specific purposes (The Business) and in a specific territory (The Territory).

THE LICENSOR, acting on behalf of PKFI, is a company registered in England and limited by guarantee (the Company). The Company's Articles of Association require a Board of Directors to conduct the business of the Company. The Board has a strategic and co-ordinating role but has no executive authority over the operations of individual member firms.

THE LICENSEES. Each Licensee is a legally independent entity owned and managed in each location. Contractual relations are only formed between a client and the member firm engaged by the client and no other member firm may be held liable. PKFI has no financial or management interest in any member firm. None of the directors of PKFI has a financial or management interest in any member firm other than his or her own.

PKF Littlejohn LLP and its subsidiaries do not accept any responsibility or liability for actions or inactions on the part of any other individual member firm or firms within PKFI including correspondents.

Structure

Member firms are organised into five geographical regions. Each region elects or nominates representatives to the PKFI Board of Directors.

There are six international committees - Professional Standards, Tax, Corporate Finance, Business Development, Hospitality Consulting and Corporate Recovery & Advisory, each of which is central to the development of the PKF brand throughout the world.

Quality Assurance

PKFI operates a globally directed quality assurance programme covering member firms. The principal objectives are to ensure that the standards expected for the performance of certain types of professional work by member firms are promulgated and communicated to firms, that those standards meet appropriate recognised professional practice requirements at least for transnational and referred work, and that a programme of monitoring of compliance with expected standards is operating effectively.

Member Firms

PKFI distinguishes between member firms and correspondent firms. Correspondent firms have none of the rights and privileges or responsibilities of member firms and are not covered by the globally directed quality assurance program. An up to date list of member and correspondent firms can be found on the website www.pkf.com.

PKF Littlejohn Management

The firm is managed by a board of partners, concentrating on strategic matters and reporting and accountable to the partners as a whole. The board comprises a managing partner who is elected by the partners and two further members also elected by the partners. Other members of the board are appointed by the managing partner. As at 31 January 2014 the board comprised:

Carmine Papa (Managing Partner)

Mark Ling (Chairman)

Paul Hopper

Sarah Morrison

Mary Stenson (Finance partner)

Simon Slater (an independent, non executive director who is not a member of the LLP).

The day to day running of the firm is handled by an operational board.

Professional indemnity insurance

PKF Littlejohn LLP maintains professional indemnity insurance, including for its subsidiaries, in full compliance with the Professional Indemnity Insurance Regulations issued by the ICAEW.

Partner remuneration

Partners are remunerated wholly out of the profits of the firm as follows:

Full equity partners - profit shares are reviewed on a regular basis (normally every two years) by a remuneration committee appointed by the partners. The assessment takes into account partners' performance assessed against criteria covering client service, technical skills, working capital management and management responsibilities.

Fixed equity partners - fixed equity partners receive a fixed share of the profits as a first charge on the overall profits of the firm. These fixed shares are normally reviewed every two years and are determined by the board, subject to the review and recommendations of the remuneration committee. The assessment of the board is based on similar criteria to those described above.

From time to time, full and fixed equity partners may be awarded bonuses in addition to their profit share for exceptional effort and performance. Eligibility for bonuses is assessed by the board and is subject to the approval of the full partnership. Having regard to auditor independence, partners are not incentivised to gain non audit work from audit clients.

Financial information

	Year ended 21 May 2013 £m	**Year ended 31 May 2012 £m**
Audit fees	**6**	**6**
Fees for non audit services to audit clients	**3**	**3**
Fees for non audit services to non audit clients	**7**	**7**
Total revenue	**16**	**16**

Quality control system

PKF Littlejohn LLP has established a quality control system that encompasses the six elements of quality control embedded within International Standard on Quality Control (UK and Ireland) 1 (ISQC1), which deals with a firm's responsibilities for systems of quality control for audits and reviews of financial statements and other assurance and related engagements.

The elements of quality control set out in ISQC1 have relevance to all services provided by the firm and the firm has applied them as follows:

- ***Leadership responsibilities***

Responsibility for the effective operation of the quality control system lies with the managing partner who is accountable to the board and the partnership as a whole.

Professional standards and procedures are set by our professional standards committee (PSC), reporting to the board. To avoid the possibility of management override the PSC has whistle blowing responsibilities both to the overall partnership and to our professional body. The firm's ethics partner is a member of the PSC and the audit compliance/practice assurance partner attends all meetings.

The PSC operates primarily by publishing professional standards notes and technical notes, which set out the standards that the firm must meet in order to comply with ISQC1 and other professional standards. The PSC also monitors compliance and receives reports from the monitoring of quality (see below) and makes recommendations for improvement to the managing partner. Responsibility for implementing the firm's professional standards lies with departmental heads and line managers.

- ***Ethical requirements***

The firm's professional standards note covering independence sets out the following:

  - adherence to the ICAEW's Code of Ethics and Ethical Standards issued by the Auditing Practices Board (APB) takes precedence over commercial considerations.
  - partners and managers are required to keep independence issues under constant review and, in respect of audit assignments, reconfirm the firm's independence having regard to the APB's Ethical Standards, prior to the commencement of every audit.
  - all members of the firm are required to complete an annual declaration of their independence and freedom from conflicts of interest.
  - the ethics partner must be consulted on all questions related to independence and professional ethics. His decision on each matter is final.
  - instances of non-compliance with the firm's procedures must be reported to the ethics partner and the managing partner.

The requirement to comply with the ICAEW's Code of Ethics and the APB's Ethical Standards is set out in the staff handbook and forms part of employees' contracts of employment. The requirements for the partners to comply are contained in the Members' Agreement.

- ***Acceptance and continuance of client relationships and specific engagements***

The firm has detailed procedures covering the acceptance and continuance of client relationships and new specific engagements. A comprehensive client acceptance form must be completed prior to acceptance of every appointment. This requires identification of the prospective client, an assessment of our independence and freedom from conflicts of interest, an assessment of whether the firm has the requisite skills to carry out the engagement and an assessment of the risk the prospective client would present to the firm.

Upon acceptance of a new client or a specific engagement from an existing client, the firm issues a detailed engagement letter for agreement by the client, setting out, inter alia, our understanding of the nature of the assignment and what is required of us and our standard terms of business.

- ***Human resources***

We have established policies and procedures to ensure that our people are equipped with the required technical skills and reflect our values of commitment to client service and high professional and ethical standards, covering objectivity, integrity and independence.

The firm sets high standards for the recruitment and promotion of personnel, in particular with regard to the selection and interview of candidates and the qualifications required. Partners are involved in all interviews and references are always taken, including verification of membership of professional or regulatory bodies.

All personnel undergo regular appraisals dealing with past performance, future development and training needs.

Audit staff receive performance appraisals at the end of each significant assignment, which feed into their six monthly appraisals.

The firm adheres to the requirements of the ICAEW for continuing professional development (CPD). Responsibility for providing full support for the development needs of individuals lies with the board, exercised through our HR development department, which is headed by the technical and training partner.

The training programme is informed by new technical developments, the identification of training needs through appraisals and a review of CPD records maintained by staff.

The firm provides:

- dedicated technical support staff
- a technical library, including on line resources available via the firm's intranet
- manuals setting out the firm's procedures for all audit and assurance engagements as well as other services provided by the firm
- membership of the Faculties and Special Interest Groups of the ICAEW and dissemination of their guidance and bulletins to audit partners and staff
- subscription to the email update service of the Financial Reporting Council, enabling early access, inter alia, to the output of its two main divisions dealing with Codes and Standards and Conduct, which is disseminated to audit partners and staff
- regular and externally provided update training for partners and staff dealing with current developments in accounting, auditing and tax
- internal training courses tailored to the specific roles of individuals at each stage of their careers (e.g. audit assignment leaders course)
- ad hoc internal and external training to meet specific needs.

The firm is an accredited training office with the ICAEW, the Institute of Chartered Accountants of Scotland, the Association of Certified Chartered Accountants and the Association of Accounting Technicians. The progress of students studying for their professional qualifications with these and other bodies (for example, the Chartered Institute of Taxation) is carefully monitored, with each student being closely supported.

- ***Engagement performance***

The firm's procedures for engagements are set out in comprehensive manuals developed by the firm. In respect of audit and assurance engagements we use proprietary audit programmes and have developed our own programmes for specialist audits.

All professional work is subject to review by managers and partners, with clear guidelines laid down for second partner consultation and hot review and the use of external experts where required.

- ***Monitoring***

We engage external reviewers to monitor the quality of audit, assurance and tax work, as well as other services provided by the firm. Audit reviews take place eight times per annum with reports delivered to the PSC and the Audit Compliance Partner.

Our external reviewers also carry out an annual whole firm practice assurance review.

The results of the reviews, as well as those by the QAD, are used to inform improvements to our procedures and are fed into our internal training programme. Where appropriate and considered necessary, the PSC will issue Quality Control Monitoring Alerts to bring to the attention of partners and staff any matters that need to be addressed.

- ***Statement of effectiveness***

Based on the results of the monitoring, we are satisfied that our quality control system is operating effectively to ensure that we comply with professional standards and deliver a quality service to our clients.

Carmine Papa
Managing Partner
For and on behalf of PKF Littlejohn LLP

31 January 2014

Appendix 7 - Draft Audit report – Consolidated Financial Statements

Draft Audit report – Consolidated Financial Statements

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

We have audited the financial statements of the Local Government Association (LGA) for the year ended 31 March 2014 which comprise the Consolidated Income and Expenditure Account and Statement of Total Recognised Gains and Losses, Association Income and Expenditure Account and Statement of Total Recognised Gains and Losses, Consolidated and Association Balance Sheets, Consolidated Cash Flow Statement and the related notes x to xx. The financial reporting framework that has been applied in their preparation is as set out within Note 1 to these accounts.

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

Respective responsibilities of the Resources Panel and auditors

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

Scope of the audit of the financial statements

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

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the Group's and Association's affairs as at 31 March 2014 and of the Groups and Association's surplus for the year then ended; and

- have been properly prepared in accordance with the basis of preparation and accounting policies set out in Note 1 to the accounts

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

Statutory auditors
1 Westferry Circus
Canary Wharf
London
E14 4HD

PKF Littlejohn LLP *Date:*

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

Statutory audit report – incorporated under Company Law

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

We have audited the Financial Statements of [name of entity] for the year ended 31 March 2014 which comprise [specify the titles of the primary statements such as the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds] and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and Auditor

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

Scope of the audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its profit [loss] for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

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Canary Wharf
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2014