

AUDIT AND STANDARDS COMMITTEE

26 MARCH 2024

Title: Grant Thornton’s Indicative Audit Plan, Sector update and Informing the Audit Risk Assessment	
Report of the Interim Chief Accountant	
Open Report	For Information
Wards Affected: All	Key Decision: No
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Accountable Director: Michael Bate Interim Director of Financial Services & Deputy S151 Officer	
Accountable Executive Team Director: Jo Moore, Interim Strategic Director, Resources and S151 Officer	
Summary This report presents Grant Thornton’s approach for delivering their responsibilities as the Council’s external auditor for the 2023/24 financial year. Appendix A outlines their audit Indicative Plan for the 2023-24 accounts audit, key audit risks and materiality levels. Grant Thornton has also prepared a second report set out in Appendix B which is an up-to-date summary of emerging national issues and developments within the sector. They have included a third report which is Management’s responses on the “Informing the audit risk assessment” which has been included as Appendix C and this presents the Council’s responses to key questions on risks that the organisation faces. Representatives of Grant Thornton will be at the meeting to present both reports and respond to Member questions.	
Recommendation(s) The Audit and Standards Committee is recommended to note the contents of these reports.	
Reason(s) As prescribed in The Accounts and Audit (England) Regulations 2015, it is a statutory obligation for the Council’s Statement of Accounts to be produced and audited, and that the Statement of Accounts and the Annual Governance Statement must be approved by a Committee of the Council.	

1. Introduction and Background

- 1.1 Since the last meeting of the Audit and Standards Committee, Grant Thornton have been carrying out their planning work with respect to the 2023/24 financial year, working with officers to gain a better understanding of the Council and its processes.
- 1.2 This has enabled them to formulate their indicative Audit Plan for the 2023/24 Accounts Audit which is now attached at Appendix A.
- 1.3 They have identified 'significant' risks which are those risks which will require special audit consideration and procedures to address the likelihood of a material financial statement error.
- 1.4 They have determined planning materiality to be £13m for the group and £12.5m for the Council and have set the level of triviality to be £650k for the group and £625k for the Council.
- 1.5 They have also outlined their approach to the audit of the Council's consolidated accounts.
- 1.6 The approach also outlines the key audit logistics including a timeline for the commencement of the main audit, which is July 2024. This is on the basis that the Council has published its draft accounts by the statutory deadline of the 31st of May 2024. The report also highlights their proposed fee which includes both the scale fee and additional fees such as the use of an Audit Valuation expert and their ISA 315 work which is their work to identify and assess the risk of material misstatement.
- 1.7 This will be the first year where the external audit will be undertaken on a timely basis and Council officers will be required to undertake a significant amount of work over the next three months to ensure that they are able to meet the required deadlines.
- 1.8 The Chief Accountants has formulated a detailed plan for the 2023/24 statement of accounts closure process and has already held a number of closing workshops to ensure that colleagues are aware of their respective responsibilities in the process. Guidance has been issued to service managers, Heads of Service and Directors and training is being provided where required. Therefore, the Chief Accountant is confident that the Council will be in a position to meet the deadlines set out by the external auditors.
- 1.9 However, it is important to bear in mind that the Council prepares Group Accounts, and these subsidiaries prepare their accounts on a timeline set out in the Companies Act which is not aligned with local authority statutory reporting timelines.
- 1.10 This presents a significant risk for the council to be able to meet the statutory deadline, particularly as one of the subsidiaries has yet to finalise its 2022/23 audit. Until their auditors have concluded their 2022/23 audit, the subsidiary will be unable to release their 2023/24 draft accounts which in turn may impact on the Council meeting the 2023/24 closing deadline.

- 1.11 It will, therefore, be important for Council officers to work closely with colleagues in the subsidiaries to ensure that Group accounts can be prepared without undue delay and be ready for publication by the end of June 2024 which will still meet our external auditors timeline of starting the main audit in July 2024
- 1.12 There is also the matter of the backlog of unaudited accounts for the years for the intervening years from 2019/20. The Council's finance team is working towards publishing the draft accounts for the 2020/21 and 2021/22 financial years by 31 March and the 2022/23 draft accounts in April 2024. This will then enable the team to focus on the work to publish the draft accounts for the 2023-24 financial year by the deadlines set out in the report.

2. Significant Risks identified

- 2.1 The significant risks identified are as follows:
 - 2.1.1 The risk of management override of controls.
 - 2.1.2 The risk that valuation of land and buildings (including council dwellings) in the accounts are materially misstated.
 - 2.1.3 The risk that the valuation of the investment properties in the accounts are materially misstated.
 - 2.1.4 The risk that the valuation of the net pension fund liability in the accounts in materially misstated.
- 2.2 The external auditors will communicate significant findings on these areas in subsequent committee meetings.

3. Group Audit scope and risk assessment

- 3.1 In accordance with ISA (UK) 600, as group auditors, Grant Thornton is required to obtain sufficient appropriate audit evidence regarding the financial information of the council's subsidiaries included in the consolidation process.
- 3.2 As a result, they plan to audit one or more classes of transactions, account balances or disclosures relating significant risks of material misstatement of the group financial statements for the council's more significant subsidiaries in addition to the audit work that will be done within the council and carry out analytical procedures at group level for the less significant subsidiaries.

4. Risks of significant Value-for-Money (VFM) weaknesses

- 4.1 Grant Thornton noted that the VFM work for 2022/23 has not been completed by BDO and therefore in planning for 2023/24, they identified that there are risks of significant weakness in the Council's arrangements to secure value-for-money in all categories.
- 4.2 They will be preparing written recommendations that should be adopted by the Council which they will bring to the Committee to discuss and respond publicly to.

5. Sector Update

- 5.1 This report provides the Committee with a report on updates within the sector.
- 5.2 It includes a summary of emerging national issues and developments that may be relevant to the Committee such as the financial trajectory of the sector and the measures brought forward to addressing the delay in local audit and
- 5.3 A series of sector updates in respect of the emerging issues which the Committee may wish to consider such as preventing failure in local government and mitigating financial distress in Local authorities.

6. Management's responses on the "Informing the audit risk assessment"

- 6.1 There is a third report that includes the responses from officers of the council to informing the audit risk assessment and the Committee should note these responses.

7. Options Appraisal

- 7.1 The audit of the Council's Statement of Accounts follows a prescribed process and, as such, there are no other options to appraise.

8. Consultation

- 8.1 The audit of the Council's Statement of Accounts follows a prescribed process and, as such, does not require consultation.

9. Financial Implications

Implications completed by: Michael Bate – Deputy S151 Officer

- 9.1 Grant Thornton have been allocated as the Council's External Auditors for the 2023/24 financial year and for a further 4 years. The appointments and selections were carried out on a national basis by the Public Sector Audit Appointments (PSAA). The Council cannot influence the choice of external auditor.
- 9.2 The audit fees for the 2023/24 are £434,860 for the Council's Audit and £75,287 for the Pension Fund Audit. This represents an increase of 240% compared to 2022/23 for the Council's Audit, where the scale fee was £127,801 and a 366% increase for the Pension Fund Audit, where the scale fee for 2022/23 was £16,170.
- 9.3 In their Indicative Audit Plan report, Grant Thornton have included additional fees of about £17k for the use of a valuation expert and to cover their ISA 315 work. Any remaining additional fees will be confirmed at a later date. At the moment, the additional fees can still be absorbed within 23-24 forecasts, but further significant additional fees would add pressure to the council's finances.
- 9.4 Council officers will ensure that the timelines agreed with Grant Thornton are adhered to. This will help to mitigate further additional audit fees.

10. Legal Implications

Implications completed by: Dr Paul Field - Principal Standards & Governance Solicitor.

- 10.1 The Director of Finance has a statutory duty, under Section 151 of the Local Government Act 1972 and Section 73 of the Local Government Act 1985, to ensure that there are proper arrangements in place to administer the Council's financial affairs. An essential component of sound administration is a sound audit function.
- 10.2 The Local Audit and Accountability Act 2014, established a new audit regime. Local Authorities must appoint a local auditor which in carrying out its' role must be satisfied that the authority has:
- Made proper arrangements for securing economy, efficiency and effectiveness in its use of resources,
 - In its accounts comply with the requirements of the enactments that apply to them, and
 - Observed proper practices in the preparation of the statement of accounts; and that the statement presents a true and fair view.
- 10.3 This is supported by the 2020 Code of Audit Practice published by the National Audit Office. Auditors now need to report significant weaknesses in arrangements when they identify them and make recommendations for improvement. A document called the Auditors Annual Report will cover arrangements for financial sustainability, governance and improving value for money.
- 10.4 Audited bodies are required to publish the Auditors Annual Report on their Website.

11. Other Implications

- 11.1 **Risk Management** - The preparation of timely, high-quality accounts is a key component of a system of good governance and accountability to our residents.

The risk management implications are clearly set out in the appendices to this report.

List of appendices:

- **Appendix A** – London Borough of Barking and Dagenham Indicative Audit Plan - March 2024
- **Appendix B** – GT report – Sector Updates.
- **Appendix C** - Management's responses on the "Informing the audit risk assessment"