APPENDIX A

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

London Borough of Barking and Dagenham Indicative audit plan

Year ending 31 March 2024

26 March 2024

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

Local context

The Council faces increasing financial challenges over the next few years. While the council has a plan in place to achieve a balanced budget for 2023/24, this has not been without significant challenges. At the end of January 2024, forecast expenditure after transfers to and from reserves of £2.366m stood at £200.476m resulting in a forecast overspend of £6.016m. Management have stated that If the forecast level of overspend continues, this will result in the use of earmarked reserves to balance the budget for 2023/24 and/or potentially drawing of funds down from the General Fund balance which is currently c£17m. For the proposed general fund budget of 2024/25, the council currently requires a drawdown from reserves of £8.809m to balance the budget. This includes £15.595m of savings and £54.129m of growth from the 2023/24 revised budget.

As your new auditor, we have taken into account the national and local context when designing a local audit programme that is tailored to the council's risks and circumstances.

Audit Reporting Delays

There have been significant delays in completing audit work and issuing audit opinions across the local government sector nationwide. Two consultations were released in February 2024 in response to this issue. One consultation by DLUHC sought views on introducing backstop dates for the publication of audited accounts in the Accounts and Audit Regulations 2015. The other consultation by the NAO sought views on changes to the Code of Audit Practice to support auditors in meeting backstop dates and promoting more timely reporting of their work on value for money arrangements. Council management was invited to respond to these proposals, and our firm submitted our comments on March 5, 2024. The outcome of the consultation is currently unknown.

Notwithstanding, to ensure timely sign-off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

Key matters - continued

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan has been discussed with the Interim Strategic Director of Resources (S151 Officer) .
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive twice a year, and with the Strategic Director of Resources Quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit and Standards Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit and Standards Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit and Standards Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector. Officers at the Council attended the workshop held in February 2024.
- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls. We have identified other risks, which are discussed in greater detail in this report.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of London Borough of Barking and Dagenham Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and standards committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Standards Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Basis of the audit plan

The audit plan presented in this document is based on our current understanding of the council, which was derived from discussions with management, review of minutes, and the council's latest financial position. However, it is important to note that the latest financial position available to us at the time of writing is the 2019/20 accounts, which are currently under audit. For this reason, our audit plan does not consider the financial position of the council from 2020/21 to 2022/23 as those financial statements are not yet publicly available.

Based on this, It is likely that we will need to review and update the audit plan when the 2023/24 financial statements are drafted. Therefore, we must emphasize that the current audit plan is subject to change. We will communicate any changes made to the audit plan during future committee meetings.

Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The risk of management override of controls
- The risk that valuation of land and buildings (including council dwellings) in the accounts are materially misstated
- The risk that the investment properties in the accounts are materially misstated
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £13m for the group and £12.5m for the Council. This equates to approximately 1.48% of the group's 2019/20 gross operating costs for the year and 1.41% of the Council's gross operating costs for 2019/20. We have used the 2019/20 figures to determine materiality as this is the latest financial position available at the time of drafting this report.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £650k for the group and £625k for the council.

We have identified senior officer remuneration as an area where we will apply a lower materiality level, due to the sensitive nature of the disclosures. We have set a materiality of £100k.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified risks of significant weakness in all categories. We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of its significant subsidiary undertakings. Our understanding to date of the Council's significant subsidiaries as assessed by management are:

- B&D Homes Ltd
- B&D Reside Ltd
- B&D Energy Ltd
- Be First (Regeneration) Ltd
- Be First Developments (Muller) Ltd
- B&D Trading Partnership LTD

We will keep this under review as we progress with the audit.

We have observed that the following companies have up-to-date accounts on Companies House:

- B&D Homes Ltd
- B&D Reside Ltd
- B&D Energy Ltd
- Be First (Regeneration) Ltd

If there are delays in producing and auditing the financial statements of subsidiaries, it is expected to have an impact on the delivery schedule of the council for 2023/24.

Audit logistics

Our planning visit will take place between February – March 2024 and our final visit will take place from July 2024. This is dependent on when the 2023/24 draft financial statements are produced by management.

Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our proposed fee for the audit of the Council is set out in page 22 of this report, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Presumed risk of fraud in revenue recognition ISA (UK) 240	Group and Council	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	Under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of the Council, we have determined that it is likely that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of public sector bodies, including London borough of Barking and Dagenham Council, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for the Council at the time of our planning however we will keep this assessment under review. We have however not rebutted the risk for the group. To address this risk, we plan to rely on the work performed by the component auditors on revenue. To do so, we will take the following steps: - communicate with the component auditor to discuss any identified fraud risks and obtain additional information on their audit procedures. - evaluate the component auditor's competence, capabilities, and objectivity - review the work performed by the component auditor to ensure that it is of sufficient quality and addresses the relevant fraud risks. - assess the sufficiency and appropriateness of the component auditor's work to determine whether it is suitable to rely on for the purpose of the group audit.
Risk of fraud related to expenditure recognition PAF Practice Note 10	Group and Council	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period)	As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition. Having considered the nature of the expenditure streams of the Council, and on the same basis as that set out above for revenue, we do not consider this to be a significant risk for the Council at the time of our planning however we will keep this assessment under review.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls ISA (UK) 240	Group and Council	Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. The Council faces external scrutiny of their spending, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of the pension fund net liability	Group and Council	The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the pension fund net liability as a significant risk.	We will: • understand the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • assess the accuracy and completeness of the information provided by the group to the actuary to estimate the liabilities; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of the Councils Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the Fund and the fund assets valuation in the Fund's financial statements.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (including Council dwellings)	Group and Council	This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Key assumptions and judgements will include managements impairment assessments, valuations based on historic data, valuations of properties that have not been subject to inspection and those assets that have change in use in the year. Management will need to ensure that the carrying value in the Council's (and group's) financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date. We therefore identified valuation of land and buildings and council dwellings as a significant risk of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • challenge the information and assumptions used by the valuer to assess the completeness and consistency with our understanding, which will include engaging our own valuation expert to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations; • test, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Investment Properties	Group and Council	The Council revalue its Investment Properties on an annual basis to ensure that these assets are held at Fair Value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. The key assumption for investment property is the yield rates utilised by the valuer and our testing will therefore focus on this area.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, which will include engaging our own valuation expert to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations; • focus our testing on the yield rates used by the valuer; and • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
London Borough of Barking and Dagenham Council	Yes		• Risks are set out in pages 8 – 10 of this report	Full scope audit performed by Grant Thornton UK LLP
-B&D Homes Ltd -B&D Reside Ltd -B&D Energy Ltd -Be First (Regeneration) Ltd -Be First Developments (Muller) Ltd	Yes		• Risks are set out in pages 8 – 10 of this report	Full scope audit performed by Beever and Struthers. The nature, time and extent of our involvement in the work of the subsidiary auditors will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the auditor's audit documentation and meeting with appropriate members of management.
-B&D Trading Partnership LTD	Yes		• Risks are set out in pages 8 – 10 of this report	Full scope audit performed by RSM UK Audit LLP.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Group audit scope and risk assessment

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
-Reside Regeneration Ltd -Reside Regeneration LLP -Reside Abbey Roding LLP -TPFL	No	Analytical procedures at group level	• No specified risks identified in relation to these subsidiaries.	These entities are not considered significant individually therefore, analytical procedures at a group level will be performed. No further audit procedures are required at this stage.
-BD Management Service -BD Corporate cleaning Ltd -BD Together -London East UK Ltd -BD Service Delivery	No	Analytical procedures at group level	• No specified risks identified in relation to these subsidiaries.	No specific audit procedures are required for these entities as they are subsidiaries of B&D Trading Partnership Ltd and are consolidated within its accounts. Since these entities are not considered significant individually, except for the analytical procedures, no further audit procedures are required at this stage.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We will read your Narrative Report and Annual Governance Statement (and any other information published alongside your financial statements) to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the group and the Council for the financial year. Materiality at the planning stage of our audit is £13m for the group, which equates to 1.48% of your draft gross expenditure for the group for the financial year 2019-20 and £12.5m for the council, which equates to 1.41% of your draft gross expenditure for the group for the financial year 2019-20	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £100k.

Our approach to materiality

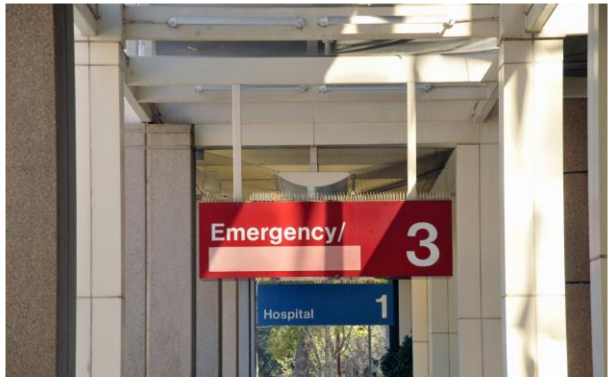
The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Audit and Standards Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £650k for the group and £625k for the council. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Committee to assist it in fulfilling its governance responsibilities.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

	Amount (£)	Factors considered
Materiality for the Council's financial statements	£12,500,000	The following factors were considered when determining materiality for the Group and Council • The financial information available at the time of drafting this report • The complexity of the group structure • Our understanding of the internal controls in place. • Our review of your predecessor's auditors' reports
Materiality for specific transactions, balances or disclosures - senior officer remuneration	£100,000	
Group materiality	£13,000,000	



IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
E5 – Finance system	Financial reporting	To test design and implementation of the ITGCs. This includes: - Security management - Change management - Batch Scheduling

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024.

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

VFM work for 2022/23 has not been completed. In planning for 2023/24 we have identified risks of significant weakness in your arrangements to secure value for money in all categories:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

Audit logistics and team

Planning and risk assessment

Audit and Standards committee
26th March 2024
Audit Plan

Audit and Standards committee
25th June 2024
Draft Auditor's Annual Report

Year end audit
from July 2024*

Audit and Standards committee
TBD
Audit Findings Report

Audit opinion

Audit and Standards committee
TBD
Auditor's Annual Report

Makanatsa Makusha, Audit In charge

Key audit contact responsible for the day-to-day management and delivery of the audit work

Ibukun Oluwasegun, Audit Manager

Provides oversight of the delivery of the audit including regular engagement with Audit and Standards Committees and senior officers

Paul Dossett, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Audit and Standards Committees and senior officers

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations, we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations, we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

*The dates stated are dependent on when management produce the draft financial statements for 2023/24.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. The scale fee set out in the PSAA contract for the 2023/24 audit is £434,860.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/'

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

	Proposed fee 2023/24
London Borough of Barking and Dagenham Council Audit	£434,860
Audit expert fees – (for the valuation of Land & buildings, council dwellings & Investment properties)*	£4,000
ISA 315	£12,550
IFRS 16	TBC
Potential impact of delayed 2022/23 audit opinion	TBC
Total audit fees (excluding VAT)	TBC

Previous year

If the opinion on the 2022/23 (including 2021/2022 and 2020/2021) audit is disclaimed due to the imposition of a backstop date, we will need to undertake further audit work in respect of opening balances. We will discuss the practical implications of this with you should this circumstance arise.

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

*Please be advised that the fee stated is the valuer's base fee. Any additional queries may result in a variation to the base fee.

IFRS 16 ‘Leases’ and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet‘ by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Council’s systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning enquiries

As part of our planning risk assessment procedures, we will be making enquiries of management on the implementation of IFRS 16. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

IFRS 16 Application Guidance December 2020.docx (publishing.service.gov.uk)

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and we will make enquiries of component audit firms providing services to the group and Council.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit related services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group and Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees*	Threats	Safeguards
Audit related			
Certification of Teacher's Pension	£12,500	-Self-Interest (because this is a recurring fee) -Self review -Management	The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of and relative to Grant Thornton UK LLP's turnover overall is not significant. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with informed management, however, we will not be performing any management functions as a result of this work. We are satisfied that there is sufficient safeguards in place to mitigate the threats.
Certification of Housing benefits subsidy	TBC	-Self-Interest (because this is a recurring fee) -Self review -Management	The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of and relative to Grant Thornton UK LLP's turnover overall is not significant. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with informed management, however, we will not be performing any management functions as a result of this work. We are satisfied that there is sufficient safeguards in place to mitigate the threats.
Certification of Pooling of Housing Capital Receipts	£10,000	-Self-Interest (because this is a recurring fee) -Self review -Management	The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of and relative to Grant Thornton UK LLP's turnover overall is not significant. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with informed management, however, we will not be performing any management functions as a result of this work. We are satisfied that there is sufficient safeguards in place to mitigate the threats.

*(Fees stated are exclusive of VAT)

Independence and non-audit services

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. In the table below we have set out the previous services we have provided to the group and Council.

Service (Financial year)	Timescale service was delivered?	Fees (excluding VAT)	Would the service have been prohibited if we had been auditor?	Has the outcome of the service been audited or reviewed by another firm?	Commentary
Assurance – Housing benefits (2019/20)	2020-21	£30,000	N	N	Reporting on regulatory returns
Be First Accounting Advice	2020-21	£12,500	Y	Y	The accounting advice we provided was in relation to the equity investment made by the Council in Be First. As the investment amount was £950,000 and not considered material from an accounting perspective, and the fee for the service was not significant, and the team who provided the advice will not be involved in the 2023/24 audit, we have concluded that there are no potential independence issues that may arise due to this.
Assurance –Pooling capital returns (2020/21)	2023	£5,000	N	N	Reporting on regulatory returns
Assurance – Teachers Pensions (2020/21)	2022 -23	£7,500	N	N	Reporting on regulatory returns
Assurance – Housing benefits (2020/21)	2022 -23	£30,000	N	N	Reporting on regulatory returns

We do not believe that the previous services detailed above will impact our independence as auditors.

Independence and non-audit services- continued

Service (Financial year)	Timescale service was delivered?	Fees (excluding VAT)	Would the service have been prohibited if we had been auditor?	Has the outcome of the service been audited or reviewed by another firm?	Commentary
Assurance –Pooling capital returns 2021/22	2022-23	£7,500	N	N	Reporting on regulatory returns
Assurance – Teachers Pensions 2021/22	2022	£7,500	N	N	Reporting on regulatory returns
Assurance – Housing benefits 2021/22	Ongoing	TBC	N	N	Reporting on regulatory returns
Assurance –Pooling capital returns 2022/23	2023-24	£10,000	N	N	Reporting on regulatory returns
Assurance – Teachers Pensions 2022/23	2023-24	£10,000	N	N	Reporting on regulatory returns
Assurance – Housing benefits 2022/23	Ongoing	TBC	N	N	Reporting on regulatory returns

We do not believe that the previous services detailed above will impact our independence as auditors.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.