

# LB Group

## Transparency Report 2023



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# CONTENTS

|                                | <b>Page</b> |
|--------------------------------|-------------|
| Introduction                   | 3           |
| Legal Structure and Ownership  | 5           |
| Governance                     | 5           |
| Quality Control Systems        | 6           |
| Independence and Ethics        | 7           |
| Strategy 2024 and onwards      | 8           |
| Public Interest Entities       | 10          |
| Financial Details              | 10          |
| <br>                           |             |
| Appendix I - Audit Strategy    |             |
| Appendix II - Office Locations |             |

# INTRODUCTION

This Transparency Report is for the year ended 31 August 2023. This report is in accordance with the Transparency Reporting requirements set out in The Statutory Auditors (Transparency) Instrument 2008 which is drawn from Article 13 of Regulation (EU) No.537/2014 and the amended Directive 2014/56/EU.

In this report we explain the ethos of LB Group together with the required information on legal structure and governance, details on our quality controls and financial information.

The year to 31 August 2023 continued to see much change in the audit environment both regulatory and in the challenges and opportunities our audited entities faced.

In this period our audited entities have faced the impact of a high inflationary environment and Russia's invasion of Ukraine. The acceleration of the use and potential of AI have also posed opportunities and threats to our audited entities. Towards the end of the year our audited entities started to see the easing of the labour market. Our audit team have strived to understand the risks these macro economic circumstances impact on the performance and conclusions of our audit assignments,

During this year we have focused on the implementation of International Standard on Quality Management 1 and the imbedding of the impact on our audit methodologies of ISA 315 and refining our audit focus on accounting estimates, management override of controls and going concern. In the year we were pleased to complete the FRC audit registration procedures and our now involved the FRC Scalebox program.

We see these developments as necessary and significant steps for LB Group as we evolve as a firm. We are aware there is always more to do in line with continuous investment to support our audit business and wider firm.

**Mark Middleton**  
**Audit Compliance Principal**

## **LEGAL STRUCTURE AND OWNERSHIP**

LB Group is a 4 office firm with head office at The Octagon, Suite E2, 2<sup>nd</sup> Floor, Middleborough, Colchester, CO1 1TG. Our office address and contact details are detailed in appendix II.

In May 2023 LBGH received investment from Sovereign Capital Partners taking a controlling interest. Immediately prior to the investment LB Group was restructured to be directly controlled by directors and principals in line with regulation and guidance. The impact of this investment is noted in the strategy 2024 and onwards section.

The LB Group audit function has 6 responsible individuals working across our audited entities.

# GOVERNANCE

LB Group has an Audit Management Committee which sets strategy, monitors performance and is responsible for quality. The Management Committee meet every month to consider strategic matters and monitor operational arrangements and performance.

Regular meetings are held with all directors to receive reports from the Management Committee and discuss and decide on structural matters.

The Management Committee, or delegated members of it, hold regular meetings with staff on an office basis to update on direction, performance, current issues and strategy.

Client service is delivered along service lines further delineated into each office. The audit group and each office has a business plan which is updated annually. The business plans and the staff contribution to it are shared with staff on a regular basis.

The Management Committee consider that in the year the key risk to audit quality was to ensure we had sufficient capacity and quality of resource to carry out high quality audit practices. The market for bringing in audit staff was considered very competitive so a potential risk of resource not being available when needed. We found that the market for staff eased towards the end of the year. The investment by Sovereign enabled us to make two high level big 4 hires that will join in the first quarter of the 2024 year. These new team members will augment our skills and experience. During the year we also established a team of SA chartered accountants in South Africa. The integration of this team has worked well and has enabled us to increase our capacity for senior audit staff. By planning all audit jobs on a rolling 12 month basis and regularly assessing this against capacity and skills the resourcing risk has been mitigated we believe. Resourcing is monitored as key risk area.

# QUALITY CONTROL SYSTEMS

## External Reviews

The firm uses Mercia as a third party to carry out cold file reviews on an annual basis. The findings of the cold file reviews are reviewed by the audit management team and any requirements to update audit methodology are made. Audit staff training is updated for specific findings from the cold file review.

LB Group is subject to external review by the Quality Assurance Department of the ICAEW at timings determined by the regulatory body. The firm had an inspection in January 2023. The inspection noted good audit work and areas where improvement was needed. Where improvement was needed we have reviewed cause and impact of the areas; communicated amongst the audit team, augmented procedures and reviewed impact of the measures.

Following acceptance of registration by the FRC LB Group has also come under inspection by this body as well.

## Internal Systems

The firm's audit compliance principal is Mark Middleton. Mike Warman is the ethics principal.

The company has continued to focus on instilling a culture of openness, integrity and independence across all audit staff by encouraging the management team to emphasise this approach on a consistent basis. Particular focus being on encouraging professional scepticism and creating the supportive culture for staff to challenge management. The strategy is to ensure the audit manuals and systems are enacted by all staff when practically applied.

The audit committee set out firm wide and specific training for the audit team to best ensure the audit team, at all levels, have sufficient

skills to carry out the audit assignments. Training is provided by third party specialists, internally from the audit team and by relevant professional bodies. Staff training is assessed individually in 6 and 12 month reviews. At these meetings future training based on practical feedback is implemented. During the year training was targeted towards the embedding and refinement of ISA315, going concern, management override of controls and accounting estimates.

LB Group maintains an audit compliance manual supported by third party specialists. Regular training and audit meetings and training materials sets out in detail mandatory audit procedures.

LB Group endeavours to apply robust engagement acceptance procedures for all prospective audited entities and the continuance of audit engagements. This includes monitoring by the audit committee on a monthly and quarterly basis.

The company is committed to audit quality. Audit quality is considered a key business risk for the company.

To endeavour to drive audit quality Responsible Individuals are not rewarded for financial performance, to encourage 'to do what it takes', to ensure audit quality. RI's are remunerated on the basis of a fixed remuneration package. Audit quality is a key factor in all staff appraisals. All jobs are reviewed and analysed for quality. This data is used in staff appraisals at all levels. Audit quality is a driver for promotion and remuneration at all levels below RI.

Responsible individual portfolios are reviewed for size and perceived risk to ensure capacity at all levels is adequate.

Please see Appendix II for our audit strategy template.

## **INDEPENDENCE AND ETHICS**

### **Independence**

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. For example, Directors of a UK company.

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

The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. This strategy document considers such matters in for new clients and the continuance of existing clients.

We confirm that the firm complies with the APB Ethical Standards.

By monthly and quarterly review the company assess and takes appropriate action for the rotation of RI and senior staff in line with the guidance of regulatory bodies.

Annually internal review of independence compliance is conducted.

### **Ethics**

The most recent revision to the FRC's Ethical Standard was a driver for more collaboration and documentation of ethical challenges experienced by RI's during and following the Covid-19 pandemic.

Ethics is an area of high focus for both the industry and LB Group as a firm and we welcome the recent changes to CPD requirements for ICAEW members which enhance our pre-existing training programmes for staff in this key area. Amongst others, non-audit services is a focus area, with audit team members being encouraged to discuss and document threats and safeguards. Ethics training is improving for all staff, and we promote an openness to discussion as an important part of our firm's culture.

At a higher level the audit committee will also consider threats to reputation such as adverse press and reputation of management. This is assessed on individual engagements on a yearly recurring basis, if applicable, and on new engagements, as needed on potential sign up.

# STRATEGY 2024 AND ONWARDS

As a firm we are keen to improve standards in all areas and in particular the regulated area of audit. We believe the standards would be improved by further investment in our staff and infrastructure, The investment by Sovereign Capital Partners in 2023 will enable us to accelerate the implementation of these strategies.

Examples where we consider improvements can be made in 2024 and onwards:

- In 2023 we started the reorganisation of the firm on service lines exclusively from the current structure of a hybrid service line and office basis. The current structure served us well but reorganising on a pure service line basis will enable staff to better specialise, better control capacity and to be a more scalable operation. In 2024 we expect this reorganisation to be embedded and to show the positive outcomes expected.
- We plan to acquire a small number of firms in 2024 in the South East region. We expect these firms to be smaller than LB Group with a smaller number of audit entities and staff. The audited entities will be engaged in LB Group. We plan to integrate the audit functions fully instilling our best practice and learning and assimilating better audit practice as we encounter it.
- Continued development of our Ethics training programme is a focus for the business. Aside from the increased requirements for ICAEW members, we understand that our acquisition targets will need to be bolted into our training structure in order to mitigate any risks in the early stages of any new relationship. The pre-existing processes in respect of ethics within any target firm will need to be quickly assessed as part of any due diligence process, and a collaborative plan put in place to address any immediate differences to ensure LB Group moves forward as one.
- Invest in technological audit assistance to provide better audit control and depth on audit projects. We are currently looking at our strategy on data analytics and the use of AI in audit testing to plan our way forward. Research is ongoing into the merits and attributes of the various software available.
- Investing in our back office will enable us to better report the data needed to monitor our performance across all relevant KPI's. The data we have is improved substantially. As the rollout in 2024 continues we expect to be in a position to provide a lot more relevant data and augment the narrative aspects of the report.
- Investing in our internal and external marketing to better retain and attract audit staff. We have appointed a senior marketing manager who has started to push forward the articulation of the employee value proposition.



- Continue to utilise greater resource to bring in talent from top 20 firms to further broaden our audit experience and skills. The example of the two recent 'big 4' hires we would expect to be able to repeat as we grow.
- We plan to hire a chief people office in the 2024 year to assist the audit function in attracting, retaining and developing high quality staff.
- Investment in back-office support to enable all staff levels to be more available to be engaged in client facing and technical activities. We can see the impact the increase in numbers in our HR department have had in the 2024 year. We would expect the recent increase in numbers in our finance team to have a similar impact.

## **PUBLIC INTEREST ENTITIES (PIE'S)**

During the year LB Group carried out audits of PIEs regulated by the FRC on the following entities:

Bestpark International Limited

Ashbrooke Underwriting Limited

Ashbrooke Underwriting Services Limited

## **Financial Details**

In the year to 31 August 2023 we can confirm the following financial details:

|                                                                                    |             |
|------------------------------------------------------------------------------------|-------------|
| Revenue from the statutory audit of public interest entities                       | £30,000     |
| Revenue from the statutory audit of other entities                                 | £1,956,066  |
| Revenue from permitted non-audit services to entities that are audited by LB Group | £490,809    |
| Revenue from non audit services to other entities                                  | £10,040,273 |

# APPENDIX I

## AUDIT STRATEGY

**We will perform a risk based audit on the management figures of the entity. This enables us to focus our work on key audit areas.**

Our starting point is to gain a detailed understanding of the company's business and its commercial environment which enables us to identify, assess and respond to the risks of material misstatement.

This includes obtaining an understanding of the system of internal control in place in order to consider the adequacy as a basis for the preparation of the financial statements, that adequate accounting records have been maintained and the adequacy as a basis on which to design and undertake our audit testing.

We would discuss the changes to the business and management's own view of potential audit risk during our planning meeting in order to gain an understanding of the company's activities to determine which risks impact on the numbers and disclosures in the financial statements. We would continue to update this assessment throughout the audit.

Based on our risk assessment, we then design an appropriate audit strategy to obtain sufficient assurance to enable us to report on the financial statements. We choose the audit procedures that we believe are the most effective and efficient to reduce audit risk to an acceptably low level. The procedures are a combination of testing the operating effectiveness of controls, substantive analytical of controls,

substantive analytical procedures and other tests of detailed transactions.

Having planned our audit we would perform audit procedures, maintaining an appropriate degree of professional scepticism, in order to collect evidence to conclude whether or not the financial statements show a true and fair view and are prepared in accordance with UK GAAP FRS 102 and the Companies Act 2006.

It is important that we maintain effective two way communication with clients through the entire audit process, which will culminate with a completion audit meeting and the preparation of a final report to the appropriate stakeholders.



## APPENDIX II

### OFFICE LOCATIONS

**LB Group London  
Number One  
Vicarage Lane  
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Tel: 0208 221 8282 | Fax: 0845 834 0896

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