

# The Annual Audit Letter for Coventry City Council

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**Year ended 31 March 2016**

September 2016

**John Gregory**  
Director

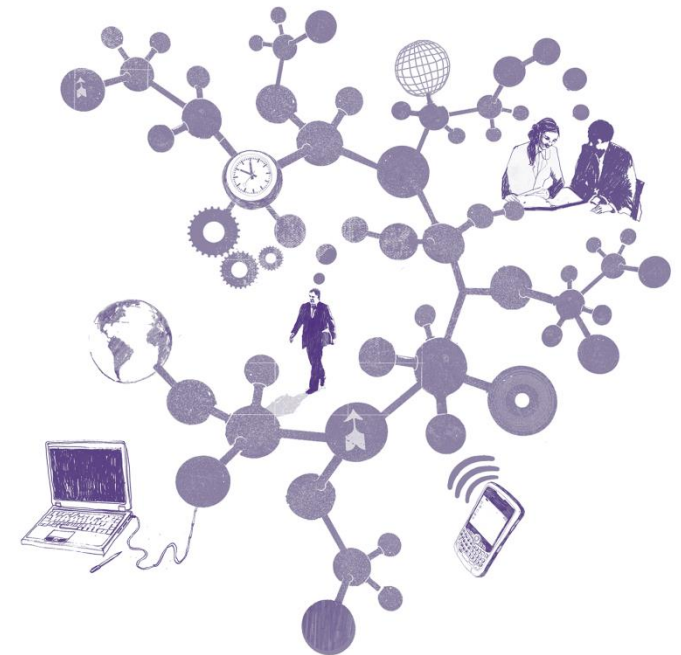
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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Coventry City Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Procurement Committee as those charged with governance in our Audit Findings Report on 25 July 2016.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 28 July 2016, well in advance of the national deadline of 30 September 2016.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 28 July 2016.

### **Whole of Government Accounts (WGA)**

We are required to carry out specified procedures (on behalf of the NAO) on the WGA consolidation pack under WGA group audit instructions. This work is underway and we intend to complete it well in advance of the 21 October deadline for the consolidation pack to be submitted.

### **Certificate**

We are currently unable to certify that we have completed the audit of the accounts of Coventry City Council as we have not yet completed the work required under the Code on the Council's Whole of Government Accounts consolidation pack.

### **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit and Procurement Committee in our Annual Certification Letter.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**September 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £13,550,000, which is 1.75% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as disclosures of officers' remuneration and salary bandings in notes to the statements, disclosure of auditors' remuneration in notes to the statements and related party transactions.

We set a lower threshold of £677,000, below which we would not report errors to the Audit and Procurement Committee in our Audit Findings Report.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of property, plant and equipment</b>            The Council revalues its assets on a rolling basis over a five year period . The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• reviewed entity controls</li> <li>• reviewed management's processes and assumptions for the calculation of the estimate</li> <li>• reviewed the competence, expertise and objectivity of management experts used</li> <li>• reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• discussed with the valuer the basis on which the valuation is carried out and challenged key assumptions</li> <li>• reviewed and challenged the information used by the valuer to ensure that it is robust and consistent with our understanding</li> <li>• tested revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• evaluated 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 to current value.</li> </ul> <p><b>We did not identify any issues to report.</b></p>
<p><b>Valuation of pension fund net liability</b>            The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>• reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We also gained an understanding of the basis on which the valuation is carried out</li> <li>• reviewed the reasonableness of the actuarial assumptions made</li> <li>• reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p><b>We did not identify any issues to report.</b></p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 28 July 2016, well in advance of the 30 September 2016 national deadline. This leaves the Council very well placed to cope with the bringing forward of the statutory deadline to 31 July from 2017/18 onwards.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Procurement Committee on 25 July 2016.

In addition to the key audit risks reported above, we identified some control issues in relation to the Council's key financial IT systems and also an issue in respect of the valuation of the Council's long term investment in Birmingham Airport Holdings Limited which needs to be addressed in 2016/17. The key recommendations arising from our financial statements audit are detailed in Appendix B.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report, including the Overview of the Council's Performance in 2015/16. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We are required to carry out specified procedures (on behalf of the NAO) on the WGA consolidation pack under WGA group audit instructions. This work is underway and we intend to complete it well in advance of the 21 October deadline for the consolidation pack to be submitted.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## **Key findings**

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in the table overleaf.

As part of our Audit Findings report agreed with the Council in July 2016, we agreed recommendations to address our findings. These are detailed in Appendix B.

## **Overall VfM conclusion**

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

# Value for Money

Risk identified	Work carried out	Findings and conclusions
<p><b>Medium term financial planning</b> The Council faces an uphill task to balance its finances over the medium term. The gap between income and spending plans is estimated at £10m for 2017/18, rising to £36m for 2019/20.</p>	<p>We assessed whether the Council is:</p> <ul style="list-style-type: none"> <li>• producing and using appropriate and reliable financial information to support informed decision making and performance management</li> <li>• producing reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>• planning its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</li> </ul>	<p>We found that the Council has:</p> <ul style="list-style-type: none"> <li>• an agreed, balanced financial plan for 2016/17, though its latest forecasts indicate that it is struggling to deliver planned cost savings, especially within the People Directorate</li> <li>• identified and taken account of funding cuts in its medium term financial plans</li> <li>• taken into account the financial impact of demographic trends and other social pressures in its medium term financial plans</li> <li>• has arrangements in place to identify cost savings in 2017/18 and beyond, though detailed plans are needed in order to achieve a balanced position over the medium term</li> <li>• produced monitoring reports for members on a timely basis.</li> </ul> <p>The Council's financial position at the end of 2015/16 continued to be sound. If the Council is to maintain this position over the medium term then it needs to:</p> <ul style="list-style-type: none"> <li>• deliver planned savings programmes and draw up detailed plans for how future savings will be generated</li> <li>• continue to keep tight control over its finances</li> <li>• keep the medium term financial plan up-to-date and ensure that it covers a range of potential scenarios.</li> </ul> <p>On that basis we concluded that the Council is:</p> <ul style="list-style-type: none"> <li>• planning finances effectively to support its strategic functions</li> <li>• making informed decisions.</li> </ul>



# Value for Money

Risk identified	Work carried out	Findings and conclusions
<p><b>Ofsted inspection of children's services</b> An Ofsted inspection of children's services in March 2014 judged the services provided by the Council to be inadequate. The Council have been working hard to address the issues raised but further improvements are still required and a re-inspection by Ofsted is also awaited.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the Council's arrangements for responding to the issues raised by the Ofsted inspection and consider their adequacy</li> <li>• considered whether the Council has arrangements in place to work effectively with third parties to improve services.</li> </ul>	<p>Because of the severity of Ofsted's findings, we issued a qualified value for money conclusion in 2013/14. The Council were able to demonstrate in 2014/15 that it had put adequate arrangements in place to address the issues highlighted by Ofsted and we therefore removed the qualification. We have revisited this issue in 2015/16 and have found that the Council:</p> <ul style="list-style-type: none"> <li>• has continued to work with the Children's Services Improvement Board which focuses specifically on the work being undertaken within Children's Service to improve service provision</li> <li>• has strong political and corporate commitment to addressing the issues</li> <li>• is continuing to make significant additional financial resources available to Children's Services</li> <li>• has achieved greater stability in the population of children that they are looking after</li> <li>• is moving on from managing demand to improving the quality of practice, supported by a more robust approach to audit and continuous improvement</li> <li>• is implementing a workforce strategy which has seen the recruitment of a significant number of new social workers.</li> </ul> <p>Officers from the Department of Education (DfE) performed a review of children's services in February 2016. The resulting Ministerial letter commented that there have been improvements since the last Ofsted inspection and reflected positively on the newly appointed Director of Children's Services and the steps he has taken to improve auditing and quality assurance. However, the letter did express concerns about the consistency of progress across the entire service and the pace of improvement.</p> <p>Overall we concluded that the risk was sufficiently mitigated and that the Council has proper arrangements for responding to the issues raised by the Ofsted inspection and for working effectively with third parties to improve services.</p>

# Value for Money

Risk identified	Work carried out	Findings and conclusions
<p><b>Kickstart</b> The Council's 'Kickstart' programme aims to deliver savings, make the Council more efficient and customer focused and support regeneration across the city.</p>	<p>We assessed whether the Council is:</p> <ul style="list-style-type: none"> <li>• using appropriate performance information to monitor the delivery of the project</li> <li>• managing risks in respect of the project effectively</li> <li>• managing and utilising assets effectively</li> <li>• working with third parties effectively.</li> </ul>	<p>We found that the Council is:</p> <ul style="list-style-type: none"> <li>• using appropriate information to monitor the delivery of the project</li> <li>• managing risk in respect of the project effectively</li> <li>• managing and utilising assets effectively</li> <li>• working with third parties effectively</li> <li>• preparing detailed plans for how the estimated £5m of annual savings from Kickstart will be delivered.</li> </ul> <p>On that basis we concluded that the Council is:</p> <ul style="list-style-type: none"> <li>• deploying resources effectively</li> <li>• making informed decisions</li> <li>• working effectively with third parties.</li> </ul>
<p><b>Health &amp; Social Care Integration</b> The Council is seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services. The Council is working with the NHS to deliver a complex and high profile project.</p>	<p>We assessed whether the Council has adequate arrangements in place to work with the NHS to deliver strategic priorities, particularly in respect of delayed discharges.</p>	<p>We found that the Council:</p> <ul style="list-style-type: none"> <li>• recognises that there needs to be greater integration of health and social care services and that this will be achieved through effective cross-sector working</li> <li>• is working with a range of local NHS bodies to develop a strong strategic vision and direction of travel, which includes being involved in the drafting of a Sustainability and Transformation Plan for health services in Coventry and Warwickshire</li> <li>• is able to demonstrate strong partnership working in respect of public health services</li> <li>• did not meet most of the targets set in the 2015/16 Better Care Fund plan, including those in respect of delayed discharges. However, the Council has shown that these delays were attributable to local NHS bodies rather than to the Council</li> <li>• has demonstrated its commitment to working with partners to further integrate health and social care services.</li> </ul> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for working effectively with third parties to improve services.</p>

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# Working with the Council

## **Our work with you in 2015/16**

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have achieved:

An efficient audit – we delivered the accounts audit over two months in advance of the national deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Improved financial processes – we worked with you to ensure that you had an appropriate accounting treatment in respect of the Better Care Fund, discussing in detail how Better Care Fund transactions should be disclosed in the financial statements.

Grant certification – we have responded to your requests and performed certification work in respect of the annual Teachers Pensions return and the local transport plan major project grant for the Nucleus scheme.

Thought leadership – we have shared with you our following publications:

- 'Better Together: Building a successful joint venture company'
- 'Growing Healthy Communities: The Health and Wellbeing Index'
- 'Making Devolution Work'
- 'Reforging Local Government'
- 'Innovation in public financial management in an increasingly complex and uncertain global environment'
- 'Knowing the Ropes: Audit committee effectiveness review 2015'

Providing training – we provided your teams with training on developments in financial accounts and accounting for the Better Care Fund. The courses were attended by Council finance staff.

Supporting development – we attended Audit and Procurement Committee meetings during the year, offering our views on items under discussion.

Providing information – We provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country. The Council has purchased a licence to provide on-going access to this tool.

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# Working with the Council

## **Working with you in 2016/17 Highways Network Asset**

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have issued two Client Briefings which we have shared with finance officers. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect.

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of audit related services.

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	173,460	173,460	231,280
Housing Benefit Grant Certification	13,523	13,523	20,930
<b>Total fees (excluding VAT)</b>	<b>186,983</b>	<b>186,983</b>	<b>252,210</b>

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Certification of teachers pension return for 2015/16	4,200
• Certification of local transport plan major project grant (Nuckle)	4,200
Non-audit services	0

## Reports issued

Report	Date issued
Audit Plan	15 February 2016
Audit Findings Report	25 July 2016
Annual Audit Letter	7 September 2016

# Appendix B: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	Management should consider whether it needs to commission a new valuation for its long term investment in Birmingham Airport Holdings Limited for 2016/17.	Medium	We will consider the need to commission a new valuation for the airport in conjunction with the other West Midlands councils	March 2017 Finance Manager (Corporate Finance)
2.	In accordance with generally accepted segregation of IT duties principles, members of the program maintenance group for the Agresso application should not be granted greater than read-only access to production environments. In order to effectively restrict the range of capabilities of users with development access, we recommend that such users have their access removed from the production environment, job scheduling functionality, and direct data-level edit functionality. Alternatively (if management chooses to accept the risks associated with this access), management should implement a formal / documented monitoring process designed to review the actions performed by these individuals in the Agresso production environments. This monitoring can be achieved through after-the-fact reports listing the actions (e.g., transactions posted, queries executed, records updated) performed within production or through use of fire-fighter / fire-call user accounts.	High	This point will be challenging to address with current staffing levels and budgetary constraints. Initial analysis indicates that we do not have the numbers of staff to be able to segregate duties in the way described. The segregation between the Money Matters team and ICT works well so there will be further exploration as to whether duties could be split out further there – but it is expected that a risk assessment will have to be undertaken and signed off. This work will be complete in October 2016.	October 2016 Head of ICT Strategy Systems & Development

## Appendix B: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3.	<p>Management should make the following improvements to the process for managing leavers:</p> <ul style="list-style-type: none"> <li>• HR should send daily reports of leaver activity to the IT Service Desk.</li> <li>• Service desk tickets should be logged for leavers to enable an audit trail to be maintained of when the termination was requested, when the account was actually disabled and by whom.</li> <li>• All non-payroll employees should be assigned an expiration date on their Windows AD accounts.</li> <li>• All documentation relating to leavers should be clearly identifiable and retained for a period of at least one year.</li> </ul>	High	<p>A weekly report of leavers is currently automatically generated using data from our Payroll system, this is passed to the service desk to action to schedule AD accounts for deletion.</p> <p>However, management accept that there is more that could be done here and proposes the following immediate actions:-</p> <ul style="list-style-type: none"> <li>• Leavers will be processed by the service desk on a daily (rather than weekly) basis. All leave requests will be logged via the SCSM Service Desk call reporting system.</li> <li>• Staff will be reminded not to action a user creation, change or deletion request without ensuring that a related SCSM ticket exists.</li> <li>• Although all currently non-payroll AD accounts created since 20 May 2015 have an expiry date all requests for new AD accounts for non-payroll employees will be changed to ensure that an expiry date of 1 month is automatically added by default and not changeable by the user requesting the account.</li> <li>• All current non-payroll AD accounts will be audited and all without an expiry date will have one added.</li> <li>• All non-payroll accounts with expiry dates will have these dates reviewed and altered if they are not expiring within the next six months.</li> <li>• Work is already well under way on this actions with developments already made to link user accounts closer to the HR system and processes.</li> </ul>	<p>31<sup>st</sup> October</p> <p>Head of ICT Infrastructure &amp; Operation</p>

## Appendix B: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4.	<p>The responsibility of administering security within Agresso should be transferred to IT system administrators who do not perform financial reporting processes or controls. All security administration rights within Agresso granted to personnel performing financial reporting processes and controls should be revoked.</p> <p>Alternatively, management should implement a formal / documented monitoring process designed to detect misuse of administrative functionality by personnel responsible for performing financial reporting processes or controls.</p>	High	<p>Management accept the findings.</p> <p>Some of the people who are responsible for supporting the development of the system and for providing cover in periods of absence are core finance users and it is not practical to remove all of the access from these people.</p> <p>However, we will look to set up a super-user role which does not have access to set up roles and user accounts nor to delete audit logs/disable logging.</p> <p>We will also look to develop a monitoring process to ensure the system is not being misused.</p>	<p>31st October 2016</p> <p>Finance Manager, Corporate Finance</p>
5.	<p>If the Council is to maintain a sound financial position over the medium term then it needs to:</p> <ul style="list-style-type: none"> <li>• deliver planned savings programmes and draw up detailed plans for how future savings will be generated</li> <li>• continue to keep tight control over its finances</li> <li>• keep the medium term financial plan up-to-date and ensure that it covers a range of potential scenarios.</li> </ul>	High	<p>The Council will continue to keep tight strategic control of its financial position and maintain a medium term plan that incorporates a range of financial scenarios. We are in the early stages of drawing up detailed savings plans for 2017/18 and beyond to ensure that the Council continues to deliver balanced budgets despite the challenging financial position.</p>	<p>On-going</p> <p>Executive Director of Resources</p>





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