

# Audit Progress Report and Sector Update

Shropshire Council  
Year ending 31 March 2020

December 2020



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# Introduction

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**This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.**

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority. Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk)

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at November 2020

## 2019/20 Financial Statements Audit

Following on from the meeting of the Audit Committee on 29<sup>th</sup> October 2020, we have now completed our audit of the 2019/20 financial statements. We received a question from a Council Member which we considered before issuing our audit opinion.

The auditor's report was unqualified but included emphasis of matter paragraphs in relation to material valuation uncertainties arising due to Covid-19. Our auditor's report was signed on 19 November 2020.

As discussed at the previous meeting of the Audit Committee, through our audit findings reports, work in key areas was ongoing and therefore we draw members attention to our final audit findings reports included on page 6. There have been no fundamental changes in our conclusions drawn or the overall reported performance or position of the Authority. The changes made to our reports have been highlighted in the covering papers.

## 2020/21 Financial Statements Audit

Following completion of the current year audit, we will shortly commence our planning work for the 2020/21 financial statements audit, with a resource plan currently being finalised which we will communicate to management in due course.

Our initial fieldwork will include:

- Review and update of the Council's control environment and walkthrough testing
- Analytical procedures and review of the minutes of relevant committee meetings to identify audit risks
- Discussions with management and others such as Internal Audit and the Monitoring Officer; and
- Agreeing the project planning our value for money audit

We expect to issue our audit plan summarising our approach to the significant audit risks during the first quarter of 2021. Due to the unprecedented circumstances presented by the COVID-19 pandemic, we will be reviewing our establishment of significant risks to ensure these are appropriate.

## Value for Money

As communicated in our previous sector update, On 1 April 2020, the National Audit Office introduced a new [Code of Audit Practice](#) (see page 16) which comes into effect from audit year 2020/21. The most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money. These changes are set out in more detailed in the NAO's [Auditor Guidance Note 03](#) which was published on 15 October 2020.

There are three main changes arising from the NAO's new approach.

- A new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VfM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

# Progress at November 2020 (Continued)

## Other areas

### Certification of claims and returns

We certify the Council's annual Housing Benefit return in accordance with agreed procedures. The certification work for the 2019/20 claim is underway and is due to be completed in advance of the 31 January 2021 deadline.

We also certify the Council's Teachers Pension Return. The deadline for this work was 30<sup>th</sup> November. We are awaiting responses to our queries in order to continue our work in this area.

### Meetings

We met with Finance Officers in November as part of our quarterly liaison meetings and discussed the closedown of the 2019/20 audit.

We will continue to be in discussions with finance staff regarding emerging developments such as changes in accounting policies and to ensure the audit process is smooth and effective.

### Events

Our annual financial reporting workshop for officers will be expected to take place early in the new year and the practice are currently reviewing the format of this due to remote working arrangements. This will cover topical issues and technical areas pertinent to the 2020/21 statutory accounts. Invitations to the workshop will be sent to key members of your finance team in due course.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

## Audit Fees

We have written out to all of our local government clients about the impact of Covid-19 on our audit inputs and audit fees. Clearly it has, and continues to be, a challenging situation for clients and our teams. Our focus as a firm is not to put anyone at risk within both our client's and our own teams, while continuing to progress our audits.

Some of the key areas where the pandemic has impacted upon our audit of your financial statements include:

- Remote working and work taking longer to complete
- The need to undertake and demonstrate greater challenge of management's assumptions and estimates due to increased uncertainty
- The need to revisit financial resilience assessments and our work on going concern and value for money (financial sustainability)

We have been in discussions with PSAA over the last few months and note that similar issues are being experienced in the commercial sector with commercial audit deadlines being extended by 4 months. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> sets out the expectations of the FRC.

Remote working has also highlighted the complexity of the Council's underlying financial systems. It has taken additional time to explain the audit trail of transactions through remote working rather than discussing processes and procedures in person. This has extended the audit process compared to planned time for the audit at all levels within the audit team as additional review procedures by the Audit Manager and Engagement lead have been required. We appreciate the competing demands which were on the finance team throughout the audit and although this has contributed to the overall sign off being delayed the audit has been completed well within agreed timescales.

In our experience the time taken on audits has increased by an average of 25 per cent. We understand from discussions with the ICAEW that this is similar to other firms. We are mitigating this as far as possible through reduced travel time and travel costs, however, this is not sufficient to cover the full additional cost. We know that the Council's finances are under pressure and have sought to minimise these costs as best we can. We estimate is that this will lead to a fee variations of around 15-20 per cent (£19,000 - £25,000).

We have also carried out additional work considering and responding to the Council Member's question which will result in a separate fee variation.

We will discuss the matter further with the Director of Finance Governance and Assurance and any proposals for fee variations are subject to approval by PSAA Ltd.

# Audit Findings Report Update

## Financial Statements Audit

We presented our draft Audit Findings Report to the 29<sup>th</sup> October Audit Committee. The report included a number of areas where work remained on-going. This update reports the progress made in those areas.

### Progress on outstanding items

Page 4 of our draft Audit Findings Report highlighted the following outstanding matters:

- i. Receipt of responses to outstanding queries with the Finance team to complete audit testing
- ii. Completion of our work on the valuation of Shopping Centres
- iii. Completion of our work on group accounts
- iv. Receipt of outstanding queries in relation to our sample testing and questions raised with the Council's actuary
- v. Receipt of assurances from the Shropshire Pension Fund auditor in respect of information provided to the actuary
- vi. Final review procedures to be completed by Audit Manager and Engagement Lead
- vii. Receipt of management representation letter
- viii. Review of the final set of financial statements
- ix. Completion of our work on the Whole of Government Accounts
- x. Completion of our work on Subsequent events

The paragraphs below set out the progress made in these areas.

### Audit Completion procedures (items vi, vii and x)

These tasks were completed prior to signing the opinion on 21 November 2020.

### Outstanding audit testing (item I, ii and iii)

We completed our testing following receipt of supporting working papers in relation to the valuation of Shopping Centres and Group Accounts. We have no additional points to report.

## Assurances from the pension fund auditor (items iv and v)

The audit of the Shropshire Pension Fund is now complete and we received the necessary assurances from the auditor of the pension fund in order for us to complete our work in this area.

The impact of Covid-19 on valuations at year end has resulted in the Fund reporting on material uncertainty disclosures made by its independent valuers in relation to the valuation of property investment. As a result the audit opinion on the pension fund includes an emphasis of matter in relation to this material uncertainty.

As well as having an impact on disclosures within pension funds, this issue has also had an impact on disclosures required by the Authority. This is because the Authority has a material share of these pooled property assets through its investments in the Fund. As such, additional disclosure is included in Note 4 of the Authority's financial statements to highlight the material uncertainty in relation to the pension fund valuation. We referred to this in our Emphasis of Matter paragraph within our audit opinion, to draw attention to the material uncertainty in relation to the pension fund valuation.

This is in line with many other authorities in the sector, and reflects the unusual circumstances of the current year audit. This does not affect our opinion that the statements give a true and fair view of the Authority's financial position and its income and expenditure for the year. Such a paragraph is added to indicate a matter which is disclosed appropriately in the Authority's financial statements but which we consider is fundamental to a readers' understanding of the financial statements.

### Completion of our work on Whole of Government accounts (item ix)

Our work in this area is substantially complete time of writing (1<sup>st</sup> December) and following Engagement Lead review the WGA return will be submitted by the deadline of 4<sup>th</sup> December 2020.

# Audit Deliverables

## 2019/20 Deliverables

	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2019/20.	April 2019	Complete
<b>Audit Plan</b> We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.	February 2020	Complete
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	August 2020	Complete
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the Audit Committee.	October 2020	Complete
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	November 2020	Complete
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	March 2021	Not yet due

# Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government



# Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that “aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government’s response to COVID-19.”

The NAO report notes “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The NAO comment “This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

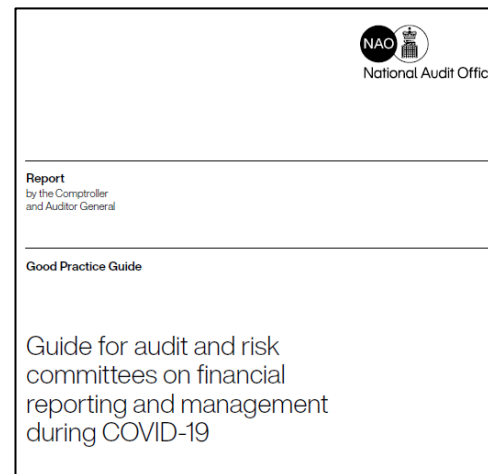
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period.”

The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>



# Code of Audit Practice and revised approach to Value for Money audit work - National Audit Office

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money.

## Value for Money - Key changes

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VfM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

## The new approach to VfM re-focuses the work of local auditors to:

- Promote more timely reporting of significant issues to local bodies
- Provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas
- Provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness
- Provide clearer recommendations to help local bodies improve their arrangements.

## Implications of the changes

Grant Thornton very much welcomes the changes, which will support auditors in undertaking and reporting on work which is more meaningful, and makes impact with audited bodies and the public. We agree with the move away from a binary conclusion, and with the replacement of the Annual Audit Letter with the new Annual Auditor's Report. The changes will help pave the way for a new relationship between auditors and audited bodies which is based around constructive challenge and a drive for improvement.

The following are the main implications in terms of audit delivery:

- The Auditor's Annual Report will need to be published at the same time as the Auditor's Report on the Financial Statements.
- Where auditors identify weaknesses in Value for Money arrangements, there will be increased reporting requirements on the audit team. We envisage that across the country, auditors will be identifying more significant weaknesses and consequently making an increased number of recommendations (in place of what was a qualified Value for Money conclusion). We will be working closely with the NAO and the other audit firms to ensure consistency of application of the new guidance.
- The new approach will also potentially be more challenging, as well as rewarding, for audited bodies involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

The Code can be accessed here:

[https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code\\_of\\_audit\\_practice\\_2020.pdf](https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf)

# CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny 'events' in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities' formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA's thinking on scrutiny's role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA's website:

<https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide>

# Place-Based Growth - 'Unleashing counties' role in levelling up England' – Grant Thornton

In March Grant Thornton launched a new place-based growth report 'Unleashing counties' role in levelling up England. The report, produced in collaboration with the County Councils Network, provides evidence and insight into place-based growth through the lens of county authority areas. It unpacks the role of county authorities in delivering growth over the past decade through: desk-based research, data analysis and case study consultations with 10 county authorities (Cheshire East, Cornwall, Durham, Essex, Hertfordshire, North Yorkshire, Nottinghamshire, Oxfordshire, Staffordshire, Surrey).

The report reveals:

- Growth, as measured by Gross Added Value (GVA), in county areas has lagged behind the rest of the country by 2.6% over the last five years. GVA in the 36 county areas has grown by 14.1% between 2014 and 2018, compared to 16.7% for the rest of England.
- In total, 25 of these counties have grown at a rate slower than the rest of the country. The research finds no north-south divide, as the county areas experiencing some of the smallest economic growth are Herefordshire (5.3%), Oxfordshire (5.6%) and Cumbria (8.2%), Gloucestershire (9.2%), and Wiltshire (9.7%) – showing that one size fits all policies will not work.
- Some 30 of the 36 county authority areas have workplace productivity levels below the England average. At the same time, counties have witnessed sluggish business growth, with county authorities averaging 7.9% growth over the last five years – almost half of that of the rest of the country's figure of 15.1% over the period 2014 to 2019.

To address these regional disparities in growth and local powers, the report's key recommendations include:

- Rather than a focus on the 'north-side divide', government economic and investment assessments should identify those places where the economic 'gap' is greatest – Either to the national average or between different places –and focus investment decisions on closing that gap and levelling up local economies.

- The devolution white paper must consider how devolution of powers to county authorities could assist in levelling-up the country. This should include devolving significant budgets and powers down to councils, shaped around existing county authorities and local leadership but recognising the additional complexity in two-tier local authority areas and whether structural changes are required.
- Growth boards should be established in every county authority area. As part of this a statutory duty should be placed on county authorities to convene and coordinate key stakeholders (which could include neighbouring authorities). These growth boards should be governed by a national framework which would cover the agreed 'building blocks' for growth – powers, governance, funding and capacity.
- Planning responsibilities should be reviewed with responsibility for strategic planning given to county authorities. In line with the recently published final report of the Building Better, Building Beautiful Commission, the government should consider how county authorities, along with neighbouring unitary authorities within the county boundary, could take a more material role in the strategic and spatial planning process.

- The National Infrastructure Commission should ensure greater consideration of the infrastructure requirements in non-metropolitan areas. Their national infrastructure assessments could consider how better investment in infrastructure outside metropolitan areas could link to wider growth-related matters that would help to level up the economy across the country.

The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/unleashing-counties-role-in-levelling-up-england/>



# Local government reorganisation

The County Councils' Network (CCN) has published new independent evidence on the implications of local government reorganisation in two-tier shire counties ahead of the publication of the government's 'devolution and local recovery' white paper.

The report identifies considerations relating to:

- the costs associated with disaggregation;
- what this might mean in terms of risk and resilience of service provision;
- how service performance might be impacted;
- what it could mean for the place agenda; and
- issues arising from the response to Covid-19.

The report also sets out the financial implications of four unitary scenarios:

- Establishing one unitary authority in every two-tier area in England.
- Establishing two new unitary authorities in every two-tier area in England.
- Establishing three new unitary authorities in every two-tier area in England.
- Establishing two new unitary authorities and a children's trust in every two-tier area in England.



The full report can be obtained from the County Councils' Network website:

<https://www.countycouncilsnetwork.org.uk/new-analysis-reveals-that-single-unitary-councils-could-deliver-3bn-saving-over-five-years-and-maximise-the-benefits-of-economic-growth-and-housing-policy/>

The District Councils' Network (DCN) report ahead of the publication of the government's 'devolution and local recovery' white paper.

The report comments "Devolution should back the success of districts in delivery. It should not distract from the local recovery effort or reduce delivery capacity through forcing reorganisation into a less local, less agile, less responsive local government pushed by interests wanting county unitary councils everywhere. Local governance is a local matter, places must be free to decide how to organise services and to progress any kind of reform only where there is significant local agreement."

The report calls for the Devolution and Local Recovery White Paper to:

- 1) Deliver genuine devolution that moves quickly to drive local growth
- 2) Retain and build on the local capacity to deliver
- 3) Empower real-world economies
- 4) Continue to anchor local government in local communities
- 5) Reject false arguments that bigger local government is better or cheaper local government
- 6) Support strategic leadership across wider functional economic areas
- 7) Introduce an upper limit for the size of new unitary councils, in line with the principle of electoral equality

The report includes a number of case studies in each of these areas.



The full report can be obtained from the District Councils' Network website:

<https://districtcouncils.info/wp-content/uploads/2020/08/DCN-Report-Sept-1.pdf>

# Kickstarting Housing – Grant Thornton and Localis

In July Grant Thornton Head of Local Government, Paul Dossett, wrote an essay, included as part of a collection in the Localis report – “Building for renewal: kickstarting the C19 housing recovery”.

Paul asked “So how do we address “the housing crisis” in the context of an existential threat to the British economy? Just as importantly, how do we ensure our key workers, our new heroes of the Thursday night applause, are front and centre of such a response. Paul suggested that the housing response needs to move away from the piecemeal towards a comprehensive and strategic response, with five key pillars with the key worker demographic at its heart:

- **Public housebuilding.** This will involve more borrowing, but we need a bold and ambitious target to build at least one million new public sector properties at social rents by 2025. This should involve a comprehensive and deep partnership between Homes England and local authorities and underpinned by a need to minimise the carbon footprint.

- **Private sector housing needs a rocket boost** with massive Government supported investment in modern methods of construction and consideration of required workforce needed to meet capacity. This needs to go hand in hand with a major recruitment drive into all facets of the housing industries. This should include national and local training initiatives to support workers from the service sectors who are very likely to lose their jobs because of the pandemic.

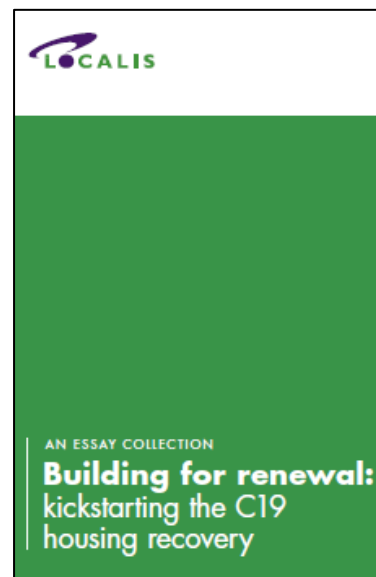
- **Strategic authorities based on existing local government footprints** across the country to remove the inconsistent patchwork quilt of current arrangements so that there is consistency between local, county and national strategic priorities. They should be legally tasked and funded for development of comprehensive infrastructure plans to support housing initiatives in their areas with a strong remit for improving public transport, supporting green energy initiatives and developing public realms which create a sense of community and belonging.

- **Building on existing initiatives to improve security of tenure and quality of accommodation,** a new partnership is needed between landlord and tenants that provides a consistent national/regional footing to ensure that housing is a shared community responsibility. This should, like the response to the pandemic, be part of a shared community narrative based on state, business and local people.

- **Putting key workers at the heart of the Housing strategy.** The country appears to have discovered the importance of key workers. The people that keep the country running and whose contribution is never usually recognised financially or in terms of social esteem. There are several existing key worker accommodation initiatives, but they are local and piecemeal. We need a comprehensive strategy which focuses on key worker needs, including quality of accommodation, affordable mortgages/ rents, proximity to workplaces and above all , a sense of priority on the housing ladder for those who keep the country running in good times and bad and are the best of us in every sense.

Paul concluded “Housing is a basic need and if key workers feel valued in their place in housing priorities, we will have made a giant step forward.

Key workers are not the only group in need of help of course. Utilising the momentum behind keyworkers that their role in COVID-19 has brought into focus, could help kickstart housing initiatives that help all those in need.”



The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/homes-fit-for-heroes-affordable-housing-for-all/>



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