

AGENDA

Audit and Governance Committee

Date: **Monday 23 June 2014**

Time: **2.00 pm**

Place: **The Council Chamber, Brockington, 35 Hafod Road,
Hereford, HR1 1SH**

Notes: Please note the **time, date** and **venue** of the meeting.

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Agenda for the Meeting of the Audit and Governance Committee

Membership

Chairman

Councillor JG Jarvis

Vice-Chairman

Councillor EMK Chave

Councillor CNH Attwood

Councillor PGH Cutter

Councillor MAF Hubbard

Councillor TM James

Councillor Brig P Jones CBE

Councillor PJ McCaull

Councillor NP Nenadich

Councillor J Stone

AGENDA

	Pages
1. APOLOGIES FOR ABSENCE To receive apologies for absence.	
2. NAMED SUBSTITUTES (IF ANY) To receive details any details of Members nominated to attend the meeting in place of a Member of the Committee.	
3. DECLARATIONS OF INTEREST To receive any declarations of interest by Members in respect of items on the agenda.	
4. MINUTES To approve and sign the Minutes of the meeting held on 9 May 2014.	7 - 10
5. PRESENTATION FROM NEW INTERNAL AUDIT PROVIDERS - SOUTH WEST AUDIT PARTNERSHIP (SWAP) To receive an introductory presentation from the South West Audit Partnership.	11 - 12
6. INTERNAL AUDIT CHARTER To seek the Committee's approval of the Internal Audit Charter for the period 1 June 2014 to 31 March 2015.	13 - 18
7. INTERNAL AUDIT PLAN 2014-15 To seek the Committee's approval of the Internal Audit Plan for the period 1 June 2014 to 31 March 2015.	19 - 28
8. GRANT THORNTON AUDIT AND GOVERNANCE COMMITTEE UPDATE To note and comment on the external auditors update report for Herefordshire Council.	29 - 46
9. 2014/15 ANNUAL AUDIT FEE To seek the Committee's agreement to the annual audit fee.	47 - 52
10. WASTE CONTRACT To receive a verbal update from the Assistant Director, Governance.	
11. ANNUAL GOVERNANCE STATEMENT To receive an update from the Section 151 Officer on the process for developing the Annual Governance Statement.	

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HEREFORDSHIRE COUNCIL

BROCKINGTON, 35 HAFOD ROAD, HEREFORD.

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HEREFORDSHIRE COUNCIL

MINUTES of the meeting of Audit and Governance Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford, HR1 1SH on Friday 9 May 2014 at 10.00 am

Present: Councillor J Stone (Chairman)

Councillors: EMK Chave, MAF Hubbard, TM James, Brig P Jones CBE and PJ McCaull

In attendance: Councillors MD Lloyd-Hayes and A Seldon

Officers: P Robinson (Chief Financial Officer), T Brown (Governance Services)

Councillor RC Hunt and Councillor PJ Watts

The Committee observed a minute's silence in memory of Councillors RC Hunt and PJ Watts.

36. APOLOGIES FOR ABSENCE

Apologies were received from Councillors CNH Attwood, PGH Cutter, NP Nenadich and DB Wilcox.

37. NAMED SUBSTITUTES

There were no named substitutes.

38. DECLARATIONS OF INTEREST

There were no declarations of interest.

39. MINUTES

In relation to Minute no 29, the Committee's role in considering the waste disposal contract was discussed. It was acknowledged that the respective roles of the Audit and Governance Committee and the General Overview and Scrutiny Committee needed to be clear. It was noted that the Solicitor to the Council would be submitting a report on the contract to the next meeting. The final value for money report by Deloitte on the decision to vary the Waste Management PFI contract with Mercia Waste Management Ltd to design, build and operate an Energy from Waste facility would also be submitted to the Committee when received. This was due to be updated following finalisation of contract negotiations with Mercia Waste Management Ltd and financial close on the contract in May 2014.

In relation to Minute no 32, the Chairman proposed that resolution (b) (a report on the implications of the "2016 tipping point report" by Grant Thornton be made to the Committee) should be amended on the basis that there was nothing at this stage to add to what had been discussed at the Committee's meeting in March and that it would be more appropriate for a report to be brought forward if it were necessary to do so.

In relation to Minute no 34 – Ross-on-Wye Community Governance Review Group the Chairman reported on progress and again complimented the officers involved on their work.

RESOLVED: That the Minutes of the meeting held on 18 March 2014 be confirmed as a correct record and signed by the Chairman, subject to Minute no 32 resolution (b) being amended to read:

(b) if the Chief Financial Officer becomes concerned about the Council's financial resilience in the light of the findings of the "2016 tipping point report" by Grant Thornton a report will be made to the Committee.

(The Chairman agreed that agenda item 7 (minute no 42 refers) would be considered first followed by the remaining items.)

40. PROGRESS REPORT ON 2013/14 INTERNAL AUDIT PLAN

The Chief Finance Officer presented the report.

He commented that the employment of the South West Audit Partnership as the Council's internal auditors would provide additional audit resource. He noted that the intention was that the new auditors would give a presentation to the Committee at its next meeting.

He drew attention to the four areas where the auditors considered "Limited Assurance" was provided: Data Protection, Income Collection, Public Health – Food Licensing, and the Gypsy and Traveller function, and the actions being taken.

RESOLVED: That the report be noted.

41. BUDGET MONITORING REPORT - JANUARY 2014

The Committee received an update on the financial position to the end of January 2014 as reported to Cabinet on 13 March 2014, including the arrangements for future budget monitoring.

The Chief Financial Officer presented the report. He commented that the expectation was that the forecast outturn for the year would be in line with projected expenditure and that there would be a break-even position.

The successful bid for a capitalisation directive for one-off expenditure on transformation was discussed. The Chief Financial Officer commented that this did increase short term borrowing but allowed for the cost of the transformation programme to be spread over the next five years.

The Chief Financial Officer also provided clarification of the efficiencies achieved in public health, adults and children's wellbeing services. In response to concern that important preventative measures would be diluted he said that this would not be the case. The efficiencies reflected the benefits of integration and joint working.

He agreed to provide clarification on what expenditure fell within the heading "other central budgets" to Councillor Hubbard.

RESOLVED: That the report and the forecast position be noted.

42. COUNCIL CONSTITUTION

The Committee was asked to note the technical amendments being made to the council's constitution under authority delegated to the Monitoring Officer, as set out in an

appendix to the report, and to consider arrangements for further review of the constitution.

The Chief Financial Officer presented the report. He emphasised that the changes referred to in the appendix were technical, reflecting changes made to job titles and/or job responsibilities, and the law, and incorporating decisions taken by council.

Some Members considered that a more detailed explanation of the changes to the content of the constitution could have been given and would have been helpful, although it was accepted that the changes were being presented for information. When amendments of a more fundamental nature were brought forward it was emphasised that it would be important for the detail of the wording to be clearly set out so that Members could satisfy themselves that it was intelligible.

Members supported the establishment of a working group to review the constitution. Councillor EMK Chave expressed an interest in serving on the working group. She also requested that the need to consider amending paragraph 4.1.7 of the Constitution to provide that the time allocated for a break in proceedings at Council meetings should not be counted as part of the three hour time limit should be logged.

RESOLVED:


That (a) the technical amendments being made to the constitution summarised at Appendix A to the report be noted;

(b) a working group be established to participate in reviews of the constitution, reporting to the Audit and Governance Committee which will then make recommendations to Council on any proposed changes to the Constitution; and

(c) Group Leaders each be invited to nominate up to two representatives to serve on the working group and agree who will chair the working group.

The meeting ended at 11.00 am

CHAIRMAN



SWAP

A Brief Introduction


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Governance

- Board of directors
 - One appointed by each partner (officers), three executive directors, two Member representatives
 - Oversee implementation of strategy and operations
- Members Board
 - One Member per partner
 - Sets budget, strategy and business plan
 - Approves audited accounts


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SWAP History

- Started in 2005 as a Joint Committee
- 2 initial partners
- Now 9 Districts, 2 Counties, 2 Unitary
- Present in 6 counties
- 2013 – change in governance arrangements

©South West Audit Partnership



Professional Standards

- IIA Professional Practices Framework
- Code of Ethics
- Public Sector Internal Audit Standards – PSIAS
- Local Government Application Note
- SWAP have been externally assessed as compliant

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SWAP Limited

- Since 1st April, 2013
- Publicly owned company limited by guarantee
- Wholly controlled by the partners
- “Teckal” compliant
- Employ 60+ full time equivalent staff

©South West Audit Partnership



Mission Statement

“Owned by the public to serve the public”

A not for profit organisation delivering high quality, innovative, value added Internal Audit Services by applying global standards at a local level for our partners and their customers, helping them make the right decisions.

©South West Audit Partnership




Working in Partnership

We aim to:

- Provide a professional cost effective, high quality Internal Audit service to all partners that understands their business needs.
- Improve the standard of corporate governance, risk management and internal control systems for all partners.


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SWAP Performance

- 95%+ of plans completed
- 85% client satisfaction rate
- Passed externally assessed Quality Assurance Review as “fully compliant with Standards”
- Consistently delivered on time and to budget
- Quality Improvement Program
- Fees held at same level for 8 years


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Objectives

- Continuously improve the quality of the Internal Audit service we provide.
- To deliver the agreed plan. Complete 95% of planned audits on time and on budget.
- Stay within the budget approved by the Members.
- Ensure that a sustainable Internal Audit service is available to all of our partners at all times.


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Benefits for Herefordshire

- Significant on-going savings
- Regular on-site management presence
- Opportunity to share best practice and learn from 12 other partners
- Significant increase in productivity and number of audits completed
- Greater opportunities for staff that have transferred


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Objectives

- Attract new partners where it is beneficial both to the partnership and the prospective partner.
- Create an outstanding working environment to attract and retain high quality Internal Auditors.
- Share best practice ideas and promote continuous challenge.
- Provide an Internal Audit overview on Corporate Governance Issues.

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The Future

- Up to 20% of turnover with non-partners
- Development of a training program
- Expansion where it makes sense
- Maintaining/ reducing costs
- Continuing to improve quality
- Defensive/protective focus
- Fraud detection and prevention

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MEETING:	AUDIT AND GOVERNANCE COMMITTEE
MEETING DATE:	23 JUNE 2014
TITLE OF REPORT:	INTERNAL AUDIT CHARTER
REPORT BY:	DIRECTOR OF QUALITY – SOUTH WEST AUDIT PARTNERSHIP

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

County-wide.

Purpose

To seek the Committee's approval of the Internal Audit Charter for the period 1 June 2014 to 31 March 2015.

Recommendation(s)

THAT: subject to any comments the Internal Audit Charter be approved.

Alternative Options

- 1 There are no alternative options as this Charter is a requirement of the arrangements between Herefordshire Council and the South West Audit Partnership.

Reasons for Recommendations

- 2 To ensure compliance with good practice as set out in the International Professional Practices Framework of the Institute of Internal Auditors and the Public Sector Internal Audit Standards (PSIAS).

Key Considerations

- 3 The Internal Audit Charter is set out in Appendix A.

Further information on the subject of this report is available from
Jacqui Gooding – Audit Manager – South West Audit Partnership on Tel 07872500675

- 4 The Charter sets out the nature, role, responsibility, status and authority of internal auditing within Herefordshire Council, and to outline the scope of internal audit work.

Community Impact

- 5 This report does not impact on this area.

Equality and Human Rights

- 6 This report does not impact on this area.

Financial Implications

- 7 There are no financial implications.

Legal Implications

- 8 There are no legal implications.

Risk Management

- 9 Without an approved Charter there is a risk that the South West Audit Partnership will not have:

- the support of management and the Council
- direct access and freedom to report to senior management including the Chief Executive and the Audit and Governance Committee
- access to any records, personnel, or physical property of the Council for audit work

Consultees

- 10 The Section 151 Officer was consulted in the drafting of this report.

Appendices

Appendix A – Internal Audit Charter.

Background Papers

- None identified.

Herefordshire Council Audit and Governance Committee 23 June 2014

Internal Audit Charter

Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Herefordshire Council, and to outline the scope of internal audit work.

Approval

This Charter will be presented to the Audit and Governance Committee¹ for approval each year to confirm it remains accurate and up to date. The Charter is presented to the Committee today for approval.

Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled company. This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This will be reviewed each year by the Chief Financial Officer in consultation with the Chief Executive of SWAP.

Role of Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Management and of Internal Audit

Management²

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Chief Executive and the Audit and Governance Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

Internal Audit

Internal audit is responsible for operating under the policies established by management in line with best practice.

¹ The Standards require that Internal Audit report to the Board. CIPFA have, via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that the Audit and Governance Committee in this instance represents the Board.

² In this instance Management refers to the Management Team

Herefordshire Council Audit and Governance Committee 23 June 2014

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for Herefordshire Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. The Chief Executive of SWAP and the Director of Quality also report to the Chief Financial Officer as Section 151 Officer, and report to the Audit and Governance Committee as set out below.

Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of Herefordshire Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether Herefordshire Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;

Herefordshire Council Audit and Governance Committee 23 June 2014

- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned;
- reviewing the operations of the council in support of the Council's anti-fraud and corruption policy;
- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditors independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
 - management understand that the work being undertaken is not internal audit work.

Planning and Reporting

SWAP will submit to the Audit and Governance Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Director. SWAP will report at least four times a year to the Audit and Governance Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit and Governance Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Chief Financial Officer and to other relevant line management.

The Chief Executive of SWAP will submit an annual report to the Audit and Governance Committee providing an overall opinion of the status of risk and internal control within the council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and the Director of Quality have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit and Governance Committee, the Council's Chief Executive or the External Audit Manager.

June 2014



MEETING:	AUDIT AND GOVERNANCE COMMITTEE
MEETING DATE:	23 JUNE 2014
TITLE OF REPORT:	INTERNAL AUDIT PLAN 2014 -15
REPORT BY:	DIRECTOR OF QUALITY – SOUTH WEST AUDIT PARTNERSHIP

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

County-wide.

Purpose

To seek the Committee's approval of the Internal Audit Plan for 2014 - 15 for the period 1 June 2014 to 31 March 2015.

Recommendation(s)

THAT: subject to any comments the Internal Audit Plan 2014 - 15 be approved.

Alternative Options

- 1 There are no alternative options as this Plan is a requirement of the Public Sector Internal Audit Standards (PSIAS).

Reasons for Recommendations

- 2 To ensure the Council complies with recommended best practice as set out in the PSIAS.

Key Considerations

- 3 The Internal Audit Plan report is set out in Appendix A.
- 4 The Internal Audit Plan 2014-15 is set out in Appendix B.

Further information on the subject of this report is available from
Jacqui Gooding – Audit Manager – South West Audit Partnership on Tel 07872500675

- 5 The Plan sets out the work required for Internal Audit to give an opinion on the adequacy and effectiveness of the Council's risk management, governance and internal control arrangements.

Community Impact

- 6 This report does not impact on this area.

Equality and Human Rights

- 7 This report does not impact on this area.

Financial Implications

- 8 There are no financial implications.

Legal Implications

- 9 There are no legal implications.

Risk Management

- 10 There is the risk that the Annual Internal Audit Plan does not take into account the key issues and risks facing the Council and does not provide adequate coverage of the Council's key systems for the Head of Internal Audit to form an opinion on the Council's control environment. The process by which the plan has been compiled mitigates this risk.
- 11 There is also a risk that there may be insufficient resources available to deliver the planned programme of audit work. To mitigate this, the plan has been based on an assessment of the resources available from the South West Audit Partnership. Regular meetings will be held between the SWAP Internal Audit Manager and the Chief Financial Officer which allows regular monitoring of resource availability.

Consultees

- 12 Meetings have been held with the Directors, Chief Financial Officer and other key officers to develop the Internal Audit Plan.

Appendices

Appendix A – Internal Audit Plan Report 2014-15

Appendix B – Internal Audit Plan 2014-15

Background Papers

None identified.



Herefordshire Council

Internal Audit Plan 2014/15

Contents

The contacts at SWAP in connection with this report are:

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Page 1

Role of Internal Audit Background

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Page 2

The Annual Plan

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Audit Manager

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The Annual Plan – Continued

Page 3

Our audit activity is split between:

- Key Control Audit
- Fraud/Governance Audit
- IT Audit
- Operational Audit
- Follow Up Audit
- Urgent Work/Special Projects

Role of Internal Audit

The Internal Audit service for Herefordshire Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors and is also guided by interpretation provided by the Public Sector Internal Audit Standards. The work of the Partnership is also guided by the 'Internal Audit Charter' which is presented to the Audit and Governance Committee today for approval for 2014-15.

Internal Audit provides an independent and objective opinion on the Authority's governance, risk and control environment by evaluating its effectiveness. In order to achieve this, the audit activity is split across the review categories listed to the left.

Background

It is recommended by the Public Sector Internal Audit Standards that organisations nominate a 'Board' to oversee (monitor and scrutinise) the work of Internal Audit. As such, in addition to senior management oversight, this Council has determined that, the Audit and Governance Committee will undertake this function. The plan is presented in Appendix A to this report and represents the internal audit activity for the 2014/15 financial year for the period 1st June 2014 to 31st March 2015.

It should be noted that plan days are only indicative for planning our resources. At the start of each audit an initial meeting is held to agree the terms of reference for the audit which includes the objective and scope for the review. Any changes to individual plan items, in terms of days, are managed within the annual payment made by the Council. The plan is produced with a view to providing assurance to both Officers and Members that current and imminent risks faced by the Authority are adequately controlled and managed. The plan will have to remain flexible as new and emerging risks are identified. Any changes to the agreed plan will only be made through a formal process involving the Chief Financial Officer - (Section 151 Officer).



SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards

The Annual Plan

The Annual Plan

To ensure that to the best of our ability we have covered the necessary risks, the annual internal audit plan has been developed with the co-operation and approval of the Chief Financial Officer (Section 151 Officer), following meetings between Internal Audit and members of the Senior Management Team. The audit plan is notionally broken down across various audit categories; the following summarises each:

Key Control Audit – focus primarily on key risks relating to the Council’s major financial and IT systems. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance. For this year we have not had the opportunity to liaise with the Council’s External Auditors but have included the full suite of Key Control Audits so that SWAP can become familiar with the operating controls in these major financial areas. The work will not duplicate, but rather complement the work of the External Auditors.

Fraud/Governance Audit – SWAP operate a specialised Fraud Team who will undertake proactive fraud reviews and also provide a reactive service to Partners should the need arise. Governance reviews focus primarily on the key risks relating to cross cutting areas that are controlled and/or impact at a corporate rather than service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will, in some cases, enable SWAP to provide management with added assurance that they are operating best practice as we will be conducting most of these reviews at all our Partner Sites.



The Annual Plan - Continued

The Annual Plan - Continued

IT Audits – are completed to provide the Authority with assurance with regards to their compliance with industry best practice. Some of these audits have come from our awareness of current IT risks.

Operational Audits - are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

Urgent Work/Special Projects – SWAP also undertake urgent work, special investigations and projects on a responsive basis at the request of the Senior Management and approved by Chief Financial Officer (Section 151 Officer).

The schedule provided at Appendix B details the Annual Internal Audit Plan for 2014/15.

Appendix B

Herefordshire Council Annual Audit Plan 2014-15	
Audit Type and Area	Number of days (753)
Key Control Audits	
Main Accounting	20
Account Payable -Follow Up	8
Accounts Receivable	25
Council Tax	20
NNDR	20
Housing and Council Tax Benefits	20
Payroll - Follow Up	8
Treasury Management	10
Capital Accounting	10
Follow Up (Limited Assurance 13-14 or 12-13)	
Income Collection – Industrial Lets (13-14)	8
Health and Safety (Corporate 12-13)	8
Legal Services (12-13)	8
Data Protection (12-13 and 13-14)	8
Gypsy and Traveller Service – Income Processing (13-14)	8
Fraud/Governance Audits	
Risk Management including risk awareness sessions	20
Fraud and Corruption Policy – advise and awareness	10
Whistleblowing Policy	5
IT Audits	
Hardware Asset Management	15
Software Asset Management	15
User Access Management - Accounts Payable and Payroll	10
ISO27001 Implementation	10
Education, Health and care Plans data – consultancy on Project Board	8
Operational Audits	
Economy, Communities & Corporate	
Procurement – across all services	30
Registrars and Coroners	20
Home School Transport	25
Elections	15
Adults Wellbeing Service	
Adult Social Care – Financial Contributions and Fairer Charging	25
Home Point	25
Homelessness	25
Framework i – data quality	25

Preparation for the Care Bill	15
Peer Challenge/ Benefits realisation	25
Children's Wellbeing Service	
Schools – Prevention of Fraud (8 Schools)	50
Schools – Safer Recruitment	50
Looked after Children	25
Use of Agency Staff across Children's Service	20
Safer Recruitment – (excluding schools)	20
Grants	
Green Deal Pioneer Places	5
Adoption Reform Grant	3
Care Bill Grant	1
Management	
Corporate Advice	10
Corporate meetings	10
External Audit	5
General Advice	10
Planning /Client Liaison	40



MEETING:	AUDIT AND GOVERNANCE COMMITTEE
MEETING DATE:	23 JUNE 2014
TITLE OF REPORT:	GRANT THORNTON AUDIT AND GOVERNANCE COMMITTEE UPDATE
REPORT BY:	CHIEF FINANCIAL OFFICER

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

County-wide

Purpose

To note and comment on the external auditors update report for Herefordshire Council.

Recommendation(s)

THAT: the report be noted.

Alternative Options

1. There are no Alternative Options

Reasons for Recommendations

2. This report provides the Audit and Governance Committee with a progress report from Grant Thornton in delivering their responsibilities as Herefordshire Council's external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to Herefordshire.

Key Considerations

3. Grant Thornton's update report for Herefordshire council is attached as an appendix. This report provides the Audit and Governance Committee with a progress report

Further information on the subject of this report is available from Peter Robinson, Chief Financial Officer, on Tel (01432) 383519

from Grant Thornton in delivering their responsibilities as Herefordshire Council's external auditors.

4. The paper also includes a summary of emerging national issues and developments that may be relevant to Herefordshire and the Committee may want to consider what assurances you would like to receive on these issues.

Community Impact

- 5 None

Equality and Human Rights

- 6 There are no implications arising from this report

Financial Implications

- 7 None

Legal Implications

- 8 None

Risk Management

- 9 The report has identified the key areas of risk and Grant Thornton will report their findings to future meetings of the Audit and Governance Committee.

Consultees

- 10 None

Appendices

- The Audit Update Report

Background Papers

- None identified.



Herefordshire Council June Audit and Governance Committee Update

Year ended 31 March 2014

☞ June 2014

Phil Jones

Director

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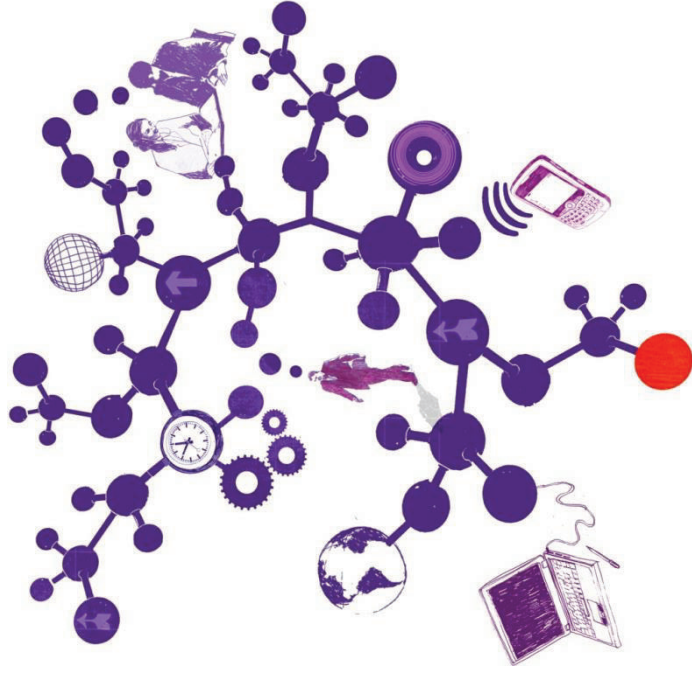
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any 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.

Contents

Section	Page
Introduction	4
Progress at 9 June 2014	5
Emerging issues and developments	
Accounting and audit issues	7
Local government guidance	11
Grant Thornton	13

Introduction

This paper provides the Audit and Governance 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; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Governance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths

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 Audit Manager.

Progress at 9 June 2014

Work	Planned date	Complete?	Comments
<p>2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.</p>	March 2014	Y	Discussed at March Committee
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing 	April 2014	Y	<p>We held a workshop at the end of March for Finance staff aimed at improving the quality of the closedown process, with a particular emphasis on improving supporting working papers which was the significant issue last year.</p> <p>Finance staff are attended a technical training event we hosted in the Midlands to discuss significant technical changes for the 2013/14 accounts.</p>
<p>2013-14 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council 's accounts • proposed Value for Money conclusion. 	July-September 2014	N	

Progress at 9 June 2014

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • a initial risk assessment; • a detailed review of arrangements against the criteria; • bringing forward knowledge from previous year; • reviewing key documents; and • discussion with officers. 	July-August 2014	N	The Better Care Fund is a particular focus of the VfM work this year.
<p>Certification Work Auditing grant claims and returns</p>	July –October 2014	N	
<p>Annual Audit Letter Summary of work undertaken in the year</p>	October 2014	N	

Understanding your accounts – member guidance

Accounting and audit issues

Guide to local authority accounts

Local authority audit committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. However, local authority financial statements are complex and can be difficult to understand. We have prepared a guide for members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position.

The guide considers the :

- explanatory foreword – which should include an explanation of key events and their effect on the financial statements
- annual governance statement – providing a clear sense of the risks facing the authority and the controls in place to manage them
- movement in reserves statement – showing the authority's net worth and spending power
- comprehensive income and expenditure statement – reporting on the year's financial performance and whether operations resulted in surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at 31st March; and
- other statements and additional disclosures

Supporting this guide we have produced two further documents to support members in discharging their responsibilities

- helping local authorities prepare clear and concise financial statements
- approving the minimum revenue provision

Copies of these are available from your engagement lead and audit manager

Accounts – our top issues

Accounting and audit issues

Top issues for the 2013/14 closedown

Based on the queries we have received from practitioners and auditors, here is a list of the top issues to consider for the 2013/14 closedown.

1. Do your accounts tell the overall story of your authority's financial performance and financial position? Are they clear, concise and easy to follow? Is detailed information on the most important information easy to find? Have duplicated text, non-material notes and zero entries been removed?
2. Are your accounts internally consistent? In particular, does the movement in reserves statement agree to the detailed notes?
3. Is your programme of revaluations is sufficiently up to date to ensure that the carrying value of property, plant and equipment does not differ materially from the fair value at 31 March 2014?
4. Have you accounted for provisions in accordance with IAS 37?
 - Have you considered provisions for business rates, equal pay and restoration and aftercare of landfill sites?
 - Are your provisions the best estimate of the liability (rather than a prudent estimate or an amount that is convenient for budget purposes)?
 - Is there a robust evidence based methodology to support the estimate?
 - Are there any instances in which a provision has not been made because a reliable estimate cannot be made? If so, is their robust evidence to support the judgement that a reliable estimate is not possible? Has a contingent liability been disclosed?
5. Is your PFI accounting model up to date? Do your accounts disclose:
 - the fair value of PFI liabilities?
 - information on the impact of inflation on PFI commitments?
6. Have you addressed the new accounting requirements in 2013/14 for the presentation of IAS 19 pension costs and a new service line for Public Health been addressed? Have comparatives been restated?
7. Have you disclosed the accounting policy for schools? For those schools that are not recognised on the balance sheet, has information about school assets, income and expenditure been disclosed?

Accounts – our top issues

Accounting and audit issues

8. Have you agreed a detailed closedown plan with your auditors? Does this include:
- how to deal with known major issues?
 - a protocol for dealing with new issues as they arise?
 - a date for a post-implementation review?

Accounts – CIPFA bulletin

Accounting and audit issues

LAAP Bulletin 98: Closure of the 2013/14 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued [LAAP Bulletin 98](#). The bulletin provides further guidance and clarification to complement CIPFA's 2013/14 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- public health reform
- non-domestic rates – provision for appeals against the rateable value of business properties
- component accounting
- accounting for pension interest costs in relation to current service cost and pension administration costs
- disclosure requirements for dedicated schools grant.

With regard to future accounting periods, the Bulletin also provides an update on issues affecting 2014/15 and on the measurement of transport infrastructure assets in 2016/17.

Not to be rubbished, £464 million potential savings

Local government guidance

Audit Commission VFM Profiles

Using data from the VFM Profile, <http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/> the Audit Commission issued a briefing on 27 March 2014, concluding that up to £464 million could be saved overall, if councils spending the most brought down their spending to the average for their authority type and waste responsibilities.

The Audit Commission Chairman, Jeremy Newman said: "It's good news that local authorities have reduced their spending on household waste by £46 million over the past four years and have reduced levels of waste sent to landfill. Councils have achieved these important improvements by working with local people and exercising choice about what works best in their own circumstances."

↳ In the context of considering the hierarchy of waste management options - preventing the creation of waste, preparing waste for re-use, recycling, recovery and disposal to landfill - the Audit Commission Chairman also said

"in 2012/13 local authorities spent a fifth of their total expenditure on the most desirable option for household waste management: minimisation and recycling. They spent the other four-fifths on the collection and disposal of waste – the least desirable options. Councils have the power to influence and encourage residents to do the right thing and they control the levels of spending on the range of waste management options available to them. Their choices ultimately affect how well the environment is protected and the quality of waste services residents receive"

Blue Badge fraud prosecutions double in three years

Local government guidance

Fraud prevention

The Local Government Association has reported that Blue Badge fraud prosecutions have doubled in three years as councils crackdown on dishonest motorists robbing disabled people of their independence and their right to easier parking. - See more at: http://www.local.gov.uk/web/guest/media-releases/-/journal_content/56/10180/6186329/NEWS#sthash.Pllm4374.dpuf

Stoke-on-Trent City Council, Plymouth Council and Hull City Council recently secured their first prosecutions against fraudsters while Manchester City Council has a 100 per cent conviction rate with more than 500 prosecutions in the past five years. Councils are also using new powers to seize and confiscate badges suspected of being used illegally and some have set up specific enforcement teams to tackle Blue Badge fraud.

✚ Cllr Peter Box, Chair of the LGA's Economy and Transport Board, said:

"Councils are determined to do everything in their power to protect the quality of life for our disabled and vulnerable residents and will not hesitate to take legal action against anyone caught abusing the scheme. With more of these fraudsters being brought to justice than ever before by councils, this is sending a strong message that we will come down hard on drivers illegally using Blue Badges."

Working in tandem – Local Government Governance Review 2014

Grant Thornton

Local Government Governance Review

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Local-Government-Governance-Review-2014/> is our third annual review into local authority governance. It aims to assist managers and elected members of councils and fire and rescue authorities to assess the strength of their governance arrangements and to prepare for the challenges ahead.

Drawing on a detailed review of the 2012/13 annual governance statements and explanatory forewords of 150 English councils and fire and rescue authorities, as well as responses from 80 senior council officers and members, the report focuses on three particular aspects of governance:

- risk leadership: setting a tone from the top which encourages innovation as well as managing potential pitfalls
- partnerships and alternative delivery models: implementing governance arrangements for new service delivery models that achieve accountability without stifling innovation
- public communication: engaging with stakeholders to inform and assure them about service performance, financial affairs and governance arrangements.

Alongside the research findings, the report also highlights examples of good practice and poses a number of questions for management and members, to help them assess the strength of their current governance arrangements.

Events

Grant Thornton

Events

We are involved in organising and supporting various events for our local government clients including the following.

- We are hosting a Local Government Audit Committee Network at our Birmingham office on 2 July. The theme for this inaugural meeting will be Financial Reporting in Local Government – providing challenges to the draft financial statements including an update on current topics.
- We are also hosting an Alternative Delivery Models seminar at our Birmingham office on 16 July where practitioners will share experiences of setting up and operating various alternative delivery models.
- Following on from our recent national report on welfare reform Reaping the Benefits we are continuing to gather information and examples of good practice from local government and housing around the country. We are presenting our key findings updated information on good practice to CIPFA Benefits and Revenues Network and regional CIPFA events
- We are sponsoring the Centre for Public Scrutiny (CFPS) annual Scrutiny Camp Unconference in London on 11 June
- We are also sponsoring The Municipal Journal's annual Growth Agenda conference on 4 June where we will be launching our Where Growth Happens report
- For the third year running we are sponsoring the conference drinks reception at CIPFA's Annual Conference, taking place in London on 2 July
- Paul Grady, Grant Thornton's Head of Police, will be speaking at the third Annual National Conference on Police and Crime Commissioners on 10 July, in Nottingham



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MEETING:	AUDIT AND GOVERNANCE COMMITTEE
MEETING DATE:	23 JUNE 2014
TITLE OF REPORT:	2014/15 ANNUAL AUDIT FEE
REPORT BY:	CHIEF FINANCIAL OFFICER

Classification

Open

Key Decision

This is not an executive decision

Wards Affected

County-wide

Purpose

To seek the Committee's agreement to the annual audit fee.

Recommendations

THAT: the Audit Fee letter 2014/15 be agreed.

Alternative Options

- 1 There are no alternative options.

Reasons for Recommendations

- 2 Grant Thornton is the council's external auditor, appointed by the Audit Commission. The annual fee letter, attached as Appendix A, is an opportunity for the Audit and Governance Committee to be informed of the planned outputs and proposed fee.

Key Considerations

- 3 The annual audit fee letter details the amount to be paid to Grant Thornton (£164,803) for 2014/15, which remains at the same level as the previous year. The council's indicative fee for grant certification in 2014/15 is £6,420; this was £8,420 in 2013/14.
- 4 The audit fee covers work on the audit of financial statements, value for money conclusion and work on the whole of government accounts return. The scale fee excludes any additional work requested by the council.

Further information on the subject of this Report is available from
Peter Robinson, Chief Financial Officer, on Tel (01432) 383319

- 5 The letter lists the planned outputs and their indicative dates.

Community Impact

- 6 The report has no community impact.

Equality and Human Rights

- 7 The recommendations do not have any equality implications

Financial Implications

- 8 The council's annual audit will cost £164,803 and grant certification is £6,420. The overall total of £171,223 is included in the 2014/15 budget. The Audit Commission has independently set the scale fee for all bodies.

Legal Implications

- 9 The recommendations do not have any legal implications

Risk Management

- 10 The requirement to supply accounts for audit that have appropriate working papers requires the council's staff and its contractor (Hoople Ltd) to meet all deadlines outlined in the accounts timetable closure process.
- 11 The external auditor will require council management and accounting staff to be available to help locate information and provide explanations so that the accounts are audited to the required standard. This also applies to Hoople Ltd.

Consultees

- 12 None

Appendices

Appendix A – Audit fee letter

Background Papers

None identified.

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11 April 2014

Dear Peter

Planned audit fee for 2014/15

The Audit Commission has set its proposed work programme and scales of fees for 2014/15. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

For 2014/15, the Commission has independently set the scale fee for all bodies. The Council's scale fee for 2014/15 is £164,803 which is the same as the audit fee for 2013/14.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at: www.audit-commission.gov.uk/audit-regime/audit-fees/proposed-work-programme-and-scales-of-fees-201415

The audit planning process for 2014/15, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Our fee is based on the risk based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2014/15. It covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Chartered Accountants

Member firm within Grant Thornton International Ltd
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A list of members is available from our registered office.

Value for money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VFM conclusion and a separate report of our findings will be provided.

We will continue to assess the Council's arrangements and discuss any additional work required during the year.

Certification of grant claims and returns

The Council's estimated indicative fee grant certification for the Council in 2014/15 is £6,420. This was estimated to be £8,400 in 2013/14.

Billing schedule

Our fees will be billed as follows:

Main Audit fee	£
September 2014	41201
December 2014	41201
March 2015	41201
June 2015	41200
Grant Certification	
December 2015	6,420
Total	171,223

Outline audit timetable

We will undertake our audit planning and interim audit procedures in March. Upon completion of this phase of our work we will issue our detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VFM conclusion will be completed in September 2015 and work on the whole of government accounts return in September 2015.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	March 2015	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	July-September 2015	Audit Findings (Report to those charged with governance)	This report will set out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	Jan to September 2015	Report to those charged with governance	As above
Financial resilience	Jan to Sept 2015	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2015	Opinion on the WGA return	To be carried out at the same time as final accounts audit.
Annual audit letter	October 2015	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2015	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2014/15 are:

	Name	Phone Number	E-mail
Engagement Lead	Phil Jones	0121 2325232	phil.w.jones@uk.gt.com
Engagement Manager	Terry Tobin	0121 2325276	terry.p.tobin@uk.gt.com
VfM/Advisory Lead	Ian Barber	0121 2325357	ian.m.barber@uk.gt.com
Audit Executive	Sarah Good	0121 2325334	sarah.l.good@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in

the first instance. Alternatively you may wish to contact Jon Roberts, our Public Sector Assurance regional lead partner (jon.roberts@uk.gt.com)

Yours sincerely

Phil Jones
For Grant Thornton UK LLP