AGENDA ITEM 5b i

Northamptonshire Commissioner Fire & Rescue Authority

Annual Audit Letter for the year ended 31 March 2020

May 2021

Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). [OR As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive or via the bodies minutes on their website].

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA [OR The Terms and Conditions of our appointment contained within the Engagement Letter] sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Northamptonshire Commissioner Fire & Rescue Authority (the Authority) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales	► As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. Furthermore, there were resource constraints within EY and delays in receiving the Pension Fund assurance letters, and we worked with the Authority to deliver as much of our audit to the revised reporting timeframe. Consequently, this meant to safeguard quality we were unable to conclude the audit until the 31 March 2021.
Impact on our risk assessment	
► Valuation of Property Plant and Equipment	► The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
► Disclosures on Going Concern	► Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Authority's year-to-date and forecast assumptions on liquidity and viability.
► Events after the balance sheet date	► We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Authority. There were no adjusting or non-adjusting post balance sheet events.
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk: ► Used the screen sharing function of Microsoft Teams where possible and screenshots to evidence re-running of reports used to generate the IPE we audited; and ► Agree IPE to scanned documents or other system screenshots.
► Consultation requirements	► Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Authority's:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
► Concluding on the Authority's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Authority
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Authority, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Authority's Whole of Government Accounts return (WGA).	The Authority is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the consolidation pack.

We would like to take this opportunity to thank the Authority's staff for their assistance during the course of our work.

Neil Harris
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Ref: EY-000092651-01

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Authority.

We have already reported the detailed findings on 31 March 2021 in our audit work in our 2019/20 Audit Results Report which was shared with the Joint Independent Audit Committee (JIAC), representing those charged with governance and in a verbal updates to the JIAC on the 16th December 2020 and 10 March 2021. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Authority.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 7 October 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements including the firefighter pension fund; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Authority has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Authority;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Authority, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Authority is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Authority

The Authority is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Authority reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

The Authority's Statement of Accounts is an important tool for the Authority to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Authority Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 March 2021.

Our detailed findings were reported on 31 March 2021 and a verbal update was provided in the 16 December 2020 JIAC.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. We considered the following accounting estimate most susceptible to bias: i. Valuation of land and buildings; and ii. Pension assets and liabilities. In both cases we considered the judgements overall to be reasonable. We have not identified any significant unusual transactions. We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Valuation of property plant and equipment (PPE) assets The value of property, plant and equipment represent significant balances in the Authority's accounts and are subject to valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. At 31 March 2020 the value of property, plant and equipment was £37,386k. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. Following the Covid-19 outbreak in March 2020, there is potential for significant impact on the estimations and assumptions applied to asset valuations with qualified valuers reporting 'material uncertainty' within valuation reports. This impacts, in particular, on investment properties valued at fair value due to the uncertainty over the future of rental income and predicted yields	We have completed our review of land and building valuations and have not identified any material misstatements. We have tested accounting entries and determined that they have been correctly processed in the financial statements. We have confirmed the appropriateness of disclosures made in the accounts concerning any material uncertainty relating to year end valuations as a result of the Covid-19 pandemic, and that these were not relevant to specialised assets (Fire Stations) valued at Depreciated Replacement Cost. We have considered and addressed the comments in EY Real Estates general review of asset valuation methodologies of WHE but did not engage our internal specialists to review any specific assets this year as these assets are specialised in nature, not as susceptible to market volatility post Covid-19 and we engaged our real estate team to review the asset valuation assumptions recognised in the 18-19 financial statements, the first accounting period after the inception of NCFRA. Our audit team have reviewed and corroborated valuer's assumptions in the 19-20 financial statements and identified no other significant audit risks

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Higher Inherent Risk	Conclusion
Pension Liability Valuation	
The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Northamptonshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to Northamptonshire County Council and also the Firefighters Pension Fund. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. In addition, every three years, a formal valuation of the whole fund in carried out in accordance with the LGPS Regulations 2013 to assess and examine the ongoing financial position of the fund. The IAS19 report for 2019/20 will reflect the updated membership numbers provided for this triennial valuation. An additional consideration in 2019/20 will be the impact of Covid-19 on the valuation of complex (Level 3) investments held by Northamptonshire Pension Fund, for example private equity investments where valuations as at 31 March 2020 will have to be estimated.	We have considered the information provided by the EY Pensions actuarial team and are satisfied that the information supplied to the actuary is accurate and the assumptions applied by the actuary are reasonable. We considered the impact of legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. On 16 July 2020, HM Treasury issued a consultation regarding transitional arrangements for public sector pensions to eliminate discrimination as identified through the McCloud case. This consultation introduced a requirement for members to have been members of the scheme on or before 31 March 2012 and on or after 1 April 2015 to be eligible for remedy. Our EY Pensions team reviewed the approach taken by Hymans Robertson and confirmed that the allowance they have made for the consultation is reasonable. As a result, we are satisfied that the IAS 19 report used in the preparation of the draft financial statements is based on appropriate assumptions. We have also considered the impact of another recent legal ruling (referred to as Goodwin) and are satisfied based on the current guidance we have that the impact of this is not material to the Authority's financial statements. Therefore no adjustments have been proposed. There were no significant exceptions or matters reported to us by the Northamptonshire Pension Fund auditor that we needed to address prior to concluding the audit. Matters reported to us on the Authority's share of a difference in the asset investment rate of return and an overstatement in the asset valuation were trivial amounts and below the level we need to report to management and the JIAC.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Higher Inherent Risk	Conclusion
Going Concern – Compliance with ISA 570 The COVID-19 pandemic has significantly affected the trading conditions of organisations, and there are increased levels of uncertainty within the forecasts used as part of the going concern assessment. This results in significant judgement to conclude whether events or conditions indicate that a material uncertainty exists that may cast significant doubt on the organisation's ability to continue as a going concern. This judgement will determine the appropriate disclosures to be made in the financial statements, which will be reflected in the audit report	We are satisfied that management's assessment and disclosures of going concern in the audited financial statements is appropriate. This disclosure has been subject to our professional practice consultation process. There are no further matters to report.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £955k (2019: £288k), which is 2% of reported gross expenditure basis in the accounts of £46 million. We consider the gross materiality basis to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority. In respect of the Firefighters' Pension Fund Accounts we based on our materiality measure on Benefits Payable, we have updated our overall materiality assessment to £174k (2019: £114k). This results in updated performance materiality, at 50% of overall materiality, of £87k (2019: £11k).
Reporting threshold	We agreed with the JIAC that we would report to the Committee all audit differences in excess of £47k (2019: £11k). Similarly, in relation to the Firefighters' Pension Fund Accounts we based on our materiality measure on Benefits Payable, we have updated the threshold for reporting misstatements of £8.7k (2019: £1.1k).

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: Our strategy was to check the bandings reported in the financial statements, test the completeness of the disclosure and compliance with the Code requirements. We also sample checked transactions back to the payroll system and supporting documentation.
- Related party transactions. Our strategy was to obtain and review declarations from senior officers and members of the Authority and review for any material disclosures. We also confirmed that the disclosure complied with the Code requirements. We undertook a sample check of contracts included on the Authority's contracts register against Companies House records to identify whether any key decision makers within the Authority had an interest in the companies with which the Authority had contracts.
- We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

Value for Money

Value for Money

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

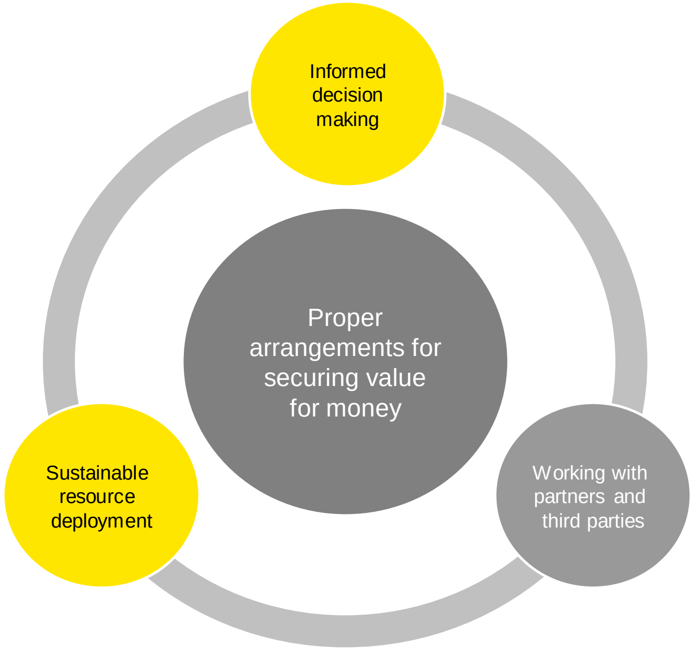
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider NHS bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We identified one significant risk in relation to these arrangements. The table below presents the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Authority's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 31 March 2021.

Significant Risk	Conclusion
Financial resilience (sustainable resource deployment)	Our review of the Authority's arrangements to secure its financial resilience in the period to 31st March 2020 identified the following examples of appropriate arrangements: ‣ Increase in the Authority's available to use reserves above forecast and in excess of the three year business plan which was approved by the Home Office prior to its inception. ‣ Delivery of the Authority's forecast 2019-2020 budget. ‣ Appropriateness of assumptions and reporting on risks and uncertainties for the 2020-2021 budget setting. ‣ Sufficient and appropriate representations made by senior executives to the Home Office and MHCLG on NCFRA's funding and budget position. We therefore concluded that the Authority's arrangements were appropriate for the 2019-2020 financial year and issued an unmodified conclusion.

We reviewed the appropriateness of the Authority's going concern assessments and disclosures, looking at the period 12 months from 31st March 2021 to end of March 2022.

We have reviewed the Authority's cash flow projections and note that the liquidity of the authority is shown by a positive forecast cash position which has been updated to the end of March 2022. This shows a opening cash balance of £5.7million at the end of January 2021, with a forecast closing cash balance of £2.643million at the end of March 2022. We have reviewed the Covid-19 expenses to date and projected, which total £979k over the March 2020 to 2022 period, and found that it is as we would expect. We examined the cashflow forecast and corroborated the receipts and payments per month to the 20/21 outturn budget forecast, and the 21/22 approved budget. We enquired on any unusual spikes in receipts and payments and received corroborative evidence and explanations consistent with our knowledge, for example on the timing of scheduled Home Office Pension top-up grant payments. provided to the Authority, thereby not needing to draw from reserves to balance the 20/21 budget.

The Authority have received £660k and a further Home Office grant £1m received in 2021 and based on their projections for the next 12 months are forecasting that this will cover the budgeted cost and income impact from Covid-19 without any need to use its own contingency funding, reserves and balances. The Authority outturn for 19/20 has shown a £244k underspend, and is currently forecasting a year-end underspend at 31st March 2021, and a balanced budget for 21/22. The in-year underspend forecast for 20/21 will be used to contribute £403k to a contingency reserve to smooth the impact of uncertainties and pressures on the budget. By the end of the MTFP period (i.e. to 2025/26 financial year) the Authority are forecasting a budget shortfall of £4 million. We have calculated the forecast level of reserves and balances that could be available to support the NCFRA budget in a worst-case scenario and this theoretical level is £3.1 million (£2 million general reserves forecast by 31/03/2026 plus £1,111 million on earmarked reserves for insurance, transformation, operational equipment, funding reserve). From our review we note that whilst the Authority is forecasting that financial pressures will start to increase from the 2022/23 financial year onwards, this uncertain financial landscape is not dissimilar and disproportionate to other Local Government and Fire and Rescue Services.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Authority is below the specified audit threshold of £500mn. Therefore, we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Authority or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the JIAC on 31 March 2021. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit. We identified no significant issues.

Section 6

Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Authority is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2021/22 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be updated, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the revised 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. It is not likely that there will be a significant impact on the financial statements as the gross value of all leases at year end was £270,836 which represents 1% of the Authorities asset portfolio. However, what is clear is that the Authority will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Authority must therefore ensure that all lease arrangements are fully documented.

Section 8

Audit Fees

Audit Fees

Our fee for 2019/20 is in line with the scale fee set by the PSAA agreed with your in our Engagement Letter and reported in our 31 March 2021 Audit Results Report.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Audit Fee – Code work	25,000	25,000	25,000	25,000
Audit Fee – Additional work due to C19 (Note 1)	6,278	6,000	0	0
Audit Fee – Proposed increase to scale fee (Note 2)	TBC	TBC	TBC	0
Total Audit Fee	31,278	31,000	25,000	25,000

Note 1 - As a result of Covid-19 we identified increased risk and work required in relation to the higher risk related to the valuation of assets and Going Concern disclosures as well as the work to address the material uncertainty in the valuer's report relating to the valuation of land and buildings. Additional time was also required for internal consultation processes on the audit report as a result of Covid-19.We have agreed this fee with management.

Note 2 – We reported in the October 2020 JIAC meeting that we would report an adjusted baseline audit fee to PSAA of up to £50,096. The £25,096 increase related largely to increased risk and complexity facing all public sector bodies, adjusted for our knowledge and risk assessment for the Authority, changes and the incremental increase in regulatory standards. The total fee is therefore reflective of these factors and will be considered by the PSAA. This is our assessment of the baseline fee and should not be seen as the same as the proposed fee for scope changes and additional work we have undertaken during the 2019-2020 audit. Management do not support an increase in the baseline scale fee and recognise this will be a discussion between Management, EY and PSAA

We confirm we have not undertaken any non-audit work.

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ED None

EY-000070901-01 (UK) 07/18. CSG London.

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