

# Thurrock Council

Annual Audit Letter for the year  
ended 31 March 2018

31 August 2018



Building a better  
working world

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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.psa.co.uk](http://www.psa.co.uk))

The 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 23 February 2017)' issued by PSAA 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 Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the Thurrock Council, 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 Steve Varley, 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.



# 01 Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Thurrock Council (the Council) following completion of our audit procedures for the year ended 31 March 2018.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's and the Group's:</b> ▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 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
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest
▶ Written recommendations to the Council, 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

Area of Work	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	We submitted Whole of Government Accounts assurance statement to the NAO on 31 August 2018 and have no matters to report.

## Executive Summary (cont'd)

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As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 16 July 2018
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We issued the certificate on 31 August 2018 following completion of the WGA audit procedures.

In December 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken. This will conclude our appointment as your external auditors. We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Suresh Patel  
Associate Partner  
For and on behalf of Ernst & Young LLP





## 02 Purpose and Responsibilities

# Purpose and Responsibilities

## 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 Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report presented to the Standards and Audit Committee on 19 July 2018, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we presented to the Standards and Audit Committee meeting on 6 March 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2017/18 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council 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 Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, 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 extent of our review and the nature of our report are specified by the NAO.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council 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 Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

## Financial Statement Audit



# Financial Statement Audit

## Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2018.

Our detailed findings were reported to the Standards and Audit Committee on 19 July 2018.

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

Significant Risk	Conclusion
<p><b>Misstatements due to fraud or error</b></p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 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.</p>	<p>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.</p> <p>We considered the accounting estimates relating to pensions and property valuations as the most susceptible to bias. We challenged the significant assumptions in the actuarial pension valuation and found no indication of management bias in these estimates. Our work on the property valuations found no material errors in the balances presented within the financial statements.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other material transactions during our audit which appeared unusual or outside the Council's normal course of business.</p> <p>We have not identified any material misstatements from the incorrect capitalisation of expenditure items.</p> <p>Overall, our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position or that management has overridden control.</p>

## Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
<p><b>Risk of fraud in revenue and expenditure recognition</b></p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>For Thurrock Council, we identified the potential for the incorrect classification of revenue spend as capital as a particular area where there is a risk of misstatement.</p>	<p>We performed sample testing on additions to the property, plant and equipment balance and found that these items met the relevant accounting requirements to be capitalised. Our testing did not identify any material expenditure which had been inappropriately capitalised.</p> <p>Overall, our audit work did not identify any material misstatements to indicate that revenue and expenditure had been incorrectly recorded.</p>

Other Key Findings	Conclusion
<p><b>Pension valuation &amp; disclosures</b></p> <p>The Council makes extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Essex County Council. The pension fund deficit is a material estimated balance and disclosed on the balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. 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.</p>	<p>We assessed and were satisfied with the competency and objectivity of the Council's actuary: Barnett Waddingham. EY Pensions team and PwC (Consulting Actuary to the NAO) reviewed the work of the actuary. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate.</p> <p>We have received reports from the Essex Pension Fund Auditor and the EY actuarial team.</p> <p>The report from the Essex Pension Fund Auditor identified material movements in the pension assets and related disclosures, as a result of significant movements in the asset values between the date of the estimates used by the actuary to produce the IAS19 report and the year end.</p> <p>As a result, the Council obtained a revised IAS 19 report and updated the accounts to reflect the new figures. This resulted in an increase in the pension liability of £8.2 million and a corresponding increase in the pension reserve.</p> <p>The accounting entries and disclosures are in line with our expectations and the Code.</p>

## Financial Statement Audit (cont'd)

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Other Key Findings	Conclusion
<p><b>Property, plant and equipment valuation</b></p> <p>The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>We are satisfied that the Council's internal valuers have the necessary qualifications and experience and are suitably independent. We have undertaken appropriate audit procedures to verify and critically challenge the basis of valuation adopted by the valuer in relation to the Council's property, focusing in particular on specialised assets, which are valued on a depreciated replacement cost basis, which is a more judgemental valuation basis.</p> <p>Our testing has not identified any material misstatements from inappropriate judgements being applied to the property valuation estimates.</p> <p>We considered the underlying assumptions made by the expert valuer and concluded that the overall valuation estimate was not unreasonable and did not result in a material misstatement of the value of property, plant and equipment.</p>
<p><b>Earlier accounts deadline and preparation of group accounts</b></p> <p>For 2017/18 the Council needs to prepare draft accounts by 31 May and the publish audited statement of accounts by 31 July, a challenge and risk for both preparers and auditors.</p>	<p>We have not identified any instances where the consolidation has not been carried out appropriately.</p> <p>We have not identified and material misstatements in material consolidated balances.</p> <p>Disclosures are in line with CIPFA Code of practice and associated guidance.</p> <p>The draft and final accounts were published by the deadlines.</p>

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## Financial Statement Audit (cont'd)

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### 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	<p>We determined planning materiality for the Group and the Council to be £7.0 million (2016/17: £7.6 million), which is 2% of gross expenditure on provision of services reported in the accounts of £350 million.</p> <p>We consider gross expenditure on provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Standards and Audit Committee that we would report to the Committee all audit differences in excess of £0.35 million (2016/17: £0.38 million)</p>

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; and
- ▶ Related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.





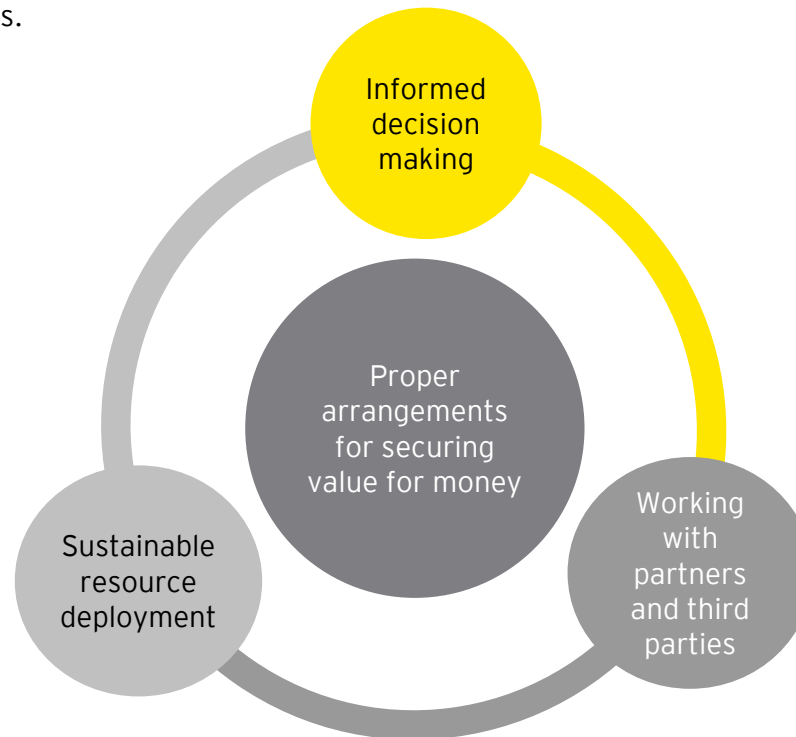
# 04 Value for Money

# £ Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on 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.



We identified one significant risk in relation to these arrangements. The table overleaf presents the findings of our work in response to the risk identified. In light of the significant pressure and focus on local government financial resilience we also include on page 16 our assessment of your reserves position to 2021.

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

We have therefore issued an unqualified value for money conclusion.

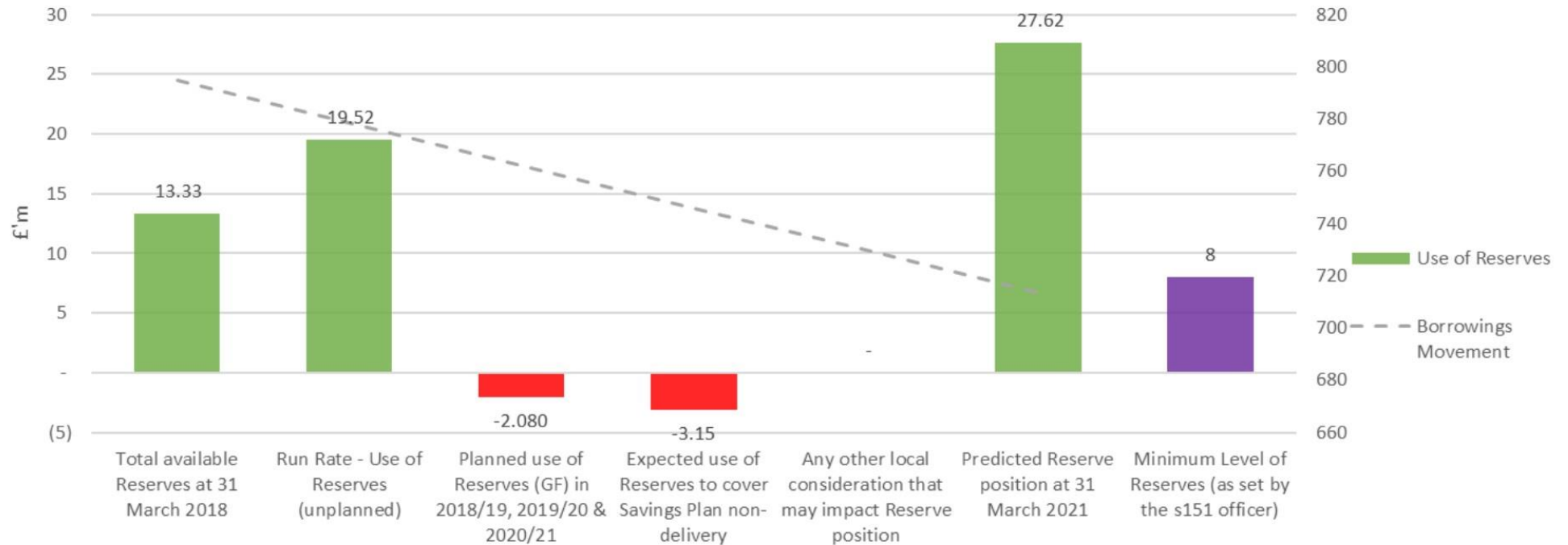
## Value for Money (cont'd)

Significant Risk	Conclusion
<p><b>Achievement of savings needed over the Medium Term Financial Strategy</b></p> <p><i>(Deploy resources in a sustainable manner)</i></p> <p>The Council faces significant financial challenges over the medium term with net pressures before investments being reported in the Medium Term Financial Strategy in February 2018.</p> <p>While there is a budget gap over the medium term, the Council has identified a number of savings and actions. However, due to the budget pressures, a risk to the value for money conclusion remains.</p>	<p>The Council recognises it faces unprecedented financial pressures and that a fundamental change is required to the way it operates in order to future-proof it's operations.</p> <p>The Council has put in place a detailed strategy to address the budget gap through investment in diverse financial instruments. The Council has already taken steps to implement some of these, such as increased long-term investment in the Solar investment, and continuing growth of the housing company, Thurrock Regeneration Ltd, and establishment of its subsidiary, Gloriana Thurrock Homes Ltd, to provide affordable housing.</p> <p>We have completed testing on a sample of proposed savings, including reduced agency costs and spend on overtime. We interviewed lead officers for the savings proposals to gain an understanding of the channels for reporting. For example, within overtime costs, savings targets were allocated to different directorates. A panel then challenged the overtime usage by each directorate and considered how to achieve the savings. We have not received the year end performance data, but as at Q3 2017/18, £0.187 million had been achieved, which was on track to achieve the £0.2 million target. While this is a short term target, it is planned to come off the MTFs savings target in 2020/21, thus demonstrating the Council's forward-planning. We also found that the implementation of savings plans was properly managed and monitored.</p> <p>The Council's budget setting process is supported by appropriate arrangements, with prudent assumptions applied to uncertain income streams and future expenditure.</p> <p>The Council is aware of the risks related to reductions in government funding, including the New Homes Bonus (NHB). In response to this risk, it has made assumptions within the budget regarding the trajectory of government funding in general and the NHB specifically and reserves reflect this risk.</p> <p>The Council continues to build up its level of General Fund reserves from £8 million in 2016/17 to £11 million in 2017/18. The Council has determined that this could be used to assist the transformation, if necessary, and could also provide time to put in place alternative plans to achieve these savings.</p> <p>We assessed the Council's reserves position up to 2020/21. Our projections are based on the Council's MTFs, as well as our assessment of historic performance in delivering budgets, which results in an estimated increase in reserves of £19.52 million due to predicted underspends against future budgets. As set out on page 16, based on that information the level of general fund and earmarked reserves at 31 March 2021 could be £27.62 million, which is above the Council's minimum balance of £8 million. Our review of the Council's MTFs has also concluded that it includes appropriate and prudent assumptions, including planned use of reserves for areas specific to Thurrock totalling £2.08 million.</p>



# Value for Money

### Assessment of Reserves Position to 2021



## Our Assessment

In our assessment we considered the Council's:

- Level of savings requirement to balance the General Fund budget in each of the next 3 years;
- Planned use of reserves to support the General Fund budget in each of the next 3 years.
- History of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- History of over/under spending on the General Fund budget, and the impact this trajectory would have on General Fund reserves; and
- Any other unusual future transactions or reliance upon the commercialisation agenda to derive future income streams, upon which the MTFS is reliant.

We have also looked at the Council's planned use of borrowing over the same time frame to inform our assessment. We also note that at this stage the Council has no definitive plans on how to use the planned MTFS annual surpluses but they are likely to be allocated.

As a result of our assessment, we are satisfied that the General Fund reserve balance at the 31 March 2021 will remain above the Council's approved minimum level.





05

## Other Reporting Issues



## Other Reporting Issues

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### Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. On 31 August 2018 we issued our assurance statement to the NAO and have no matters to report.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council'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 Council 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 Council 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.

### Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

## Other Reporting Issues (cont'd)

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### **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 Standards and Audit Committee on 19 July 2018. 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 have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Standards and Audit Committee.

### **Matters raised by a whistle blower**

During the year we were contacted on two occasions by a whistle blower. They alleged that the Council had made two unlawful payments to a member of the public as a result of a councillor seeking to influence officers and applying pressure on officer judgements and decisions. The whistle blower followed that up with similar concerns relating to another two members of the public. Whilst maintaining the confidentiality of the whistle blower, we made enquiries with relevant sections of the Council and officers to understand the matters and the findings of any related internal reviews.

We have considered the matters raised by the whistle blower and reviews carried out by relevant sections of the Council and officers.

The Council was clear that it is standard practice for elected members to raise issues with officers on behalf of their constituents, as was the case in the matter to which the whistle blower referred. We have found no evidence that the Council or its elected members have acted outside of the Council's procedures and we found no evidence that the payments made were unlawful.



## 06 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 Council is summarised in the table below.

Standard	Issue	Impact
<b>IFRS 9 Financial Instruments</b>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>▶ How financial assets are classified and measured;</li> <li>▶ How the impairment of financial assets are calculated; and</li> <li>▶ The disclosure requirements for financial assets.</li> </ul> <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> <li>▶ Reclassify existing financial instrument assets</li> <li>▶ Re-measure and recalculate potential impairments of those assets; and</li> <li>▶ Prepare additional disclosure notes for material items.</li> </ul>
<b>IFRS 15 Revenue from Contracts with Customers</b>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>▶ Leases;</li> <li>▶ Financial instruments;</li> <li>▶ Insurance contracts; and</li> <li>▶ For local authorities; Council Tax and NDR income.</li> </ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts.</p>



## Focused on your future (cont'd)

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Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>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.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, 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.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>

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**07**

**Audit Fees**

## Audit Fees

Our fee for 2017/18 was reported in our Audit Results Report presented to the Standards and Audit Committee on 19 July 2018.

Description	Final Fee 2017/18 £	Planned Fee 2017/18 £	Scale Fee 2017/18 £	Final Fee 2016/17 £
Audit Fee - Code work	133,723	133,723	133,723	133,723
Additional Code work:				
- MRP review	-	-	-	6,000
- Group accounts	4,000	4,000	-	4,000
- Consolidation of new company	3,000	3,000	-	
- Whistleblower	3,120	-	-	
<b>Total Audit Fee - Code Work</b>	<b>143,843</b>	<b>140,723</b>	<b>133,723</b>	<b>143,723</b>
Certification of claims and returns - Housing Benefits (note: our work in this area is to be completed and the final fee 2017/18 may be subject to change)	15,664	15,664	15,664	17,148
Non-audit work - Teachers' Pensions and Housing Pooling returns	TBC	TBC	N/A	21,000

We have agreed the additional fees with the Director of Finance & IT and they are now subject to approval from PSAA.

We confirm we have undertaken non-audit work outside of the PSAA's requirements, as detailed above and have confirmed that there are no resultant threats to our independence.

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