

# Castle Point Borough Council

Annual Audit Letter for the year  
ended 31 March 2020

December 2020

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

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 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. 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.



A blurred background image showing a pair of hands holding a tablet computer. The hands are positioned as if presenting the device, with the fingers gripping the edges. The background is out of focus, showing what appears to be an office or meeting environment with light-colored walls and some indistinct shapes.

## Section 1

# Executive Summary

# Executive Summary

We are required to issue an annual audit letter to Castle Point Borough Council (the Council) 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   |
|--|--|
| <b>Impact on the delivery of the audit</b>                           |  |
| ► 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. We worked with the Council to deliver our audit in line with the revised reporting timescale.  |
| <b>Impact on our risk assessment</b>                                 |  |
| ► Valuation of property, plant and equipment and investment property | 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 Council's external valuer.  |
| ► 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 council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.  |
| ► 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 Council.  |
| <b>Impact on the scope of our audit</b>                              |  |
| ► 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 Council's systems. We undertook the following to address this risk: <ul style="list-style-type: none"><li>► Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and</li><li>► Agree IPE to scanned documents or other system screenshots.</li></ul> |
| ► 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  |
|---|---|
| <b>Opinion on the Council's:</b>  |   |
| ► Financial statements  | Unqualified - the financial statements give a true and fair view of the financial position of the 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 Council'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  |
|---|---|
| <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.  |



# Executive Summary (cont'd)

| Area of Work   | Conclusion   |
|--|--|
| Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA). | We had no matters to report.<br>The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack. |

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 12 November 2020 |
| 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. | Our certificate was issued on 27 November 2020          |

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

Debbie Hanson  
Associate Partner  
For and on behalf of Ernst & Young LLP

## Section 2

# Purpose and Responsibilities

# 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 Council.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 24 November Audit Committee, 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

## Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued in May 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; 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 Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). 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.

Section 3

# 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 other guidance issued by the National Audit Office and issued an unqualified audit report on 27 November 2020.

Our detailed findings were reported to the 24 November Audit Committee.

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

| Significant Risk   | Conclusion  |
|--|---|
| <b>Misstatements due to fraud or error</b><br>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.<br><br>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>In response to this risk we:</p> <p>Made enquiries with management about risks of fraud and the controls put in place to address those risks;</p> <p>Understood the oversight given by those charged with governance of management's processes over fraud;</p> <p>Considered the effectiveness of management's controls designed to address the risk of fraud;</p> <p>Determined an appropriate strategy to address those identified risks of fraud; and</p> <p>Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of 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 transactions during our audit which appeared unusual or outside the Council's normal course of business</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 incorrect capitalisation of revenue expenditure</b></p> <p>In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position.</p> <p>A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and therefore has the potential to materially impact the revenue position through inappropriate capitalization of revenue spend.</p> <p>We focussed on the testing capital expenditure and obtaining evidence that additions have been correctly classified as capital expenditure.</p> | <p>We took a substantive approach to respond to this risk, undertaking the following procedures:</p> <ul style="list-style-type: none"> <li>▶ Sample testing additions to property, plant and equipment, at a lower testing threshold to ensure they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised;</li> <li>▶ Extending our testing of items capitalised in the year by lowering our testing threshold and reviewing a larger random sample of capital additions below our testing threshold</li> <li>▶ Reviewing unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure and the credit to income and expenditure.</li> </ul> <p>Our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position through the inappropriate capitalisation of revenue expenditure.</p> |
| <p><b>Valuation of Knightswick Shopping Centre</b></p> <p>In 2019/20, the Council acquired Knightswick Shopping centre located in Canvey Island. The shopping centre has been revalued in line with the Council's valuation policies at £11.05 million as at 31st December 2019. The asset represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end valuation of the asset. As the asset is significant in value, and the outputs from the valuer are subject to estimation, there is a significant risk that the valuation may be under/overstated or the associated accounting entries are incorrectly posted.</p>                    | <p>In response to this risk we:</p> <ul style="list-style-type: none"> <li>• Confirmed the classification of the asset as an operational asset rather than an investment property was appropriate;</li> <li>• Engaged our internal valuations specialist to review the valuation of the shopping centre to verify the reasonableness of the valuation methodology applied and key assumptions used, particularly in relation to the impact of Covid-19 on the valuation;</li> <li>• Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;</li> <li>• Checked that the valuers report reconciles to Council's fixed asset register;</li> <li>• Tested the accounting entries and disclosures made within the financial statements to confirm these complied with relevant accounting standards and the Code.</li> </ul> <p>Our work did not identify any issues.</p>   |

# Financial Statement Audit (cont'd)

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

| Significant Risk   | Conclusion  |
|--|---|
| <b>Valuation of Investment Properties</b><br>The Council holds investment properties valued at £2.8 million as at 1 April 2019. These assets represent material balances in the Council's accounts and may be subject to valuation changes and impairments. The impact of Covid-19 is expected to be greatest for properties measured at Fair Value (i.e. investment properties) since rental income is expected to fall as tenants' default on their rents and seek to negotiate rent reductions as the tenants can no longer trade effectively. As these assets were valued at 1 April 2019 rather than the balance sheet date there is a risk that the values may be misstated. | <p>To address this risk we:</p> <ul style="list-style-type: none"><li>• Assessed the classification of assets to ensure the correct classification and valuation basis had been applied;</li><li>• Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;</li><li>• Sample tested a number of investment properties to confirm the values provided by the valuer were supportable and in line with expectations;</li><li>• Engaged our internal valuations specialist to review a sample of the two highest value investment properties to verify the reasonableness of the valuation methodology applied and key assumptions used and the potential impact of Covid-19 on the year end values;</li><li>• Checked that the material uncertainly reported by the Council's valuer in relation to values at 31 March 2020 was appropriately disclosed in the financial statements;</li><li>• Reconciled the valuers report to Council's fixed asset register;</li><li>• Tested the accounting entries, ensuring these have been correctly processed in the financial statements.</li></ul> <p>Our work did not identify any issues.</p> |



# Financial Statement Audit (cont'd)

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

| Other Key Findings                     | Conclusion   |
|--|--|
| <b>Valuation of land and buildings</b> | <p>We have considered the work by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the assumptions used. We have tested that accounting entries have been correctly processed in the financial statements and carried out procedures to satisfy ourselves that the property valuations are reasonable in light of the material uncertainty statements in their valuation reports for the year ended 31st March 2020.</p> <p>Our testing has not identified any material misstatements</p> |
| <b>Pension liability valuation</b>     | <p>We have received reports from the Essex Pension Auditor and the EY Pensions actuarial team we and are satisfied that the information supplied to the actuary is accurate and the assumptions applied by the actuary are reasonable. We have reviewed and tested the accounting entries and disclosures made within the Council's financial statements.</p> <p>Our testing has not identified any material misstatements</p>   |
| <b>NNDR appeals provision</b>          | <p>We have reviewed and challenged the calculation and assumptions used in the calculation of the NNDR appeals provision.</p> <p>Our testing has not identified any issues</p>   |
| <b>Bad debt provision valuation</b>    | <p>We have reviewed and challenged the calculation and assumptions used in the calculation of the bad debt provision.</p> <p>Our work demonstrated that management had appropriately reflected the possible impact of Covid-19 within their provision assumptions. We did not identify any material misstatements.</p>   |
| <b>Going concern disclosures</b>       | <p>We have reviewed managements going concern assessment, including stress testing of assumptions and cash flow forecasts. We have also reviewed the going concern disclosure for consistency with managements going concern assessment. As a result of our work we proposed some enhancements to the going concern disclosure which have been reflected in the final statement of accounts.</p>   |

Section 4

# 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 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.

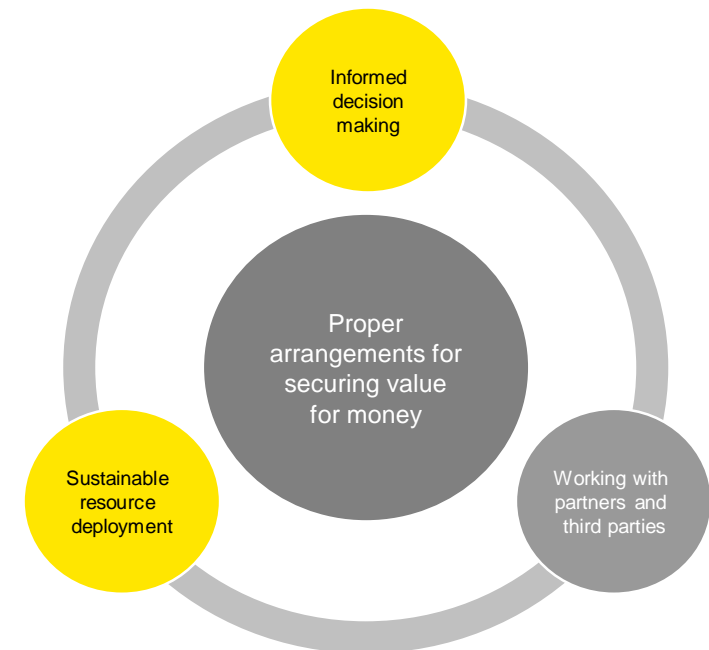
We identified two significant risks relating to these arrangements.

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 value for money arrangements conclusion.

We did not identify any significant failures as a result of Covid-19

We have performed the procedures outlined in our Audit Planning Report to ensure the Council took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We set out the main findings in relation to the risks we identified on the following page.



# Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 27 November 2020 after completing work on the following significant risks:

| Significant Risk   | Conclusion   |
|--|--|
| <p><b><u>Development of the Local Plan</u></b></p> <p>In 2018/19 we identified the development of the Local Plan as a significant value for money risk following a letter received by the Council in November 2017 from the Secretary of State about lack of progress in adopting a local plan.</p> <p>Through 2018/19 a new local plan was developed, but was not approved. In April 2019, the Local Government Association undertook a Planning Improvement Peer Challenge and highlighted the preparation of a new Local Plan as a key priority to provide a clear policy framework for decision making.</p> <p>Since the peer review a new Local Plan has been developed and in October 2019 the Council agreed to proceed with the pre-submission Local Plan, however this is still subject to approval by the Secretary of State. This uncertainty around the Local Plan leads to increased risk of speculative development and planning by appeal, as well as not providing certainty for residents and businesses.</p> | <p>During 2019/20, Castle Point Council took appropriate actions to progress with the adoption of the Local Plan. It made progress on the Local Development Scheme (LDS), which required it to follow and implement Regulation 19. Throughout the process, the Council actively engaged with Members, the Secretary of State and the Ministry of Housing, Communities and Local Government (MHCLG) with regard to ways of moving towards the adoption of the Local Plan.</p> |
| <p><b><u>Knightswick Shopping Centre acquisition</u></b></p> <p>In October 2019, the Council purchased Knightswick Shopping Centre for a sum of £11.23 million which has largely been funded from borrowing. It is important that the Council undertook an appropriate risk and financial assessment and developed a robust business case in relation to this significant acquisition. It is also crucial that the decision was reviewed and approved in line with the Councils' constitution and governance arrangements to ensure accountability, responsibility, effective monitoring and authority for decision making.</p>  | <p>We reviewed the process and documents relating to this decisions and established the decision-making arrangements in relation to the purchase of Knightswick Shopping Centre.</p> <p>We concluded that appropriate arrangements were in place to support the decision to purchase the property.</p>   |

A blurred background image of a business meeting. Several people in professional attire are gathered around a wooden conference table. A woman with blonde hair is leaning forward, resting her chin on her hand, looking intently at documents on the table. Other people's hands and arms are visible, some pointing at the papers. The scene is brightly lit, suggesting a modern office environment.

Section 5

## Other Reporting Issues



# Other Reporting Issues

## **Whole of Government Accounts**

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

As the Council's assets, income, liabilities and expenditure are below the threshold set by HM Treasury, detailed audit of the return is not required for Castle Point Borough Council.

## **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.

# 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 Audit Committee on 24 November 2020. 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 audit approach and have therefore not tested the operation of controls.

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 Council is summarised in the table below.

| 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 2021/22 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 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.</p> | <p>Until the revised 2020/21 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> |



# Section 8

# Audit Fees



# Audit Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements.

| Description  | Final Fee 2019/20<br>£ | Planned Fee 2019.20<br>£ | Scale Fee 2019/20<br>£ | Final Fee 2018/19<br>£ |
|--|------------------------|--------------------------|------------------------|------------------------|
| Code work fee  | 43,324                 | 43,324                   | 43,324                 | 43,324                 |
| Changes in work required to address professional and regulatory requirements and scope changes associated with risk (Note 1) | TBC                    | 28,873                   | 0                      | 0                      |
| Additional work on VFM risks (Note 2)  | TBC                    | 3,533                    | N/A                    | 1,630                  |
| Knightswick Shopping Centre and Investment property valuations significant risk (Note 2)                                     | TBC                    | 2,714                    | N/A                    | NA                     |
| Additional fee to address Covid-19 related risks (Note 2)  | TBC                    | 6,554                    | N/A                    | NA                     |
| Total Audit Fee  | TBC                    | 84,998                   | 43,324                 | 44,954                 |

- (1) For 2019/20, we have proposed an increase to the scale fee to reflect the increased level of audit work required which has been impacted by a range of factors, as detailed in our Audit Planning Report. Our proposed increase has been discussed with management and is currently being considered by PSAA.
- (2) We have carried out additional work in response to the significant risks included in this report as well as to address the Covid-19 related risks also noted in this report. These are specific to the 2019/20 audit year and once quantified we will discuss with management and submit to PSAA for approval.

All additional fees are subject to agreement by management and PSAA

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