





Dear Committee Members

We are pleased to attach our Audit Results report for the forthcoming meeting of the Audit and Accounts Committee. This report is intended solely for the use of the Regulation, Audit and Accounts Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We have substantially completed our audit of Cambridgeshire Pension Fund for the year ended 31 March 2019. Subject to receiving the final documents listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, by the accounts publication date of 31 July 2019.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report, or any other issues arising from our work with you, at the Audit and Accounts Committee meeting on 29 July 2019.

Yours faithfully

MARK HODGSON

Mark Hodgson

Associate Partner

For and on behalf of Ernst  $\&\ Young\ LLP$ 

Encl

# **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). 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 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 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.



# Executive Summary

#### Scope update

In our Audit Plan presented at the 28 March 2019 Audit and Accounts Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

► Changes in materiality: We updated our planning materiality assessment using the draft financial statements. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £31.9m (Audit Planning Report – £29 million). From the work undertaken at planning in relation to prior year audit findings and our respective file review, we concluded we could increase our performance materiality from 50% to 75% of overall materiality, of £23.9 million, and an updated threshold for reporting misstatements of £1.6 million.

#### Status of the audit

We have substantially completed our audit of the Pension Fund's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our audit planning report. Subject to satisfactory completion of the following items we expect to issue an unqualified opinion on the Cambridgeshire Pension Fund's financial statements in the form which appears at Section 3.

- ► IAS26 Disclosures testing;
- Investment Income testing;
- ► Final Manager and Associate Partner Review;
- ► Completion of subsequent events review;
- Receipt of the signed management representation letter; and
- ► Receipt of the final version of the financial statements and annual report.

A national issue has resulted in a relatively late change to the pension fund accounts and IAS26 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft pension fund accounts did not recognise this matter, but officers were aware of the issue and intended to disclose it as a contingent liability. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27th June 2019 which rejected the Government's appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS26 liability disclosed within the financial statements. We consider the impact of this on the financial statements further in Section 4.

#### **Audit differences**

There are no unadjusted or adjusted audit differences arising from our audit that we wish to bring to your attention.



#### Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Cambridgeshire Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- ► There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Accounts Committee.

#### Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

#### Other reporting issues

We have no other matters to report.

#### Independence

Please refer to Section 7 for our update on Independence. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.





# Significant risk

#### Misstatements due to fraud or error

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.



#### What did we do and what judgements did we focus on?

As set out in our Audit Plan we confirm that we have performed the following procedures:

- > We inquired of management about risks of fraud and the controls put in place to address those risks;
- > We obtained an understanding the oversight given by those charged with governance of management's processes over fraud;
- > We considered the effectiveness of management's controls designed to address the risk of fraud;
- We performed mandatory procedures regardless of specifically identified fraud risks, including;
  - > testing of journal entries and other adjustments in the preparation of the financial statements;
  - > reviewing accounting estimates for evidence of management bias; and
  - > evaluating the business rationale for significant unusual transactions.
- > We utilised our data analytics capabilities to assist with our work, including journal entry testing; and
- > We assessed journal entries for evidence of management bias and evaluate for business rationale.

#### What are our conclusions?

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 Pension Fund's normal course of business.



# Significant risk

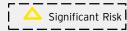
Investment income and asset valuations -**Investment Journals** 

#### What is the risk?

We have considered the key areas where management has the opportunity and incentive to override controls that could affect the Fund Account and the Net Asset Statement.

We have identified the main area being;

Investment income and asset valuations being taken from the Custodian reports being incorrectly posted to the general ledger in the year, specifically through journal postings.



#### What did we do and what judgements did we focus on?

As set out in our Audit Plan we confirm that we have performed the following procedures:

- > Tested journals at year-end to ensure there are no unexpected or unusual postings;
- > Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
- > Re-performed the detailed investment note using the reports we acquired directly from the custodian or fund managers;
- > Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
- > For quoted investment income we will agreed the reconciliation between fund managers and custodians back to the source reports

#### What are our conclusions?

Our testing has not identified any material misstatements from investment income or year end investment assets.

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 are in the process of concluding our investment income testing.



# Significant risk

Unusual Investments -**Cambridge and Counties** Bank (CCB) and Cambridge Building Society (CBS)



#### What is the risk?

These investments are hard to value Level 3 investments as lack of observable inputs and prices are not publicly available.

CCB investment is based on valuations provided by a management specialist - Grant Thornton (GT). In the prior year the bank investment represented the largest single private equity investment by the fund. GT used a markets multiple approach in the prior year looking at price earnings ratio and price to book ratios, considering current and forecast earnings and ratios.

These investments are not publicly listed and as such there is a degree of judgement in their valuation.

From a review of the draft 2017/18 financial statements, the Fund has a total of £189 million included for private equity, £70 million of this is the investment in CCB. The Fund transparently discloses in the notes to the accounts surrounding "Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty" that there is a risk that this could be under or over stated in the accounts.

#### What did we do and what management judgements did we focus on?

As set out in our Audit Plan we confirm that we have performed the following procedures:

- > Engaged with EY Valuation team who will undertook a review of the valuation provided by GT considering the appropriateness of the assumptions and inputs used in determining the valuation;
- > We ensured that investments have been valued in accordance with the relevant accounting policies; and
- > The audit team have tested the accounting entries made in the statement of accounts and ensured they are consistent with the valuation provided by management's expert - GT.

#### What are our conclusions?

Managements Expert (GT) utilised a Market Approach to the valuation which gave rise to valuation within a range of £80.6 million to £81.7 million (CPF share). Our valuation team used a Dividend Discount Model (DDM) as their approach, which was not used by the management specialist, who used a Market Approach. The DDM approach is considered best practice and confirmed a fair valuation between £80 million and £80.6 million as being reasonable.

The two approaches do not provide significantly different ranges, hence we have concluded that the valuation of Cambridgeshire and Counties Bank is reasonable

Based on the work we have undertaken we are satisfied that the management specialist valuation is within the range of best practice and is materially accurate.



#### Other area of audit focus

### **Valuation of Complex Investments**

#### What is the risk?

The Fund's investments include unquoted pooled investment vehicles such as private equity, and property investments. Judgements are taken by the Investment Managers to value those investments whose prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error.

Current market volatility means such judgments can guickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

The proportion of the fund comprising of these investment types in 2018/19 is at circa 16%, and as these investments are more complex to value, we have identified the Fund's investments in private equity and pooled property investments as higher risk, as even a small movement in these assumptions could have an impact on the financial statements.

#### What did we do and what management judgements did we focus on?

Our audit approach has included the following procedures:

- > Assessing the competence of management experts;
- Reviewing the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used;
- Comparing the investment value included in the financial statements to direct confirmations from the Fund Managers.
- > Where available, reviewing the latest audited accounts for the relevant fund managers and ensuring there are no matters arising that highlight weaknesses in the funds valuation;
- Obtain copies of the ISAE3402 reports over internal control for any control exceptions raised in relation to the valuation of investments; and
- Performing analytical procedures and checking the valuation output for reasonableness against our own expectations.

#### What are our conclusions?

We have assessed the competence of management experts and have not identified any issues.

Our review of the valuation basis concluded the methods used were appropriate. Our review of the latest financial statements and internal control reports has not highlighted any issues.

Our analytical review did not identify any variances above our set threshold.



### Other area of audit focus

# New ERP System

#### What is the risk?

From April 2018 a new ERP system was introduced.

We consider this to carry an inherent risk due to the one off nature of the data transfer, which if done incorrectly would impact on the bought forward balances. Also, the mapping within the system can impact on the classification of certain balances within the financial statements. We need to understand the new financial system mapping and walkthrough the new transaction flows.

#### What did we do and what management judgements did we focus on?

Our audit approach has included the following procedures:

- used data analytics to test opening balances;
- Undertaken analytical review on prior year closing balances and current year opening balances; and
- Tested the of transfer of balances to the new system

#### What are our conclusions?

We have not identified any issues from the work undertaken.

Opening balances were fairly stated.



### Other area of audit focus

### Pension Liability **Assumption**

#### What is the risk?

An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience.

The estimate is based on a roll-forward of data from the previous triennial valuation, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

There is a risk that the membership data and cash flows provided to the actuary as at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.

#### What did we do and what management judgements did we focus on?

Our audit approach has included the following procedures:

- reviewed the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate;
- Reviewed the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and observable data; and
- Agreed the disclosure to the information provided by the actuary.

#### What are our conclusions?

As noted in the Executive Summary a national issue has resulted in a relatively late change to the pension fund accounts and IAS26 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft pension fund accounts did not recognise this matter, but officers were aware of the issue and intended to disclose it as a contingent liability. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27 June 2019 which rejected the Government's appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS26 liability disclosed within the financial statements.

The actuary has now estimated the impact of the McCloud ruling on the present value of promised retirement benefits. The estimated increase in value of £9.0 million has now been disclosed at Note 20 to the accounts, with further associated disclosure added to recognise this as a source of estimation uncertainty and post balance sheet event.

We have not identified any issues with the work undertaken so far. We are still to complete our full review of the updated IAS26 disclosures.



#### Other area of audit focus

### **New Accounting Standards**

#### What is the risk?

#### IFRS 9 - Financial Instruments

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:

- How financial assets are classified and measured:
- How the impairment of financial assets are calculated; and
- The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.

#### IFRS 15 - Revenue from contracts

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.

#### What did we do and what management judgements did we focus on?

Our audit approach has included the following procedures:

- Assessed the Pension Fund's implementation arrangements that included an impact assessment paper setting out the application of the new standards, transitional adjustments and planned accounting for 2018/19 including:
- For IFRS 9 we considered the classification and valuation of financial instrument assets;
- For IFRS 15 we considered the application to the Fund's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- Check additional disclosure requirements.

#### What are our conclusions?

We have not identified any issues from the work undertaken.





### **Audit Report**

### Draft audit report

#### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAMBRIDGESHIRE COUNTY COUNCIL

#### **Opinion**

We have audited the pension fund financial statements for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



# Audit Report

# Draft audit report

#### Our opinion on the financial statements

#### Other information

The other information comprises the information included in the "Statement of Accounts and Annual Governance Statement 2018-2019", other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



### **Audit Report**

# Draft audit report

#### Our opinion on the financial statements

#### Responsibility of the Chief Financial Officer

As explained more fully in the "Chief Financial Officer's Responsibilities" set out on pages 29 and 30, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of as surance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <a href="https://www.frc.org.uk/auditorsresponsibilities">https://www.frc.org.uk/auditorsresponsibilities</a>. This description forms part of our auditor's report.

#### Use of our report

This report is made solely to the members of Cambridgeshire County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.





### Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

#### Summary of adjusted differences

We highlight any misstatements greater than £1.59 million which have been corrected by management during the course of our audit.

There are no corrected misstatements of such significance which merit bringing to your attention.

#### **Disclosure Adjustments**

We have highlighted to management a number of disclosure adjustments, which have been adjusted within the revised financial statements. None of these were of such significance as to merit being included in this report.

#### Summary of unadjusted differences

There are no uncorrected misstatements to bring to your attention.

#### McCloud ruling

As noted in the Executive Summary a national issue has resulted in a relatively late change to the pension fund accounts and IAS26 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft pension fund accounts did not recognise this matter, but officers were aware of the issue and intended to disclose it as a contingent liability. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27 June 2019 which rejected the Government's appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS26 liability disclosed within the financial statements. The actuary has now estimated the impact of the McCloud ruling on the present value of promised retirement benefits. The estimated increase in value of £9.0 million has now been disclosed at Note 20 to the accounts, with further associated disclosure added to recognise this as a source of estimation uncertainty and post balance sheet event.



# **Other reporting issues**

# Other reporting issues

#### Consistency of other information published with the financial statements.

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

#### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

#### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of Cambridgeshire Pension Fund's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- · Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We have nothing to report in respect of these matters.





### Assessment of Control Environment

#### Financial controls

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware





# Confirmation



We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit and Accounts Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Accounts Committee on 29 July 2019.

# Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Pension Fund, and its directors and senior management and its affiliates, including all services provided by us and our network to your Pension Fund, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

# Independence

# المال Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 Month 2019. We confirm that we have not undertaken non-audit work outside the NAO Code requirements.

|                             | Final Fee<br>2018/19           | Planned Fee<br>2018/19 | Scale Fee<br>2018/19 | Final Fee<br>2017/18 |
|-----------------------------|--------------------------------|------------------------|----------------------|----------------------|
|                             | £'s                            | £'s                    | £'s                  | £'s                  |
| Total Audit Fee - Code work | To be<br>confirmed<br>(Note 2) | 22,756<br>(Note 1)     | 17,256               | 22,410               |

#### Notes:

Note 1 - We anticipate charging an additional fee of £5,500 in 2018/19 to take into account the additional work required to respond to IAS19 assurance requests from admitted bodies and their auditors. This is subject to formal approval by PSAA Ltd under their scale fee variation approval process.

Note 2 - As noted in our Audit Plan, due to the significant risk raised in relation to the valuation of Cambridge & County Bank and Cambridge Building Society we have performed additional audit procedures above that assumed within the scale fee and therefore we will be seeking to charge an additional fee in this respect. We will discuss these additional procedures with management once we have completed the audit and agree a fee for agreement with the PSAA Ltd.

We will confirm our final fees following the completion of our work and report this within our Annual Audit Letter or direct to you depending on timing.

All fees exclude VAT

<sup>\* -</sup> Includes a proposed additional fee of £5,500 for IAS19 assurance work on behalf of admitted bodies. This remains subject to approval by PSAA.





# Audit approach update

We are required to communicate whether there have been any changes to the audit of the net assets statement from the prior year audit. In 2018/19, the first year of our engagement, we have taken a fully substantive approach to the audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework



# Appendix B

# Summary of communications

| Date            | Nature Nature  | Summary  |
|-----------------|----------------|--|
| 6 December 2018 | Meeting        | The Partner and Audit Manager met with key officers of the Pension Fund to discuss the audit and discuss emerging issues for the Audit Plan.   |
| 28 March 2019   | Meeting/Report | The partner in charge of the engagement met with both the Pension Committee (Morning) and Audit and Accounts Committee (afternoon) to discuss the Audit Plan and areas of focus for the audit. This included confirmation of our independence. |
| 18 June 2019    | Meeting        | The Partner and Audit Manager met with key officers of the Pension Fund to discuss the progress of the audit and discuss emerging issues.  |
| 11 July 2019    | Report         | The Audit Results Report, including confirmation of independence, was issued to the Audit Committee.   |
| 12 July 2019    | Meeting        | The Audit Partner met with key officers of Cambridgeshire County Council to discuss progress of the audit and discuss emerging issues and the draft Audit Results Report   |
| 29 July 2019    | Meeting/Report | The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the Audit & Accounts Committee and senior members of the management team to discuss the Audit Results report.                         |

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.



# Appendix C

# Required communications with the Regulation, Audit and Accounts Committee

There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

|                                     |   | Our Reporting to you   |
|-------------------------------------|---|--|
| Required communications             | What is reported?   | When and where   |
| Terms of engagement                 | Confirmation by the Regulation, Audit and Accounts Committee (RAAC) of acceptance of terms of engagement as written in the engagement letter signed by both parties.  | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities                | Reminder of our responsibilities as set out in the engagement letter.   | 28 March 2019, Audit and Accounts<br>Committee - Audit Plan  |
| Planning and audit approach         | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.   | 28 March 2019, Audit and Accounts<br>Committee - Audit Plan  |
| Significant findings from the audit | <ul> <li>Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>Significant difficulties, if any, encountered during the audit</li> <li>Significant matters, if any, arising from the audit that were discussed with management</li> <li>Written representations that we are seeking</li> <li>Expected modifications to the audit report</li> <li>Other matters if any, significant to the oversight of the financial reporting process</li> </ul> | 29 July 2019, Audit and Accounts Committee - Audit Results Report  |



|  |  | Our Reporting to you   |
|--|--|--|
| Required communications                          | What is reported?  | When and where   |
| Public Interest Entities /<br>Major Local Audits | For the audits of financial statements of public interest entities our written communications to AAC include:  A declaration of independence  The identity of each key audit partner  The use of non-member firms or external specialists and confirmation of their independence  The nature and frequency of communications  A description of the scope and timing of the audit  Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits  Materiality  Any going concern issues identified  Any significant deficiencies in internal control identified and whether they have been resolved by management  Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to AAC  Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof  The valuation methods used and any changes to these  The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework  The completeness of documentation and explanations received  Any significant difficulties encountered in the course of the audit  Any significant matters discussed with management  Any other matters considered significant | 28 March 2019, Audit and Accounts Committee - Audit Plan and 29 July 2019, Audit and Accounts Committee - Audit Results Report |



|                         |  | Our Reporting to you  |
|-------------------------|--|---|
| Required communications | What is reported?  | When and where  |
| Going concern           | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:  ► Whether the events or conditions constitute a material uncertainty  ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements  ► The adequacy of related disclosures in the financial statements  | 29 July 2019, Audit and Accounts Committee - Audit Results Report |
| Misstatements           | <ul> <li>Uncorrected misstatements and their effect on our audit opinion</li> <li>The effect of uncorrected misstatements related to prior periods</li> <li>A request that any uncorrected misstatement be corrected</li> <li>Material misstatements corrected by management</li> </ul>  | 29 July 2019, Audit and Accounts Committee - Audit Results Report |
| Subsequent events       | ► Enquiry of AAC where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.   | 29 July 2019, Audit and Accounts Committee - Audit Results Report |
| Fraud                   | <ul> <li>Enquiries of AAC to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund</li> <li>Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>Unless all of those charged with governance are involved in managing the Pension Fund, any identified or suspected fraud involving:         <ul> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>Any other matters related to fraud, relevant to RAAC responsibility.</li> </ul> | 29 July 2019, Audit and Accounts Committee - Audit Results Report |



|                         |  | Our Reporting to you   |
|-------------------------|--|--|
| Required communications | What is reported?  | When and where   |
| Related parties         | Significant matters arising during the audit in connection with the Pension Fund's related parties including, when applicable:  Non-disclosure by management Inappropriate authorisation and approval of transactions Disagreement over disclosures Non-compliance with laws and regulations Difficulty in identifying the party that ultimately controls the Pension Fund   | 29 July 2019, Audit and Accounts Committee -<br>Audit Results Report   |
| Independence            | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.  Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:  The principal threats  Safeguards adopted and their effectiveness  An overall assessment of threats and safeguards  Information about the general policies and process within the firm to maintain objectivity and independence  Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.  For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:  Relationships between EY, the company and senior management, its affiliates and its connected parties  Services provided by EY that may reasonably bear on the auditors' objectivity and independence  Related safeguards  Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees  A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit | 28 March 2019, Audit and Accounts Committee - Audit Plan and 29 July 2019, Audit and Accounts Committee - Audit Results Report |
| External confirmations  | <ul> <li>Management's refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>  | We have received all requested confirmations   |



|   |   | Our Reporting to you   |
|---|---|--|
| Required communications   | What is reported?   | When and where   |
| Consideration of laws<br>and regulations  | <ul> <li>Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul> | 29 July 2019, Audit and Accounts Committee - Audit Results Report  |
| Significant deficiencies in internal controls identified during the audit   | ► Significant deficiencies in internal controls identified during the audit.  | 29 July 2019, Audit and Accounts Committee - Audit Results Report  |
| Written representations we are requesting from management and/or those charged with governance  | ► Written representations we are requesting from management and/or those charged with governance  | 29 July 2019, Audit and Accounts Committee - Audit Results Report  |
| Material inconsistencies or<br>misstatements of fact<br>identified in other<br>information which<br>management has refused<br>to revise | Material inconsistencies or misstatements of fact identified in other information which<br>management has refused to revise   | 29 July 2019, Audit and Accounts Committee - Audit Results Report  |
| Auditors report   | ► Any circumstances identified that affect the form and content of our auditor's report   | 29 July 2019, Audit and Accounts Committee - Audit Results Report  |
| Fee Reporting   | <ul> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>  | 28 March 2019, Audit and Accounts<br>Committee - Audit Plan<br>and<br>29 July 2019, Audit and Accounts Committee<br>- Audit Results Report |



# Appendix D - Request for a Letter of Representation

#### Request for a Management Representation Letter



Ernst & Young LLP Tel: 01223 394400 One Cambridge Business Park Fax: 01223 394401 Cambridge www.ey.com/uk

18 July 2019

Chris Malyon
Deputy Chief Executive and Chief Finance Officer
Cambridgeshire County Council
Shire Hall
Castle Hill
Cambridge
Cas 30 AP

Dear Chris.

Cambridgeshire Pension Fund – 2018/19 financial year Request for a letter of representation

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). I have interpreted this guidance as it affects Local Government bodies and I expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence.
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- · the letter is dated on the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Audit Committee, as those charged with governance of the Pension Fund.

I would expect the letter of representation to include the following matters.

General statement

That the letter of representations is provided in connection with our audit of the financial statements of Cambridgeshire Pension Fund ("Pension Fund") for the year ended 31 March 2019.

That you recognise that obtaining representations from you concerning the information contained in this letter is a significant procedure in enabling us to form an opinion as to whether the financial statements give a true and fair view of the financial position of Cambridgeshire Pension Fund as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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You understand that the purpose of our audit of your financial statements is to express an opinion thereon and that our audit is conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud. shortages, errors and other irregularities, should any exist.

Accordingly, you make the following representations, which are true to the best of your knowledge and belief, having made such inquiries as you considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records (See Note B)

- A1. That you have fulfilled your responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019.
- A2. That you confirm that the Fund is a Registered Pension Scheme. That you are not aware of any reason why the tax status of the scheme should change.
- A3. That you acknowledge, as members of management of the Fund, your responsibility for the fair presentation of the financial statements. You believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019, and are free of material misstatements, including omissions. You have approved the financial statements.
- A4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
- A5. As members of management of the Fund, you believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019 that are free from material misstatement, whether due to fraud or error.
- A6. That you believe that the effects of any unadjusted audit differences, summarised in the Audit Results Report, if relevant, accumulated by us during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

That you have not corrected these differences identified and brought to your attention by us because (please specify the reasons for not correcting the misstatements); or

That there are no unadjusted differences identified during the current audit and pertaining to the latest period presented.



# Appendix D - Request for a Letter of Representation



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- B. Non-compliance with laws and regulations including fraud
- B1. You acknowledge that you are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that you are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
- B2. You acknowledge that you are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
- B3. You have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- B4. You have not made any reports to The Pensions Regulator, nor are you aware of any such reports having been made by any of our advisors.
- B5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
- 86. You have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
- Involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
- · Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.
- Information Provided and Completeness of Information and Transactions
- C1. You have provided you with:
- Access to all information of which you are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
- . Additional information that you have requested from us for the purpose of the audit.
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- C2. You have been informed of all changes to the Fund rules.
- C3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- C4. You have made available to you all minutes of the meetings of the Pension Fund Committee and Audit Committee held through the year to the most recent meeting on the following date: 29 July 2019.
- C5. You confirm the completeness of information provided regarding the identification of related parties.



4

- C6. You have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which You are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
- C7. You confirm the completeness of information provided regarding annuities held in the name of the Cambridgeshire Pension Fund; or

Where, as Members of the management of the Fund, you have determined that annuity policies are not material, that the scheme holds annuity policies which have not been recognised and recorded as an asset of the Scheme in the financial statements as they are not considered material in relation to net assets. These policies have an estimated value of £X.

- C8. You have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
- C9. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
- C10. You believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.
- D. Liabilities and Contingencies
- D1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
- D2. You have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
- D3. You have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.
- D4. No other claims in connection with litigation have been or are expected to be received.
- E. Subsequent Event
- E1. As described in the relevant note (Note X) to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.
- F. Other information
- F1. You acknowledge our responsibility for the preparation of the other information. The other information comprises the "Cambridgeshire Pension Fund Annual Report and Accounts 2018/2019"
- F2. You confirm that the content contained within the other information is consistent with the financial statements.



### Appendix D - Request for a Letter of Representation



- 3

#### G. Independence

G1. You confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

#### H. Derivative Financial Instruments

- H1. You confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial istatements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.
- H2. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to us.
- I Pooling investments, including the use of collective investment vehicles and shared services
- 11. You confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

#### J. Actuarial valuation

- J1. The latest report of the actuary Hymans as at 31 March 16 has been provided to you. To the best of your knowledge and belief you confirm that the information supplied by you to the actuary was true and that no significant information was omitted which may have a bearing on his report.
- K. Use of the Work of a Specialist Private Equity Investments
- K1. You agree with the findings of the specialists that you have engaged to value Private Equity Investments and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. You did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### L. Estimates - Valuation of Investments

- L1. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019.
- L2. You confirm that the significant assumptions used in making the valuation of investments appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.





# Appendix E

# Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

| Net Assets Statement category     | Audit Approach in current year  |
|-----------------------------------|---|
| Investment Assets and Liabilities | Substantively tested all relevant assertions                                |
| Long term debtors                 | Immaterial - Substantively tested assertion for presentation and disclosure |
| Debtors                           | Immaterial - Substantively tested assertion for presentation and disclosure |
| Cash in hand                      | Substantively tested all relevant assertions                                |
| Creditors                         | Immaterial - Substantively tested assertion for presentation and disclosure |

#### EY | Assurance | Tax | Transactions | Advisory

#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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