



Purbeck District Council

Report to the Audit and Risk Committee on the audit for the year ended 31 March 2019

Issued on 17 July 2019 for the meeting on 26 July 2019

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit and Governance Committee of Dorset Council (the Council) for the 2019 audit of Purbeck District Council. The scope of our audit was set out within our planning report presented to the Joint Audit Committee in February 2019.

Status of the audit

Our audit is substantially complete subject to completion of the following principal matters:

- finalisation of audit work and reviews including the unrecorded liabilities work being completed at Dorset Council, Annual Governance Statement and Pension work and response to a number of audit queries;
- completion of membership data testing at Dorset Council;
- receipt of IAS19 letter from the pension fund auditor;
- completion of internal quality assurance procedures;
- receipt of signed management representation letter; and
- our review of events since 31 March 2019 through to signing.

We will provide an oral update at the meeting.

Conclusions from our testing

We have not identified any significant audit adjustments or disclosure deficiencies. However, we have identified a number of minor unadjusted audit adjustments and disclosure deficiencies, see page 22.

Based on the current status of our audit work, we envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement.

Introduction

The key messages in this report (continued)

**Narrative Report
& Annual
Governance
Statement**

- We will review the Council's Annual Report & Annual Governance Statement and consider whether it is misleading or inconsistent with other information known to us from our audit work.
- The Annual Governance Statement will be checked for compliance with the Delivering Good Governance guidance issued by CIPFA/SOLACE.
- We will update you verbally at the Audit Committee in relation to our findings in completing this audit work.

**Duties as public
auditor**

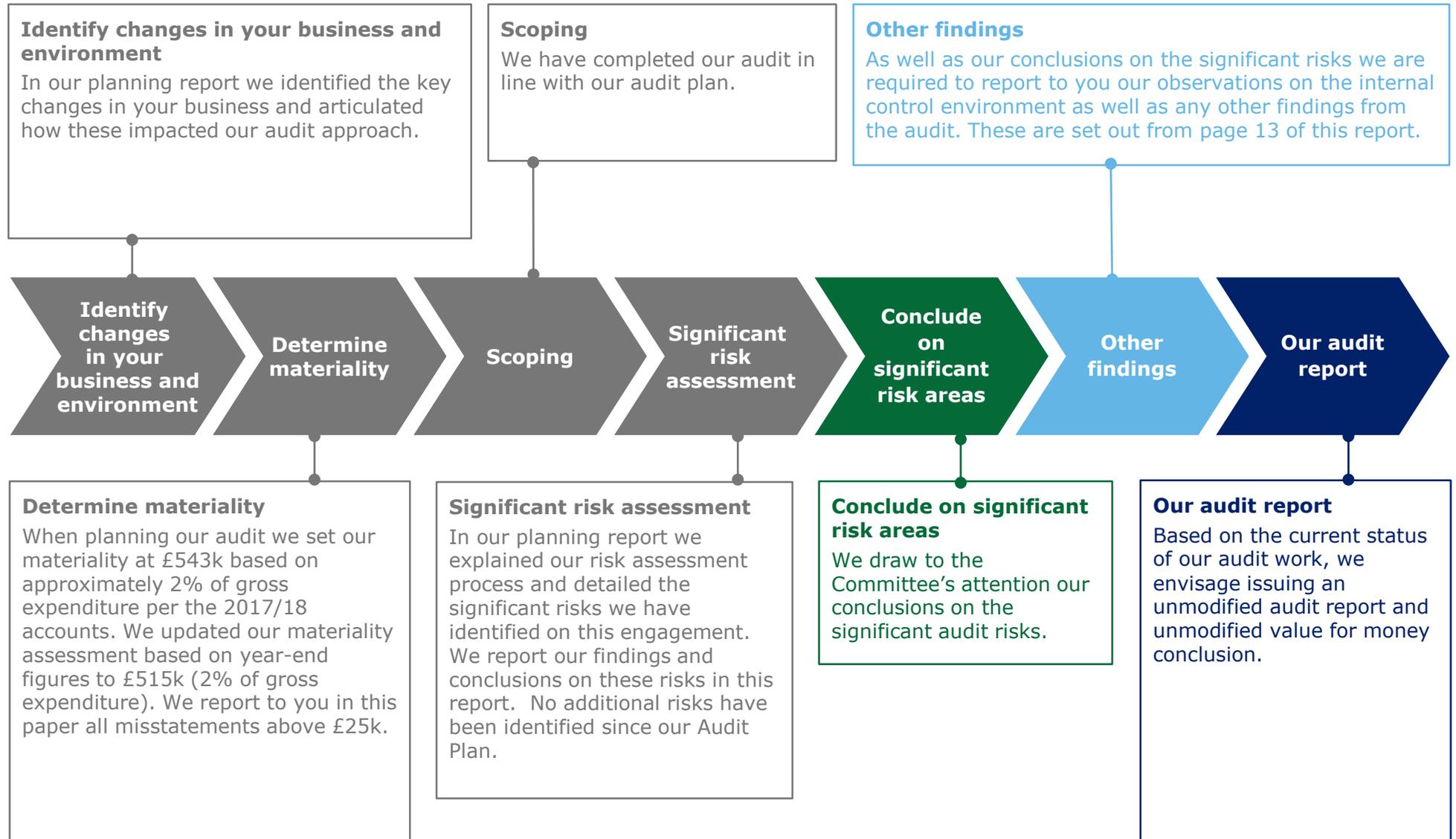
- We did not receive any queries or objections from local electors this year.
- We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.

**Whole of
Government
Accounts**

- The Council is not a sampled component for WGA reporting.
-

Our audit explained

We tailor our audit to your organisation



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Completeness of Expenditure			D+I	Satisfactory		Satisfactory	7
Management override of controls			D+I	Satisfactory		Satisfactory	8

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks

Completeness of Expenditure

Risk identified

Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness of expenditure and completeness and valuation of accruals and the completeness of provisions. We note that our audit plan identified a risk in relation to the valuation of provisions.

Given the financial pressures across the whole of the public sector, there is an inherent risk that the year-end position could be manipulated by omitting or misstating accruals and provisions.

Deloitte response

- We obtained an understanding of the design and implementation of the key controls in place in relation to recording completeness and valuation of accruals and provisions;
- We performed focused testing in relation to the completeness of expenditure including a detailed review of accruals and provisions, we are awaiting the result of our audit testing in relation to the unrecorded liabilities work we are performing at Dorset Council;
- As part of this focused testing we challenged any assumptions made in relation to year-end accruals and provisions;
- We reviewed how accurate the Council has been in calculating provisions and accruals in respect of the current year; and
- We reviewed the year-on-year movement in accruals and provisions and have investigated any significant downward movements.

Deloitte conclusion

We do not consider there to be evidence of management bias in the preparation of the financial statements in relation to the completeness and valuation of accruals and provisions.

Our work in relation to the completeness and accuracy of accruals is ongoing as we're awaiting the receipt of sampled items. To date, we have not identified any misstatements in relation to our work on the completeness of expenditure.

Significant risks (continued)

Management Override of Controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

The key judgements in the financial statements are those which we have selected to be the significant audit risks and areas of audit interest: completeness of expenditure and valuation of the Council's estate and pension liability.

These are inherently the areas in which management has the potential to use their judgement to influence the financial statements.

Deloitte response

- We tested the design and implementation of key controls in place around journal entries and management estimates;
- We risk assessed journals and selected items for detailed testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest;
- We tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting;
- We reviewed accounting estimates for biases that could result in material misstatements due to fraud, specifically in relation to material provisions;
- We reviewed the accuracy of calculating previous accruals and provisions in respect of the current year; and
- We have not become aware of any significant transactions that are outside the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Deloitte conclusion

We have not identified any significant bias in the key judgements made by management. The control environment is appropriate for the size and complexity of the Council.

We have no matters to report.

Other areas of audit interest

Property Valuations

Risk identified

- The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. There is therefore a risk that that the carrying value of assets not included in the Council's revaluation process in the current year materially differ from the year end fair value.
- The property valuation is an area of audit interest as even though the year-end valuations are material they are performed by an independent expert on assets of a unique nature, whereby the valuations should not materially change year-on-year.

Deloitte response

- We understood the key controls in place around the property valuation and how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation;
- We reviewed any revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;
- We tested a sample of revalued assets and re-performed the calculation assessing whether the movement has been recorded through the correct line of the accounts; and
- We had a discussion with our own internal valuation specialists to understand the movements in property valuations and performed our own assessment on assets not revalued in the year.

Deloitte conclusion

We have no matters to report.

Other areas of audit interest

Defined Benefit Pension Scheme

Risk identified

- The Council are part of the Local Government Pension Scheme operated by Dorset Council. The Council recognised a combined pension liability of £18,965k at 31 March 2018 which decreased to £18,566k as at 31 March 2019. The Code requires that the year end carrying value should reflect the appropriate fair value at that date.
- The Council's pension liability is affected by the McCloud legal cases in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Subsequent to year-end, the Government was denied leave to appeal the case, removing the uncertainty over recognition of a liability. This resulted in an increase to the pension liability of £448k.
- The pensions valuation is an area of audit interest due to the material values attached to the valuations and disclosures in the financial statements.

Deloitte response

- We obtained a copy of the actuarial report produced by Barnett Waddingham, the scheme actuary, and agreed in the disclosures to notes in the accounts.
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Barnett Waddingham, including benchmarking of the assumptions applied. We are in the process of finalising our testing in relation to this.
- We are currently performing testing of the membership data included in the actuaries report.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements for the year, we are awaiting the IAS19 letter from the Pension Scheme auditors.
- We have reviewed and challenged the calculation of the impact of the McCloud case on pension liabilities.
- We reviewed the disclosures within the accounts against the Code.

Deloitte view

The Council has adjusted the pension liability for the impact of the McCloud case. We have reviewed the assumptions and, on the whole, the set of assumptions is reasonable and lies towards the middle of the range of assumptions when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

We will provide an update to the committee on the outstanding areas of testing outlined in our response.

Other areas of audit interest

Local Government Reorganisation

Risk identified

Following a Local Government Reorganisation (LGR) Dorset councils are due to be formed into two Unitary Councils, with some assets and services also being devolved to Town and Parish Councils. We recognise that discussions are still ongoing with regard to the final details and arrangements which will impact management time. There is also a risk of staff leaving or taking up new jobs either before the year-end or shortly following the year-end which may impact the final audit period.

We should, however, note that the going concern assumption remains appropriate.

Deloitte response

We agreed a timetable with management to ensure the audit process is completed as soon as possible after the completion of the accounts.

We monitored the situation and did not identify any risks in relation to our ability to complete the audit of the accounts within the required timeframe of within the estimates fees previously communicated.

Deloitte conclusion

We have no matters to report.

Other areas of audit interest

Value for Money

Background

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

Deloitte risk assessment

- We have not considered the Council's medium and longer term plans in relation to Value for Money considerations as from the 1 April 2019 the Council ceases to exist. The operations, trade and assets of the Council have transferred to a newly established Council.
- Post year end the Council has merged with other local District Council and the County Council. This has been considered as part of the risk assessment in relation to VfM with no specific risk identified. However, professional scepticism has been highlighted to the audit team throughout the audit work completed.
- We reviewed the Council's draft Narrative Report, Annual Governance Statement and relevant Council papers and minutes.
- We considered the Council's financial results for the year against the budget that was set for the financial year.
- We considered matters identified by the National Audit Office as potential value for money risks for Councils for 2018/19, with no additional issues noted from those detailed above

Based upon the work performed in our risk assessment, we did not identify any significant audit risks consistent with our Planning Report.

Deloitte conclusion

No issues have been noted from the VfM testing that has been completed to date.

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information. Given that the Council has ceased to exist since 1 April 2019, we have not raised any recommendations in relation to these findings, but have included these within our report for consideration.

	Observation	Deloitte recommendation
Fixed Asset Valuations	<p>We identified that consideration had not been made in relation to assets not revalued in the year to 31 March 2019 and the impact of the change in the build cost indices to 31 March 2019. We identified that build cost movements equated to % in Purbeck and we established this would result in a £71k increase in asset values, see unadjusted misstatement recorded in Appendix 1.</p>	<p>We recommend that at each year end the Council considers properties which have not been revalued during the year and understands whether there is likely to have been any upwards movements in property values in relation to location and build cost indices.</p>
Quality of draft financial statements	<p>The initial draft financial statements which were published for public inspection and presented for audit were of a good standard: Minor issues were noted as follows:</p> <ul style="list-style-type: none">• Issues identified by our Proof Reader in relation to minor points such as punctuation and grammar• Rounding errors between the main statements and the notes.• Lines being included within the accounts which were not needed due to these disclosing a nil balance.• There was no reference in changes to accounting policies in respect of IFRS 9 & 15.	<p>We recommend the Council review the year-end reporting and close process, including:</p> <ul style="list-style-type: none">• preparation of a skeleton draft of the financial statements ahead of year-end, reviewed against the Code for any changes in the year and for the disclosure requirements for any new or changed activities of the Council• documentation and quantification of judgments in respect of materiality of disclosure requirements in preparing the accounts• documented and reviewed use of CIPFA disclosure checklists• documented and reviewed internal checks of arithmetic accuracy and internal consistency• completion of the CIPFA "pre-audit checks on draft year-end accounts" checklist• documented and reviewed internal tie back and referencing of the draft financial statements to supporting working papers

Other significant findings

Internal control and risk management – IT findings

In support of our financial statement audit for 31 March 2019, we have performed procedures to assess the design and implementation of selected general IT controls as part of our audit risk assessment procedures. Set out below are our findings:

	Observation	Deloitte recommendation
<p>Improvement opportunities to strengthen the Windows password security settings</p>	<p>The following opportunities for control improvement were identified pertaining to password security controls:</p> <ul style="list-style-type: none">- The password control for lockout duration is set to 30, which determines the length of time a user must wait before they can attempt to access the system again.- The control for password complexity is disabled and the control for password expiry is set to 2 years. <p>By setting account lockout to 30 minutes, it allows the potential intruder to perform password compromising attacks every 30 minutes. The risk is particularly high with internal threats when the attacker is guessing passwords using social engineering skills and knowledge of the users.</p> <p>By setting complexity to disabled, it allows a password to be set which does not need to include combinations of uppercase, lowercase, numeric or special characters. There is a risk that weak passwords will be set that could be easier for an attacker to compromise.</p> <p>By setting expiry to 2 years, an attacker has a prolonged period of time to attempt to attack accounts.</p>	<p>We recommend management to set the account lockout duration to 0, that will enable the account to remain locked out until an administrator manually unlocks it.</p> <p>We recommend management set the password complexity function to enabled, that will force passwords to contain three out of the below four categories:</p> <ul style="list-style-type: none">• Uppercase letter• Lowercase letter• Base 10 digits• Non-alphanumeric characters <p>This will increase the strength of the passwords.</p> <p>We recommend management set the password expiry to a value between 30 and 90 days. This way an attacker has a limited amount of time in which to compromise a user's password.</p> <p>Brute force password attacks can be automated to try thousands or even millions of password combinations for any or all user accounts. Limiting the number of failed sign-ins that can be performed will also help with elimination of the effectiveness of such attacks.</p>

Other significant findings

Internal control and risk management – IT findings (continued)

Observation

The following opportunity for control improvement was identified pertaining to disaster recovery testing:

- Disaster recovery action cards are in place and a paper based disaster recovery exercise has been undertaken, however there has been no formalised disaster recovery test performed in the audit period, covering the core financial and operational systems.

Disaster Recovery testing not performed in the financial period

Deloitte recommendation

By not regularly testing IT disaster recovery procedures including associated business continuity plans, this prevents the business from being confident that core systems could be effectively recovered, within an appropriate timeframe, following an unplanned business interruption. Furthermore, it limits the assurance that manual, paper based processes can operate effectively whilst core IT systems are being recovered.

We recommend that disaster recovery tests should be conducted on a regular basis to ensure the plan works and to meet the organisation's recovery point objective (RPO) and recovery time objective (RTO) requirements. Testing procedures should integrate DRP testing results into planned maintenance and staff training programs.

Other significant findings

Internal control and risk management – IT findings (continued)

	Observation	Deloitte recommendation
Business users having administrative accesses in the applications	Whilst Active Directory access provisioning controls are managed through the IT team, within the business certain end users are holding account administrator roles and have elevated access on the financial applications such as Business World, MasterGov and Tescomi to manage access right provisioning tasks for starters, leavers and movers.	Business users having access to administrative privileges in the system constitutes a segregation of duties conflict and may lead to manual controls being overridden without detection. We recommend management identifies business users with administration privileges in the application and removes these. We further recommend an additional check to ensure the related inappropriate access was not exploited during the period it was held.

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

No issues have been identified.

Other matters relevant to financial reporting:

There are no other matters required to be raised.

Significant matters discussed with management:

There have been no significant matters arising from the audit.

We will obtain written representations from those charged with governance on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

Our audit report

Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the financial statements

Our opinion on the financial statements is expected to be unmodified.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph. There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Our value for money conclusion

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). Our conclusion on the Council's arrangements is unmodified.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.

Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement..

	Requirement	Deloitte response
Narrative Report	<p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none"> - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation. 	<p>We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance.</p> <p>We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>Our review identified the report was fair, balanced and understandable, minor amendments were suggested and updated.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No issues were noted from our review, however, we are awaiting receipt of the Local Code of Corporate Governance to assess its appropriateness.</p>

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit and Governance Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit and Governance Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.

Michelle Hopton
for and on behalf of Deloitte LLP
Bristol
18 July 2019

Appendices



Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Uncorrected misstatements decrease the surplus on the CIES by £9k, (decrease) net assets by £62k, and (decrease) usable reserves by £71k.

	Debit/ (credit) CIES £k	Debit/ (credit) in net assets £k	Debit/ (credit) prior year reserves £k	Memo: Debit/ (credit) usable reserves £k	If applicable, control deficiency identified
Misstatements identified in current year					
Property Revaluations	(1)	71	-	(71)	Y
External audit fee accrual – Housing benefit	(2)	9	(9)	-	N
Total		9	62	-	(71)

- 1) We identified that there have been significant movements in build costs and location factors which would have an impact on the valuation of properties which are valued on a DRC (depreciated replacement cost) basis e.g. specialised properties such as community centres. Due to a number of properties which are valued on a DRC basis not being revalued during 2018/19, these movements had not been taken account of in the asset values as at 31 March 2019. Based on this we estimated an understatement of property values by approximately £71k which is not material.
- 2) External audit fee for Housing Benefit grant work has not been accrued for to 31 March 2019. Whilst an estimate of the audit fee was not provided at the time of the audit, it would be prudent to accrue for a fee in relation to this statutory audit work which must be completed in relation to 2018/19. The £9k adjustment is the fee which was incurred in 2017.18 and therefore presents a reasonable accrual basis for the current year.

Audit adjustments

Disclosures

Disclosure recommendations

Although the omission of the following disclosures does not materially impact the financial statements, we are drawing the omitted disclosures to your attention because we believe it would improve the financial statements to include them or because you could be subject to challenge from regulators or other stakeholders as to why they were not included.

Findings

We identified a number of rounding errors between the main statements and the notes to the accounts, all of which are immaterial. We also identified that Accounting Standards that have been issued but have not been Adopted note does not include IFRS 16. In addition, we identified that the accounts do not include the ageing of debtors which is a CIPFA requirement.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the Council .

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified completeness of expenditure and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance and have not identified any further risks relating to fraud

Concerns:

No concerns to raise.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	<p>The audit fee for 2018/19, in line with the fee range provided by PSAA, is £30,909.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p>
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members 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 our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>



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