



Broads Authority

Auditor's Annual Report Year ended 31 March 2021

27 October 2021



EY

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Risk Committee and management of Broads Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Risk Committee and management of Broads Authority those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Risk Committee and management of Broads Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

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

Section 1

Executive Summary



Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Authority's:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our Audit Report on 30 September 2021.
Going concern	We have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statements	Financial information in the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Authority's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Authority.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Authority communicating significant findings resulting from our audit.	We issued our Audit Results Report on the 10 September 2021 to the Audit and Risk Committee.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.

Fees

We carried out our audit of the Authority's financial statements in line with the "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA. As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to accounting for Going Concern, the valuation of property, plant and equipment and the new NAO Code for VFM. As a result, we will agree an associated additional fee with the Chief Finance Officer. We include details of the audit fees in Appendix 1.

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

Mark Hodgson
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities



Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Authority or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on the 23 June 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Authority;
- If we identify a significant weakness in the Authority's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Authority

The Authority is responsible for preparing and publishing its financial statements, annual report and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit



Financial Statement Audit

We have issued an unqualified audit opinion on the Authority's 2020/21 financial statements.

Key issues

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

On 30 September 2021, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Audit & Risk Committee on the 21 September 2021. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls An ever present risk that management is in a unique position to commit 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.	<p>We have not identified any material weakness in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied, or of any management bias in accounting estimates.</p> <p>We have not identified any inappropriate journal entries or other adjustments to the financial statements.</p>
Inappropriate capitalisation of expenditure Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.	<p>Our sample testing of additions to Property, Plant and Equipment found that they had been correctly classified as capital and included at the correct value.</p> <p>Our sample testing did not identify any revenue items that were incorrectly classified.</p> <p>Our data analytics procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.</p>

Continued over.

Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus and inherent risk.

Other area of audit focus	Conclusion
Valuation of Property, Plant and Equipment The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Authority's accounts. These balances are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet.	We have concluded our work in this area and have identified the following issues: <ul style="list-style-type: none">• The Authority had not updated the valuation of a Boathouse asset, this asset was therefore understated within the accounts by £0.043 million.• The valuer had not provided the latest valuation for one mooring site, this asset had therefore been overstated within the accounts by £0.014 million• Valuation movements had been incorrectly split between the Comprehensive Income & Expenditure Statement and the Revaluation Reserve. The Revaluation Reserve was therefore understated by £0.027 million. Management have updated the financial statements in relation to these matters.
Pension valuations and Disclosures The Authority's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Authority's Balance Sheet. Accounting for this scheme involves significant estimation and judgement. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the administering body. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We were informed by the Pension Fund auditor that Investment Valuations within the Pension Fund were understated. On receipt of an updated Actuarial (IAS 19) report from the Actuary, we determined that the Authority's Pension Fund Liability was overstated by £0.301 million. Management have adjusted for this audit difference. The disclosures in the accounts have been amended to reflect the most recent valuation of the Pension Fund's assets as per the updated IAS 19 report from the actuaries.

Continued over.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p>Recoverability of Debtors</p> <p>As a result of the impact of Covid-19, there may be increased uncertainty around the recoverability of receivables. The provision for these bad debts is an estimate, and calculation requires management judgement. We would expect the Authority to revisit their provision for bad debt calculation in light of Covid-19 and assess the appropriateness of this estimation technique.</p> <p>Given that there might be some subjectivity to the recoverability of debtors the Authority will need to consider the level of any provision for bad debts. We have therefore raised as an inherent risk in our audit strategy.</p>	<p>Our sample testing of debtors did not identify any balances that were deemed irrecoverable.</p> <p>Our assessment of the Authority's conclusion that no bad debt provision was required did not identify any issues.</p>
<p>Going concern disclosures</p> <p>The Authority is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Authority's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period</p>	<p>We did not identify any events or conditions in the course of our audit that may cast significant doubt on the entity's ability to continue as going concern.</p> <p>Management have used the basis of their assessment to produce the disclosures included within the draft financial statements.</p> <p>We are satisfied that the revised disclosure note appropriately sets out the circumstances surrounding the financial implications prevalent at the date of authorisation of the financial statements.</p>

Financial Statement Audit (continued)

Audit differences

Management have corrected misstatements amounting to £0.301 million in relation to an increase in the return on the Pension Fund's assets, as a result of a requesting a revised IAS 19 report from the Pension Fund Actuary. This is a result of a timing difference reported through the audit of Norfolk Pension Fund.

We identified a small number of misstatements in disclosures which management corrected.

One audit difference was identified in our debtors sample testing, relating to the valuation of grant funding from the Heritage Lottery Fund, which management have not corrected on the grounds of materiality. The receivable was overstated by £0.012 million.

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £0.168 million as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.
Reporting threshold	We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.008 million.

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

- ▶ Remuneration disclosures: We audited all disclosures and undertook procedures to confirm material completeness
- ▶ Related party transactions. We audited all disclosures and undertook procedures to confirm material completeness

A photograph of two business professionals in a cafe setting. A man in a dark suit and tie is seated at a dark table, looking down at a document and writing with a pen. A woman, partially visible on the left, is using a laptop. A smartphone lies on the table next to the document. The background shows a blurred cafe interior with arched windows and other patrons.

Section 4

Value for Money

Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Authority's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 21 September Audit and Risk Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Authority and committee reports, meetings with the Chief Financial Officer and evaluation of associated documentation through our regular engagement with management. We reported that we had not identified any risks of significant weaknesses in the Authority's VFM arrangements for 2020/21.

We had no matters to report by exception in the audit report.

Reporting

We completed our planned VFM arrangements work in September 2021 and did not identify any significant weaknesses in the Authority's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our VFM commentary highlights relevant issues for the Authority and the wider public.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Financial sustainability
How the Authority plans and manages its resources to ensure it can continue to deliver its services;
 - Governance
How the Authority ensures that it makes informed decisions and properly manages its risks; and
 - Improving economy, efficiency and effectiveness:
How the Authority uses information about its costs and performance to improve the way it manages and delivers its services.
-

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Authority has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

1. How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Authority produces an annual budget and an update to the financial strategy at the start of each financial year. Significant financial pressures to the Authority, based on the nature of income and expenditure, are salary increases and the number of boats within the system that will require a toll. The Authority include an element of prudence within the estimates in the annual budget setting for salary increases, and monitors boat numbers through discussion with boat yards and review of annual toll payments.

2. How the body plans to bridge its funding gaps and identifies achievable savings

Funding gaps are considered as part of the budget setting process. In the short term, funding gaps are balanced through the use of reserves whilst savings plans and further external funding opportunities are investigated. A review of the reserve policy is due to take place during 2021/22 to ensure that minimum levels are adequate to manage future uncertainty. The medium term financial plan does include ongoing receipt of DEFRA grant income at a flat rate, which is still subject to some uncertainty whilst the outcome of a new settlement is awaited.

The Authority has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

3. How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The budget is monitored with respect to minimum levels of reserves as set by the Chief Finance Officer, which is based on net expenditure totals. This ensures that delivery of services can be maintained into the future. The annual budget is produced on a zero base to ensure it is line with strategic priorities, assuming no rollover of previous budgets. Spending is split between essential and desirable expenditure in line with key priorities of the Authority.

4. How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Authority has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Workforce planning is considered by the Directors as part of the budget setting process. Capital expenditure is funded via revenue or the earmarked reserves in line with capital planning. This is considered at the same time as looking at the forecast future year replacements to consider the adequacy of earmarked reserves levels and contributions. The financial plan is taken to the Broads Authority at the same time as a strategic direction update which sets priorities for the financial year.

5. How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

Income and expenditure is monitored on a monthly basis with budget holders providing updates on any variances. Tolls income is carefully monitored against profile so that drops in demand, such as that experienced during the start of the Covid-19 pandemic and national lockdown arrangements, can be quickly identified and expenditure plans can be reprioritised. Financial position updates are taken to the Audit and Risk Committee which provides members with the latest financial information to inform decision making.

Governance

1. How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Risks are monitored on a six monthly basis through the corporate and directorate registers. New areas of work are reported to Committee with risk being identified as part of the report. Internal Audit's plan is carried out through a risk based approach to help determine which service areas should be reviewed. Key controls and corporate governance are always reviewed annually, with IT audits on specific areas every 2 years in line, with the Internal Audit strategy. The Head of Internal Audit provides an annual opinion on the effectiveness of controls and if any areas require improvement. For 2020/21, a 'reasonable assurance' opinion was issued by Internal Audit.

2. How the body approaches and carries out its annual budget setting process

The Authority produces an annual budget alongside an update to the financial strategy at the start of each financial year. The budget is produced by the Chief Finance Officer based on information from relevant budget holders, and taken to the full Authority meeting for approval.

3. How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.

Monthly monitoring of income and expenditure is performed, with explanations for variances obtained from relevant budget holders. These are followed up at monthly meetings with the Chief Finance Officer to ensure corrective action has been taken where required, or where savings can be re-distributed elsewhere within the Authority to relieve financial pressures. Budget monitoring is lead through the finance system, and Internal Audit include Budgetary Control within their scope of work for the year.

4. How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

Decisions are made in line with the delegated powers, budgetary provision, strategic priorities and the wider Broads Plan. Decisions made by the membership are supported by Committee reports and openly debated at Committee. Planning delegated decisions are published and expenditure is disclosed for transparency regulations. Audit and Risk Committee terms and reference are guided by CIPFA's guidelines. All members are provided annual training in relation to their responsibilities with the Statement of Accounts.

The Authority has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

5. How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The 'Code of Conduct for Employees' and the 'Code of Conduct for Members and Complaints Procedure' sets out regulatory requirements and behaviour expectations. This also provides guidance on accepting gifts and hospitality. There are terms of reference for each Committee setting out responsibilities. Members interests are recorded and maintained within a formal register and any conflicts of interest must be declared at the start of each meeting so that the member does not participate in decision making for any item for which they have a conflict of interest. The Monitoring Officer is available to provide advice to members on meeting the appropriate requirements

Improving economy, efficiency and effectiveness

1. How financial and performance information has been used to assess performance to identify areas for improvement.

Financial outturn is compared against budget to identify areas of improvement and potential saving or service improvement. Directors are responsible for raising improvement areas where they are then investigated and discussed with the Chief Finance Officer. The Narrative Report sets out the review of performance for the year.

2. How the body evaluates the services it provides to assess performance and identify areas for improvement

The 'Broads Plan' is the overarching management plan for the Broads executive area as a whole, produced by the Broads Authority as a partnership plan. Strategic priorities are aligned to the plan and this is reinforced through the Business Plan. The strategies developed reinforce the day to day delivery and these are reviewed on a regular basis by the Board and improvements identified.

3. How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Authority maintains a partnership register which is reviewed annually to ensure it remains appropriate and up to date. The most significant partnerships are those in respect of external funding where partnership agreements are in place. Performance for these agreements is assessed against agreed expectations and modified where required.

The Authority has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Improving economy, efficiency and effectiveness (continued)

4. How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

The Authority has 'Financial Regulations', 'Standing Orders Relating to Contracts' and a 'Procurement Strategy' that follow the relevant legislation and are updated regularly. All tenders are reviewed by the Chief Finance Officer to ensure the procurement meets the required standard. Contract templates build in monitoring throughout the contract against key performance indicators to ensure the contract is delivering as expected.

The Authority has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Recommendations

Recommendations

As a result of the VFM procedures we have not made any recommendations.

The Authority faces further challenge and change beyond 2021 which will form part of our 2021/22 VFM arrangements work.

Forward look

Looking forward to 2021 and beyond, the Authority continues to face significant financial pressures over the medium term, which we would expect to see continually updated and reflected within the Medium Term Financial Plan.

A blurred background image of a business meeting. Several people in professional attire are gathered around a wooden conference table. A woman with blonde hair is in the foreground, looking intently at a document on the table. Other people's hands and arms are visible, some resting on the table. The scene is brightly lit, suggesting an indoor office environment with large windows in the background.

Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

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

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

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 20/21 is yet to be issued. We will liaise with the Authority to complete this work as required.

Report in the Public Interest

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

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

Other powers and duties

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

Inspection Period

Under the Accounts and Audit Regulations (2015 as amended), the Authority are required to publish the notice for the inspection period, alongside the publication of the draft financial statements, with the inspection period commencing the day after the publication date. The Authority did not meet this requirement. The Authority published the draft financial statements on the 17 June 2021. The Authority commenced the inspection period from 12 July 2021.

Recommendation: *We therefore recommend that the Accounts and Audit Regulations are understood and fully complied with in future accounting periods.*

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

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

Appendix A

Audit Fees



Audit Fees

Our fee for 2020/21 is in line with the audit fee reported in our Audit Results Report presented to the Audit & Risk Committee on 21 September 2021.

Description	Final Fee 2020/21 £'s	Scale Fee 2020/21 £'s	Final Fee 2019/20 £'s
Initial Scale Fee – Code work	10,736	10,736	10,736
Fee Variation	TBC (Note 2)	-	12,802 (Note 1)
Revised Scale Fee	TBC	10,736	23,538

Note 1 – PSAA Ltd determined the Fee Variation on 22 October 2021.

Note 2 – For 2020/21, we have re-assessed the scale fee again to take into account the same recurring risk factors as in 2019/20, which includes procedures performed to address the risk profile of the Authority and additional work to address increase in Regulatory standards and the financial reporting impact of Covid-19, as we set out in our Audit Results Report. The additional fee for 2020/21 is yet to be fully discussed with management and thus remains subject to determination by PSAA Ltd.

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

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