

**AGENDA ITEM NO. 5**

**CORPORATE GOVERNANCE COMMITTEE**

**Date**            **25 SEPTEMBER 2012**

**Title**            **APPOINTED AUDITOR – ANNUAL GOVERNANCE REPORT (ISA 260)**

**1. PURPOSE/SUMMARY**

To consider the Annual Governance Report (ISA 260) from the Council’s appointed independent external auditor – PricewaterhouseCoopers (PwC)

**2. KEY ISSUES**

To receive a presentation from PwC regarding their Annual Governance Report arising from their duties under International Auditing Standard 260, following the completion of their audit of the Council's Statement of Accounts 2011/12.

**3. RECOMMENDATION**

It is recommended that members note the content of the report.

|  |  |
|--|--|
| <b>Wards Affected</b>                                | All  |
| <b>Forward Plan Reference No.</b><br>(if applicable) | N/A  |
| <b>Portfolio Holder(s)</b>                           | Councillor Alan Melton, Leader and Portfolio Holder, Policy and Resources<br>Cllr John Clark, Portfolio Holder, Quality Organisation |
| <b>Report Originator</b>                             | Rob Bridge, Corporate Director and Chief Finance Officer<br>Mark Saunders, Chief Accountant  |
| <b>Contact Officer(s)</b>                            | Rob Bridge, Corporate Director and Chief Finance Officer<br>Mark Saunders, Chief Accountant  |
| <b>Background Paper(s)</b>                           | Attached   |

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*Government and Public Sector*  
***Fenland District  
Council***

Report to those charged with  
governance (ISA 260 (UK&I))

September 2012

2011/12 Audit





Corporate Governance Committee  
Fenland District Council  
Fenland Hall  
County Road  
March  
Cambridgeshire PE15 8NQ

September 2012

Dear Sirs

We are pleased to enclose our report to the Corporate Governance Committee in respect of our audit of Fenland District Council (“the Council”) for the year ended 31 March 2012, the primary purpose of which is to communicate the significant findings arising from our audit.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Corporate Governance Committee in January 2012. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements by the deadline of 28 September 2012. At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised, are detailed on page 4 of this report. We will provide an oral update on these matters at the meeting on 25 September 2012.

We look forward to discussing our report with you on 25 September 2012. Attending the meeting from PwC will be Ciaran McLaughlin and Claire Hilliard.

Yours faithfully

PricewaterhouseCoopers LLP

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## ***Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies***

*In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*



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# *Executive summary*

## The purpose of this report

Under the Auditing Practices Board’s International Auditing Standard (UK and Ireland) 260 (ISA (UK&I) 260) - “Communication of audit matters with those charged with governance” we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the accounts of Fenland District Council (‘the Council’). As agreed with you, we consider that “those charged with governance”, at the Council, is the Corporate Governance Committee.

This letter contains the significant matters we wish to report to you arising from all aspects of our audit programme of work in accordance with ISA (UK&I) 260.

Our audit work during the year was performed in accordance with the plan that we presented to you in January 2012. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

We would like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Council throughout our audit process. It has been a pleasure to work with the team and we have been very grateful for the cooperation we have received, the quality of the working papers and timeliness of provision of information.

Details of audit and accounting matters identified during the course of our work have been set out on page 4 of this report.

Please note that a copy of this report will be sent to the Audit Commission in accordance with the requirements of their Standing Guidance.

# Audit approach

Our audit scope and approach was set out in our 2011/12 Audit Plan. We have set out below the significant audit risks identified within the Audit Plan together with our comments on the results of the work performed.

| Risk and areas of focus | Audit findings |
|-------------------------|----------------|
|-------------------------|----------------|

## Income and expenditure recognition

We consider the risk of material misstatement in relation to revenue recognition and because of the nature of local authorities we consider the risk of material misstatement in relation to expenditure recognition as well.

There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported income and expenditure position.

Due to their nature, we do not consider the receipt of council tax, national non domestic rates or revenue support grant to be a significant risk and these income streams are therefore excluded from this category.

The Council is likely to be experiencing increased pressures on many of its budgets as a result of the recent economic conditions. Budget holders may feel under pressure to try to push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes.

We performed cut-off tests to ensure that the income and expenditure has been recorded in the correct period and tested a sample of revenue and expenditure items.

We examined grant claims to verify that grants and contributions had been accounted for correctly with reference to any specified conditions/restrictions.

We have also had specific regard to areas of judgement and estimation in the accounts and tested a sample of journals raised throughout the year.

We have carried out audit procedures to identify unrecorded liabilities to ensure that expenditure is not materially misstated.

We are pleased to report that our testing has not identified any issues to bring to your attention.

## Fraud and management override of controls

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of the organisations policies, aims and objectives and to manage the risks facing it; this includes the risk of fraud.

Our audit is designed to provide reasonable assurance that the 2011/12 Accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.

In addition to the testing above which also gives us assurance over the risk of management override of controls we sample tested material balances and transactions within the accounts for completeness.

We obtained a breakdown of the transactions from the general ledger and using our IT auditors confirmed the completeness of the listing. We then risk assessed all journal entries and from that identified a sample of journals to be tested to ensure that they were appropriate.

We have considered material judgements by management contained within the financial statements, such as the valuation of property plant and equipment and accruals to ensure that they



We consider the manipulation of financial results through the use of journals and management estimates, such accruals as significant fraud risks.

have been made in accordance with the local government accounting code of practice and the accounting policies of the Authority.

As above, our testing has not identified any issues to bring to your attention.

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### **Upgrade of accounting system**

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The Council is currently upgrading its Agresso accounting system to ensure that it continues to meet its needs.

We engaged our Risk Assurance specialists to undertake a programme of work to understand and evaluate the controls in place around the migration and the changes in the IT environment and to test the migration of data to ensure completeness and accuracy of transferred data.

The implementation of an upgraded general ledger system necessitates additional audit effort to enable us to obtain sufficient assurance that the processes and controls have been effectively established and that we are able to rely on the information produced by the system.

No issues were noted in relation to the transfer of data during the Agresso upgrade.

There is a risk that data migration will not be accurate or complete and that the system controls in place will not be adequate.

The additional fee incurred by the Council in relation to this work was £1,687.50. It should be noted that the original estimated fee for this work was £10,000 and that the time and effort spent by the Council on ensuring that this upgrade was undertaken thoroughly resulted in our review taking less time than originally anticipated, and the Council therefore incurred less cost than was originally quoted.

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# ***Audit and accounting matters***

ISA (UK&I) 260 requires us to communicate to you relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action.

We have set out above, our audit approach to address significant risk areas and no significant issues have been identified.

## ***Accounts***

We have completed our audit, subject to the following outstanding matters:

- Borrowings – awaiting hard copy of £3,300k LOBO confirmation
- Review of IA work – minor review comments to be addressed
- Income – review comments to be addressed
- Contingent assets and liabilities
- Review of explanatory foreword
- Approval of the financial statements and letter of representation
- Completion procedures, including internal review and subsequent events review

Subject to the satisfactory resolution of these matters, the finalisation of the financial statements and their approval by those charged with governance we expect to issue an unqualified audit opinion.

As part of our work on the Statement of Accounts we have also examined the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and anticipate issuing an opinion stating in our view they are consistent with the Statement of Accounts.

## ***Accounting issues***

We have not identified any significant accounting issues but would like to bring the following to your attention:

### ***Capital accounting for playground equipment***

The Council has changed its accounting practice in respect of play areas developed using Section 106 (s.106) agreement money. In previous years the Council did not recognise the assets created, nor has it capitalised expenditure and revenue in relation to them. In 2011/12 the Council concluded that the play areas do meet the capitalisation criteria as they are effectively enhancing the economic value of a Council owned asset and the Council is responsible for the risks and rewards of ownership as it is has to pay for any future upkeep and maintenance in regards to the assets. We are satisfied that this treatment is appropriate.

The Council had originally accounted for the effect of the change in accounting methodology as a prior period adjustment and had restated the prior year figures. However, we have recommended that this change in accounting policy is processed through 2011/12 as the change is not material and does not warrant a prior period adjustment. This has been now been processed in 2011/12 and we are satisfied with the accounting treatment now adopted.

## ***Misstatements and significant audit adjustments***

We are required to report to you all uncorrected misstatements which we have identified during the course of our audit, other than those of a trivial nature. We have identified no such misstatements during the course of our audit.

### ***Significant accounting principles and policies***

Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask the Corporate Governance Committee to represent to us that they have considered the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements.

### ***Judgments and accounting estimates***

The following significant judgments or accounting estimates were used in the preparation of the financial statements:

- Depreciation in relation to property, plant and equipment;
- The valuation of assets and liabilities in relation to the Local Government Pension Scheme (LGPS); and
- The valuation of property, plant and equipment.

No issues have been identified in these areas.

### ***Management representations***

The final draft of the representation letter that we are requesting management and those charged with governance to sign is attached in Appendix 2.

### ***Financial standing***

No issues in relation to financial standing have arisen from the 2011/12 audit.

### ***Related parties***

No issues in relation to related parties have arisen from the 2011/12 audit.

### ***Audit independence***

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “*Communication with those charged with governance*”, UK Ethical Standard 1 (Revised) “*Integrity, objectivity and independence*” and UK Ethical Standard 5 (Revised) “*Non-audit services provided to audited entities*” issued by the UK Auditing Practices Board. Together these require that we communicate at least annually with you regarding all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Company, its directors and senior management and its affiliates (“the Group”) that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this letter we have made enquiries of all PricewaterhouseCoopers’ teams whose work we intend to use when forming our opinion on the truth and fairness of the financial statements.

### ***Relationships between PwC and the Group***

We are not aware of any relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

### ***Relationships and Investments***

We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals.

### ***Employment of PricewaterhouseCoopers staff by the Group***

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management position covering financial, accounting or control related areas.

### ***Business relationships***

We have not identified any business relationships between PwC and the Group.

### ***Services provided to the Group***

The audit of the financial statements is undertaken in accordance with the UK Firm's internal policies. The audit engagement is subject to an independent partner review of all significant judgements taken, including our reporting to the Audit Committee and a review of the annual report. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

### ***Fees***

The analysis of our audit fees for the year ended 31 March 2012 is included on page 10. No non-audit services were provided.

### ***Services to Directors and Senior Management***

PwC does not provide any services e.g. personal tax services, directly to directors, senior management

### ***Gifts and hospitality***

We have not identified any significant gifts or hospitality provided to, or received from, a Member of the Council, senior management or staff.

### ***Conclusion***

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Corporate Governance Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

### ***Accounting systems and systems of internal control***

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement.

We will report any internal control issues identified in a separate letter to management. No issues of significance have been noted.

### ***Annual Governance Statement***

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: 'Delivering Good Governance in Local Government'. The AGS was included in the financial statements.

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We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE ‘Delivering Good Governance in Local Government’ framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

### ***Economy, efficiency and effectiveness***

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with guidance issued by the Audit Commission, in 2011/12 our conclusion is based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

As in 2010/11, we have determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. This programme of work consisted of considering the Council’s arrangements for the production of its 2012/13 budget, consideration of the findings from inspection reports and the Council’s performance management reporting to Members.

We anticipate issuing an unqualified value for money conclusion.

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## ***Risk of fraud***

We discussed with the Corporate Governance Committee their understanding of the risk of fraud and corruption and any instances thereof when presenting our Audit Plan.

In presenting this report to the Corporate Governance Committee we seek members' confirmation that there have been no changes to their view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

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# ***Fees update***

## **Fees update for 2011/12**

We reported our fee proposals as part of the Audit Plan for 2011/12.

The Audit Commission provided audit fee levels for local government bodies for the 2011/12 financial year, based on the fee for 2010/11 adjusted for the reductions set out in the final work programmes and scales of fees documents available on the Commission's website. The fee scale for the audit of the Council is £107,801.

In addition to the £107,801 fee, we charged the Council £1,687.50 for the work that our Risk Assurance specialists carried out around the Agresso upgrade. The original estimated fee for this work was £10,000 and that the time and effort spent by the Council on ensuring that this upgrade was undertaken thoroughly resulted in our review taking less time than originally anticipated, and the Council therefore incurred less cost than was originally quoted.

# *Appendices*



# Letter of representation

***To be prepared on the Council's letterhead and to be dated on the same date that the accounts are approved and signed by the Council.***

PricewaterhouseCoopers LLP  
7 More London Riverside  
London  
SE1 2RT

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of Fenland District Council (the "Council") for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the Statement of Accounts gives a true and fair view, and has been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12.

My responsibilities as Corporate Director and Chief Finance Officer for preparing the financial statements are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the Council. I also acknowledge that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of Fenland District Council with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

## ***Financial Statements***

- I have fulfilled my responsibilities, for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2011/12; in particular the financial statements give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- Significant assumptions used by the Council in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the financial statements for which the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2011/12 requires adjustment or disclosure have been adjusted or disclosed.
- There are no uncorrected misstatements.

### ***Information Provided***

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you (the Council's auditors) are aware of that information.
- I have provided you with:
  - Access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters, including minutes of Council and relevant management meetings;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

### ***Fraud and non-compliance with laws and regulations***

- I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- I 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.
- I have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- I have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.
- I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Council conducts its business and which are central to the Council's ability to conduct its business or that could have a material effect on the financial statements.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the financial statements.

### ***Related party transactions***

I confirm that we have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2011/12.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

### ***Employee Benefits***

I confirm that the Council has made you aware of all employee benefit schemes in which employees of the Council participate.

### ***Contractual arrangements/agreements***

All contractual arrangements (including side-letters to agreements) entered into by the Council have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you

### ***Litigation and claims***

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2011/12.

### ***Taxation***

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Council queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the Council's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the Council or any associated company for whose taxation liabilities the Council may be responsible.

### **Bank accounts**

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

### **Property, plant and equipment**

I have considered the conclusions of Norfolk Property Services, engaged as experts to assist in the valuation of properties, and based on these and review of other relevant information confirm that the values attributed to Property, Plant and Equipment in the financial statements reflect their fair values as at the balance sheet date. We have no plans or intentions that would materially affect the values of these assets.

### **Use of experts**

I agree with the findings of Hymans Robertson LLP and Norfolk Property Services experts in evaluating the pensions liability and property values and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The Council did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

**Provisions**

- Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the financial statements and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the Council’s business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.
- Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the financial statements.

**Litigation**

I am not aware of any pending or threatened litigation, proceedings, hearing or claims negotiations which may result in significant loss to Council.

**Subsequent events**

Other than as described in the financial statements, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the financial statements or in the notes thereto.

As minuted by the Corporate Governance Committee at its meeting on 25 September 2012.

.....  
Corporate Director and Chief Finance Officer  
For and on behalf of Fenland District Council

Date .....



*In the event that, pursuant to a request which Fenland District Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Fenland District Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Fenland District Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Fenland District Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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