
Government and Public Sector

***Eastern Shires
Purchasing
Organisation***

Report to those charged with
governance (ISA 260 (UK&I)) and
Annual Audit Letter

September 2012

2011/12 Audit - DRAFT



Members of the Management Committee
Eastern Shires Purchasing Organisation
Barnsdale Way
Grove Park
Enderby
Leicester
LE19 1ES

September 2012

Ladies and Gentlemen

ESPO – Audit report on accounts to 31 March 2012

We are pleased to present the audit report for the year which tells you about the significant findings from the audit.

Our planned work, as discussed and agreed with you in March, is mostly complete, and we expect to issue an unqualified audit opinion on the financial statements, after you approve them on 27 September. Only the following are outstanding at the time of writing:

- our review of the final version of the financial statements with all of the agreed changes having been made;
- receipt of all relevant signed statements and the management representation letter; and

Tom Gibbs and I look forward to discussing our report with you on 27 September.

Yours faithfully

Richard Bacon

Partner and Engagement Leader

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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 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.

Executive summary

The purpose of this report

This report tells you about the significant findings from our audit, which followed the plan we agreed with you in March.

The scorecard below summarises our view of your accounts and audit performance.

Key



Red – significant improvements required



Amber – some improvements required



Green – no or some minor improvements required

Comments

Quality of accounts and working papers.
Readiness for start of audit and availability and responsiveness of staff.



You prepared your accounts on a timely basis with a first draft of the accounts available well in advance of the start of the audit. Working papers were available for audit on time and key staffs were available so that we could make a prompt and efficient start to our work on the first day we arrived. Working papers were of a good standard.

Our audit identified no significant issues with respect to the quality of the draft accounts presented for audit, though some minor adjustments to the accounts were requested and agreed. The number of disclosure issues identified was low compared to the previous year.

We anticipate issuing an unqualified audit opinion once the Management Committee have approved the financial statements.

Significant audit and accounting issues.



We did not identify any significant audit and accounting issues during the audit.

Deficiencies in internal control systems.



We are pleased to note that we did not identify any material weaknesses in the accounting and internal control systems during our audit. Three minor controls issues were noted, these are included within the Appendices to this report.

Use of Resources/Value for Money conclusion.



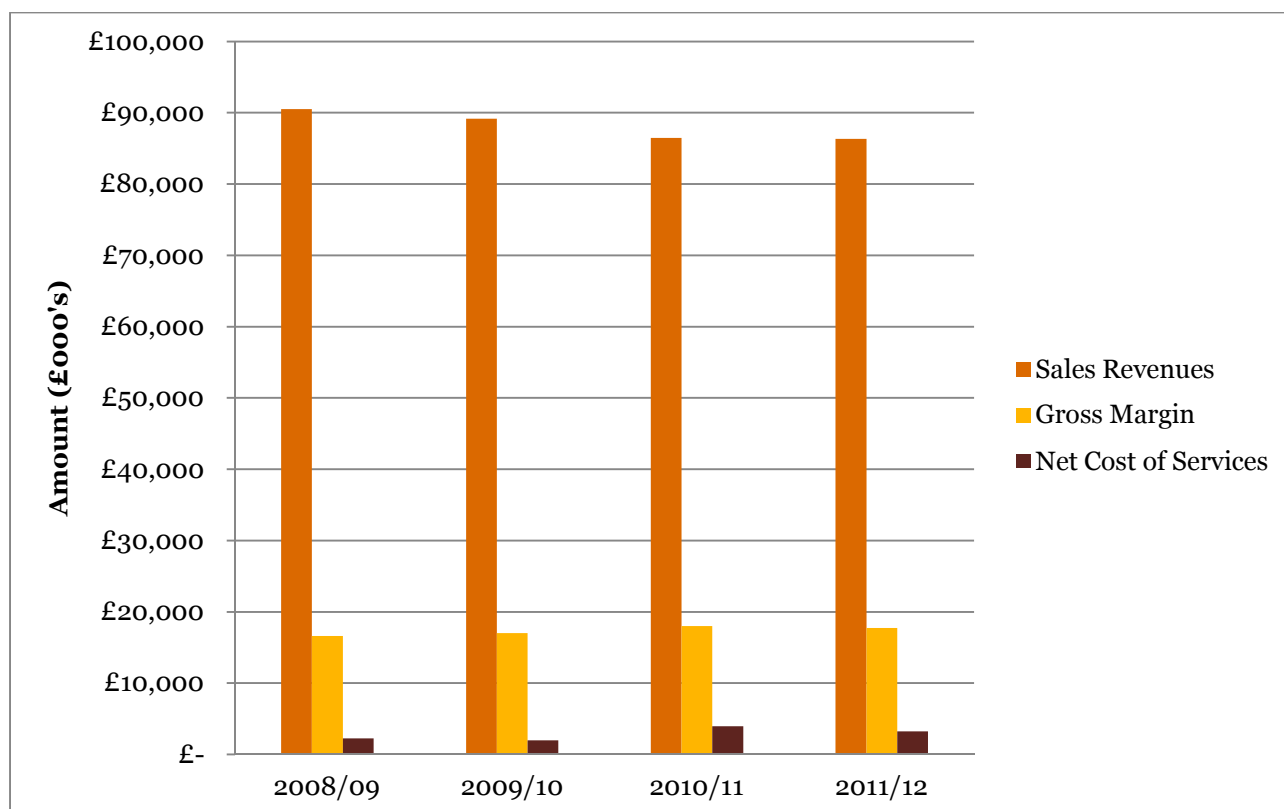
We anticipate issuing an unqualified value for money conclusion. We report in more detail a summary of our work and findings in this area on page 9.

We would also 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 Committee throughout our work.

Financial Performance Review

Sales Revenues, Gross Margins and Net Costs of Services

The following table identifies four year trends in sales revenues and margins after purchases and after other operating costs are deducted;



The fall in sales revenues over the four year period is driven largely by decreasing energy costs following a peak in 2008/09. Margins are not significantly impacted by this based on the small mark up for this product line.

Gross margins have improved over the last two years despite falling sales revenue. The gross margin percentage at 2011/12 of 21% shows a marked improvement from the corresponding figure of 18% from 2008/09.

Net cost of services has fallen by £694,000 from 2010/11 as a result of a decrease in gross margins along with an increase in equipment expenditure.

Despite this decrease you have successfully maintained the substantially improved margins achieved in 2010/11 and continue to build upon your usable reserves balances.

Audit approach

Risk Assessment

When we presented our plan we explained that we look for risks of a material misstatement in the accounts, and plan to address them.

Risks to the accounts and our true and fair audit opinion are categorised as follows:

- **Significant** Risk of material misstatement due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
- **Elevated** Although not considered significant, the nature of the balance/area requires specific consideration.

We have summarised our actual responses to the significant and elevated risks included in our Audit Plan in the table below:

Financial Statements

Risk	Categorisation	Audit approach
<p>Fraud and management override of controls</p> <p>In any organisation, management may be in a position to override the financial controls that are in place. A control breach of this nature may result in a material misstatement.</p> <p>For all of our audits, we are required to consider this as a significant risk and adapt our audit procedures accordingly.</p> <p>In your organisation, as the pressure to deliver savings increases, so does the risk of management override.</p>	<p>● Significant</p>	<p>We have updated our understanding of your controls around journals and gained some assurance on the arrangements for dealing with staff leavers, in particular controls over physical security and access to financial systems.</p> <p>Our final accounts procedures included testing of:</p> <ul style="list-style-type: none"> ● the appropriateness of journals processed during the year; ● key year-end control account reconciliations, including the bank reconciliation; ● transactions recorded after the year-end; and ● significant accounting estimates; and ● performance of unpredictable audit procedures. <p>No significant concerns were identified as a result of this work.</p>
<p>Recognition of revenue and expenditure</p> <p>There is a risk that the Organisation could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in</p>	<p>● Significant</p>	<p>We have updated our understanding of relevant revenue and expenditure controls and reviewed the outcomes of internal audit work in order to establish whether these are operating effectively. Our final accounts procedures included testing of:</p>

<p>the reported revenue and expenditure position.</p>		<ul style="list-style-type: none"> • the appropriateness of journals processed during the year; • evaluation of accounting policies for income and expenditure recognition to ensure these are consistent with the requirements of the Code of Practice on Local Authority Accounting; • routine income and expenditure transactions; • significant accounting estimates; • revenue and expenditure cut off at year end; • a sample of income and expenditure transactions; and • analytical procedures on income and expenditure at the year-end <p>No significant concerns were identified as a result of this work.</p>
<p>Financial Standing</p> <p>The Public Sector is experiencing increased pressures on many of its budgets as economic conditions have worsened. The Committee may therefore experience decreased demand for its products and services.</p>	<p style="text-align: center;">● Elevated</p>	<p>We have reviewed financial performance for the year 2011/12 and medium term forecasts as part of our use of resources and going concern assessment.</p> <p>We have assessed sales trends and growth from previous years.</p> <p>No significant concerns were identified as a result of this work.</p>

Significant 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.

Accounts

We have substantially completed our audit, subject to satisfactory resolution of the outstanding matters highlighted in our covering letter above. Following approval of the financial statements by the Management Committee we anticipate being able to issue an unqualified audit opinion.

Accounting issues

The quality of the draft financial statements we were presented with for audit was good. We identified a number of amendments to disclosures within the statements, but none of these were considered to be significant.

Gas Accruals

The Committee procures gas on behalf of its customers. Because ESPO does not have access to its customers' meters, accruing for gas used but not billed would be costly, and gas costs are therefore accounted for on a cash basis.

We checked that the volumes of gas used and the number of contracts is reasonably constant. On this basis the impact on ESPO's surplus is unlikely to be material because it is a small percentage of gas consumed. The approach adopted this year is consistent with previous years.

We ask you to confirm in the letter of representation (Appendix) that you are satisfied with the appropriateness of accounting for gas accruals on a cash basis.

Misstatements and significant audit adjustments

Uncorrected & Adjusted misstatements

We have to report all unadjusted misstatements identified during the audit, other than trivial ones. We are pleased to note that no misstatements were identified during the audit.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask management 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.

Valuation of non-current assets

The valuation of non-current assets is an area of significant judgement within the accounts. We have performed detailed work on assessing the valuation methodology applied by your professional valuer and the credentials of your valuations team. We found no areas to report in this context.

Accruals

Accruals for expenditure and income are raised where an invoice has not been received or raised at the year-end, but the Committee knows that there is a liability to be met which relates to the current year. This involves

a degree of estimation. Detailed testing was performed on significant accruals. No misstatements were identified from this work.

Bad Debt Provision

Your Bad Debt Provision is calculated by assessing the potential recoverability of invoices which are beyond the due date for payment. There is an inherent level of judgement involved in calculating this provision, which is £145k as at 31 March 2012 (£86k as at 31 March 2011). We have considered the recoverability of debtors and have not identified any significant concerns in the way that you have calculated your bad debt provision.

Material risks and exposures

No material risks or exposures were identified.

Disagreements with management

There have been no disagreements with management about matters which, individually or in aggregate, would be significant to the entity's financial statements or our audit report.

Management representations

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

Financial standing

There were no material uncertainties related to events and conditions that may cast significant doubt on the Committee's financial standing. We have concluded that in overall terms, you have sufficient resources available to meet your commitments for at least a 12 month period after the date of our audit opinion. We have therefore concluded that the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements.

Related parties

There are no related party matters to be communicated.

Audit independence

We are required to 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.

We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the Committee and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Accounting systems and systems of internal control

It is the responsibility of the Committee to develop and implement systems of internal 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 are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit.

Through the audit work we have conducted has identified a small number of minor control weaknesses which we have been reported to management and are included within the Appendices to this report.

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.

We have reviewed the AGS to consider whether it complies 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.

Risk of fraud

As part of our work on fraud, we enquire with management as to whether there have been any actual, suspected or alleged frauds affecting the Committee which as auditors we should be made aware of. To date we have not identified any material instances of fraud that would impact on our audit opinion. If this status changes between the date of this report and the signing of our audit opinion, we will be required to consider the impact on our audit opinion.

In presenting this report, we seek the Management Committee’s confirmation that there have been no matters of which you are aware that have arisen in relation to the risk or incidence of fraud that should be brought to our attention. A specific confirmation from the Committee in relation to fraud will be included in the letter of representation.

Value for money conclusion

Economy, efficiency and effectiveness

Our responsibilities as the Committee's appointed auditors require us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Following a revision of Audit Commission guidance for 2011/12 for Joint Committees, our work to support our Value for Money conclusion comprised the following elements:

- reviewing the annual governance statement, and;
- reviewing the results of the work of other relevant regulatory bodies or inspectorates.

Based on the work we have undertaken, we anticipate issuing an unqualified value for money conclusion.

We recognise that you are in a continued period of change and are on a journey to improve the arrangements you have in place which govern the business and manage your finances.

From our review of the annual governance statement you have recognized the following areas for improvement;

- Risk Management – the need to continue to embed effective risk management procedures.
- Introduction of a tailored Code of Corporate Governance based on the 'Delivering Good Governance in Local Government' guidance notes.
- Better engagement of member authorities to improve understanding and consultation on strategic direction.

These areas form part of your plan for improving corporate governance throughout the organization and we are satisfied that you have proposals to achieve these improvements.

Fees update

Audit plan

We issued our Audit Plan for 2011/12 and presented it to the Management Committee in March 2012. There have been no significant changes to our Audit Plan since this time.

Fees update for 2011/12

We reported to you our fee proposals as part of the Audit Plan for 2011/12. Our actual fees are expected to be in line with our original proposals as follows.

	2011/12 Outturn (£)	2011/12 Fee proposal (£)
Audit fee, including financial statements audit and Value for Money conclusion.	23,670	23,670
TOTAL	23,670	23,670

Non-audit work

We have not performed any work which falls outside of the Code of Audit Practice.

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Appendices

Controls Issues

The following table describes the controls issues identified during our audit. These did not have a significant impact on our audit approach.

Controls Issue	Risk	Agreed Actions
<p>Rebates - rebates invoiced to suppliers are based on ESPO expenditure figures that are provided by the relevant supplier. There is no formal reconciliation of these figures back to ESPO's purchase ledger.</p> <p>We have not been able to quantify the impact of this issue due to a lack of information on supplier expenditure. The information we have received for some of the sample selected indicates that there have been both under and over claimed rebates.</p>	<p>There is a risk that you are claiming lower rebates that you are entitled to under the original contract/agreement with the relevant supplier, thus losing out on income that is due.</p>	<p>A process whereby all rebates figures provided are checked back to the purchase ledger or relevant supporting evidence will be set up in order to confirm the accuracy of the expenditure figures.</p> <p>A retrospective exercise will be performed to ensure rebate income due has been claimed in full.</p> <p>Any differences should then be disputed and resolved with the supplier.</p>
<p>Direct Orders: Goods receipting - There is no goods receipting process for Direct orders to customers, to confirm the goods have been received by the customer before you make payment to the supplier.</p>	<p>There is a risk suppliers could be paid for orders they have not fulfilled.</p>	<p>Mitigating controls are in place to minimise the risk in this area. If at any stage it is considered that the risk could become material then a further review will be undertaken.</p>
<p>Direct Orders: Cut Off - From sample testing Direct orders from supplier to customer we identified two orders that related to 2010/11 that were included in 2011/12. As both the income and expenditure balances were classified in 11/12 in error the net effect on the accounts is negligible as this is just the margin on the order.</p> <p>The total value of the expenditure invoices was £554 with a corresponding sales value of £613. As such no prior period adjustment was proposed.</p>	<p>There is a risk that income and expenditure balances are misstated if invoices are not included within the correct accounting period.</p>	<p>Due to delays in receiving invoices from suppliers for some direct orders it is difficult to ensure all of these are captured in the correct year end.</p> <p>By extending the period that the purchase and sales ledger are left open post year end this will ensure greater accuracy in coding invoices to the correct accounting period.</p>

Letter of representation

27th September 2012

To: PricewaterhouseCoopers LLP

To PricewaterhouseCoopers LLP
Donington Court
Pegasus Business Park
Castle Donington
East Midlands
DE74 2UZ

Your Ref: ESPO RB 20 11/12

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of Eastern Shires Purchasing Organisation 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 Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12.

My responsibilities as Treasurer 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 Committee. 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 Eastern Shires Purchasing Organisation 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 Authority 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 Eastern Shires Purchasing Organisation in making accounting estimates, including those surrounding measurement at fair value, are reasonable.

I confirm that the accounting for gas accruals and rebates is appropriate and does not result in a material misstatement of the financial statements.

All events subsequent to the date of the financial statements for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 requires adjustment or disclosure have been adjusted or disclosed.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of Eastern Shires Purchasing Organisation 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.

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 Committee'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 relevant management and Committee meetings;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to persons within the Committee 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 Committee 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 Committee'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 Committee conducts its business and which are central to the Committee'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 Committee'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 Authority 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 Committee has made you aware of all employee benefit schemes in which employees of the organisation participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Committee 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 Authority 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 Authority 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 for the Committee'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 Committee or any associated company for whose taxation liabilities the Committee 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.

Going Concern

An assessment has been made of the financial health of the Committee for a period of at least one year from the approval of the financial statements.

Assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2012, have been taken into account or referred to in the financial statements.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2012 have been properly valued and that valuation incorporated into the financial statements. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the financial statements.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the Committee, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the financial statements have been disclosed to you.

The Committee has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the financial statements.

In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.

The Committee has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

The Committee has satisfactory title to all assets and there are no liens or encumbrances on the Committee's assets, except for those that are disclosed in the financial statements.

I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

Using the work of experts

I agree with the findings of our valuation experts in evaluating the value of our non-current assets 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 Committee 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.

As minuted by the Management Committee at its meeting on 27th September 2012

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Treasurer

For and on behalf of Eastern Shires Purchasing Organisation

Date

In the event that, pursuant to a request which Eastern Shires Purchasing Organisation 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. Eastern Shires Purchasing Organisation agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Eastern Shires Purchasing Organisation shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Eastern Shires Purchasing Organisation 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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