

Imperial College Healthcare  
NHS Trust

Annual Audit Letter

Year ended 31 March 2012

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# Executive summary

We have pleasure in setting out in this Annual Audit Letter the main findings and conclusions from our external audit work for Imperial College Healthcare NHS Trust ("the Trust") for the year ended 31 March 2012.

This executive summary highlights the most significant matters which we would like to bring to your attention. It should, therefore, be read in conjunction with the following sections of this letter and the appendices thereto.

Status	Description	Detail
<b>Audit of the financial statements</b>		
<b>We issued an unqualified opinion on the Trust's financial statements for the year ended 31 March 2012</b>	<p>We are pleased to report that we issued an unqualified opinion on the Trust's 2011/12 financial statements in line with the deadline set by the Department of Health of 11 June 2012. Our opinion confirmed that the accounts gave a true and fair view of the Trust's financial position and of the income and expenditure for the year ended 31 March 2012. We reported the findings of our audit to the Trust's Audit Committee on 6 June 2012. Recommendations that were raised as a result of our audit work have been summarised in Appendix 3.</p> <p>We received a complete set of draft financial statements in advance of the deadline set by the Department of Health. The main areas of audit focus included, but were not limited to:</p> <ul style="list-style-type: none"><li>• Revenue recognition in respect of research, development, education and training grants;</li><li>• Provision for the impairment of receivables;</li><li>• Property valuation;</li><li>• Validity of purchase order accruals;</li><li>• Accounting policy change for donated assets; and</li><li>• Capitalisation of expenditure on property, plant and equipment.</li></ul> <p>Based on our procedures, we concluded that the Trust's financial statements are not materially misstated.</p>	Page 6
<b>Accounting policies</b>		
<b>No significant issues were noted during our procedures</b>	<p>As part of our audit, we considered the quality and acceptability of the Trust's accounting policies and financial reporting and no significant issues were identified from our procedures.</p>	

# Executive summary (continued)

Status	Description	Detail
<b>Value for Money</b>		
<b>We have issued an “except for” qualified conclusion on the Trust’s arrangements to secure economy, efficiency and effectiveness due to weaknesses identified during the year in respect of the quality of the Trust’s waiting list data</b>	<p>We are required to issue a value for money (“VfM”) conclusion within our report on the financial statements. We are required to base our VfM conclusion on two criteria specified by the Audit Commission:</p> <ul style="list-style-type: none"><li>• the organisation has proper arrangements in place for securing the financial resilience; and</li><li>• the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</li></ul> <p>The guidance issued by the Audit Commission requires the auditors to perform a risk assessment on factors that may affect their value for money consideration. The following risks were identified as part of our procedures:</p> <ol style="list-style-type: none"><li>1. risks regarding ineffective arrangements to manage and deliver the Trust’s Cost Improvement Plan (“CIP”);</li><li>2. 2012/13 plans to achieve a surplus were not robust and were not supported by detailed identified plans;</li><li>3. absence of a robust up-to-date Medium Term Financial Plan (“MTFP”);</li><li>4. significant weaknesses in arrangements to ensure the quality of the Trust’s data; and</li><li>5. weaknesses in procurement controls.</li></ol> <p>We completed our work in accordance with the Audit Commission guidance in respect of the Trust’s arrangements to secure economy, efficiency and effectiveness in its use of resources. Our findings indicate that there were significant risks in relation to the arrangements to secure economy, efficiency and effectiveness. On the basis of the above criteria and the disclosure in Section 6.1: Significant Issue 2011/12 of the Trust’s Annual Governance Statement regarding the implementation of a six month reporting break in January 2012 due to data quality issues in reporting waiting time targets we qualified our value for money conclusion.</p> <p>With the exception of the matter referred to above, we are satisfied that in all significant respects the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.</p>	Page 8

# Executive summary (continued)

Status	Description	Detail
<b>Quality Accounts</b>		
<b>The Quality Account was prepared in accordance with the relevant guidance. Data quality concerns were identified which supports the value for money conclusion above</b>	No issues came to our attention that would cause us to believe that the content of the Quality Account was not in accordance with the relevant guidance. However, we did identify some issues through our sample testing of Cancer Treatments started within 62 days of urgent GP referral. A sample of 45 patient records were selected and 18 errors identified. It was also noted that 4 cases could not be made available to us. This further supports the value for money conclusion in Section 3.	Page 9
<b>Independence and objectivity</b>		
<b>We remain independent and objective</b>	<p>An analysis of audit fees for the year ended 31 March 2012 is shown in the appendices to this letter.</p> <p>In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.</p>	Appendix 2

# 1. Introduction

## Purpose of this letter

The purpose of this Annual Audit Letter is to summarise the key issues arising from the audit work that we have carried out during the year. Although this letter is addressed to the directors of the Trust, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website and on the Trust website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued on the Audit Commission website.

## Responsibilities of the auditor and the Trust

We have been appointed as the Trust's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including NHS Trusts.

As the Trust's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Trust achieving its objectives. It is the responsibility of the Trust to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

## Scope of our work

Our main responsibility as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice ("the Code"). Under the Code, we are required to review and report on:

- the Trust's financial statements;
- whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in its use of resources; and
- examine the content of the Quality Account to ensure that it complies with the Quality Account Regulations.

This letter summarises the significant issues arising from these areas of work and highlights the key recommendations that we consider should be addressed by the Trust. A list of all reports issued to the Trust in relation to the 2011/12 audit is provided in Appendix 1.

## 2. Audit of the financial statements

We issued an unqualified opinion on the Trust's accounts on 7 June 2012 in advance of the deadline set by the Department of Health. Our opinion confirmed that the financial statements gave a true and fair view of the Trust's financial position and of the income and expenditure recorded by the Trust for the year ended 31 March 2012.

Please refer to Appendix 3 for a summary of recommendations made as a result of our work in relation to the financial statements for the year ending 31 March 2012.

Before we give our opinion on the financial statements, we are required to report to the Trust's Audit Committee significant matters arising from the audit. A detailed report was presented to the Trust's Audit Committee on 6 June 2012. Set out below is a summary of the points issued in that report:

### Unadjusted audit misstatements

We identified no significant unadjusted misstatements in the financial statements for the year ended 31 March 2012.

### Disclosure deficiencies

Auditing standards require us to highlight significant disclosure deficiencies to enable Audit Committees to evaluate the impact of those matters on the financial statements. No significant disclosure deficiencies were noted during our audit.

### Financial standing

NHS Trusts have a number of key statutory financial duties (summarised below), all of which the Trust met:

- Cumulative breakeven on income and expenditure
  - The Trust achieved a cumulative surplus, since formation, (after adjusting for impairments and restatements) of £29,293k;
- Keep within the capital resource limit (CRL) of £37,365k;
  - The Trust recorded an underspend against the CRL of £133k; and
- Remain within the external financing limit (EFL) of £6,317k
  - The Trust recorded an undershoot against the EFL of £15k.

The 2012/13 draft finance plan presents a balanced budget for the year. We recommend that the Trust continues to monitor progress against its cost improvement plan and takes action to identify any additional savings that may be required.

## 2. Audit of financial statements (continued)

Areas of audit focus	
<b>Revenue recognition in respect of research, development, education and training grants</b>	In 2011/12 the Trust recognised £118.6m of research, development, education and training income as part of other operating income. The majority of this relates to grant income. This was identified as a significant risk due to the material amounts involved, the complexity of the accounting and issues identified by internal audit regarding controls in this area. No material issues were identified from our testing however a control recommendation has been made in Appendix 3.
<b>Provision for the impairment of receivables</b>	As at 31 March 2012 the Trust held NHS receivables of £25,637k against which a provision for impairment of £9,286k was recognised. We identified the provision for the impairment of receivables as a risk as this is a material balance and a significant estimate based on management judgements and assumptions. We have concluded that the Trust's estimate of its provision for the impairment of receivables is not materially misstated. We do, however, consider it to be at the more prudent end of the range that we would consider to be acceptable.
<b>Property valuation</b>	<p>International Financial Reporting Standards requires revaluations to be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. During 2011/12 the Trust commissioned an external valuer, Montagu Evans, to perform a desktop review of its land and buildings (including dwellings).</p> <p>In 2011/12 the Trust, working with its Valuer, identified some elements of its prior year valuation which it considered to require amendment in the 2011/12 financial statements. The Trust has restated its prior year balances in the 2011/12 financial statements because it considers the change, in respect of these matters, to be material.</p> <p>We engaged our property specialists Drivers Jonas Deloitte to challenge the assumptions and review the methodology used to value the Trust's estates. We do not consider the Trust's valuation of property, plant and equipment in the current or prior year, to be materially misstated.</p>
<b>Validity of purchase order accruals</b>	Due to control recommendations in previous audits around the procurement systems, the Trust has performed procedures to identify invalid accruals accumulating on the Trust's systems. Based on these procedures the Trust has determined its best estimate of the level of its accruals balance at 2011/12 and in doing so has released £3.9m of accruals during 2011/12. We do not consider the Trust's valuation of accruals to be materially misstated.
<b>Accounting policy change for donated assets</b>	Due to changes in the HM Treasury Financial Reporting Manual (FReM) and the Audit Commission's subsequent confirmation to adopt such changes, the Trust has changed the way it accounts for government granted assets and donated assets. The Trust prepared a paper setting out its consideration of the impact of this change in accounting policy together with the proposed adjustments to the prior year comparatives in the 2011/12 financial statements. We consider the Trust's treatment of this change to be satisfactory.
<b>Capitalisation of expenditure on property, plant and equipment</b>	The Trust continues to make improvements to its estate with £37.2m spent on new buildings and assets in the course of construction in the year and £9.5m recorded for repairs and maintenance as an expense. The volume of these transactions gives rise to the risk of misclassification of expenditure related to the project as either capital or revenue. No issues were identified from our testing.



## 3. Value for money conclusion

### Scope of work

We are required to issue a value for money ("VfM") conclusion within our report on the financial statements. We are required to base our statutory VfM conclusion on two criteria specified by the Audit Commission:

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

### Work performed

The guidance issued by the Audit Commission requires the auditors to perform a risk assessment on factors that may affect their value for money consideration. The following risks were identified as part of our procedures:

1. risks regarding ineffective arrangements to manage and deliver the Trust's Cost Improvement Plan (CIP);
2. 2012/13 plans to achieve a surplus were not robust and were not supported by detailed identified plans;
3. absence of a robust up-to-date Medium Term Financial Plan (MTFP);
4. significant weaknesses in arrangements to ensure the quality of the Trust's data; and
5. weaknesses in procurement controls.

We completed our work in accordance with the Audit Commission guidance in respect of the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources. Our audit procedures included interviews of Trust management and review of supporting documentation to enable us to form a conclusion on the Trust's arrangements, in accordance with the VfM conclusion guidance set out by the Audit Commission.

We have concluded that the Trust has demonstrated it has proper arrangements in place in each of the areas above with the exception of point 4. In particular, there were data quality issues with respect to: the size of the admitted and outpatient waiting lists; the reported performance of 18 week referral to treatment times; and cancer waiting times.

### Impact on value for money conclusion

Within the 'Improving efficiency and productivity' element of the 'securing economy, efficiency and effectiveness' section of the Audit Commission guidance, it states the requirement that "the organisation has access to good quality and timely comparative information on costs and performance" and that "the organisation has a track record of producing and using robust information and data".

Our findings indicate that there were significant risks in relation to the arrangements to secure economy, efficiency and effectiveness. On the basis of the above criteria and the disclosure in Section 6.1: Significant Issue 2011/12 of the Trust's Annual Governance Statement regarding the implementation of a six month reporting break in January 2012 due to data quality issues in reporting waiting time targets we qualified our value for money conclusion.

With the exception of the matter referred to above, we are satisfied that in all significant respects the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

# 4. Quality Accounts

## Scope of procedures

Under the Health Act 2009 and the National Health Service (Quality Accounts) Regulations 2010, providers of NHS care were required to prepare and publish Quality Accounts for each financial year from 2009/10. Auditors are required to examine the content of the Quality Accounts to ensure that it complies with the Quality Accounts Regulations.

In addition, guidance issued by the Audit Commission in April 2012 set out that auditors of acute trusts would be required to test:

- one of the two indicators tested as part of their work on the 2010/11 quality accounts (Cancer 62 days wait or MRSA), selecting the indicator based on the risk of misstatement and by considering the recommendations made following the 2010/11 audit;
- one indicator that Department of Health plan to mandate for inclusion in the 2012/13 quality account and considered suitable for substantive testing by the Audit Commission (Percentage of patients risk-assessed for venous thromboembolism (VTE); Rate of Clostridium difficile infections; or Percentage of patient safety incidents resulting in severe harm or death); and
- one indicator published locally.

The following indicators were reviewed as part of our Quality Accounts procedures:

- 62 day cancer target
- Clostridium difficile
- MRSA Bacteraemia

We have completed our responsibilities in respect of the Quality Account for the year to 2011/12.

## Results of our procedures

### Arrangements review

No issues came to our attention that would cause us to believe that the content of the Quality Account was not in accordance with the relevant guidance.

### Performance indicator testing

We undertook detailed data testing of the indicators set out above. A sample of 45 patient records was selected and within this sample 18 errors were identified. It was also noted that 4 cases could not be made available to us.

The Trust's Quality Account makes reference to the data quality issues, and the decision taken by the Trust in January 2012 to take a break from reporting data related to 18 week targets for referral to treatment and waiting times for cancer and diagnostics. The results of the Quality Account review and our own procedures, set out above, support the value for money conclusion in Section 3.

## 5. Closing remarks

We have discussed this letter with the Director of Finance and it was presented to the Audit Committee on 10 September 2012 with a copy provided to all Board Members.

We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit. Our aim is to deliver a high standard of audit which makes a positive and practical contribution and supports the Trust's own agenda. We recognise the value of your co-operation and support.

We view this report as part of our service to you for use as Directors of Imperial College Healthcare NHS Trust for Corporate Governance purposes and it is to you alone that we owe a responsibility for its contents.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national use of resources study data and methodology as they are derived solely from the Audit Commission.

It is the responsibility of audited bodies to maintain adequate and effective financial systems and to arrange for a system of internal controls over the financial systems. Auditors should evaluate significant financial systems and the associated internal controls and, in doing so, be alert to the possibility of fraud and irregularities. Our findings are based upon an assessment of the design of controls at the time of review. We did not necessarily review the operation of controls throughout the financial year.



**Deloitte LLP**  
Chartered Accountants

19 September 2012

# Appendix 1: Reports issued in relation to the 2011/12 audit

Report	Audit Committee date
Annual audit letter for the year ended 31 March 2011	14 September 2011
Audit planning report for the year ending 31 March 2012	7 December 2011
Value for money risk assessment for the year ending 31 March 2012	7 December 2011
Interim progress report for the year ending 31 March 2012	24 February 2012
Audit update report for the year ended 31 March 2012	20 April 2012
Report to the Audit Committee on the 2011/12 audit	6 June 2012
Quality Accounts External Assurance Report 2012	6 June 2012
Annual Audit Letter	10 September 2012

## Appendix 2: Analysis of professional fees

The professional fees earned by Deloitte in the period from 1 April 2011 to 31 March 2012 are as follows:

	Current year £'000	Prior year £'000
Fees payable to the Trust's auditors for the audit of the Trust's annual accounts and value for money conclusion	354	323
Fees payable to the Trust's auditors for the quality account work [1]	17	15
	<hr/>	<hr/>
Gross fees for audit services provided to the Trust	371	338
Rebate from the Audit Commission [3]	(24)	-
	<hr/>	<hr/>
<b>Total fees for audit services provided to the Trust (excl VAT) [2]</b>	<b>347</b>	<b>338</b>

At the date of the Audit Committee meeting no future services have been contracted for or written proposals submitted.

In addition to the above audit fees, the Trust has commissioned Deloitte to conduct the following:

	Current year £'000	Prior year £'000
Advise on the renegotiation of the Parkhill lease	15	-
Dilapidation advice on Ravenscourt Park Hospital	4	5
Due diligence work relating to the transfer of the National Learning and Reporting Service (NRLS) from the National Patient Safety Agency (NPSA)	40	-
Engagement to assess the financial position and potential risks of C&C Alpha Group	-	18
	<hr/>	<hr/>
<b>Total fees for non-audit services provided to the Trust [2]</b>	<b>59</b>	<b>23</b>

[1] The scope of our work and fee in relation to Quality Accounts has been communicated to us by the Audit Commission.

[2] The disclosure in the financial statements is inclusive of VAT.

[3] The rebate is paid directly to the Trust by the Audit Commission.

# Appendix 3: Annual summary of recommendations

We have included in the table below the high and medium priority recommendations that have arisen from the financial audit work, quality accounts work and value for money work.

● Low
 ● Medium
 ● High

## Grant Register Priority – ●

<b>Background</b>	<p>In respect of the controls around research, development, education and training grant income there is currently no grant and award register which would assist with the monitoring of grant awards. It is also noted that grant expenditure was not monitored for one particular grant increasing the risk of repayments.</p> <p>It is recommended that the Trust introduce a grant register. Such a register would include details of the awarded amount, whether there are conditions attached to the funding, the amounts invoiced to date and the extent to which grant conditions have been met (and therefore the extent to which income should be recognised or deferred). The expenditure on all grants should be monitored where the grant award is conditional on expenditure.</p>
<b>Management response</b>	<p>The Trust will develop, in collaboration with the Joint Research Office (JRO), a register of all (NHS/Commercial) R&amp;D projects. The income streams relating to education and training are well defined through the Learning Development Agreement with the SHA and Deanery. In respect of expenditure relating to grant income, the Trust will be developing a performance management reporting methodology consistent with other NHS organisations to improve transparency within the Trust and externally.</p>

## Accruals Priority – ●

<b>Background</b>	<p>In respect of the controls around accruals, there is a control weakness that could result in the risk of invalid accruals accumulating. It is noted that this is partly mitigated by the review of aging and supplier statements.</p> <p>It is recommended that the Trust introduces the following procedures in order to reduce this risk:</p> <ul style="list-style-type: none"> <li>• A clear process requiring a valid purchase order for all expenditure, prior to being committed. There should be appropriate 3-way matching of purchase order, to invoice and payment;</li> <li>• When an invoice is received without a valid purchase order, accounts payable should report to management so that the expenditure can be investigated; and</li> <li>• Invoices should not be paid for outside of the purchase order system.</li> </ul>
<b>Management response</b>	<p>Management have agreed with the recommendation above. This is being addressed as part of the "Building World Class Finance" programme. The Trust has already implemented a "no purchase order, no pay" policy with agreed exceptions. Other control processes are currently in the development stage and it is anticipated that they will be implemented by the end of September.</p>

# Appendix 3: Annual summary of recommendations (continued)

## Fixed Assets Impairment Priority – ●

**Background** It was noted the historic impairment of £43.9m has not been allocated to specific assets. As such there is a risk that the reversal of impairments could be inaccurately recorded in the financial statements. It is recommended that the Trust allocate historic impairment against specific assets.

**Management response** Management have agreed with the recommendation above and the Trust will agree an appropriate allocation of the historic impairments with the external auditors.

## Fixed Assets Valuation Priority – ●

**Background** It was noted that specialised assets have been valued using Gross Internal Area (“GIA”) floor areas rather than using the floor areas for a Modern Equivalent Asset (“MEA”). The difference does not give rise to a material error in the valuation of the assets. RICS Valuation Standards require assets to be valued using the floors areas of a MEA. It is recommended that the floor areas for a MEA are adopted in future valuations.

**Management response** The above recommendation will be discussed with the Trust’s valuers prior to the next estates valuation.

## Inventory – Last in First out method Priority – ●

**Background** It was noted that inventory is valued using the Last in, First out (“LIFO”) method. This method is prohibited under International Accounting Standard 2: *Inventories*. A comparison has been performed comparing the Trust’s valuation to a First In, First Out (“FIFO”) method. An immaterial difference was noted. It is recommended that that Trust values inventory using an alternative method to ensure compliance with International Financial Reporting Standards.

**Management response** The Trust will review its local procedures to inform future inventory methodologies.

## Inventory Counts Priority – ●

**Background** Immaterial discrepancies were noted between the inventory count and the year end stock listings. These were the result of human error when inputting the data into the system following the count. It is recommended that count documentation is reconciled to the year end inventory listing, and independently reviewed to reduce the risk of errors.

**Management response** Management agree with the recommendation above. Clear inventory count instructions were issued at year end. It has already been discussed and agreed that the CPG Management Accountants will take ownership of inventory counts within their areas. It has further been agreed that there will be a minimum of one interim count during the financial year. This will provide an opportunity to independently validate inventory counts and identify issues prior to year end.

# Appendix 3: Annual summary of recommendations (continued)

## IT Controls

Priority – ●

### Background

#### **Lack of formally documented change control process**

There is a lack of formally documented change control procedures surrounding changes made to the Trust's reports. We were unable to see any documentation relating to approval or testing of changes prior to them being implemented in the production environment.

We recommend that the Trust considers implementing a formalised documented change control process for changes made to the Trust's reports. This should comprise of go live approval and testing prior to any changes being implemented.

#### **Lack of formalised leavers' process**

The Windows security administrator is not consistently notified of all employees who have changed roles or responsibilities, transferred, or been terminated by Human Resources (HR). HR provides reports on leavers to Information Communication Technology Department (ICT) which have been found to be inaccurate by ICT. As such, access privileges of such employees have not been immediately changed to reflect their new status.

In the prior year the Trust planned to implement a project to make use of the Identity Vault to help manage and automate the workflows of the leaving process. One of the improvements that would result from this is the ability to notify interested parties (ICT/Security etc) of leavers prior to their leaving date rather than retrospectively as at present. This project has not started in the current year. We recommend the project is implemented.

#### **User administration for windows**

We noted the following in relation to the user administration process for Windows 2003:

- There is no review of user access rights;
- There is no formalised leavers' process in place to ensure all relevant parties and departments such as ICT, HR, payroll and security are aware of an individual leaving; and
- Numerous generic accounts within Network user List and six generic accounts exist with System Administrator rights.

We recommend that user access rights for privileged users are reviewed annually and user access rights for standard users are reviewed on an adhoc basis.

#### **Business continuity planning**

We found that the overall ICT business continuity plan ("BCP") is currently in a draft format and as such no testing has been scheduled or performed. The BCP document was published during November 2010. It is recommended that testing is performed and the BCP finalised.

### Management response

Management have noted the recommendations above. The recommendations are being reviewed by the Information Communication Technology Department and are to be actioned as appropriate.



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