

Brent teaching Primary Care Trust 2004/05 Audit Letter



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Ladies and Gentlemen

Audit Letter 2004/05

We are pleased to present our Audit Letter for 2004/05. We hope that the information contained in this report provides a useful source of reference for non-executive and executive directors.

Yours faithfully

PricewaterhouseCoopers LLP
Encs

Contents

Executive summary 4

Accounts and Governance 6

Performance management 11

Audit plans and fees update 14

Appendix A: Summary of recommendations contained in this letter 15

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

We perform our audit in accordance with the Audit Commission’s Code of Audit Practice (the Code), which was issued in March 2002. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies, which was issued in April 2000. Both documents are 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 audit letters are prepared in the context of this statement and in accordance with the Code.

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.

A new Code of Audit Practice will be in place for the 2005/06 audit year, together with a new Statement of Responsibilities of Auditors and Audited Bodies, both of which were issued in March 2005.

Executive summary

The purpose of this Letter

We write to you each year, on completion of our audit, to summarise the issues arising from all aspects of our programme of audit of work throughout the year that we are formally required to report to you under Statement of Auditing Standard (SAS) 610 - "Communication of audit matters to those charged with governance".

Our audit work during the year was performed in accordance with the plan that we presented to you in February 2005. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix A to this letter.

We have set out below what we consider to be the most important issues that we have discussed with you in the course of our work.

Balances with other NHS bodies

The PCT experienced difficulties in identifying and reconciling its year end balances with other NHS bodies and eventually reduced its creditor balances by £4.7 million and increased its debtor balances by £0.6 million. We undertook work to validate these adjustments, including participating in an exercise to match balances across the NW London Strategic Health Authority. We concluded that the adjustments were reasonable but that all disputed balances needed to be resolved promptly. Furthermore, the PCT did not have in place signed Service Level Agreements (SLAs) with some of the bodies from which it commissions services.

Agenda for change

Under the new "Agenda for Change" pay arrangements the PCT had to provide for back-dated pay as at 31 March 2005. As the assimilation process had not been completed, the PCT had to estimate the liability. We concluded that the PCT's estimate was reasonable but the actual liability will not be known until the exercise is completed.

Fixed Assets- District Valuer's Report

A revaluation of the PCT's assets was undertaken by the District Valuer and came into effect on 1 April 2005. The exercise identified a number of significant changes to valuations and PCT staff noted a number of possible errors or omissions. We worked with the PCT to resolve these issues and were satisfied with the values reflected in the accounts. However, the PCT has not undertaken an impairment review of its assets to check for obsolescence or dilapidation.

Accounting for Prescribing Expenditure

In line with guidance provided by the Audit Commission, we reviewed the accrual for prescribing expenditure incurred but not notified to the PCT as at 31 March 2005. We were satisfied that the accrual had been calculated appropriately.

Performance Management

The PCT has made considerable progress in implementing a robust performance management framework and, in many respects, is ahead of comparative PCTs that we have reviewed to date.

Financial Outlook

In the July 2005 finance paper presented to the Board, the PCT reported a projected overspend of £5.5 million for 2005/06. This comprised £4.4 million relating to over-commitment of the Local Delivery Plan, the impact of slippage brought forward from 2004/05 and general spending pressures of some £200,000. As a result the Director of Finance has indicated that staying within its resource limit will be a challenge in 2005/06.

In addition, the Strategic Health Authority has asked the PCT to generate savings of £1 million to help achieve a balanced financial position within the local health economy. The PCT anticipates achieving these savings through further slippage in planned investment.

It is important that the PCT takes steps to identify a clear medium term plan to meet its financial objectives that does not rely upon slippage and other non-recurrent solutions.

We discussed the issues contained within this Letter with the Audit Committee at its meeting on 13 October 2005.

Accounts and Governance

We comment on the following key areas in this section:

- Accounts;
- Financial Standing;
- Accounting issues;
- Systems of internal financial control;
- Standards of financial conduct and the prevention and detection of fraud and corruption; and
- Legality of transactions.

Formal Communication of relevant audit matters to those charged with governance (SAS 610 Report)

SAS 610 - "Communication of audit matters to those charged with governance" requires us to communicate relevant matters relating to the audit of the financial statements to those charged with governance of the entity, sufficiently promptly to enable them to take appropriate action.

SAS 610 specifically requires us to communicate the certain matters to those charged with governance.

The table below details how each of these requirements have been met and where they are reported in this letter

SAS 610 requirement	Where reported
Expected modifications to the auditors' report	None required.
Unadjusted misstatements	All misstatements adjusted.
Material weaknesses in the accounting and internal control systems identified during the audit	See section below on systems of internal control.
Views about the qualitative aspects of the entity's accounting practices and financial reporting	See section above on accounts.
Matters specifically required by other auditing standards to be communicated to those charged with governance	There are no such matters which we are required to bring to your attention.
Any other relevant matters relating to the audit.	At the time of issuing this letter, there were no other matters noted to date.

SAS 610 also requires us to communicate with those charged with governance regarding:

- The concept of materiality and its connection to our audit approach;
- Our approach in addressing the risk of material misstatement;
- Our approach to the assessment of, and reliance on, internal controls;
- Intended reliance on the work of internal audit;
- The work to be undertaken by any other firms of auditors, and how we will obtain assurance over the procedures of other auditors; and
- The independence and objectivity of the audit team.

These matters have already been communicated to you in the audit service plan and we have no changes to report to you. In particular we remain independent within the requirements of ethical and auditing standards.

Accounts

We audited the accounts of the PCT, in accordance with approved Auditing Standards.

The PCT made available a good quality set of draft accounts for the audit. The draft accounts were submitted on time to the Department of Health on 13 May 2005 and the final audited accounts were submitted within the 22 July 2005 deadline.

Financial standing

Performance against targets

Target	PCT Performance
To achieve operational financial balance	Achieved
To remain within the Revenue Resource Limit (RRL)	The financial statements showed the PCT remaining within its Revenue Resource

	Limit by £750k.
To remain within the Capital Resource Limit (CRL)	The PCT under spent against the CRL by £9k.
To recover the full cost of provider functions	The PCT under (over) recovered their costs by £1,082k (2003/04 - £(123k)
To remain within management costs targets	Management costs were £42.80 per head of weighted population. The prior year amount was £39.00
To pay non-NHS creditors within 30 days	The PCT paid 84.30% of its bills within 30 days in respect of volume and 94.66% of bills in terms of value. This compares with the 87.39% and 89.87% achieved in the previous year.

Accounting issues

The PCT experienced difficulties in identifying and reconciling its year end balances with other NHS bodies. Eventually, the PCT adjusted its year end balances, as allowed for in the manual for accounts, to reflect the position that it felt was reasonable at the year end. This resulted in a reduction in creditor balances of £4.7 million and an increase in its debtor balances of £0.6 million. We were concerned to ensure that these adjustments were valid and there was no risk that liabilities might crystallise in future years.

Accordingly, we undertook work to understand the basis for the more significant disputed balances and to validate the justification for the adjustments. We liaised with auditors of other relevant NHS bodies and participated in an exercise to match balances across the North West London Strategic Health Authority. We also discussed the adjustments and their potential impact with PCT officers, the Audit Committee and the Board.

Through a combination of the results of this work and representation from the PCT Board that they had reviewed the balances and were satisfied with the treatment being applied, we concluded that the adjustments were reasonable but that, until all disputed balances had been resolved, some risk of the existence of additional liabilities would remain.

The resolution of this issue would have been much simpler had the PCT adopted a more proactive approach to monitoring balances with other NHS bodies and responding to disputes vigorously as they arose during the year. Furthermore, the PCT did not have in place signed Service Level Agreements (SLAs) with each of the bodies from which it commissions services. The presence of signed SLAs would have reduced the number of disputes regarding service levels and associated costs.

We recommend that disputes regarding payments due to or from other bodies should be resolved proactively by the PCT in order to ensure that income and expenditure is processed efficiently and effectively and that any potential disputes are identified and resolved promptly. This will also help to reduce any uncertainty regarding debtor and creditor balances at the year-end.

The PCT should seek to ensure that, as far as possible, it has signed service level agreements in place for all activity at the start of the year

Agenda for change

Under the new Agenda for Change (AfC) arrangements, most staff in NHS bodies will fall into one of three pay spines:

- Doctors' and dentists' review body;
- Pay reviewing body for nursing and other health professions; and
- Pay negotiating council (for all other directly employed NHS staff).

The main target within the initiative is for trusts to ensure that all staff are matched to a pay band and the assimilation process completed by the end of September 2005.

Staff are entitled to back-dated pay where salaries have moved to a new pay scales as a result of AfC, provided that there had been a formal offer of the new terms and conditions made by the PCT prior to 31 March 2005. In order to provide for these costs in the 2004/05 accounts the PCT had to identify the staff involved and calculate their individual entitlements to back pay at as 31 March 2005.

Given that the assimilation process had not been completed, the PCT had to

estimate the total liability based on the staff that had been assimilated at that time. As a result the PCT included a provision of £350,000 to cover the backdated pay as a result of the new contracts in the accounts for 2004/05. Our work indicated that this was a reasonable estimate of the likely costs but that the actual liability would not be known until the exercise was completed.

We recommend that the PCT monitors the actual costs of implementing Agenda for Change contracts and assesses the impact, if any, that it could have on its financial position.

Revaluation of the NHS Estate

A revaluation of the land and buildings that make up the NHS estate is undertaken by the District Valuer every 5 years and the latest valuation came into effect as at 1 April 2005. The revised valuations were reflected in the 2004/05 accounts as at 31 March 2005.

The exercise identified a number of significant changes to valuations of individual assets and, on review, PCT staff noted a number of possible errors or omissions, the resolution of which had not been completed at the time of our audit. We worked closely with the Director of Finance as these issues were resolved and we are satisfied and the values reflected in the accounts are reasonable.

However, we noted that the PCT had not undertaken a review of all of its assets to assess whether any of them had been impaired as a result of obsolescence or dilapidation and thus warranted a reduction in value.

We recommend that a review of the PCT's fixed assets should be undertaken annually to identify and take into account any impairments that have occurred.

NHS LIFT

The PCT has invested £74,000 in its local Lift scheme and this has been accounted for in the 2004/05 accounts in line with the guidance provided in the NHS Manual for Accounts. United Kingdom Generally Accepted Accounting Principles (UK GAAP) require that investments should be valued annually at the balance sheet date. However, the NHS Manual for Accounts does not require this and the investment is therefore disclosed at cost in the financial statements.

Pooled budgets

The PCT has a pooled budget arrangement with the London Borough of Brent for the provision of learning disability services. The requirement for auditors to certify the pooled budget memorandum accounts (under CI HLG01) has been withdrawn. The memorandum accounts included in the 2004/05 accounts have therefore not been certified.

We recommend that the PCT should ensure that it has adequate arrangements in place to monitor and account for pooled budgets. This includes a review of services against agreements and ensuring that “operational aspects” of any S31 agreements are evidenced.

Accounting for Prescribing Expenditure

In line with guidance provided by the Audit Commission, we reviewed the basis on which prescribing expenditure was accounted for, particularly the accrual included in the accounts for expenditure incurred but not notified to the PCT as at 31 March 2005. We reviewed Prescribing Pricing Authority data received in May, June and July and discussed the appropriateness of the accrual with the Director of Finance and Chief Executive. We were satisfied that the accrual had been calculated appropriately.

Systems of internal financial control

It is the responsibility of the PCT to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility, as auditors, is to consider whether the PCT has met its responsibility to establish systems of internal financial control that are both adequate and effective in practice.

We have reported internal control issues separately to the Audit Committee and action plans to address them have been agreed with officers. Our internal control recommendations are summarised in Appendix A.

Statement on Internal Control

In 2004/05, all NHS bodies in England were again required to produce a Statement on Internal Control (SIC) consistent with the guidance issued by the Department of Health on 5 April 2005 and in the format specified in the letter from Sir Nigel Crisp dated 15 September 2003. The SIC was included in the financial statements and the Annual Report.

The SIC disclosed whether the PCT had risk management and review processes, as evidenced by the Assurance Framework, in place for the whole of the period 1 April 2004 to the date that the accounts were signed.

We reviewed the SIC to consider whether it complied with Department of Health guidance and whether it was misleading or inconsistent with other information available to us from our audit work. We found no areas of concern to report in this context

Standards of financial conduct and the prevention and detection of fraud and corruption

The prime responsibility for the prevention and detection of fraud and irregularities rests with the PCT's management. It is the responsibility of the PCT to ensure that its affairs are managed in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption. It is our responsibility to consider whether the PCT has put in place adequate arrangements to maintain proper standards of financial conduct and to prevent and detect fraud and corruption. It is not the auditors' function to prevent or detect breaches of proper standards and our work does not remove the possibility that fraud or corruption has occurred and remained undetected.

We have had discussions with the Local Counter Fraud Specialist (LCFS) at the PCT and the Director of Finance. The PCT has two LCFS' and each is responsible for distinct areas. It would appear that there are no formal arrangements for discussing annual work plans and regular updates on

investigations and proactive work between the two LCFS'. We also reviewed the annual work plans and from our experience at other NHS bodies it would appear that proportion of pro active reviews was lower.

We recommend that the PCT should undertake a increased level of proactive reviews and should ensure that the roles of the two LCFS' do not leave any gaps and is in line with guidance provided by the Counter Fraud Operations Service.

The legality of financial transactions

During our audit we have reviewed the legality of financial transactions and we do not have any issues to report.

Performance management

Introduction

In September 2004, we undertook a review of performance management at the PCT. The Terms of Reference for this work was developed in conjunction with the PCT. The scope of this project covered the following four areas:

- *Business planning* – The effectiveness of the business planning process to generate performance measures, through the alignment and cascading of corporate objectives, service priorities, financial planning and individual performance appraisal;
- *Performance monitoring and reporting* – The level and quantity of performance information reported to the Board, and its clarity and usefulness in guiding strategic decisions;
- *Management information* – The effectiveness of current management information systems to provide useful information to drive operational performance management, allowing senior managers to maintain and where necessary improve performance;
- *Risk management* – How is risk reported and monitored within the PCT? How effective are working relationships between middle managers, front-line staff and senior management regarding risk identification and investigation?

Main findings

The PCT has made considerable progress in implementing a robust performance management framework and in many respects, is ahead of comparative PCTs that we have reviewed to date.

Areas of good practice include:

- The PCT has set out a clear strategic direction; there is integration between the various strategies and plans in place;
- A process for cascading key strategic objectives throughout the organisation is in place. This helps ensure that staff understand how their work contributes to the overall functioning of the PCT, and this also highlights their required input to improve the PCT's performance;
- The PCT is actively engaging and empowering clinicians in longer-term strategic planning;
- Systems are in place to respond to under-performance and monitor progress;
- Communication mechanisms adopted by the PCT enable two-way communication between senior management and staff. Effective communication is key in ensuring that the PCT's strategic objectives are implemented;
- The PCT is further developing and refining its management information systems for monitoring and interpreting performance information, both from a provider and commissioner perspective; and
- The PCT is increasingly adopting a project and programme management methodology to key initiatives and service developments to help monitor progress made, and ensure successful delivery and hence improved performance.

We identified scope for improvement in the following areas:

- The PCT has put considerable effort into developing and refining their performance reports, which are comprehensive and clear. However, a key focus of current monitoring and reporting arrangements is on achieving the NHS Plan (star rating) targets. There is scope for systems to be more clearly and explicitly aligned to demonstrating improvement against each of the PCT's strategic objectives;
- It is crucial that the PCT continues to improve in the area of financial monitoring and reporting, to enable management to monitor the financial performance and standing of the PCT effectively throughout the year;
- Service Level Agreements with provider trusts are not agreed and signed in a timely manner and this hinders their use as a tool to monitor the level and quality of service provision and address any areas of under-performance;
- The PCT has laid down sound foundations for risk management with the development of their Risk Management Strategy and a risk management committee structure. In addition, there is senior level commitment to improve risk management. The next key challenge for the PCT is to integrate risk management into daily practice and promote the use of risk registers and incident reporting;
- Our review of documentation as part of this audit highlighted that there is scope for objectives to be SMART (specific, measurable, achievable, realistic and timebound); and
- The extensive paperwork issued to Board and PEC members may make it difficult to identify and focus on key issues and areas of under-performance, without getting lost in detail.

Mandatory use of resources studies – Review of Data Quality

Introduction

As part of our 2004/05 external audit programme, we were required by the Healthcare Commission through the Audit Commission to examine the data quality underpinning the following two PCT indicators:

- Community equipment indicator, namely, the percentage of items of equipment or minor adaptations for use by adults and older people delivered during the year within seven days; and
- Coronary Heart Disease (CHD) register indicator, namely, the percentage of GP practices that have carried out a clinical audit and have clinical data no more than 12 months old that describe the provision of appropriate advice on diet, physical activity and smoking and systematic treatment regimes for the care of people with clinical evidence of CHD and other occlusive arterial disease.

This work consisted of a review of the PCT's management arrangements in ensuring good quality information in these two areas, and also included data testing. Key findings from this work are set out below.

Main findings

Community equipment

Overall, we rated the PCT's arrangements to ensure data quality in respect of the community equipment service as '*weak*'. This assessment was made because of key reasons set out below.

- Service specification documents for the integrated community equipment service need to include specific, detailed performance reporting requirements.
- The PCT needs to strengthen its arrangements for recording and reporting accurate and reliable data for the PCT community equipment indicator, by:
 - Developing and implementing a written protocol/guidance (also providing a definition of what constitutes a client delay and what to do if the decision to supply date is not provided). A process mapping exercise could usefully underpin development of such a protocol/guidance;
 - Specifying and implementing clear lines of communication, and roles and responsibilities, including between health and social services staff;

- Undertaking regular, independent data quality checks and reviews, followed by taking appropriate action; and
- Introducing controls to prevent inappropriate data changes.
- There is scope to promote awareness amongst prescribers/service users of the community equipment indicator, why and how it is being measured, and what is required from them to ensure correct measurement.
- It needs to be tested/assured that (1) complete data was transferred from the old to the new equipment store computer system, and (2) reporting tools within the new system meet national definitions (and the local protocol/guidance) and extract the correct data.
- Data testing of 30 cases highlighted good quality data entry, and that a sufficient audit trail is in place. There is scope to better ensure that the decision to supply date is captured (recorded by prescribers).

CHD registers

Overall, we rated the PCT's arrangements to ensure data quality in respect of CHD registers as 'weak'. The PCT needs to strengthen its arrangements in place for accurate and reliable data in respect of CHD registers by:

- Establishing links between the work undertaken by various PCT roles with accountability/responsibility relevant to the CHD register indicator (i.e. clinical audit, CHD registers, data quality within GP practices, calculating the CHD register indicator (if measurement against this indicator is continued by the PCT), and the Quality and Outcomes Framework);
- Introducing a secondary prevention protocol or other form of guidance to capture key National Service Framework indicators (which are not Quality and Outcomes Framework indicators), including measurement of Body Mass Index, and advice on diet and exercise;
- Determining what constitutes evidence to demonstrate that patients with confirmed CHD have been reviewed within the last 12 months

(excluding those that have declined three offers), and capturing this information; and

- Strengthening validation and audit processes (as part of the Quality and Outcomes Framework process) for individual practices by (1) discussing audit results and data quality issues with individual practices and (2) comparing reported prevalence per practice with expected national and local prevalence of CHD.

Poor systems and processes for recording and reporting accurate and reliable data for the CHD register indicator in 2003/04 have been overtaken by the Quality and Outcomes Framework. However, there is a need to address the following gaps in data recorded/ captured:

- Percentage of CHD patients reviewed in the last 12 months;
- Advice on diet;
- Advice on physical activity; and
- Consistency of CHD prevalence with expected national or local rates.

Audit plans and fees update

Audit Plan 2004/05

We issued our Audit Plan for 2004/05 and presented it to the Audit Committee in February 2005.

We have performed appropriate reporting procedures for each of the risks identified in our Audit Plan of 2004/05. We use this Audit Letter to comment only on those areas where we believe we need to communicate these with those charged with governance.

Audit Plan 2005/06

We have issued our Audit Plan for 2005/06 and we presented it to Audit Committee on 13 October 2005. Our Audit Plan is reviewed regularly to ensure that it remains appropriate for the whole of the financial year.

Fees update for 2004/05

We reported our fee proposals as part of the Audit Plan for 2004/05, which we presented to the Audit Committee in May 2004. These fee proposals covered the audit year 2004/05.

Our actual fees were in line with our proposals.

Our fees charged were therefore £160,000.

	2004/05 Outturn (£)	2004/05 Fee proposal (£)
Accounts	69,928	109,928
Financial aspects of corporate governance	40,000	
Performance	50,072	50,072
Total	160,000	160,000

In addition, we planned to perform a review of the performance management framework which fell outside of the Code of Audit Practice requirements. Our proposed fee for that work was £10k and the actual fee was £10k.

Appendix A: Summary of recommendations contained in this letter

	Recommendation	Management Response
1	It is important that the PCT takes steps to identify a clear medium term plan to meet its financial objectives that does not rely upon slippage and other non-recurrent solutions.	Agreed. This will be addressed as part of LDP 2006/07 process. Andrew Parker will take a lead.
2	We recommend that disputes regarding payments due to or from other bodies should be resolved proactively by the PCT in order to ensure that income and expenditure is processed efficiently and effectively and that any potential disputes are identified and resolved promptly. This will also help to reduce any uncertainty regarding debtor and creditor balances at the year-end. The PCT should seek to ensure that, as far as possible, it has signed service level agreements for all activity at the start of the year.	Agreed. This would be on going process. Manu Patel will take a lead on resolving proactively the disputes with other bodies. As part of the initiative from Strategic Health Authority the SLAs would be agreed on a Sector basis. The tPCT has already now received a signed SLA with NWLHT, the largest provider of services. However, due to delay and lack of sufficient information in respect of overperformance in activity, it would always be difficult to verify income with SLAs.
3	We recommend that the PCT monitors the actual costs of implementing Agenda for Change contracts and assesses the impact, if any, that it could have on it's financial position.	Agreed. This is currently being undertaken by HR and Payroll. Paul Beal would action this recommendation
4	We recommend that a review of the PCT's fixed assets should be undertaken annually to identify and take into account any impairments that have occurred.	Agreed. This would be reviewed by Bashir Arif annually as part of the LDP process.
Control issues		
5	We recommend that the PCT should ensure that it has adequate arrangements in place to monitor and account for pooled budgets. This includes a review of services against agreements and ensuring that "operational aspects" of any S31 agreements are evidenced.	Agreed. Samih Kalakeche would implement the recommendation
6	The PCT should periodically review the system based accruals included within its accounts to ensure that the liability exists and that it can be supported with an adequate audit trail. Unnecessary accruals should be written back to the income and expenditure account as necessary.	Agreed. All accruals are periodically reviewed by Management Accounts and appropriate actions would be taken.

	Recommendation	Management Response
7	PCT management should evidence (signature and date) their review of the regular reconciliation of bank accounts that takes place throughout the year.	This is regularly carried out by Manu Patel. However, he would ensure that all bank and other reconciliations are signed and dated in future.
8	We recommend that the PCT should undertake a increased level of proactive reviews and should ensure that the roles of the two LCFS' do not leave any gaps and is in line with guidance provided by the Counter Fraud Operations Service.	<p>The tPCT has signed a work plan in accordance with the recommendation of CFSMS (Counter Fraud and Security Manager Services) and LCFSM. However, the tPCT would ensure that the roles of two LCFs do not leave any gaps and is in line with the guidance provided by the Counter Fraud Operations Service.</p> <p>Mahendra Patel will take a lead.</p>

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