

Brent Council

2005/06 Report to those charged with governance (ISA (UK&I) 260)

Members of the General Purposes Committee
Brent Council
Town Hall
Forty Lane
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HA9 9HD

September 2006

Ladies and Gentlemen

2005/06 Report to those charged with Governance

We are pleased to present our final report in connection with the audit of the 2005/06 Financial Statements. We hope that the information contained in this report provides a useful source of reference for members.

We would like to express our thanks to the management and staff at Brent Council for the assistance given to us during the course of our work.

Yours faithfully

PricewaterhouseCoopers LLP

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

In March 2005 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Executive summary

The purpose of this report

This report summarises the results of our 2005/06 audit of Brent Council's ("the Council's") financial statements.

It includes the issues arising from our audit of the financial statements and those issues which we are formally required to report to you under International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance".

It also includes the results of the work we have undertaken under the Code of Audit Practice in forming our opinion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our work during the year was performed in line with the plan that we presented to members in March 2005. We have issued or plan to issue 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 the most important issues that have arisen during the course of our work.

Audit of the Financial Statements

We have substantially completed our audit of the Council's 2005/06 Financial Statements and anticipate being able to issue an unqualified audit opinion within the 30 September deadline.

The accounts were prepared to a good standard and generally supported by good working papers.

The earlier accounts closure timetable required considerable effort from the finance teams at the Council. It presented a particular challenge in terms of reconciling internal balances. The Council was unable to reconcile its internal debtors and creditors by the deadline for approval for the accounts (30 June). This was partly due to the way in which council units invoice schools and schools accrue for expenditure at 31 March. An adjustment was required to correct unreconciled internal balances of £1.3m, which necessitated an equivalent transfer from schools balances (£0.6m) and general fund balances (£0.6m) to be made to ensure that there was no bottom line impact in the finalised accounts.

We identified some internal control points for management to consider around debt management (particularly reviewing the frequency of write offs of balances that have been provided for), schools finance controls and proposed enhancements to IT controls (which will be communicated separately to Management).

We would like to thank officers for the assistance provided during the audit of the financial statements.

Use of Resources

Under the new Audit Commission Code of Practice we are required to give an opinion on the Council's use of resources. This opinion has been arrived at following an assessment of the Council against a set of criteria issued by the

Audit Commission. We are pleased to confirm that at the time of writing this report we propose to issue an unqualified opinion on Use of Resources.

Audit of the financial statements

Formal communication of relevant audit matters to those charged with governance (ISA 260 Report)

ISA 260 - "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.

In the case of the London Borough of Brent (the Council) we have agreed with you that these matters would normally be communicated to the Performance and Finance Select Committee. However, we agreed with management to issue this report to the General Purposes Committee, given that we are due to issue an opinion on the Council's 2005/06 financial statements before 30 September. Key messages will be summarised in the Audit Commission's Annual Audit Letter. This will be presented to the Performance and Finance Select Committee later in the year.

ISA 260 specifically requires us to communicate the following matters to those charged with governance:

- Expected modifications to the auditors' report;
- Unadjusted misstatements;
- Material weaknesses in the accounting and internal control systems identified during the audit;

- Views about the qualitative aspects of the entity's accounting practices and financial reporting;
- Matters specifically required by other auditing standards to be communicated to those charged with governance; and
- Any other relevant matters relating to the audit.

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

ISA 260 Requirement	Where Reported
Expected modifications to the auditors' report	None
Unadjusted misstatements	None
Material weaknesses in the accounting and internal control systems identified during the audit	Accounting issues section
Views about the qualitative aspects of the entity's accounting practices and financial reporting	Accounting issues section
Matters specifically required by other ISAs (UK and Ireland) to be communicated to those charged with governance	None
Any other relevant matters relating to the audit.	None

ISA 260 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 have substantially completed the audit of the Council's accounts in line with the 'Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP)' and relevant Auditing Standards. At the time of writing this report we anticipate issuing an unqualified opinion.

The accounts were approved by the General Purposes Committee on 29 June, within the deadline for approval of 30 June. This represents good progress from previous years, given the fact that statutory deadlines have been brought forward from 30 September (2002/03 accounts), 31 August (2003/04 accounts) and 31 July (2004/05 accounts).

We received the first draft of the accounts and pension fund accounts prior to the start of the audit, and these were of a good standard and generally supported by sufficient working papers. This helped to ensure that the audit progressed in line with the timetable agreed with officers.

The earlier closure timetable was well managed overall but presented a particular challenge for schools, which prepare their accounts to differing year ends. It was found that schools did not always fully accrue for expenditure at the 31 March, which contributed to problems in reconciling internal balances by the 30 June deadline for approval of the accounts.

Recommendation:

We would encourage the Council to focus on schools closedown process in future periods to ensure that balances are appropriately reconciled. Relevant officers should be provided with as much assistance as possible to ensure that all balances, including accruals, are capable of being reconciled.

Unadjusted misstatements

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature (items less than £1,000). As in previous years, adjustments identified during the audit have been corrected by management.

During the course of our audit, we discussed and agreed various adjustments to the accounts. These are outlined below for information:

- The most significant change was a £1.3m reduction in internal debtors, which is a reflection of the matter raised above. This required an equivalent transfer from schools balances (£0.6m) and general fund balances (£0.6m) to be made, to ensure that there was no bottom line impact. The achievement of a small surplus in the 2005/06 accounts was therefore not affected.
- An adjustment of £4.4m to the Council House revaluation balance, which was required due to an incorrect disposals figure being used;
- An adjustment of £0.7m was required to rectify the incorrect accounting treatment of interest payments for the London Magistrates transfer out of the Pension Scheme, which had been incorrectly coded to lump sum payments;

- An adjustment of £0.3m was required to ensure that discounts and premia on early redemption of debt reconciled to supporting working papers;
- The write-off of bad debt provisions totaling £0.3m, which related to amounts that were deemed irrecoverable or which were not applied against any specific debtor, and;
- The correction of a creditor and stock balances of £0.2m, which were both overstated due to an internal transaction being misposted.

These errors in aggregate were not deemed material for the purposes of the audit opinion, however all adjustments were made and have been suitably reflected in the updated draft of the accounts.

Accounting issues

Internal control

ISA 260 requires us to report to you any material weaknesses in the accounting and internal control systems identified during the audit.

During our audit of this year's financial statements, we have not identified any material weaknesses in the Council's internal control systems. We identified some internal control findings which came to our attention during the audit, which are outlined at Appendix B. Our findings are based on the work undertaken and should not be considered to be an exhaustive list of all control weaknesses. We have not sought to repeat observations made by Internal Audit in this report.

IT issues

As in previous years, we were unable to adopt a systems-based audit approach, particularly given the lack of integration between the existing three ledger platforms (Unity, Oracle and Epicor). As a result, our audit approach was largely substantive.

We also identified some proposed enhancements to the Council's IT controls around segregation of duties; documentation of procedures and systems

back-up. These will be communicated to management and a separate letter will be issued to the Director of Finance and Corporate Resources once all the management responses have been received.

Schools

We also undertook specific testing at a sample of schools and identified some proposed enhancements around the documentation of internal control procedures as well as schools' budgeting processes and closedown procedures. Recommendations have been included at Appendix B in respect of these points.

Debt management

We identified some issues in previous years around debt recovery, the potential need to analyse debts, and write off balances where it is clear that amounts cannot be recovered.

One of the themes of our debt management report (see Use of Resources section, below) was to review the frequency of write offs of debt that have been fully provided. As part of our accounts audit, we identified some instances (including Council Tax and Housing Resources Centre) where it may become appropriate to write off amounts that have been fully provided. If amounts deemed irrecoverable are not written off, there is a risk that management information may be distorted in a way that could impact on the Council's ability to recover older debts.

Recommendation:

It is recommended that a more systematic approach to writing off debt be explored, which could include issuing clear guidelines on write off procedures to Finance Officers.

We are aware that the Council has debts totalling £7.8m with Brent Primary Care Trust, the majority of which is over 90 days old. Officers are actively working to reduce and fully recover amounts outstanding from Brent and other PCTs. The Director of Finance and Corporate Resources is satisfied

that no bad debt provisions are necessary. We will continue to review progress in relation to recovery of debt, and the possibility of provision being created, as part of our 2006/07 audit.

Electors' Questions

We have not received any significant Electors Questions since the presentation of 2004/05 audit letter.

Internal Audit

We have maintained a good working relationship with the Council's internal audit service during 2005/06.

As part of our wider assessment of the Council's control environment we are required to review the internal audit arrangements. We have reviewed the 2005/06 Internal Audit plan and, where applicable to our audit approach, individual audit reports.

Our planned approach involved more detailed testing by us at Service Unit level compared with previous years - work which has historically been undertaken by Internal Audit at Brent. This approach was discussed and agreed with officers, and was partly intended to assist with managing resourcing pressures in the internal audit function.

We have been able to place reliance on the work performed by internal audit in the majority of areas where we have sought to rely on their work this year. We did, however, identify some isolated gaps in audit documentation (on the Council Tax benefit audit file), which arose partly due to the auditor leaving the Council. Steps were taken to review the work done and to rectify these issues where possible.

We are grateful to the internal audit staff for their co-operation during the audit.

Standards of Financial Conduct and the Prevention and Detection of Fraud and Corruption

We have not identified any significant weaknesses in the Council's arrangements to prevent and detect fraud and corruption. The Council's dedicated fraud investigations team continues to investigate a number of incidents in the borough, and are closely involved in the ongoing pursuit of these cases that have been brought to our attention during the year.

The Legality of Financial Transactions

There are no significant matters to bring to members' attention.

Use of Resources

Use of Resources Conclusion

Under the new Audit Commission Code of Practice we are required to provide an opinion on the Council's use of resources. This annual assessment evaluates how well the Council manages and uses its financial resources. It involved us assessing the Council against a set of criteria issued by the Audit Commission. The review focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.

Our assessment is based on the use of resources assessment undertaken last year as part of the CPA process and updated as necessary and other information that came to our attention during the course of our audit, including our review of the arrangements to secure data quality, which is noted later in this section.

Using these criteria we have concluded that the Council has adequate arrangements in place. Details of our conclusion on each of the criteria specified by the Code of Practice are set out in Appendix C.

Data Quality

We undertook a review of data quality management arrangements in accordance with the audit guide published by the Audit Commission in June 2006. The review assessed the Council's arrangements for securing data quality in 5 areas: Leadership and Governance, Policies and Procedures, Systems and Processes, People & Skills and Data Use. Our review concluded that the Council's arrangements meet at least minimum

requirements (level 2 or above) against all of the key lines of enquiry (KLOEs).

Under the Leadership and Governance KLOEs the Council demonstrated a strong corporate commitment to data quality, clarity of roles and responsibilities, and a well established and effective framework for monitoring and improving data quality. The Council's arrangements for using performance data were assessed as being particularly strong (level 4) as it has well established performance reporting and performance management arrangements. Our key recommendations relate to Policies and Procedures (KLOE 2) and Systems and Processes (KLOE 3). Our recommendations include a need for the Council to formalise existing data quality related procedures and processes into an overarching data quality policy which is disseminated to staff across the organisation and to strengthen arrangements for regularly testing the robustness and security of performance information systems. Our final overall score for data quality will be confirmed following satisfactory completion of stage 3 (spot checks) on a sample of selected performance indicators. Stage 3 is due to be completed in late September 2006.

Best Value Performance Plan

Our work on the 2005/06 Best Value Performance Plan (BVPP), issued by the Council in June 2005, resulted in an unqualified opinion. Our audit report on the BVPP was issued in December 2005 and reported in our 2004/5 Audit Letter.

Statement on Internal Control

In 2005/06, all local authorities are required to produce a Statement of Internal Control (SIC). The SIC was included within the Council's financial statements.

The SIC disclosed whether the Council has had risk management and review processes in place for the whole of the period 1 April 2005 to the date on which the accounts were signed.

We reviewed the SIC to consider whether it complied with the CIPFA guidance and whether it is misleading or inconsistent with other information known to us from our audit work. To date we have found no areas of concern to report in this context, however, we are still completing our review of the supporting evidence for the SIC.

Targeted audit work

Targeted audit work has been undertaken on debt management in the year. The results of this work are to be presented to the Strategic Finance Group in due course.

2006 Use of Resources assessment

In addition to our conclusion on the Council's financial arrangements we will, as part of the Audit Commission's ongoing CPA process, assess how well the Council manages and uses its resources. This will be the second year we have carried out this assessment. The questions on which the judgments are based are broad and strategic in their nature and reflect the impact of financial arrangements as well as the adequacy of those arrangements. The assessment is based on assessment criteria developed by the Audit Commission. Our work to support our assessment comprises the following elements:

- Financial Reporting
- Financial Management

- Financial Standing
- Internal Control
- Value for Money

Last year, the Council's scores were as follows:

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Overall	3 out of 4

(Note: 1=lowest, 4=highest)

Under the Audit Commission's definition a score of 3 represents a council that is consistently above the minimum requirements and performing well.

The current use of resources assessment is being undertaken at present and the process will again be subject to a national quality assurance process. The results will be reported to the Council in November and the Audit Commission will incorporate the results in their Annual Audit and Inspection Letter.

In reaching our conclusions, we will be building on the work undertaken in the previous year as well as our cumulative audit knowledge of the Council. Our understanding is informed further by the Council's own self assessments, which are used as the basis for detailed interviews with senior officers and members.

This year there is an increased focus on the extent to which the elements of each theme, as set out in the Audit Commission's Key Lines of Enquiry document, are embedded and operating effectively. We have already

received the Council's self assessments and have undertaken some of the interviews with officers and members. We are still in the course of gathering our evidence and at this stage, are not in a position to provide members with an interim judgment.

In recognition of the earlier deadline for issuing an opinion on the financial statements, the deadline set by the Audit Commission for completing the fieldwork at London Boroughs has been extended to 23 October (previously 30 September). We will report our opinions and any significant matters arising at that time. These will be set out in a report to the Director of Finance and Corporate Resources, as well as being summarised in the Audit Letter produced by the Audit Commission – both of which will be presented to Performance and Finance Select Committee later in the year.

Audit plans and fees update

Audit Plan 2005/06

We issued our Audit Plan for 2005/06 and presented it to members in March 2005.

We have reviewed and reported as appropriate on each of the risks identified in our Audit Plan. In this report we comment only on those areas where we believe we need to communicate with those charged with governance.

Fees update for 2005/06

We reported our fee proposals as part of the Audit Plan for 2005/06. Our fees charged were:

	2005/06 Outturn	2005/06 Fee proposal
Accounts	283,000	260,000
Value for Money	130,000	130,000
Total	413,000	390,000

An increase in fees was required from our initial proposal due to new International Statements on Auditing (ISAs) and work required in respect of the Whole of Government Accounts exercise. We discussed the reasons for the increase in fees with the Director of Finance and Corporate Resources in June 2006. Both increases were consistent with instructions issued by the Audit Commission regarding additional audit work which was not reflected in initial fee scales.¹

¹ The Audit Commission concluded that ISAs increased auditors' mandatory workload by approximately 5% (in its *Proposed Work Programme and Fee Scales 2006/07* document). Auditors were also advised (via the *Audit Commission's Auditor Briefing 1/2006*) that Whole of Government Accounts audit work represented additional work, outside initial fee scale proposals.

Appendix A: Audit reports issued in relation to the 2005/06 financial year

The following audit reports have been issued in relation to the 2005/06 financial year:

- 2005/06 Audit Plan (March 2005); and
- Report on the 2005/06 Best Value Performance Plan (December 2005).

To follow:

- Audit opinion in relation to the 2005/06 Accounts;
- Auditor's conclusion on whether there are proper arrangements for securing economy, efficiency and effectiveness in the Use of Resources;
- Debt management report;
- Use of Resources Assessment;
- Annual audit letter; and
- Grants report.

Appendix B: Internal Control Recommendations

Ref.	Findings	Risk	Recommendation	Management response
Accounts issues				
1	The Council was unable to reconcile its internal debtors and creditors by the deadline for approval for the accounts (30 June). This was partly due to the way in which council units invoice schools and schools accrue for expenditure at 31 March.	This resulted in internal balances not being fully reconciled. Adjustments totalling £1.3m were required in relation to unreconciled internal balances.	We would encourage the Council to focus on schools closedown process in future periods to ensure that balances are appropriately reconciled. Relevant officers should be provided with as much assistance as possible, to ensure that all balances, including accruals, are correctly stated.	Management response: After the 2005/2006 accounts have been finalised, the closing process will be reviewed (as in previous years). The review will focus on areas for improvement including the reconciliation of internal debtors and creditors. Action will be taken before the accounts are submitted to committee. Responsibility: Mark Peart Timescale: June 2007
2	Some instances were identified (including Council Tax and Housing Resources Centre) where it may become appropriate to write off amounts that have been fully provided for.	If debt is not written off on a systematic basis, debt provisions may be overstated.	It is recommended that a more systematic approach to writing off debt be explored, which could include issuing clear guidelines on write off procedures to Finance Officers.	Management response: This will be reviewed. If appropriate, old debts that have been fully provided for will be written off. However all possible action will still be taken to recover debts. Responsibility: Peter Stachniewski Timescale: March 2007
3	The London Borough of Brent Financial Information for Schools document sets out the standard of financial management expected in schools. However, there is currently no requirement that schools	Without such a document, it may be difficult to ensure the consistent application of financial controls if members of finance staff leave. Individual procedures for schools	It is recommended that each school should draft their own internal control procedures which would be approved by the governing body.	Management response: Schools are required to adhere to the Council's Financial Regulations, which include procedures for internal control. School ownership of this area will be further strengthened through the

Ref.	Findings	Risk	Recommendation	Management response
	incorporate this into an individual internal control procedures document.	enable staff to have a smooth handover of roles and responsibilities within the finance function and ensure consistency across the Council's schools.		completion of the FMSIS toolkit to be completed by all schools and subject to external assessment. Responsibility: Head teachers/ Governing Bodies Timescale: Financial Year 2006/07
4	We identified that is not always a clear link between the school improvement plans ("SIPs") and the school budget.	Schools prepare SIPs in a format required by OFSTED but there is a risk that resources may not be allocated in the annual budget and the school's objectives may not therefore be met.	The SIP should show the source of funding to carry out the plan itself.	Management response: The SIP is a specific document required by OFSTED. Finance and Performance issues the Gold Book to schools every year. The introduction to this budget guidance documents advises schools that "A school's budget is a statement of its policy, aims and objectives in financial terms". Schools are advised that the budget should be set to deliver what is contained in the SIP/SDP. Some school SIPs/SDOPs have a column for budgetary impact, although this sometimes focuses on time requirements rather than direct cost. We will review guidance and support for schools to aim to ensure consistency with this requirement. Responsibility/Timescale: To be established.
5	Schools are advised annually of the de-minimis level for accruals and of all other requirements by means of school circulars issued in February. In the course of our audit we noted that all schools were not adhering to guidance on various points, including the de-minimis level for accruals.	There may be misunderstandings over the close down procedures, leading to errors in the accounts.	These issues could be resolved by a seminar for staff to brief them on the year-end process.	Management response: Nearly all schools receive a visit from Children and Families finance staff and regular meetings are held with Foundation School bursars where closing issues are discussed. We will review the guidance given to schools to ensure they are clear about what they need to do to ensure the guidance is consistently applied. Responsibility/Timescale: To be established.

Appendix C: Use of Resources conclusion

The Audit Commission has published 12 Code of Practice criteria on which auditors will be required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its Use of Resources.

In forming a conclusion in respect of Code Criteria 1-3, we have taken into account the most recent corporate assessment. In forming a conclusion in respect of Code Criteria 4, we have taken into account work undertaken on the 2005-06 BVPP and BVPIs. In addition, any other work on data quality, including work on the 2006-07 BVPP and BVPIs undertaken prior to the finalisation of the UoR Conclusion has been taken into account when forming the Use of Resources Conclusion. In forming a conclusion in respect of Code Criteria 5-12, we have taken into account the work we undertook in August – October 2005 using the Audit Commission's Key Lines of Enquiry (KLoEs), which is summarised in the Use of Resources section of this report. A score of Level 2 or higher under the KLoEs will result in an assessment of adequate for the purposes of the Code criteria. The Code criteria and the linked KLoEs are shown in the table below:

Code Criteria	Description	Associated KLoE	CPA Score	Use of Resources Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	3	Adequate

Code Criteria	Description	Associated KLoE	CPA Score	Use of Resources Conclusion
5	The body has put in place arrangements to maintain a sound system of internal control	4.2	3	Adequate
6	The body has put in place arrangements to manage its significant business risks.	4.1	2	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	2	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	3	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	3	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	3	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	3	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	3	Adequate

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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