

Government and Public Sector Assurance

June 2007

# Mental Welfare Commission for Scotland

## Annual Report to Members

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6 June 2007

Our ref: LP/EW

Ladies and Gentlemen

**Annual Report to Board Members 2006/07**

We have completed our audit of Mental Welfare Commission for Scotland and its financial statements for the year ended 31 March 2007.

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2006/07 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers LLP

# 1. Introduction

## **Introduction**

- 1.01 The Mental Welfare Commission for Scotland is an independent organisation working to safeguard the rights and welfare of everyone with a mental illness, learning disability or other mental disorder.
- 1.02 It does this by: finding out whether individual care and treatment is in line with the law and good practice; challenging service providers to deliver best practice in mental health and learning disability care; providing information, advice and guidance to service users, carers and service providers; having a strong and influential voice in service and policy development; and promoting best practice in mental health law.

## **PricewaterhouseCoopers' Audit Responsibilities/Code of Audit Practice**

- 1.03 Our overall responsibility as external auditor of Mental Welfare Commission for Scotland is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007.
- 1.04 In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources.
- 1.05 Our audit has been planned and conducted to take account of this wider perspective.
- 1.06 Mental Welfare Commission for Scotland Board Members and the Accountable Officer are, together with other matters, responsible for:
- Ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
  - Maintaining proper accounting records
  - Preparing financial statements which give a true and fair view of the organisation's financial position and its expenditure and income, in accordance with the Financial Reporting Manual.

- 1.07 In this regard, we are responsible for issuing an audit report (opinion) on:
- Whether the financial statements give a true and fair view of the financial position and expenditure and income
  - Whether the financial statements have been properly prepared in accordance with relevant legislation, accounting standards and other reporting requirements
  - The regularity of expenditure and income
- 1.08 This Annual Report to Members summarises key aspects of our work throughout the audit year, highlighting any matters which we believe should be brought to your attention.

#### **Required communications**

- 1.09 Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "*Communication of audit matters to those charged with governance*", we are required to communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity.
- 1.10 For the purposes of ISA 260, we regard the Audit Committee members of Mental Welfare Commission for Scotland as the relevant body, comprising "those charged with governance".
- 1.11 Those matters of governance interest that in our view should be communicated to the Audit Committee are included within this report and within previous reports to the Audit Committee during the year.

#### **Audit independence**

- 1.12 As external auditors of Mental Welfare Commission for Scotland we are required to be independent in accordance with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants and by the Ethical Standards established by the Auditing Practices Board.
- 1.13 These standards require that we disclose to the members all relationships that, in our professional judgment, may reasonably be thought to bear on our independence.
- 1.14 At the start of the audit process we carried out an initial review of links between PwC and Mental Welfare Commission for Scotland and we were satisfied that appropriate steps have been put in place to ensure independence, objectivity and integrity within the requirements of the regulatory and professional framework.
- 1.15 This area has been kept under review and we confirm that no issues have arisen to impair our independence, objectivity and integrity.
- 1.16 We further confirm that we are not presently aware of any relationship or non-audit services that would impair our audit independence.

## **Acknowledgements**

- 1.17 We would like to thank all staff involved for their assistance throughout the audit process.

## 2. Independent Auditors' Report and Key Financial Targets

### Independent Auditor's Report

- 2.01 Our Independent Auditors' Report concerns both the true and fair statement of Mental Welfare Commission for Scotland's financial results for the year ended 31 March 2007 and the regularity of its income and expenditure in the year.
- 2.02 We are pleased to report that our true and fair view on the financial statements is unqualified.
- 2.03 Our regularity opinion is also unqualified.
- 2.04 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is unqualified.

### Financial Targets

- 2.05 The Scottish Executive Health Department ("SEHD") set three financial targets for Mental Welfare Commission for Scotland. These are:
- To stay within its Revenue Resource Limit;
  - To stay within its Capital Resource Limit; and
  - To stay within its cash limit.
- 2.06 Mental Welfare Commission for Scotland's performance against these targets was as follows:
- An under-spend of £273,803 was made against the Revenue Resource Limit;
  - The Capital Resource Limit was met exactly with payments £42,600; and
  - An under-spend of £322,000 was made against the cash limit.
- 2.08 This means the Mental Welfare Commission for Scotland has achieved its financial targets for 2006/07.

# 3. Financial Performance in 2006/07

3.01 Mental Welfare Commission for Scotland (MWC) is responsible for conducting its affairs and for putting in place proper arrangements to ensure that its financial position is soundly based.

### Financial performance in the period under audit

3.02 MWC reported a surplus of £273,803. The 1% carry forward allowed by the SEHD in respect of under-spends means that MWC can carry forward £40,000 to 2007/08. The figures and commentary which follow have been extracted from reports and supporting papers provided by MWC, along with discussions with management.

Operating Cost Statement	2006/07	2005/06
	£	£
Clinical Service Costs	0	0
Administration Costs	(3,753,597)	(3,526,074)
Other Operating Income	4,000	0
<b>Net Operating Costs</b>	<b>(3,749,597)</b>	<b>(3,526,074)</b>

Summary of Revenue Resource Outturn	2006/07	2005/06
	£	£
Net Operating Costs	(3,749,597)	(3,526,074)
Revenue Resource Limit	4,023,400	3,586,000
<b>Saving/(excess) against Revenue Resource Limit</b>	<b>273,803</b>	<b>59,926</b>

3.03 As shown in the table above, the majority of the figures included above have remained relatively stable from 2005/06 to 2006/07.

3.04 The main factor in the under-spend against Revenue Resource Limit is the lower than expected payroll costs. These were caused by a combination of the following factors:

- Delays in filling vacancies;
- Lower than anticipated volumes of 2<sup>nd</sup> opinion doctors' fees.

3.05 Further analysis of performance in the year is contained in **Appendix 1**.



<b>Summary of Capital Resource Outturn</b>	<b>2006/07</b>	<b>2005/06</b>
	<b>£</b>	<b>£</b>
Capital Expenditure	(42,600)	(421,367)
Capital Resource Limit	42,600	423,000
<b>Saving/(excess) against Revenue Resource Limit</b>	<b>0</b>	<b>1,633</b>

3.06 The only capital expenditure in the year was £42,600 which was spent on upgrading the information management system. No Capital Resource had been granted at the start of the year but MWC was given formal permission to transfer £42,600 from revenue to capital.

#### **End of year position**

3.07 The table below sets out the Balance Sheet as at 31 March 2007.

<b>Group Balance Sheet</b>	<b>2006/07</b>	<b>2005/06</b>
	<b>£</b>	<b>£</b>
<b>Fixed Assets</b>		
Tangible Fixed Assets	586,391	712,093
Investments	-	-
	<b>586,391</b>	<b>712,093</b>
<b>Current Assets</b>		
Stocks	0	0
Debtors	130,613	73,114
Cash at bank and in hand	763	295
	<b>131,376</b>	<b>73,409</b>
Creditors: amounts falling due within one year	(291,284)	(200,291)
<b>Net current (liabilities)</b>	<b>(159,908)</b>	<b>(126,882)</b>
<b>Total Assets less current liabilities</b>	<b>426,483</b>	<b>585,211</b>
Creditors: amounts falling due in more than one year	0	0
<b>Net assets excluding pension liability</b>	<b>426,483</b>	<b>585,211</b>
Pension Liability	(261,000)	(350,000)
<b>Net Assets</b>	<b>165,483</b>	<b>235,211</b>
<b>Capital and Reserves</b>		
General Fund	422,483	572,211
Pension Reserve	(257,000)	(337,000)
	<b>165,483</b>	<b>235,211</b>

### *Commentary on Balance Sheet*

- 3.08 2006/07 has seen a decrease in Net Assets of £69,728. The decrease in the value of fixed assets of £125,702 is largely responsible for this, reflecting depreciation charges in the year with little investment in new assets.
- 3.09 Other key movements on the Balance Sheet include:
- an increase in net current liabilities of £33,026;
  - a reduction in the pension liability of £89,000.
- 3.10 The increase in net current liabilities is due to:
- an increase in creditors due within one year of £81,993 largely caused by an increase in accruals at the year end.

# 4. Forecast Financial Position for 2007/08

## Financial Plans for Future Periods

- 4.01 Financial plans for 2007/08 are set out in MWC's budget for the year ahead.

### Expenditure Forecast 2007/08

£ million	2006/07 Actual	2007/08 Budget
Total Personnel costs	2,529,598	2,739,696
Total Travel and Subsistence	108,855	133,000
Total Other Expenditure	788,920	784,126
Total Accommodation	309,724	323,178
Non-Recurring Expenditure	12,500	20,000
<b>Total expenditure</b>	<b>3,749,597</b>	<b>4,000,000</b>

- 4.02 The table above sets out the budget for 2007/08, with further details provided in **Appendix 2**.
- 4.03 There has been no incremental increase in MWC's RRL for 2007/08 meaning MWC will have to remain within the same £4,000,000 allocation.
- 4.04 In addition to the £4,000,000 budgeted for above, a revenue carry forward of £40,000 has been approved along with a capital allocation of £177,000.

### Efficient Government Initiative

- 4.05 The Scotland-wide Efficient Government initiative is designed to deliver public sector savings of £500 million by 2007/08 and £1 billion by 2009/10.
- 4.06 MWC have not been set any specific targets in relation to this.

# 5. The Audit Process and Accounting Issues

## **Audit Process**

- 5.01 The Financial Statements and supporting schedules were presented to us for audit within the agreed timetable and we were provided with sufficient information to allow our audit to progress satisfactorily.
- 5.02 The quality of working papers provided was of a good standard. We believe an effective audit process was achieved for the audit and an open working relationship has been developed and now exists with your officers.

## **Financial Reporting**

- 5.03 The financial statements of Mental Welfare Commission for Scotland for the year ended 31 March 2007 have been prepared to comply with the National Health Service (Scotland) Act 1978.
- 5.04 These financial statements have been prepared under the accounting policies set out within them.

## **Accounts Approval**

- 5.05 The Financial Statements were considered by the Audit Committee on 15 June 2007, and then recommended to the 25 June 2007 Board, where they were to be approved and adopted.

## **Accounting Issues**

- 5.06 We noted the following accounting issues during the course of our audit of the financial statements.
- 'Note 2(a)' in the prior year accounts did not include the disclosure of £135,233 relating to 2<sup>nd</sup> opinion doctors fees albeit the amount was included in expenditure overall. The prior year disclosure has been updated to include this.

## **Misstatements and Significant Audit Adjustments**

- 5.07 Misstatements represent audit findings for which we do not agree with the amount, classification, presentation or disclosure of items in the financial statements. A misstatement may arise from an error or fraud and other irregularity. An error refers to an unintentional misstatement in financial statements, including an omission of amount or error.
- 5.08 In conducting our procedures, we may identify misstatements that require adjustments to the recorded amounts. These audit

adjustments are discussed with management who, in consultation with us, determine if an adjustment should be recorded. Our expectation is that all non trivial differences are adjusted.

5.09 A number of disclosure adjustments were noted during the course of our audit. These have all been processed by management.

## 6. Systems of Internal Control

- 6.01 It is part of management's overall responsibility to design and maintain an appropriate system of internal controls to provide reasonable assurance that the accounting systems provide timely, accurate and reliable financial information and to safeguard Mental Welfare Commission for Scotland's assets.
- 6.02 As auditors, we obtain a sufficient understanding of internal controls to plan the audit. The understanding includes knowledge about the design of policies and procedures and whether they have been implemented, but does not necessarily extend to evaluating the operating effectiveness of all such policies and procedures. We only evaluate, and test, those internal controls on which we plan to rely during our audit and which are required in relation to our Code of Audit Practice responsibilities. Accordingly, an audit would not usually identify all matters of interest to management in discharging its responsibilities.
- 6.03 MWC uses the Scottish Executive Accounting System (SEAS) and so does not maintain its own accounting system. PwC has not undertaken a review of SEAS, but has placed reliance upon the work of Audit Scotland.
- 6.04 Systems reviewed by PwC directly during the audit included:
- Creditors; and
  - Payroll.

### Control Weaknesses Identified

- 6.05 For our purposes, a material weakness is a condition in which the design or operation of the specific internal controls does not reduce to a low level the risk that error or irregularities in amounts material to the financial statements may occur and may not be detected within a timely period by MWC. ***We noted no matters with respect to internal control that we considered to be material weaknesses.***
- 6.06 However, in the course of our examination, one new area for improvement in internal controls came to our attention in respect of the need to ensure all purchase orders are authorised. This matter was reported in our previously submitted Internal Controls Report and was supported by appropriate Management actions.

- 6.07 No additional controls matters were noted during the course of our final audit visit.

#### **Follow Up Of Previous Control Matters**

- 6.08 As part of our 2006/07 audit work, we planned to follow up progress in implementing the agreed audit recommendations included in prior year reports. As a result, we reviewed the Annual Report issued by Mental Welfare Commission for Scotland's previous external auditors (KPMG) as part of the 2005/06 audit, with a view to following up the recommendations.
- 6.09 The two recommendations included in the report required MWC to obtain a creditors listing broken down by age and to establish a file for non standard journals. Through our discussions with staff and testing performed we have obtained comfort over the processing of journals. As the Creditors figure is maintained on the SEAS, MWC has no control over the reports which are available to be run. No additional action is required by MWC.

#### **Internal Audit**

- 6.10 As recommended by the International Statement of Auditing Standard (ISA) 610, "Considering the Work of Internal Audit", we considered the work undertaken by Internal Audit for the current financial year, to establish progress against its plan and review its completed reports to determine the main issues being reported.
- 6.11 Internal Audit has issued its annual Report regarding the internal control environment at MWC. This opinion stated that:

"It is my opinion that:

- The Director, as Accountable Officer, can sign the proposed Statement on Internal Control;
- The Commission has adequate and effective internal controls;
- The Director has a satisfactory framework in place to discharge his responsibilities as Accountable Officer."

# 7. Governance Arrangements

7.01 The MWC discharges its responsibilities for Corporate Governance in a number of ways, including:

- Risk management arrangements;
- Strategic planning; and
- Committee arrangements.

## *Risk Management Arrangements*

7.02 The Commission has an established risk management strategy in place. This incorporates a risk universe identifying all the key operational areas of the Commission's work and associated risks and is reviewed and updated on a biannual basis by a risk management group.

## *Strategic Planning*

7.03 During the year, a review was undertaken into the purpose and direction of the organisation and consultations were carried out with external stakeholders. This resulted in the production of a five year strategic plan with clear descriptions of the Commission's aims, strategic objectives and key performance indicators that will measure whether these objectives are being achieved.

## *Committee Arrangements*

7.04 A new standing committee was established during the year – the Mental Health and Adults with Incapacity Acts Monitoring Group. This group receives and approves monitoring information on the operation of legislation, recommends monitoring priorities for the Commission and approves advisory statements, in response to questions relating to the acts, for publication on the MWC website.

7.05 The Commission is supported by an audit committee comprising five part-time commissioners and is chaired by a part-time commissioner.



# 8. Prevention and Detection of Fraud and Irregularities

## **Responsibility with respect to Fraudulent and/or Illegal acts**

- 8.01 The preparation of the financial statements is the responsibility of management. Our responsibility as auditor is to express an opinion on those financial statements.
- 8.02 Effective internal control reduces the likelihood that errors, fraud or illegal acts will occur and remain undetected; however, it does not eliminate that possibility. Our responsibility regarding fraud is to obtain reasonable assurance that material misstatements resulting from fraud will be detected.
- 8.03 Accordingly, while we cannot guarantee that all errors, fraud or illegal acts, if present, will be detected, we will design our audit to provide reasonable, but not absolute, assurance of detecting errors or fraud that would have a material effect on the financial statements as well as illegal acts having a direct and material effect on the financial statements.
- 8.04 It is important to recognise that there are inherent limitations in the auditing process. For example, audits are based on the concept of selective testing of the data underlying the financial statements and are, therefore, subject to the limitation that material misstatements arising from the consequences of errors or fraud, or illegal acts, if any exist, may not be detected.
- 8.05 Also, because of the nature of fraud (including attempts at concealment through collusion and forgery) an audit designed and executed in accordance with appropriate auditing standards may not detect a material fraud.

## **Fraud and Corruption Reviews**

- 8.08 Our approach has been determined through consideration of the incentives, pressures, opportunities, attitudes and any indicators of fraud. The results of this analysis did not highlight any major fraud risk factors at Mental Welfare Commission for Scotland.
- 8.09 During our audit we conducted enquiries of management, considered results of analytical procedures and considered whether there are conditions generally present to commit fraud. We assessed risks of fraud throughout the audit and evaluated management's programmes and controls relating to fraud.
- 8.10 As part of our audit, we examine journal entries and accounting estimates, for biases, and add an element of unpredictability in audit procedures year to year. We did not identify any evidence that

indicates that fraud exists in Mental Welfare Commission for Scotland.

- 8.11 Our enquiries of management and our testing of financial records did not reveal any illegal or possible illegal acts. However, improper conduct is usually carefully concealed and consequently, the probability is not high that our regular audit work, however diligently performed, will bring it to light.

#### **Fraud Submission**

- 8.12 The Mental Welfare Commission for Scotland has submitted a nil return in respect of frauds during 2006/07.

# Appendix 1: Additional Information 2006/07

<b>NHS Board MWC 2007</b>	<b>£m</b>	<b>£m</b>
Recurring income	4.010	
Recurring expenditure	3.737	
<b>Underlying recurring surplus/(deficit)</b>		<b>0.273</b>
Non-recurring income	0.013	
Non-recurring expenditure	0.013	
Balance of non-recurring	0	
<b>Difference</b>		<b>0</b>
Other income sources	0	
Non-recurring SEHD income/year-end support	0	
Corporate savings programme	0	
Total other income	0	
<b>Financial surplus/(deficit)</b>		<b>0.273</b>

# Appendix 2: Additional Information 2007/08

<b>NHS Board MWC 2008</b>	<b>£m</b>	<b>£m</b>
Recurring income	3.980	
Recurring expenditure	(3.980)	
<b>Underlying recurring surplus/(deficit)</b>		<b>0</b>
Non-recurring income	0.02	
Non-recurring expenditure	(0.02)	
Balance of non-recurring	0	
<b>Difference</b>		<b>0</b>
Other income sources	0	
Non-recurring SEHD income/year-end support	0	
Corporate savings programme	0	
Total other income	0	
<b>Financial surplus/(deficit)</b>		<b>0</b>

# Appendix 3: Responsibilities of External Audit and Mental Welfare Commission for Scotland and its Management

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of Mental Welfare Commission for Scotland and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility, we evaluate significant financial systems and associated internal controls and, where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist Mental Welfare Commission for Scotland regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with Mental Welfare Commission for Scotland and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to Mental Welfare Commission for Scotland or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with Mental Welfare Commission for Scotland. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach, we consider these arrangements but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of Mental Welfare Commission for Scotland and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of Mental Welfare Commission from Scotland to put in place proper arrangements to ensure the proper conduct of its financial affairs and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the

financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct and the prevention and detection of fraud and corruption.

It is the responsibility of Mental Welfare Commission for Scotland to put in place proper arrangements to manage its performance in order to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that Mental Welfare Commission for Scotland has put in place to secure economy, efficiency and effectiveness in its use of resources.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to Mental Welfare Commission for Scotland during the year as listed at **Appendix 4**.

### **Materiality**

Materiality is defined by the International Accounting Standards Board in the following terms:

*“Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends upon the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”*

Overall audit risk and materiality are significant concepts used in determining the extent of audit work.

Guidelines for this organisation suggest that preliminary materiality be set at approximately 0.5% of turnover. However, materiality is not simply a quantitative figure. Qualitative aspects also need to be considered in assessing whether something would be significant to a user of the financial statements.

The final assessments as to what comprises a material error in the financial statements is a matter of judgement and has been made in accordance with ISA320 “Audit Materiality”.

### **Management’s Judgments and Accounting Estimates**

Management has the responsibility for applying judgment in preparing the accounting estimates and disclosures contained within the financial statements.

# Appendix 4: Other Formal Reports Submitted During the 2006/07 Audit Process

Reports submitted by PricewaterhouseCoopers LLP during the 2006/07 audit process

## **Planning visits**

Outline Audit Approach

## **Interim Visit**

Interim Controls Report including Follow Up of Prior Year Issues

## **Final Accounts Visit**

Audit Opinions

Annual Report to Board Members

### **Freedom of Information (Scotland) Act 2002**

*This report is intended solely for the information of the Members of the Board of Mental Welfare Commission for Scotland and the Auditor General for Scotland. In the event that, pursuant to a request which these parties receive under the Freedom of Information (Scotland) Act 2002, it will notify PwC promptly and consult with PwC prior to disclosing such External Audit Report. Mental Welfare Commission for Scotland agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Mental Welfare Commission for Scotland shall apply any relevant exemptions which may exist under the Act to such External Audit Report. If, following consultation with PwC, Mental Welfare Commission for Scotland discloses this External Audit 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. PricewaterhouseCoopers LLP does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.*

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