

Annual Governance Report

July 2006



Annual governance report

Dudley MBC

Audit 2005/2006

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Authority

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Authority's Audit Committee is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.
- 2 We are also required by professional auditing standards to report to the Audit Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the Authority for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principal purposes of the report are:
 - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Audit Committee;
 - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
 - to provide the Audit Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
 - the Authority's financial statements; and
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work. The results of our inspection work, and our separate grant claims' certification programme, will be reported in the Relationship Manager Letter later in the year.

- 8** We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

Key messages

Financial statements

- 9 Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 29 September 2006 (a draft report is attached at Appendix 5).

Use of resources

- 10 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We anticipate being able to issue an unqualified conclusion on the use of resources by 29 September 2006 (a draft report is attached at Appendix 5).

Financial statements

- 11 We are required to give an opinion on whether the Authority's financial statements present fairly the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Status of the audit

- 12 Our work on the financial statements is now substantially complete. The only work that remains is for us to review the letter of representation submitted to us by the Audit Committee (see Appendix 6).

Matters to be reported to the Audit Committee

- 13 We have the following matters to draw to the Audit Committee's attention.

Expected modifications to the auditor's report

- 14 On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue an unqualified audit report. A draft audit report is attached at Appendix 5.

Adjusted misstatements

- 15 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. These adjustments have been made to the accounts approved by the Audit Committee on 29 June 2006. We therefore draw your attention to the list of material misstatements that management has adjusted in Table 1 below. A complete listing of all amendments has been provided to officers.

Table 1 Adjusted misstatements in the financial statements

Details of material adjustments made to the financial statements

Issue	Value of misstatement £'000	Impact on surplus/(deficit)
Debtors	9,725	None
Receipts in advance	945	None
Cash overdrawn	(10,670)	None

- 16** The adjustments detailed in Table 1 all relate to the misclassification of cash received shortly before the year end. Debtors had been included in the accounts for various sums which were thought to be outstanding at year end. However audit testing identified that cash had been received in respect of these debts before year end. This cash had not been correctly reflected in the accounts which meant that debtors were overstated by £9.7m, receipts in advance were understated by £945k and the cash overdrawn balance was overstated by £10.6m. The accounts have been amended accordingly.
- 17** This issue arose because the accounts were prepared from financial systems which were used for the first time in 2005/06. In respect of the issue detailed in Table 1, the new financial systems operated differently to the systems used to prepare previous years' accounts. The impact of the difference between how the old and new systems operated had not been identified by officers at the time that the accounts were prepared. Officers have assured us that they have taken action to ensure that this issue will not arise in future years.

Qualitative aspects of accounting practices and financial reporting

- 18** Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. We have no matters which we wish to report to you on the qualitative aspects of the financial reporting process.

Material weaknesses in internal control identified during the audit

- 19** Our audit identified no weaknesses in systems of accounting and financial control which we should report to you.
- 20** We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

Matters specifically required by other auditing standards

- 21 Other auditing standards require us to communicate with you in other specific circumstances including:
- where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.

We have no matters which we wish to report to you concerning the above.

Any other matters of governance interest

- 22 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 2 below.

Table 2 Other matters of governance interest

There are a number of other matters that we would like to bring to the attention of those charged with governance

Area	Auditor responsibility	Impact
Review of Audit Services	We assessed whether Audit Services complied with the standards outlined in by CIPFA in its Code of Audit Practice for Internal Audit in Local Government.	<p>We found that Audit Services are able to demonstrate a high level of compliance with the standards outlined in the Code. We identified two areas where improvements can be made:</p> <ul style="list-style-type: none"> • a formal system to identify potential conflicts of interest for Audit Services' staff should be introduced • Audit Services should appraise their compliance with the Code annually and report the results to the Audit Committee. <p>Audit Services have agreed to take action on</p>

Area	Auditor responsibility	Impact
		both of these recommendations.
Whole of Government Accounts' consolidation pack	The auditor is responsible for issuing a report on the consistency of the Authority's consolidation pack with the statutory financial statements.	The WGA consolidation pack needs to be audited by 6 October 2006. We will work with officers to ensure that this deadline is achieved.

Letter of representation

- 23 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6.

Next steps

- 24 We are drawing these matters to the Audit Committee's attention so that:
- you can consider them before the financial statements are approved and certified;
 - the representation letter can be signed on behalf of the Authority and those charged with governance before we issue our opinion on the financial statements.

Use of resources

Value for money conclusion

- 25** The Code requires us to reach a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of your resources (the value for money conclusion). In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment. The use of resources assessment is a qualitative assessment of the effectiveness of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are; financial statements, financial management, financial standing, internal control and value for money.
- 26** We have completed our work in relation to the use of resources and there are no matters which we wish to draw to the attention of the Audit Committee.

Use of auditors' statutory powers

- 27 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 3 below.

Table 3 Use of statutory powers

Insert text

Issue	Auditor responsibility	Impact
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2005/2006.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	There have been no s11 recommendations.
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Authority's 2005/2006 Best Value Performance Plan (BVPP) was reported in the 2005 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

Closing remarks

- 28 This report has been discussed and agreed with the Director of Finance. A copy of the memorandum will be presented at the Audit Committee on 21 September 2006.
- 29 We have not yet issued an audit and inspection plan for 2006/07. A CPA Corporate Assessment was performed in 2006 and is currently subject to a formal review by the Audit Commission. The content of the 2006/07 audit and inspection plan is influenced by the results of the Corporate Assessment and, until the formal review process is completed, I do not wish to issue the audit and inspection plan for 2006/07.
- 30 The Authority has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

John Gregory
District Auditor

September 2006

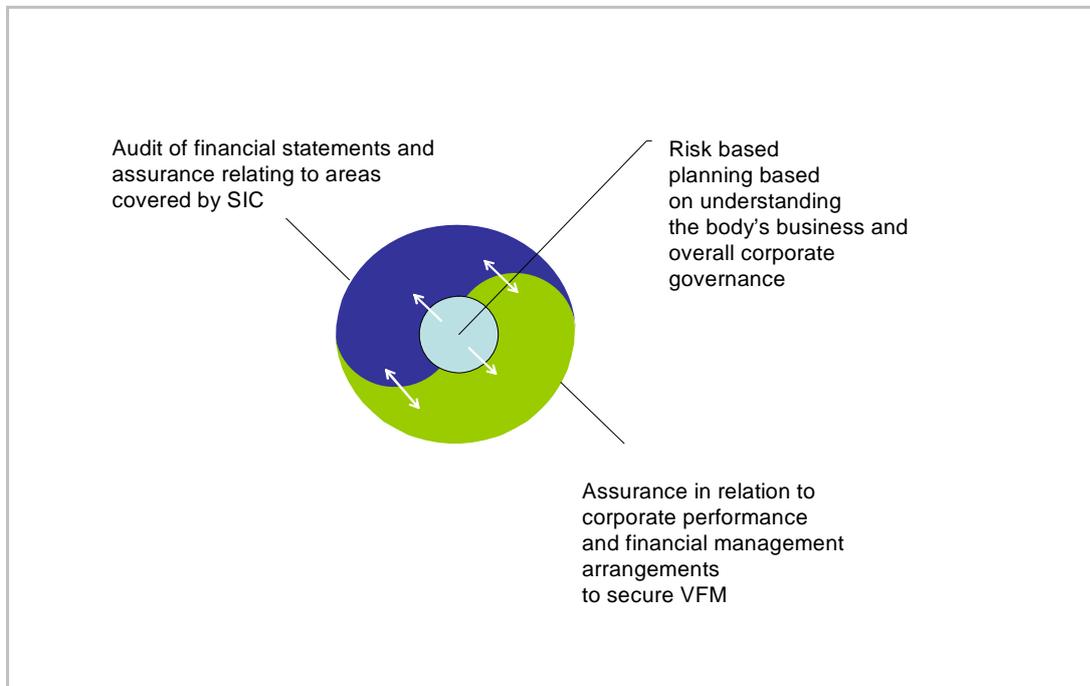
Appendix 1 – Audit responsibilities and approach

Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

Figure 1 Code of Audit Practice

Code of practice responsibilities



Approach to the audit of the financial statements

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Authority which had most impact on our opinion. These included:
 - the standard of the overall control environment and internal controls;
 - reliance on internal audit;
 - the likelihood of material misstatement occurring from material information systems; or a material error failing to be detected by internal controls;
 - any changes in financial reporting requirements; and
 - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements.

Approach to audit of arrangements to secure value for money

- 4 The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
 - corporate performance management; and
 - financial management arrangements.
- 5 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.

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- 6 In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, relevant significant business risk is considered and assessed. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 7 The potential sources of assurance when reaching the value for money conclusion include:
 - the Authority's whole system of internal control as reported in its statement on internal control (SIC);
 - results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc.;
 - work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
 - links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
 - other work necessary to discharge our responsibilities.

Appendix 2 – Audit reports issued

Table 4

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan 2005/06	March 2005	March 2005	Audit Committee
Annual governance report	September 2006	September 2006	Audit Committee
Opinion on financial statements	September 2006	September 2006	The Authority
Value for money conclusion	September 2006	September 2006	The Authority
Use of resources assessments	October 2005	October 2005	Management
Best Value Performance Plan - statutory report	December 2005	December 2005	The Authority
Best Value Performance Plan - report to management	January 2006	January 2006	Management
Review of Audit Services	August 2006	August 2006	Management

Appendix 3 – Fee information

Table 5

Fee estimate	Plan 2005/06	Actual 2005/06
Accounts	163,130	163,130
Use of resources	90,941	90,941
Total audit fees*	254,071	254,071

* The outturn on inspection and grant certification fees will be reported in the Relationship Manager Letter

Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required by the standard to communicate following matters to the Audit Committee:
 - the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

Appendix 5 – Independent auditor's report to Dudley Metropolitan Borough Council

Opinion on the financial statements

I have audited the financial statements of Dudley Metropolitan Borough Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves and the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Dudley MBC in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission .

Respective responsibilities of the Director of Finance and auditors

The Director of Finance's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the financial statements, and considered whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword by the Director of Finance and the Summary of the 2005/06 Financial Year. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

John Gregory
District Auditor

Audit Commission
2nd Floor
1 Friarsgate
1011 Stratford Road
Solihull
West Midlands
B90 4EB

September 2006

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in August 2005, in all significant respects, Dudley MBC made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 on 20 December 2005. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

John Gregory
District Auditor

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September 2006

Appendix 6 – Letter of representation

To:

Mr J Gregory
District Auditor
Audit Commission
2nd Floor
1 Friarsgate
1011 Stratford Road
Solihull
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B90 4EB

Dear Mr Gregory

Dudley Metropolitan Borough Council – Audit for the year ended 31 March 2006

This representation letter is provided in connection with your examination of the financial statements of Dudley MBC as at 31st March 2006 and for the year then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly the state of affairs of Dudley MBC, the financial position at the year-end and the income and expenditure for the year.

We acknowledge our responsibility for the fair presentation of the financial statements in accordance with The Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, and for making accurate representations to you.

We would confirm to the best of our knowledge and belief, and having made appropriate enquiries of the Director of Law and Property, the following representations given to you in connection with your audit:

- (a) There are no significant post balance sheet events which require adjustment to or disclosure in the financial statements not already disclosed;
- (b) There are no significant pending litigations, proceedings or claims which require adjustment to or disclosure in the financial statements not already disclosed;
- (c) There are no significant contingent liabilities other than those disclosed in the notes to the balance sheet;
- (d) There are no known bad debts other than those already provided for in the financial statements;
- (e) There are no known instances of non-compliance with laws or regulations likely to have a significant effect on the finances or operations of the Authority;

- (f) There are no material losses, contingencies, or uncertainties arising through a weakness in internal financial control not already disclosed in the financial statements;
- (g) There are no known instances of irregularities, including fraud, likely to have a significant effect on the finances or operations of the Authority;
- (h) There have been no disposals of fixed assets during the year other than those recorded in the financial statements;
- (i) All provisions and contingent liabilities have been identified and accounted for in accordance with Financial Reporting Standard (FRS) 12: Provisions, Contingent Liabilities and Contingent Assets;
- (j) All impairments to fixed assets have been identified and accounted for in compliance with FRS 11: Impairment of Fixed Assets and Goodwill;
- (k) the Authority intends to continue to hold long term investments as long term investments
- (l) There are no known intangible assets including patents, trade marks licenses or custodies over intellectual property rights other than those included in the accounts;
- (m) The assets of the Authority have not been used in any way as security for loans. All obligations under finance leases or hire purchase contracts have been disclosed in the accounts
- (n) The Actuary has been informed of all unfunded and discretionary benefits and these items have been incorporated in the FRS 17: Retirement Benefits liability figures included in the accounts;
- (o) The Actuary has been informed of all significant events (eg major outsourcing etc) that could have a material effect on the valuation of the Scheme's liabilities;
- (p) The Authority has ensured that all members and key managers are aware of the requirement to declare all interests relevant to the Authority including interests of families, partners and entities controlled by them;
- (q) The Authority's registers of interest are complete and up to date
- (r) The Authority is not aware of any other relationships that require disclosure in this statement of accounts in accordance with FRS 8: Related Party Transactions;
- (s) All accounting records have been made available to you for the purpose of your audit and all transactions undertaken by the Authority have been properly reflected and recorded in the accounting records;
- (t) Estimates included in the financial statements reflect our judgment based on knowledge and experience about past and current events and are also based on assumptions about conditions expected to exist and courses of action expected to be taken. The financial statements present fairly the financial position of the Authority;

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- (u) The financial statements have been prepared on a going concern basis and include such disclosures, if any, relating to going concern as are necessary for them to present a fair view.

We would note in relation to points (i),(j),(n), and (r) above that all significant transactions and known related relationships are covered by the Code of Practice on Local Authority Accounting, so no direct reference to the Financial Reporting Standards has been necessary.

Yours sincerely,

Mike S Williams
Director of Finance

Councillor Burston
Chair of the Audit Committee