

September 2005

Cambridgeshire and Peterborough Fire Authority

2004/05 Audit Letter

The Members
Audit and Review Panel
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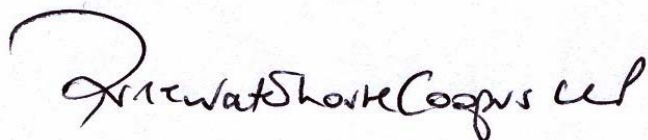
September 2005

Ladies and Gentlemen,

Audit Letter 2004/05

We are pleased to present our Audit Letter for 2004/05. We hope that the information contained in this report provides a useful source of reference for Members. We look forward to presenting this letter at the Audit and Review Panel on 20th September 2005.

Yours faithfully



PricewaterhouseCoopers LLP

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Contents

Section	Page
Executive summary	4
Accounts and Governance	5
Performance management	11
Audit plans and fees update for 2004/05.....	13
Appendix A: Summary of unadjusted misstatements.....	14
Appendix B: Audit reports issued in relation to the 2004/05 financial year	17

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

We perform our audit in accordance with the Audit Commission’s Code of Audit Practice (the Code), which was issued in March 2002. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies, which was issued in April 2000. Both documents are available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and audit letters are prepared in the context of this statement and in accordance with the Code.

Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party. A new Code of Audit Practice will be in place for the 2005/06 audit year, together with a new Statement of Responsibilities of Auditors and Audited Bodies, both of which were issued in March 2005.

Executive summary

The purpose of this Letter

We are required, under the Audit Commission's Code of Audit Practice (the Code), to issue an annual Audit Letter to the Board on completion of our audit, demonstrating that the Code's objectives have been addressed and summarising all issues of significance arising from our work.

Our Audit Plan, which was issued in November 2004, set out the risks that we identified as part of our audit planning, together with the targeted work that we planned to perform in order to address these risks. We have issued a number of reports during the audit year, detailing the findings from our work. A list of these reports is included at Appendix B to this Audit Letter.

We have set out below what we consider to be the key issues arising from our audit work.

- We expect to issue an unqualified audit opinion on the Statement of Accounts 2004/05.
- Whilst the overall preparedness and quality of supporting information for our audit was of a good standard, a number of adjustments and presentational amendments have been made to the draft accounts submitted for audit. Furthermore, we have identified a number of other unadjusted misstatements. The Authority will need to ensure that these issues are taken into account in the preparation of the 2005/06

Statement of Accounts.

- The Authority should ensure that related party declaration forms are received from all Members and officers.
- The Authority met its budget during the year and achieved a surplus at the year end of £197k.
- The Authority became a precepting authority for the first time in 2004/05 and can now legally hold reserves. It will be important for the Authority to ensure that it closely monitors the level of reserves over the next few years to ensure that an appropriate working balance is maintained.
- The Authority received a rating of "good" following the recent Comprehensive Performance Assessment (CPA) review. Going forward, it will be important for the Authority to be able to demonstrate sustained performance in order to retain its current CPA rating.

Accounts and Governance

Accounts

The purpose of our accounts work was to perform an audit of the Statement of Accounts of the Authority, in accordance with approved Auditing Standards.

Early closing

The Authority had prepared its accounts by 30 June 2005 in preparation for the commencement of our audit visit on 4 July 2005. This was a month in advance of the deadline for Member approval of the accounts for 2004/05 and will have provided good preparation for 2005/06 accounts, when the deadline for Member approval is 30 June 2006.

Audit Opinion and Progress

We expect to issue an unqualified opinion on the Statement of Accounts.

Our audit fieldwork is substantially complete. However, we are still in the process of following up a few queries that require further explanation and/or audit evidence, the outcome of which may impact on the accounts.

Whilst the overall preparedness and quality of supporting information for our audit was of a good standard, we have had to put in more resources to undertake the audit than was originally planned. This is as a result of a number of issues which were not foreseen at the time of our audit planning, including:

- The delay in the receipt and review of the internal audit files, which we were unable to review until after the completion of the majority of our audit work on the Authority's Statement of Accounts 2004/05. This resulted in greater audit work being undertaken on the balances within the accounts as reliance on internal audit work had not been obtained at that time.
- Assisting with the accounting for retirement benefits to ensure these met the requirements of the Statement of Recommended Practice (SORP). This included amendments to the prior year figures to ensure that the consistent treatment was adopted.
- Review of the accounting treatment made in relation to:
 - Re-analysing the firefighter's pensions costs within the Revenue Accounts. Following the adoption of the Best Value Accounting Code of Practice (BVACOP) 2003 in the prior year, firefighter's pensions costs should have been apportioned across service costs. The Authority has therefore made a prior period adjustment to ensure the appropriate presentation of these costs within the accounts;
 - Pension provision. Following the introduction of FRS 17, Retirement Benefits, in 2003/04, this provision should have been written out of the accounts; and
 - The re-categorisation of leases between operating and finance leases. This resulted in further disclosures being required within the notes to the accounts.

- Difficulties on the part of the Authority in providing the audit evidence to support some of the movements within the reserves. Delays were encountered as the Authority reviewed the differences and revised the accounts.
- A number of other adjustments and presentational amendments were made to the draft accounts during the audit. This required significant input to ensure the adjustments were accurately reflected within the updated accounts.

We have been liaising closely with the Treasurer to the Authority to ensure the satisfactory resolution of the above matters. Whilst, in the majority of cases, we don't anticipate re-occurrence in 2005/06, the Authority should ensure the above matters are taken into account during the preparation of the 2005/06 Statement of Accounts, as appropriate.

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

SAS 610 - "Communication of audit matters to those charged with governance" requires us to communicate relevant matters relating to the audit of the financial statements to those charged with governance of the entity, sufficiently promptly to enable them to take appropriate action. We have agreed with you that these matters should be communicated to the Audit and Review Panel through this letter.

SAS 610 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.

In relation to the above points, we have the following matters to report:

Expected modifications to the audit report

As noted previously, subject to the satisfactory completion of our audit we expect to issue an unqualified opinion on the Authority's Statement of Accounts 2004/05.

Unadjusted misstatements

Appendix A includes details of all unadjusted misstatements within the Statement of Accounts 2004/05.

Qualitative aspects of the Authority's accounting practices and financial reporting

The accounts of the Authority are prepared using the Statement of Recommended Practice (SORP) 2004 and the Best Value Accounting Code of Practice, issued by the Chartered Institute of Public Finance and Accountancy. All local government organisations must follow these policies. Our audit work has not identified any significant departures from these accounting policies. However the matters described below have been identified and have caused us to comment on the qualitative aspects of the Authority's accounting practices and financial reporting summarised in the Authority's 2004/05 accounts.

The Statement of Accounts is required to disclose related party transactions that are considered material to the Authority or the related party. In this context, a related party transaction is the receipt or payment from the Authority to the Member, a member of their immediate family or to a business owned or controlled by the Member or their immediate family. To facilitate this process, Members are requested to complete declarations of such transactions.

Despite requests made by officers, we have not received related party transaction declarations from 9 Members and 2 senior officers. We have performed alternative procedures to identify related party transactions in connection with these individuals and have found no evidence to suggest that any such transactions have taken place. This has resulted in additional audit time and there remains a risk that unidentified transactions have taken place.

Material weaknesses in the accounting and internal control systems

We reported, in our Report to Management on the Financial Aspects of Corporate Governance 2004/05, that we had been unable to complete our assessment of the work performed by Internal Audit or the work on the controls in place at the Authority in relation to payroll.

We are pleased to report that we have now concluded our work in these areas. We have identified further areas in which the Authority may wish to improve their controls.

We will summarise these matters within our Report to Management on the Statement of Accounts 2004/05 and agree an appropriate course of action with the Director of Resources and Treasurer. These matters will be followed up during our 2005/06 audit. There are no matters which we wish to draw to the attention of Members.

Other relevant matters

We have identified a number of detailed accounting matters which management will need to be aware of when producing the 2005/06 accounts or where procedural improvements can be made.

We will summarise these at the conclusion of our audit in a Report to Management, together with our recommendations and management responses. None of these matters have a bearing on the true and fair view given by the Authority's 2004/05 accounts.

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

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

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

Financial standing

In this section we comment upon the Authority's general financial standing taking into account both its performance during the last year and its ability to meet known financial obligations.

Overall financial performance in 2004/05

The Chairman of the Corporate Planning and Finance Panel has provided regular updates of the Authority's financial performance to Members throughout the year. The 2004/05 financial outturn was reported to Members on 26 May 2005. The outturn position in 2004/05 noted a net underspend against budget of 2.4%, which resulted from several variances. The outturn report sets out the main reasons for these variances. The Authority achieved a surplus within the audited Statement of Accounts 2004/05 of £197k, after the Authority's planned contribution to the general reserve of £300k and contributing a further net £550k to earmarked revenue and capital reserves to finance future expenditure.

Change in precepting status

The Fire Authority became a precepting authority for the first time from 1 April 2004. As a result of this change in status, the Authority was able to set and levy its own Council Tax for 2004/05. Additionally, the Authority received a Revenue Support Grant from the Government of £5,210k, a redistribution from the National Non-Domestic Rates Pool of £6,937k, and a transitional grant of £338k from Government, to aid in financing its services for 2004/05.

Prior to the change in status the Authority was not legally able to hold reserves. However, the Authority now has the power to hold reserves and is able to set Council Tax in future years to achieve a prudent level of reserves.

The balance on the general reserve as at 31 March 2005 amounted to £2,504k, (8% of net operating expenditure). Over the next few years, the Authority will need to continually review and carefully consider the balance of its general reserve, taking account of known and estimated budget pressures, to ensure an appropriate working balance is maintained.

Pension fund valuation

The Authority has received confirmation from the Cambridgeshire County Council Pension Fund administrators of employer's contribution rates for the three financial years from 2005/06, which require increases over the contributions for 2004/05, largely as a result of the need to recover the deficit on the Fund.

We are pleased to see that the Authority has considered the impact of increases in employer's contribution rates during its budget setting exercise for 2005/06.

Prudential framework for capital expenditure

From 1 April 2004, the Authority has been able to plan its capital expenditure under the new Prudential Framework, which focuses on the Authority's ability to afford the consequences of spending decisions from future years' revenue accounts and allows it to set its own limits on the borrowing needed to achieve an affordable capital strategy.

We have reviewed the steps the Authority took in 2004/05 to implement the Prudential Framework and manage the Authority's spending and borrowing in the first year of operation, including the processes for reviewing limits and indicators under the CIPFA Prudential Code and determining the prudence and affordability of any prudential borrowing undertaken. There are no matters from this review, which we wish to bring to your attention.

Systems of internal financial control

We have already issued our Report to Management on the Financial Aspects of Corporate Governance 2004/05 to the Director of Resources reporting the results of our review of systems of internal financial control at the Authority, as shown at Appendix B. This report will be presented to Members of the Audit and Review Panel on 20 September 2005. We will follow up the action points in this report during our 2005/06 audit.

Implementation of the second phase of the payroll system

The Authority is in the process of implementing a new payroll system. The

system is being implemented in three phases and during 2004/05 the Authority implemented phase 2 – transferring the Uniformed Firefighters to the new system.

We performed a review of the controls over and within the phase 2 implementation, which included assessing compliance with the following control objectives:

- that governance arrangements were appropriate;
- the project was managed in accordance with an accepted project management methodology;
- a business case was approved and monitored;
- project stakeholders were identified and involved;
- a project plan was approved and communicated,
- there was regular reporting on progress and issues; and
- data conversion and testing was planned, carried out and documented and appropriate mechanisms for making the 'go-live' decision were used.

Consideration was also given to the Authority's arrangements for the formal acceptance of the system and plans for a post implementation review.

There are no matters in relation to this review which we wish to bring to the attention of Members.

Internal Audit

During 2004-05, we considered the internal audit service, (provided by Cambridgeshire County Council's Internal Audit function), as part of our assessment of the adequacy of the Authority's overall control environment.

We are pleased to report that we have been able to place reliance on the work of Internal Audit. However, we have encountered delays whilst we have

awaited the completion of Internal Audit's work.

At the time of our audit work in April 2005, on the controls in place at the Authority, Internal Audit was in the process of performing their work. As a result, we were unable to review the financial systems to the extent we would have wanted but agreed to finish our review during the audit of the Statement of Accounts 2004/05.

Although our audit of the accounts commenced at the beginning of July 2005, we were unable to receive and review Internal Audit's files and reports until mid-August, after the majority of work on the audit of the accounts had concluded. However, we did liaise regularly with Internal Audit to discuss the results of their reviews during this time. Whilst we were able, to an extent, to take account of their results within our audit approach, this delay resulted in amendments to our audit approach to perform greater testing on the balances within the accounts.

To ensure an efficient and effective audit going forward, the Authority will need to ensure that the work performed by Internal Audit is ready for our review on a more timely basis. Going forward, we will work closely with Internal Audit in order to limit the duplication of work and to make the most efficient use of the Authority's overall audit resource.

Statement of internal control

The Accounts and Audit Regulations 2003 included a requirement that the statement of accounts prepared by an authority in England should contain a statement on internal control (SIC). These statements refer to much wider systems of control than purely financial systems and require the Authority to have in place such systems of control. Authorities are required to conduct annual reviews of the effectiveness of the system of internal control, which will provide the findings to support the SIC.

The Authority has stated that the systems have been in place for the year ended 31 March 2005 and this is consistent with the work and reporting undertaken by Internal Audit. Whilst we are not required to form an opinion on the SIC, the statement made by the Authority is consistent with our understanding of the Authority's position.

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

The primary responsibility for the prevention and detection of fraud and irregularities rests with the Authority's management who should implement an adequate system of internal financial control, including security, segregation of duties, proper authorisation procedures, and an adequate internal audit function. Our responsibility is to review the arrangements made by the Authority. We have continued to liaise with Internal Audit in this area to ensure that the significant fraud risks are reviewed.

There are no matters that we wish to draw to the attention of Members.

The legality of financial transactions

It is the responsibility of the Authority to act within its specific legal powers and to take appropriate legal advice where necessary. Our work in relation to this area included consideration of the Authority's arrangements to ensure the legality of significant financial transactions, and consideration of the Authority's approach to legal aspects of new legislation and relevant national and local issues.

During the year, we have kept under review the Authority's arrangements for monitoring emerging legal issues both from a legality perspective, and in relation to the potential impact on the financial standing of the Authority. We have requested information from the Authority's monitoring officer with respect to the actions being taken by the Authority. There are no issues arising from our work that we wish to bring to your attention.

We are also required by the Audit Commission Act 1998 to observe the rights of the public to raise matters with us and for electors to question us about the Statement of Accounts. No such matters have been raised with us.

Performance management

Best Value

Under the Local Government Act 1999 we are required to carry out an audit of the Authority's Best Value Performance Plan (BVPP).

Our work on the Authority's BVPP 2004/05, and the Best Value Performance Indicators (BVPIs) included within it, was undertaken in October and November 2004. We issued an unqualified opinion on the Authority's BVPP in December 2004. Furthermore, we issued our Matters Arising report to management on areas in which the Authority needed to improve on in relation to the audit of the BVPIs.

We are currently in the process of undertaking our audit work on the Authority's BVPP 2005/06. As this forms part of our audit work under the Code for 2005/06, we will report the outcome of this work in our Audit Letter 2005/06.

Performance Management Framework

We performed a review of the overall performance management framework at the Authority and noted some areas for improvement. We reported our findings within our Report to Management on the Financial Aspects of Corporate Governance 2004/05, which was agreed with the Director of Resources. This report will be presented to Members of the Audit and Review Panel on 20 September 2005. We will follow up the matters raised within our report as part of our 2005/06 audit. There are no matters which we wish to draw to the attention of Members.

Targeted audit work

We did not perform any targeted performance management work during the year. From our discussions with officers, there were no significant issues arising or high risk areas that required targeted performance management work.

Following our discussions with the Treasurer and Director of Performance, we agreed to await the results of the Authority's CPA results prior to discussing areas in which we could provide assistance to the Authority. Now the Authority has received the CPA results, we will discuss areas in which we could perform potential reviews as part of our planning for the 2005/06 audit.

Comprehensive Performance Assessment (CPA)

Due to the tight reporting deadlines and the commencement of our appointment as the Authority's auditors from 2004/05, our involvement in the CPA process was limited. To ensure an efficient audit process, we agreed with the Authority's predecessor auditor, the Audit Commission, that it would continue to provide services to the Authority for the purpose of this assessment. Our involvement with the work on the Authority's Best Value Performance Indicators, however, contributed to the work of the Audit Commission.

The Authority produced a self assessment as part of this process. The Audit Commission, provided an evaluation of the self assessment to the Corporate Assessment Team prior to their review of the Authority. Following the CPA

assessment, we are pleased to note that the Authority received a “good” rating. The CPA report did, however, highlight the following areas for improvement:

- Achieving a consistent and robust approach to the evaluation of the impact of community safety; and
- Ensuring the success of communications initiatives and consistency of the evaluation of their effectiveness.

The next part of the CPA process will be the agreement of any action planning. We understand that our involvement in this process, which will take the form of round table discussions, will be required, in addition to that of the Audit Commission and the Office of the Deputy Prime Minister (ODPM). However we are currently awaiting further guidance on the extent of our involvement and our audit responsibilities going forward.

The action planning process is an important one. It will be important for the Authority to be able to demonstrate sustained performance in order to retain its current CPA rating. We will liaise with officers to assess whether there are any areas relating to the above matters, in which we can assist the Authority as part of our work for 2005/06.

Use of Resources Judgement

We currently understand that, unlike County and District Councils, Fire Authorities’ will not be subject to a Use of Resources judgement review in 2005/06. This review however will be applicable from 2006/07.

Whilst this review will not be undertaken in 2005/06, the Authority will still be required to include a Use of Resources Audit Opinion within its Statement of Accounts for 2005/06. This is a new requirement for 2005/06 and is likely to involve input by officers of the Authority to produce a self-assessment against twelve criteria recently issued by the Audit Commission. We will need to spend additional time in 2005/06 in reviewing this assessment and considering and reporting our findings. We will liaise with officers to ensure this requirement is met.

Audit plans and fees update for 2004/05

Audit Plan 2004/05

We issued our Audit Plan for 2004/05 and presented it to the Corporate Planning and Finance Panel on 6 December 2004.

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

Audit Plan 2005/06

We are due to issue our Audit Plan for 2005/06 shortly and it will be presented it to Members of the Audit and Review Panel on 20 September 2005. Our Audit Plan is reviewed regularly to ensure that it remains appropriate for the whole of the financial year.

Fees update for 2004/05

We reported our fee proposals as part of the Audit Plan for 2004/05. These fee proposals covered the audit year 2004/05.

We have varied our fee as a result of the following:

- Delay in the receipt of internal audit's files. This delay resulted in a change to our audit approach to extend our testing on the Statement of Accounts 2004/05;

- Assistance with the accounting for retirement benefits;
- Review of the three prior period adjustments and related disclosures made to the accounts in respect of pensions and leases; and
- Review to ensure that adjustments to balances and disclosures for errors and omissions identified had been accurately processed.

We have discussed and agreed our revised fee with the Treasurer.

Our fees charged were therefore:

	2004/05 Outturn	2004/05 Fee proposal
Accounts	26,900	21,400
Financial aspects of corporate governance	12,600	12,600
Performance	20,000	20,000
Total	59,500	54,000

Appendix A: Summary of unadjusted misstatements

We have identified the following errors during our audit of the Statement of Accounts that have not been adjusted by management. The Audit and Review Panel are requested formally to consider the unadjusted errors listed and determine whether they would wish the accounts to be amended. If the errors are not adjusted we will require a written representation from you explaining your reasons for not making the adjustments.

Unadjusted Misstatement	Correcting Entries	Revenue Account		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1. Following the introduction of FRS 17 'Retirement Benefits', the pension provision should have been written out of the accounts as a prior period adjustment. Whilst the accounts reflect the removal of the pension provision in the current year, a prior period adjustment was not performed. The adjustments were incorrectly made as 2004/05 transactions.	DR Net Cost of Services DR Appropriations – contribution to earmarked reserves CR General Reserve (opening balance and amend prior year presentation in the accounts)	174 52			226
2. The charge for the amortisation of deferred charges has not been reflected appropriately within the Revenue Account as required by the Statement of Recommended Practice (SORP). This error has no impact on the surplus in the Revenue Account.	DR Capital Financing Account CR Appropriations – Revenue Account	7	7		

Unadjusted Misstatement	Correcting Entries	Revenue Account		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
<p>3. The credit for the amortisation of government grants has not been reflected appropriately within the Revenue Account and AMRA as required by the SORP.</p> <p>This error has no impact on the surplus as shown in the Revenue Account.</p>	<p>DR Appropriations</p> <p>CR AMRA</p>	15	15		
<p>4. A contribution has been made from earmarked reserves to finance capital expenditure in the year. This transaction has been shown as a balance sheet movement between reserves. However, the SORP requires that these movements are reflected within the appropriations section of the Revenue Account.</p> <p>This error has no impact on the surplus as shown in the Revenue Account.</p>	<p>DR Appropriations – Contributions from earmarked reserves</p> <p>CR Appropriations – Financing of Capital Expenditure</p>	178	178		
<p>5. The amount set aside as 'Minimum Revenue Provision' for the repayment of external loans has not been charged appropriately within the Revenue Account in accordance with the SORP.</p> <p>This error has no impact on the surplus as shown in the Revenue Account.</p>	<p>DR Appropriations – Provision for the repayment of external loans</p> <p>CR Net Cost of Services</p>	105	105		
<p>6. The funding for finance lease expenditure has not been appropriately reflected within the Revenue Account in accordance with the SORP.</p> <p>This error has no impact on the surplus as shown in the Revenue Account.</p>	<p>DR Appropriations</p> <p>CR Net Cost of Services</p>	184	184		

Unadjusted Misstatement	Correcting Entries	Revenue Account		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
<p>7. Contributions for pensions from firefighters have been incorrectly netted off gross expenditure within Net Cost of Services within the Revenue Account, instead of being shown as gross income.</p> <p>This error has no impact on Net Cost of Services as shown in the Revenue Account.</p>	<p>DR Gross Expenditure – Net Cost of Services</p> <p>CR Gross Income – Net Cost of Services</p>	890	890		
<p>8. Past Service costs, in relation to pensions and retirement benefits, have not been categorised under 'Non-Distributed Costs' within the Revenue Account in accordance with the Best Value Accounting Code of Practice (BVACOP). These costs have been incorrectly charged across all the service analysis headings.</p> <p>This error has no impact on Net Cost of Services as shown in the Revenue Account.</p>	<p>DR Non-Distributed Costs (Net Cost of Services)</p> <p>CR Service Expenditure analysis headings</p>	793	793		
TOTAL		2,398	2,172	-	226

Appendix B: Audit reports issued in relation to the 2004/05 financial year

We have issued the following reports during our 2004/05 audit:

- Audit Opinion on the BVPP 2004/05;
- Matters Arising Report on Best Value 2004/05; and
- Report to Management on the Financial Aspects of Corporate Governance 2004/05.

We are shortly due to issue the following:

- Audit opinion for 2004/05 financial statements; and
- Report to Management on the Statement of Accounts 2004/05.

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