

Annual Governance Report

September 2006



Annual Governance Report

West Yorkshire Passenger Transport Authority

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 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 non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

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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 Audit and Governance Committee (A&GC) is considered to fulfil the role of those charged with governance and references to the A&GC should be read as such.
- 2 We are also required by professional auditing standards to report to the A&GC 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 West Yorkshire Passenger Transport Authority (the Authority) for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principle 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 A&GC;
 - to share information to assist both the auditor and the A&GC to fulfil their respective responsibilities; and
 - to provide the A&GC 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 plan. A summary of our responsibilities and audit approach is included in Appendix 1. This Annual Governance Report summarises the significant findings, conclusions and recommendations arising from our work. We will also produce an Annual Audit Letter later in the year.

- 8** We have issued/will be issuing separate reports during the year following completion of specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and in Appendix 4 we confirm that we have met professional requirements in respect of integrity, objectivity and independence.

Key messages

Financial statements

- 9 Our work on the financial statements is now substantially complete. Pending the receipt of the FRS17 assurances from the auditor of the pension fund, in respect of the pension fund disclosures, we anticipate being able to issue an unqualified opinion by 30 September 2006 (a draft report is attached at Appendix 5).
- 10 However, as in 2004/05, the audit cannot be formally concluded and an audit certificate issued until the criminal enquiry into the alleged fraud, discovered in June 2005, is completed. I am satisfied that the amount which is subject to the investigations will not have a material effect on the statement of accounts for 2005/06.
- 11 Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chair of the A&GC.

Use of resources

- 12 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is substantially complete. Unless anything emerges from the final stages of our detailed review, we expect to be able to issue an unqualified value for money conclusion by 30 September 2006. A copy of the draft audit report is attached at Appendix 5.

Financial statements

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

Status of the audit

- 14 Our work on the financial statements is now substantially complete. We are still awaiting assurances from the auditor of the pension fund in respect of pensions disclosures. Upon receipt of these assurances, we anticipate being able to issue an unqualified opinion by 30 September 2006.
- 15 However, as in 2004/05, the audit cannot be formally concluded and an audit certificate issued until the criminal enquiry into the alleged fraud, discovered in June 2005, is completed. I am satisfied that the amount which is subject to the investigations will not have a material effect on the statement of accounts for 2005/06.
- 16 Should any further matters arise in concluding our work, that needs to be reported, we will raise them with the Chair of the A&GC.

Matters to be reported to the Audit and Governance Committee

- 17 We have the following matters to draw to the A&GC's attention.

Expected modifications to the auditor's report

- 18 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 opinion. However, as in 2004/05, we cannot formally conclude the audit and issue an audit certificate until the criminal enquiry into the alleged fraud is completed. A draft audit report is attached at Appendix 5.

Uncorrected misstatements

- 19 Our audit did not identify any significant or material misstatements in the financial statements that management decided not to adjust.

Adjusted misstatements

- 20 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. We therefore draw your attention to the list of material and significant misstatements that management has adjusted, in Table 1.

Table 1 Adjusted misstatements in the financial statements

Details of material and/or significant adjustments made to the financial statements

Issue	Value of misstatement £	Impact on surplus/(deficit) £
The write off of Supertram expenditure was not disclosed as an exceptional item. (Following amendment required to the Executive's accounts)	23,482,000	Nil
Government grants received were written down directly to the CFA, in the draft financial statements, rather than released to the AMRA and then credited to the CFA, in line with SORP requirements.	7,315,000	Nil
The CFA and deferred grants liability in the group accounts was not consolidated correctly in line with UKGAAP. An estimation process is required to apportion the release of deferred capital grant in line with the funding received, to enable an acceptable method of consolidation. (Following amendment required to the Executive's accounts)	7,151,000	Nil
Depreciation was included as a separate line in the group accounts when it should have been deducted from the net cost of services. (Following amendment required to the Executive's accounts)	4,372,000	Nil

- 21 There were other specific minor amendments made which unfortunately resulted in further amendments being necessary throughout the accounts. A complete list of all amendments has been provided to officers.

Recommendations

R1 Review year end processes for the production of the financial statements to ensure the accounts presented for approval are free from material and/or significant errors.

Qualitative aspects of accounting practices and financial reporting

- 22 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 issues to report to you in this respect.

Material weaknesses in internal control identified during the audit

- 23 Our audit has not identified any weaknesses in systems of accounting and financial control which could result in material misstatement in the financial statements.
- 24 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

- 25 Other auditing standards require us to communicate with you in other specific circumstances, including:
- where we suspect or detect fraud;
 - in respect of the AG&C's conclusion that the Authority is a going concern;
 - 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 at this stage.

Any other matters of governance interest

- 26 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
Statement of internal control (SIC)	The auditor reviews the SIC for compliance with the requirements of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements.	The SIC complies with the requirements specified by CIPFA and is consistent with other information we are aware of through our audit of the statutory financial statements.
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 13 October 2006. We will work with officers to ensure that this deadline is achieved.

Letter of representation

- 27 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

- 28 We are drawing these matters to the AG&C's attention so that:
- you can consider them before the financial statements are approved and certified; and
 - 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

- 29 The Code requires us to issue 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.
- 30 We have almost completed our work in relation to the use of resources and, unless anything emerges from the final stages of our detailed review, we propose to issue a report including an unqualified value for money conclusion.
- 31 The key findings from our work on the use of resources (reporting by exception only) are summarised below by reference to criteria as specified by the Audit Commission.

Internal control

- 32 During our review of Governance Arrangements we considered the following in respect of roles and responsibilities:
- The Clerk is also the Director General for the Passenger Transport Executive; and
 - The Chief Financial Officer and the Deputy Chief Financial Officer are also non-executive directors for the Executive.
- 33 Whilst it is accepted that these arrangements may provide opportunities for economies of scale in some areas, to ensure the appropriateness of the current governance arrangements, and that proper standards are being achieved in respect of separation of duties and independence, consideration of the independent non-executive director role at the Executive should be reviewed.

Recommendations

R2 The current roles and responsibilities of the Clerk, Chief Financial Officer and Deputy Chief Financial Officer, particularly as they relate to the Authority and Executive, should be reviewed. To ensure that appropriate standards of governance are being maintained/achieved, consideration should be made to the appointment of an additional, external, non-executive director at the Executive.

Use of auditors' statutory powers

- 34 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

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 2005/06.
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 2005/06 Best Value Performance Plan (BVPP) was reported in the 2005 annual audit letter. No recommendations were made to the Audit Commission or the Secretary of State.

Closing remarks

- 35 This report has been discussed and agreed with officers. A copy of the report will be presented at the AG&C meeting on 15 September 2006.
- 36 The report includes some recommendations. An action plan is included at Appendix 7, which includes responses from management and indicative target dates for the implementation of recommendations.

Paul Lundy
District Auditor

August 2006

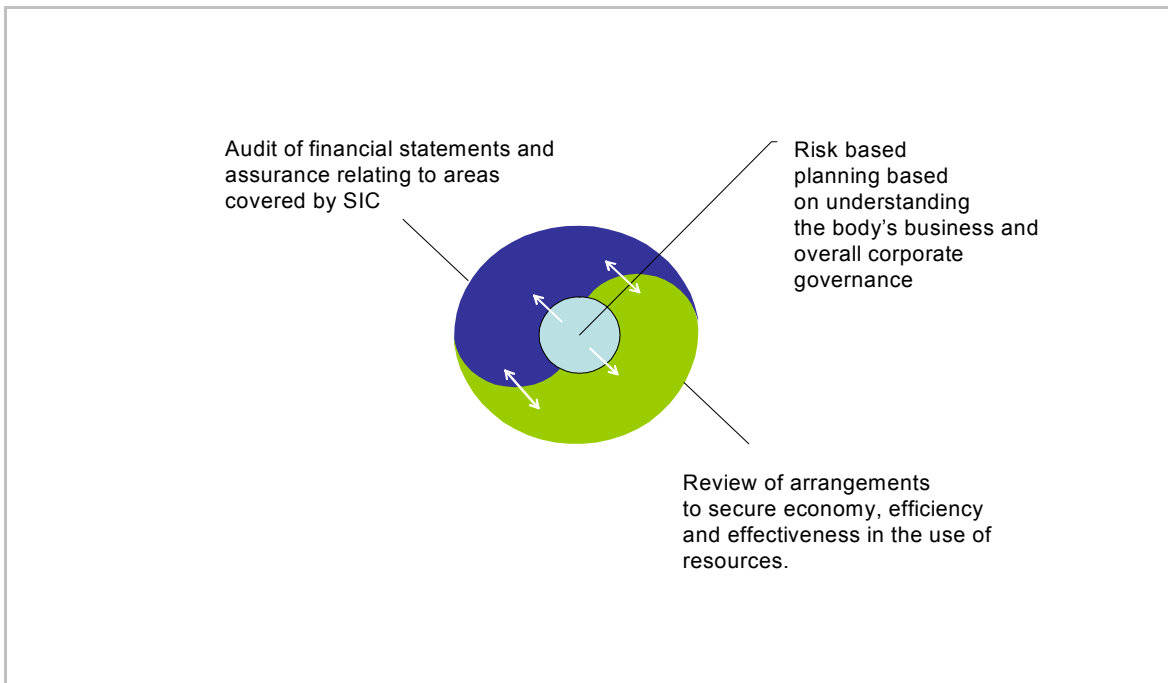
Appendix 1 – Audit responsibilities and approach

Audit responsibilities

- 1 Our responsibility as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's 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



Auditing 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 therefore 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;
 - the extent to which we could rely on the work of 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. The key risks that we identified include:
 - the alleged fraud that was discovered in June 2005;
 - the new requirement to complete group accounts;
 - the potential for material misstatement due to the cessation of Supertram and the subsequent write down of asset values; and
 - the introduction of the Accounts and Audit (Amendment) (England) Regulations 2006, and the potential impact of these changes on the Authority's financial statements.

Auditors' responsibilities in relation to the use of resources

- 4 Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The scope of these arrangements is defined in the Code as comprising corporate performance management and financial management arrangements.
- 5 The auditor is required to give a conclusion (the value for money conclusion) having regard to criteria specified by the Commission covering specific aspects of audited bodies' arrangements as defined in the Code. These criteria have been published on the Commission's website.

- 6 In planning audit work in relation to the use of resources, we considered and assessed relevant significant business risk. 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 available to the auditor in arriving at the value for money conclusion include:
 - the Authority's whole system of internal control as reported in its statement on internal control;
 - results from statutory inspections or the work of other regulators, (whether by the Commission or other regulators), etc;
 - 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

Table 4 Audit reports issued/to be issued

The following is a list of reports issued/to be issued during the year

Planned report	Planned date of issue	Actual/revised planned date of issue	Addressee
Audit Plan	March 2005	March 2005	Passenger Transport Authority
BVPP opinion and PI audit memorandum	June 2005	August 2005	Passenger Transport Authority
Interim audit memorandum	31 March 2006	N/a (to be incorporated into Final Accounts (Opinion Audit) Memorandum	N/a
Review of Internal Audit	May/June 2006 **	(Planned) September 2006	Deputy Chief Financial Officer
Report to those charged with governance (Annual Governance Report	August 2006	(Planned) September 2006	AG&C
Final Accounts (Opinion Audit) Memorandum	August 2006	(Planned) August/ September 2006	Deputy Chief Financial Officer
Overview of Governance Arrangements	March 2006 **	(Planned) September 2006	Clerk
Annual Audit Letter	September 2006	(Planned) October 2006	AG&C

** Indicative dates, originally subject to staff availability

Appendix 3 – Fee information

Table header	Plan 2005/06	Actual 2005/06
Accounts	21,867	21,867
Use of Resources	6,433	6,433
Total audit fees *	29,600	29,600
Voluntary improvement work	Nil	Nil

* The outturn on grant certification fees will be reported in the Annual Audit Letter

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

We are required by the standard to communicate the following matters to the AG&C:

- 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.

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 the West Yorkshire Passenger Transport Authority

Opinion on the financial statements

I have audited the financial statements of West Yorkshire Passenger Transport Authority for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Revenue account, the Balance Sheet, 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 the West Yorkshire Passenger Transport Authority 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 directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with the Accounts and Audit (Amendment) (England) Regulations 2006.

My responsibility, as independent auditor, 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 present fairly the financial position of the Authority and its income and expenditure for the year in accordance with applicable laws and regulations.

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 consider whether it is consistent with the audited financial statements. This other information comprises only the Annual Review. 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, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Paul Lundy
District Auditor

Audit Commission
Kernel House
Killingbeck Drive
Leeds
LS14 6UR

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.

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 other local government bodies. 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.

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 other local government bodies specified by the Audit Commission and published in August 2005, in all significant respects, West Yorkshire Passenger Transport Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Certificate

I have carried out 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. The audit cannot be formally concluded and an audit certificate issued until the criminal investigations into the alleged fraud have been formally completed. I am satisfied that the amount which is subject to the investigations will not have a material effect on the statement of accounts

Paul Lundy
District Auditor
Audit Commission
Kernel House
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September 2006

Appendix 6 – Letter of representation

Mr P Lundy
District Auditor
Audit Commission
Kernel House
Killingbeck Drive
Leeds
LS14 6UR

Dear Mr Lundy,

West Yorkshire Passenger Transport Authority – Audit for the year ended 31 March 2006

This representation letter is provided in connection with your examination of the financial statements of West Yorkshire Passenger Transport Authority (the Authority) as at 31st March 2006 and for the year then ended, for the purpose of expressing an opinion as to whether the financial statements, including the group accounts, present fairly the state of affairs of the Authority 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 other directors and officials, the following representations given to you in connection with your audit:

Related Party Transactions

There are no other material transactions with related parties, other than those which have been properly recorded and disclosed in the financial statements.

Contingent Liabilities

There are no other material contingent liabilities, other than those which have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation; and
- there are no material commitments or contractual issues.

Law, regulations and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finance or operation of the Authority.

Going concern

The accounts have been prepared on a going concern basis and based on our judgement of circumstances which may occur within twelve months of the date of this letter, we have a reasonable expectation that the Authority will have adequate resources to continue operations for the foreseeable future.

Post Balance Sheet Events

Since the date of approval of the draft financial statements by the Audit and Governance Committee, there have been no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Mr K T Preston
Clerk
15 September 2006

Mr D J Page
Chief Financial Officer
15 September 2006

Appendix 7 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Adjusted misstatements						
8	R1 Review year end processes for the production of the financial statements to ensure the accounts presented for approval are free from material and/or significant errors.	3	DCFO	Y	The auditor to agree changes in required working papers and documentation before the final accounts are prepared.	March 2007
Internal control						
11	R2 The current roles and responsibilities of the Clerk, Chief Financial Officer and Deputy Chief Financial Officer, particularly as they relate to the Authority and Executive, should be reviewed. To ensure that appropriate standards of governance are being maintained/achieved, consideration should be made to the appointment of an additional, external, non-executive director at the Executive.	3	Clerk	Y	A report will be prepared for Members to review the roles and responsibilities of the Clerk, CFO, DCFO and non-executive Directorships in relation to the Executive.	March 2007