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Tay Road Bridge Joint Board

Annual audit report to the members of Tay Road Bridge Joint Board
and the Controller of Audit

Audit: Year ended 31 March 2012

28 September 2012



Contents

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Tay Road Bridge Joint Board ("the Joint Board") and is made available to Audit Scotland and the Accounts Commission for Scotland (together "the beneficiaries"). It has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

We also draw your attention to the following:

- The Treasurer of Tay Road Bridge Joint Board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems;
- weaknesses or risks identified by us are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist; and
- communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve Tay Road Bridge Joint Board management from its responsibility to address the issues raised and to maintain an adequate system of control.



Executive summary

Headlines

Our audit work is undertaken in accordance with Audit Scotland's Code of Audit Practice . This specifies a number of objectives for our audit.

We set out in our audit strategy document our approach to the audit of the Joint Board for 2011-12.

In accordance with ISA (UK and Ireland) 260: Communication with those charged with governance, this report summarises our work in relation to the financial statements.

We wish to record our appreciation of the co-operation and assistance extended to us by staff during the course of our work.

Financial statements

The Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 ("the Code") did not include any major amendments which impacted on the preparation of the financial statements of Tay Road Bridge Joint Board ("the Joint Board").

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All accounting policies have been applied consistently.

We have issued an unqualified opinion on the financial statements for 2011-12.

Management agreed that there was an error in the 2010-11 financial statements; a prior year adjustment has been processed in the 2011-12 financial statements to correct the error.

Use of resources

The net cost of services for 2011-12 represented a £93,000 underspend against budget, primarily arising from a saving in staff costs, property costs and supplies and services costs during the year. As the Joint Board is funded to meet expenditure incurred, non-specific grant income recognised in year was reduced in line with the underspend incurred. The general fund balance was unchanged at £1.16 million.

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The Joint Board's net assets have increased by £9.6 million. This is primarily as a result of the £8.6 million investment in infrastructure assets during the year.

Governance

Over-arching and supporting corporate governance arrangements provide a sound framework for organisational decision-making. A local code of corporate governance has been approved. A self-assessment of the effectiveness of corporate governance arrangements was undertaken during 2011-12, and identified a high level of compliance.

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Internal audit reported that the Joint Board had adequate and effective internal control systems. Appropriate arrangements are established in respect of standards of conduct and prevention and detection of fraud and irregularity.

The Joint Board monitors its performance against key performance indicators, and reports this performance within its financial statements.

Mandatory communications

We are required by ethical standards to formally confirm our independence you.

Appendices one and two

We draw your attention to the responsibilities of the Joint Board under Audit Scotland's Code of Audit Practice.

The Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 did not include any major amendments which impacted on the preparation of the Joint Board's financial statements.

All accounting policies have been applied consistently.

Management agreed that there was an error in the 2010-11 financial statements; a prior year adjustment has been processed in the 2011-12 financial statements to correct the error.

Code of practice on Local Authority Accounting in the United Kingdom 2011-12 ("the Code")

The 2011-12 Code has a number of amendments from the 2010-11 version and management considered the reporting requirements for the financial statements. The amendments included:

- applicability of FRS 30 *Heritage Assets (as above)*;
- additional guidance in respect of leases;
- additional disclosure requirements in respect of exit packages; and
- a requirement for a specific statement in the annual governance statement / statement on the system of internal financial control on whether financial management arrangements conform with the governance requirements of the statement on "the role of the chief financial officer in local government."

The Joint Board has referred appropriately to the role of the chief financial officer within its annual governance statement. None of the other matters above had any impact on the Joint Board in the year.

Accounting policies / restatement of comparatives

There have been no changes to the accounting policies in 2011-12, and these remain appropriate for the activities and transactions of the Joint Board.

As part of our audit enquiries in 2011-12, Council management advised that the new slip road / ramp construction was being grant funded by the Council. We enquired as to whether the Council was accounting for an asset under construction within its financial statements – which would be donated to the Joint Board on completion - or whether the transaction was being treated as expenditure of the Council and grant income to the Joint Board. Management of the Council confirmed that the treatment adopted was to provide grant income to the Joint Board, since no asset under construction was being recorded within the Council's financial statements.

In 2011-12, the Board accounted for the receipt of £3.99 million of grant income from the Council in respect of the Joint Board's share of the costs associated with the new slip road / ramp construction. Our analysis of the associated expenditure identified that £1.9 million was incurred by the Council during 2010-11 and expensed through the comprehensive income and expenditure statement. Management has concluded that it would have been correct to record the receipt of the £1.9 million of grant income towards the asset under construction within the Joint Board's 2010-11 financial statements.

Through restatement of the comparative information, a prior year adjustment has been processed in the financial statements for the year ended 31 March 2012, to recognise the inclusion of the additional grant income, and associated asset under construction, in 2010-11



Financial statements

Preparation of financial statements

We have issued an unqualified opinion on the financial statements for 2011-12.

Good quality financial statements were prepared for audit.

There are no unadjusted audit differences to report.

Audit opinion

The Local Government (Scotland) Act 1973 requires us to provide an opinion on the Joint Board's financial statements on completion of our audit. Our opinion, which is unqualified, states that the financial statements:

- give a true and fair view of the state of the affairs of the Joint Board as at 31 March 2012 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government Scotland Act 2003.

Preparation of financial statements

The unaudited financial statements were authorised for issue by the Treasurer of the Joint Board on 8 June 2012, and passed to us for audit on 25 June 2012 along with a completed disclosure checklist. This was in advance of statutory requirements and the agreed audit timetable.

Good quality supporting documentation was made available in electronic format to support the unaudited financial statements.

Aside from the prior year adjustment discussed above, there were no material adjustments required to the financial statements.

We are required under International Standard on Auditing 260 '*Communication with those charged with governance*' to report any unadjusted errors identified during the course of our audit. There are no unadjusted audit differences to report.

The net cost of services for 2011-12 represented a £93,000 underspend against budget, primarily arising from a saving in staff costs, property costs and supplies and services costs during the year.

As the Joint Board is funded to meet expenditure incurred, non-specific grant income recognised in year was reduced in line with the underspend incurred. The general fund balance was unchanged at £1.16 million.

The Joint Board's net assets have increased by £9.6 million. This is primarily as a result of the £8.6 million investment in infrastructure assets during the year.

Financial position

For the year ended 31 March 2012 the Joint Board reported a net cost of services of £3 million. This outturn represented a £93,000 underspend on the budget approved for 2011-12 by the Joint Board. Funding is received principally through the Scottish Government for revenue and capital purposes. Due to the ongoing Dundee Waterfront redevelopment project, capital funding is also receivable from Dundee City Council.

Total grant income of £12.9 million was received, and applied to meet revenue expenditure of £1.54 million, £8.6 million investment in infrastructure assets, with the balance held in the capital grants unapplied account.

Unapplied non-specific revenue grant income received of £161,000 is held in creditors, as the Joint Board does not have the ability to increase its reserves through recognition of this income in advance of incurring the expenditure.

After adjustments to reflect the different accounting basis and funding basis, the outturn for the year was £nil resulting in no change to the general fund balance.

Reserves

The Joint Board holds an unchanged general fund balance at the year end of £1.16 million. The Joint Board had previously identified £800,000 as a prudent level of reserves to be held. The current excess in funds over this level is due to the results of efficiency measures to reduce overall running costs. This is within the limits set out within The Tay Road Bridge Conformation Act 1991, Part V 39(3).

The Joint Board has total net assets as at 31 March 2012 of £63.8 million (2010-11: £54.2 million), represented primarily by property, plant and equipment of £59.4 million. The increase in net assets represents the investment in the infrastructure assets during 2011-12.

Comprehensive income and expenditure statement	£000
Net cost of service	3,049
Other operating income	(3)
Finance and investment income and expenditure	(96)
Non-specific grant income (being £1.54 million non-ring fenced government grants, and £11.35 million capital grants and contributions)	(12,890)
(Surplus) on provision of services	(9,940)
Other comprehensive income and expenditure (being actuarial losses on pension scheme)	355
Total comprehensive (income) and expenditure	(9,585)



Over-arching and supporting corporate governance arrangements provide a sound framework for organisational decision-making.

A local code of corporate governance has been approved by the Joint Board. Internal audit conducted a review of arrangements, making

A self-assessment of effectiveness of corporate governance arrangements was undertaken during 2011-12 and identified a high level of compliance.

Corporate governance and internal control arrangements

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

The responsibilities of the Joint Board and its Treasurer for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements are outlined in the Statement of Responsibilities in the financial statements.

The Joint Board has approved a local code of corporate governance, drawing on all aspects of its governance arrangements, to consolidate these into a framework which is in line with the principles of the CIPFA / SOLACE publication ‘Delivering Good Governance in Local Government.’ Internal audit undertook a review of the Joint Board’s corporate governance arrangements as part of their 2011-12 programme of work, and concluded that the arrangements in place were good. Some areas for continuous improvement were identified as a result of this work, and these are disclosed in the annual governance statement.

The revenue and capital budgets for the year are approved by the Joint Board, who also receive regular monitoring reports to allow them to exercise and demonstrate stewardship and accountability for the use of their resources.

Annual governance statement

The Joint Board has prepared an annual governance compliance statement for the first time during 2011-12. The statement discloses that, in line with best practice, the Joint Board undertook a self-assessment review of the effectiveness of its arrangements during the year, using a 56-point checklist completed by the Bridge manager. The self-assessment indicated a high-level of compliance. This exercise demonstrates the Joint Board’s commitment to continuous improvement.

We have reviewed the annual governance statement and can confirm it is consistent with our understanding of the Joint Board’s activities.



Internal audit reported that the Joint Board had adequate and effective internal control systems.

Appropriate arrangements are in place in respect of standards of conduct and prevention and detection of fraud and irregularity.

Internal audit	<p>The Joint Board has an outsourced internal audit provider. The Joint Board received its annual report from its internal auditor at its meeting in June 2012, before approval of the unaudited financial statements. This addressed the implementation of a recommendation made by the previous external auditors, as part of their 2010-11 annual audit report.</p> <p>The internal audit annual report concluded that <i>“the Board operates adequate and effective internal control systems as defined in the audit needs assessment, with proper arrangements in place to promote and secure value for money.”</i></p> <p>In undertaking their work for the year, while no significant issues were identified, internal audit noted that while assurance was obtained in respect of IT network arrangements, there were a number of areas identified for further improvement to ensure that controls were operating in line with industry recommended best practice.</p>
Standards of conduct and prevention and detection of fraud and irregularity	<p>The members of the Joint Board are drawn from the constituent councils, and as such are bound by the respective codes of conduct of those councils. The Joint Board adopts the national code of conduct for local authority employees. This is made available on the website to ensure that all Joint Board employees are aware of their responsibilities.</p> <p>We undertook appropriate systems audit work as part of our 2011-12 audit of Dundee City Council, with any findings reported to Council management. This included controls to prevent and detect fraud and irregularity. No audit findings relating uniquely to the Joint Board were identified during the audit work carried out at the Council.</p>
Management representation letter	<p>In accordance with International Standards on Auditing (UK & Ireland), management is required to provide us with representations on specific matters such as your financial standing, application of accounting policies, and whether the transactions in the financial statements are legal and unaffected by fraud.</p> <p>In respect of the restatement made to correct a material misstatement in the prior period financial statements as a result of an amount of grant income of £1.91 million not accounted for in 2010-11, we will be asking for specific representation that the Joint Board confirms that the restatement is appropriate.</p>



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Appendices



Appendix one

Auditor's Independence

We are required by ethical standards to formally confirm our independence you.

There are no specific matters which have impinged on our independence.

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships, (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by the Joint Board for professional services provided by us during the reporting period. There were no fees payable other than in respect of our audit.

We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through:

- instilling professional values;
- communications;
- internal accountability;
- risk management;
- independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Joint Board.

Confirmation of audit independence

We confirm that as of 21 September 2012, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of Stephen Reid and audit staff is not impaired.

This report is intended solely for the information of the Joint Board and should not be used for any other purposes.

Yours faithfully

KPMG LLP

Financial statements

Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice);
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

Systems of internal control

Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions;
- developing and implementing strategies to prevent and detect fraud and other irregularity;
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and

- participating, when required, in data matching exercises carried out by Audit Scotland.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;
- promoting appropriate values and standards; and
- developing, promoting and monitoring compliance with standing orders and financial instructions.

Financial position

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and future use; and
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.



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