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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 2013

19 September 2013



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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 (together "the beneficiaries"), and 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.



## Executive summary Headlines

This annual audit report summarises our findings in relation to the audit for the year ended 31 March 2013. Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the Code").

This report also sets out those matters specified by ISA (UK and Ireland) 260: *Communication with those charged with governance* in relation to the financial statements for the year ended 31 March 2013.

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

Area	Summary observations	Analysis
<b>Use of resources</b>		
<b>Financial position</b>	<p>For the year ended 31 March 2013 the Joint Board reported a net cost of services of £3.2 million. The outturn represented a £144,000 underspend on the 2012-13 approved budget. The savings were primarily in staff costs as well as in third party payments for various services which were either not required in year, or could not be performed.</p> <p>During the year, non-specific grant income of £12.8 million was recognised. Of this, £11.3 million was in respect of capital expenditure to fund the continued investment in the infrastructure assets. £10.3 million was incurred on the pier collision protection project, being the major ongoing works during the year.</p> <p>The Joint Board has total net assets as at 31 March 2013 of £73.3 million (2011-12: £63.8 million), represented primarily by property, plant and equipment of £73.2 million. The increase in net assets represents the continued investment in the infrastructure assets during 2012-13.</p>	Page 6
<b>Financial statements and accounting</b>		
<b>Accounting policies</b>	<p>The Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 ("the Code of Practice") did not include any major amendments which impacted on the preparation of the Joint Board's financial statements.</p> <p>There have been no changes to accounting policies in 2012-13, which have been applied consistently.</p> <p>The impact of adopting IAS 19 (revised), effective next year, has been disclosed in the financial statements. No other newly effective accounting standards are expected to have a material impact on the 2013-14 financial statements.</p>	Page 8
<b>Key judgement areas</b>	We have considered key accounting judgements in relation to accounting for pensions under IAS 19. We concur with management's judgements in respect of actuarial assumptions used to estimate the net pension liability.	Page 9
<b>Audit conclusions</b>	We have issued an unqualified audit opinion on the 2012-13 financial statements.	Page 10
<b>Year-end process</b>	The unaudited financial were made available on a timely basis and were accompanied by working papers of an appropriate standard. There were no uncorrected audit misstatements arising from our work.	Page 10

Governance and narrative reporting		
Governance arrangements	<p>Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.</p> <p>The Joint Board undertook a self-assessment review of the effectiveness of its governance arrangements. This indicated a high-level of compliance.</p>	Page 12
Systems of internal control	We undertook appropriate systems audit work as part of our 2012-13 audit of Dundee City Council, with any findings reported to Council management. No audit findings relating uniquely to the Joint Board were identified during the audit work carried out at the Council.	Page 13
Other matters	<p>We are satisfied that arrangements in respect of maintaining standards of conduct and the prevention and detection of fraud and corruption are appropriate for the Joint Board's circumstances.</p> <p>The internal audit annual report provides an opinion that <i>"the Board operates adequate and effective internal control systems as defined in the audit needs assessment. Proper arrangements are in place to promote and secure Value for Money."</i></p>	Page 13

### **Purpose of this report**

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit of the Joint Board's financial statements for 2012-13. It is addressed to both those charged with governance at the Joint Board and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the Joint Board at the outset of our audit.

### **Responsibilities**

It is the responsibility of the Joint Board and the Treasurer to prepare the financial statements in accordance with the proper practices set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 ("the Code of Practice"). An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks identified 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. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. Together with our previous reports, this annual audit report to the Joint Board discharges the requirements of ISA 260.

# Use of resources

Our perspective on the Joint Board's use of resources

For the year ended 31 March 2013 the Joint Board reported a net cost of services of £3.2 million. The outturn represented a £144,000 underspend on the budget approved for 2012-13 by the Joint Board.

### Financial position

For the year ended 31 March 2013 the Joint Board reported a net cost of services of £3.2 million. This was in line with the prior year, representing the fact that there was no major change in the scale of activities.

The outturn represented a £144,000 underspend on the budget approved for 2012-13 by the Joint Board. This saving arose primarily in staff costs (£40,000) as posts were held vacant in the year, and from third party payments (£81,000) which were either not required or could not be performed in year.

During the year, non-specific grant income of £12.8 million was recognised. Of this, £11.3 million was in respect of capital expenditure to fund the continued investment in the infrastructure assets. £10.3 million was incurred on the pier collision protection project, being the major ongoing works during the year.

### Reserves

Within usable reserves, the Joint Board holds capital grants unapplied of £1.03 million and an unchanged general fund balance at the year end of £1.16 million. The general fund balance is in excess of the previously identified £800,000 prudent level of reserves to be held. 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 2013 of £73.3 million (2011-12: £63.8 million), represented primarily by property, plant and equipment of £73.2 million. The increase in net assets represents the continued investment in the infrastructure assets during 2012-13.

Comprehensive income and expenditure statement	2012-13	2011-12
	£000	£000
Net cost of service	3,169	3,049
Other operating income	95	(3)
Finance and investment income and expenditure	(1)	(96)
Non-specific grant income	(12,802)	(12,890)
<b>(Surplus) on provision of services</b>	<b>(9,539)</b>	<b>(9,940)</b>
Revaluation of fixed assets	4	-
Other comprehensive income and expenditure, being actuarial losses on pension scheme	72	355
<b>Total comprehensive income and expenditure</b>	<b>(9,463)</b>	<b>(9,585)</b>

Movement in reserves statement 2012-13	Usable reserves	Unusable reserves	Total reserves
	£000	£000	£000
Opening balance at 1 April	6,381	57,416	63,797
Total comprehensive income and expenditure	9,539	(76)	9,463
Adjustments between accounting and funding basis under regulations	(13,728)	13,728	-
<b>Increase / (decrease) in reserves</b>	<b>(4,189)</b>	<b>13,652</b>	<b>9,463</b>
<b>Balance at 31 March carried forward</b>	<b>2,192</b>	<b>71,068</b>	<b>73,260</b>

# Financial statements and accounting

Our perspective on the preparation of the  
financial statements and key accounting  
judgements made by management





## Financial statements and accounting

### Accounting policies

There have been no substantive changes to the financial reporting framework as set out in the *Code of practice on Local Authority Accounting in the United Kingdom 2012-13*.

There have been no changes to accounting policies in 2012-13. All accounting policies have been applied consistently.

Disclosure has been included in respect of the impact of revisions to IAS 19 *Employee benefits*.

Accounting framework and application of accounting policies	
Area	KPMG comment
<b>Code of practice on Local Authority Accounting in the United Kingdom 2012-13</b>	<p>The 2012-13 financial statements have been prepared in accordance with the Code of Practice which is based upon International Financial Reporting Standards ("IFRS"). The 2012-13 Code of Practice had a number of amendments from the 2011-12 version which included:</p> <ul style="list-style-type: none"> <li>changes in relation to the objective of the financial statements and the qualitative characteristics of financial information; and</li> <li>encouragement for local authorities to prepare the Explanatory Forward taking into consideration the requirements of the Government's Financial Reporting Manual (FRm).</li> </ul> <p>Management has considered that the information provided within the Bridge Manager's Report and the Treasurer's Report together meet the requirements of the 2012-13 Code of Practice.</p>
<b>Accounting policies</b>	<ul style="list-style-type: none"> <li>There have been no significant changes in accounting policies in 2012-13.</li> <li>We are satisfied that all accounting policies have been applied consistently and are appropriate for the Joint Board's activities.</li> </ul>
<b>Impact of revised accounting standards</b>	<ul style="list-style-type: none"> <li>Disclosure has been included in the financial statements highlighting that the impact of revisions to IAS 19 <i>Employee benefits</i> if the standard had been adopted early in 2012-13. The estimated change to finance costs being of the order of an additional £0.1 million. Within the statutory provisions applicable to the Joint Board, this charge would be reversed through the movement on reserves and so have no impact on the general fund balance.</li> <li>No other newly effective accounting standards are considered to have a material impact on the Joint Board's financial statements.</li> </ul>



## Financial statements and accounting Key accounting judgements

We have considered key accounting judgements in relation to accounting for pensions under IAS 19.

We concur with management's judgements in respect of actuarial assumptions used to estimate the net pension liability.

### Key accounting judgements

Area	KPMG comment
<b>Pensions</b>	<p>The only significant accounting judgement or estimate made within the Joint Board's financial statements is in respect of the actuarial assumptions used to estimate net pension liability of the Joint Board in accordance with IAS 19 <i>Employee benefits</i>.</p> <p>We have reviewed the assumptions used by the actuary in calculating the pension deficit as at 31 March 2013. The assumptions are within the acceptable range of the guideline assumptions that KPMG's actuaries have advised. Overall, the assumptions are considered to represent a balanced approach to valuation of the net pension deficit.</p> <p>The net pension liability has increased by £0.14 million as a result of changing financial assumptions. The sensitivity analysis reported identifies, however, that the net liability remains sensitive to changes in assumptions, particularly in discount rate and mortality assumptions.</p>



## Financial statements and accounting

### Audit conclusions

**We have issued an unqualified audit opinion on the financial statements.**

**The unaudited financial were made available on a timely basis and were accompanied by working papers of an appropriate standard.**

#### Audit conclusions

We have issued an unqualified opinion on the truth and fairness of the state of the Joint Board's affairs as at 31 March 2013, and of its expenditure and income for the year then ended. The financial statements have been properly prepared in accordance with the 2012-13 Code of Practice, and prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government Scotland Act 2003. There are no matters identified on which we are required to report by exception.

In gathering the evidence for our opinion we have:

- performed a mixture of substantive and controls testing to ensure an efficient approach that covers all the key risks;
- considered the work of the Joint Board's internal auditor and reviewed their reports to ensure all key risk areas having a potential financial statement impact have been considered;
- reviewed assumptions and judgements made by management and considered these for appropriateness;
- considered if the financial statements may be affected by fraud through discussions with senior management and internal audit to gain a better understanding of their work in relation to prevention and detection of fraud with the potential to impact on the financial statements; and
- attended the Joint Board meeting at which the unaudited financial statements are considered, to communicate our findings to those charged with governance, and also to update our understanding of the key governance processes and obtain key stakeholder insights.

#### Financial statements preparation

- The unaudited financial statements were authorised for issue by the Treasurer of the Joint Board on 18 June 2013, and passed to us for audit on 19 June 2013 along with a completed disclosure checklist. This was in advance of statutory requirements and the agreed audit timetable
- In accordance with regulations, the unaudited financial statements were made available for public inspection from 22 July to 9 August 2013. No objections were received.
- Good quality supporting documentation was made available in electronic format to support the unaudited financial statements.
- There are no significant matters in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter content, as reported in appendix one.

# Governance and narrative reporting

Update on your governance arrangements

Our overall perspective on your narrative reporting, including the remuneration report and annual governance statement



## Governance and narrative reporting

### Corporate governance arrangements

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

**The Joint Board undertook a self-assessment review of the effectiveness of its governance arrangements. This indicated a high-level of compliance.**

<p><b>Corporate governance and internal control arrangements</b></p>	<p>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.</p> <p>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.</p> <p>The Joint Board operates 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.’ The local code of corporate governance focuses on four key areas of Joint Board activity, namely structures and governance; service delivery arrangements; internal control and risk management; and stakeholder focus.</p> <p>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. Standing orders, scheme of delegation, financial regulations, fraud regulations and tender procedures are all approved, and have been made available on the Joint Board’s website to demonstrate openness and transparency of arrangements.</p>
<p><b>Annual governance statement</b></p>	<p>The Joint Board’s annual governance compliance statement for 2012-13 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.</p> <p>The 2011-12 self-assessment had identified the need for the introduction of a formal complaints procedure. This was achieved by 30 September 2012. During 2012-13, internal audit reviewed the Joint Board’s arrangements in respect of data protection and recommended further improvement through introduction of a data protection policy and a freedom of information policy. The Joint Board proposes to take action on these items through its continuous improvement agenda.</p> <p>We have reviewed the annual governance statement and confirm that it is consistent with our understanding of the Joint Board’s governance arrangements.</p>
<p><b>Remuneration report</b></p>	<p>In accordance with regulations, the Joint Board’s remuneration report sets out the remuneration arrangements for members and senior management of the Joint Board.</p> <p>We are satisfied that this has been prepared in accordance with the requirements of the regulations and other relevant guidance issued by the Scottish Government.</p>

<p><b>Systems of internal control</b></p>	<p>The Joint Board utilises the key financial systems of Dundee City Council under service level agreement. Administration of the financial records of the Joint Board is, therefore, undertaken by Council staff who are subject to Council policies on standards of conduct, fraud and corruption.</p> <p>We undertook appropriate systems audit work as part of our 2012-13 audit of Dundee City Council, with any findings reported to Council management. No audit findings relating uniquely to the Joint Board were identified during the audit work carried out at the Council.</p>
<p><b>Maintaining standards of conduct and the prevention and detection of fraud and corruption</b></p>	<p>The members of the Joint Board are drawn from the three constituent councils, and as such are bound by the respective codes of conduct of those councils.</p> <p>The Joint Board has approved fraud regulations which set out its strategy for the prevention and detection of fraud and irregularities, and outlines the responsibilities of members, officers and staff.</p> <p>We are satisfied that these arrangements are appropriate for the Joint Board's circumstances.</p>
<p><b>Internal audit</b></p>	<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 2013, before approval of the unaudited financial statements.</p> <p>The internal audit annual report provides an opinion that <i>"the Board operates adequate and effective internal control systems as defined in the audit needs assessment. Proper arrangements are in place to promote and secure Value for Money."</i> The report notes that the annual needs assessment was based on the areas of risk to which the Board is exposed.</p>

# Appendices



## Appendix one Mandatory communications

**There were no changes to the core financial statement and there are no unadjusted audit differences**

Area	Key content	Reference
<b>Adjusted audit differences</b>  Adjustments made as a result of our audit	<p>There were no audit adjustments required to the unaudited financial statements which impacted on the net assets or the surplus and deficit for the year.</p> <p>A small number of minor numerical and presentational adjustments were required to some of the financial statement notes.</p>	-
<b>Unadjusted audit differences</b>	<p>We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you.</p> <p>There are no unadjusted audit differences.</p>	-
<b>Confirmation of Independence</b>  Letter issued by KPMG to the Joint Board	<p>We have considered and confirmed our independence as auditors and our quality procedures, together with the objectivity of our Audit Director and audit staff. There were no fees payable to us other than in respect of our audit.</p>	Appendix 2
<b>Draft management representation letter</b>  Proposed draft of letter to be issued by the Joint Board to KPMG prior to audit sign-off	<p>In accordance with International Standards on Auditing (UK &amp; 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>There are no specific representations, other than those required under auditing standards, which we are requesting from management.</p>	-





## Appendix two

# Auditor independence and non-audit fees

**Auditing standards require us to consider and confirm formally our independence and related matters in our dealings with the Joint Board.**

**We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.**

### Auditor independence

Professional ethical standards require us to provide to you at the conclusion of an 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 letter 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 and its related entities 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 Audit Directors 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 APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Regular 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 members of the Joint Board.

### Confirmation of audit independence

We confirm that as of 27 August 2013, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director 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 purpose.

Yours faithfully

KPMG LLP



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