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Dundee, Perth, Angus and North Fife Strategic Development Joint Committee Planning Authority (TAYplan)

Annual audit report to the members of TAYplan
and the Controller of Audit

Audit: year ended 31 March 2014

30 September 2014

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in connection with this
report are:**

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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 Dundee, Perth, Angus and North Fife Strategic Development Joint Committee Planning Authority ("TAYplan") 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. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the beneficiaries alone.

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 (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a beneficiary's publication scheme or otherwise) 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.

This report is presented in connection with our audit of TAYplan for the year ended 31 March 2014.

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

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 for the year ended 31 March 2014.

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

Area	Summary observations	Analysis
Use of resources		
Financial position	For the year ended 31 March 2014 TAYplan reported a net cost of services of £252,000. This represented a £53,000 underspend on the approved 2013-14 budget. TAYplan holds usable reserves of £200,000 which are available to be applied against future expenditure.	Page 5
Financial statements and accounting		
Accounting policies	The Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 ("the Code of Practice") did not include any major amendments which impacted on the preparation of TAYplan's financial statements. There have been no changes to accounting policies in 2013-14, which have been applied consistently.	Page 7
Key judgement areas	There were no key accounting judgements in relation to the preparation of the financial statements.	Page 7
Audit conclusions	We have issued an unqualified audit opinion on the 2013-14 financial statements.	Page 8
Year-end process	The unaudited financial statements 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 8
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. We are satisfied that the content of the statement on the system of internal financial control meets the requirements of the Code of Practice, and is consistent with our understanding of TAYplan's activities. The remuneration report has been prepared in accordance with relevant guidance.	Page 10
Other matters	We are satisfied that arrangements in respect of maintaining standards of conduct and the prevention and detection of fraud and corruption are appropriate to TAYplan's circumstances.	Page 10

Purpose of this report

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit for 2013-14. It is addressed to both those charged with governance at TAYplan and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to TAYplan at the outset of our audit.

Responsibilities

Audit Scotland's *Code of Audit Practice* ("the Code") sets out the responsibilities of TAYplan and the Treasurer in respect of:

- preparation of financial statements;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value.

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Local Government (Scotland) Act 1973 and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code.

The Code sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements, but also consideration of areas such as financial performance and corporate governance.

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.

This annual audit report to members of TAYplan, together with previous reports, discharges the requirements of ISA 260.

Use of resources

Our perspective on TAYplan's use of resources

For the year ended 31 March 2014, TAYplan reported a net cost of services of £252,000. This represented a £53,000 under spend on the budget approved for 2013-14.

Financial position

During the year, TAYplan continued its key objective of developing and maintaining a strategic development plan for the area on behalf of Dundee City, Perth & Kinross, Angus and Fife Councils.

For year ended 31 March 2014 TAYplan reported a net cost of services of £252,000. This was a small increase from prior year, however the budget was found to be under spent by £53,000 due to budgeted legal costs not materialising.

Requisition income from the Councils was reduced this year to £220,000 from £240,000. This was due to Councils being offered rebates of £10,000 in the current year or in 2014-15 in order for reserves to be reduced through future expenditure as further detailed below.

Reserves

TAYplan has total net assets as at 31 March 2014 of £195,000 (2013: £219,000), held principally in cash. TAYplan does not hold any property, plant or equipment assets.

The usable reserves of £200,000 were reduced this year, given the Council rebates and the projected budget has been agreed that reserves can be reduced to a minimum of £25,000. This is happening prudently over a period of four to five years.

Comprehensive income and expenditure statement	2013-14	2012-13
	£000	£000
Net cost of service	252	248
Other operating income	(7)	(19)
Finance and investment income and expenditure	(1)	(1)
Deficit on provision of services	244	228
Requisition income	(220)	(240)
Total comprehensive income and expenditure	24	(12)

Source: *Financial statements*

Movement in reserves statement 2013-14	Usable reserves	Unusable reserves	Total reserves
	£000	£000	£000
Opening balance at 1 April	224	(5)	219
Total comprehensive income and expenditure	(24)	-	(24)
Adjustments between accounting and funding basis under regulations	-	-	-
Decrease in reserves	(24)	-	(24)
Balance at 31 March carried forward	200	(5)	195

Source: *Financial statements*

Financial statements and accounting

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

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 2013-14*.

There have been no changes to accounting policies in 2013-14. All accounting policies have been applied consistently.

There are no key accounting judgements made in the preparation of the financial statements.

Accounting framework and application of accounting policies	
Area	KPMG comment
Code of practice on Local Authority Accounting in the United Kingdom 2013-14	<p>The 2013-14 financial statements have been prepared in accordance with the Code of Practice which is based on International Financial Reporting Standards ("IFRS"). The 2013-14 Code of Practice had a number of amendments from the 2012-13 version which included to the Comprehensive Income and Expenditure Statement as a result of the June 2011 amendments to IAS 1 <i>Presentation of Financial Statements</i> (where relevant to an authority) and the June 2011 amendments to IAS 19.</p> <p>Management has considered that the information provided within the Treasurer's Report meets the requirements of the 2013-14 Code of Practice.</p>
Accounting policies	<ul style="list-style-type: none"> ■ There have been no significant changes in accounting policies in 2013-14. ■ We are satisfied that all accounting policies have been applied consistently and are appropriate for TAYplan's activities. ■ We do, however, note that management continue to apply judgement in respect of the application of IAS 19 <i>Employee benefits</i>. As TAYplan has only three employees, management does not believe that it is practical or represents value for money to seek to obtain an actuarial valuation of potential pension liabilities which could be directly attributable to TAYplan in respect of the Tayside Pension Fund. Similar authorities were reviewed by management and no practice of applying IAS 19 was found. We highlight there is a risk that pension liabilities could become material over time and we recommend that management continues to review the position. <p style="text-align: right;">Recommendation one</p>
Key accounting judgements	<ul style="list-style-type: none"> ■ There are no key accounting judgements made in the preparation of TAYplan's financial statements.

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

The unaudited financial statements 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 TAYplan's affairs as at 31 March 2014, and of its expenditure and income for the year then ended. The financial statements have been properly prepared in accordance with the 2013-14 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;
- 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
- submitted our audit strategy and this annual audit report to communicate our findings to those charged with governance.

Financial statements preparation

- The unaudited financial statements were authorised for issue by the Treasurer of TAYplan on 25 June 2014, and passed to us for audit on the same date along with a completed disclosure checklist. This was in advance of statutory requirements and in line with the agreed audit timetable.
- In accordance with regulations, the unaudited financial statements were made available for public inspection from 15 July 2014. 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.
- We have made one recommendation in respect of management action, which is included in the action plan in appendix three.

Governance and narrative reporting

Update on your governance arrangements

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

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

We are satisfied that the content of the statement on the system of internal financial control meets the requirements of the Code of Practice, and is consistent with our understanding of TAYplan's activities.

The remuneration report has been prepared in accordance with relevant guidance.

<p>Corporate governance and internal control arrangements</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 TAYplan 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. TAYplan's joint committee met two times during 2013-14 to discharge these responsibilities.</p> <p>TAYplan utilises the key financial systems of Dundee City Council under service level agreement, this includes use of Dundee City Council's bank account. We undertook appropriate systems audit work as part of our 2013-14 audit of Dundee City Council, with any findings reported to Council management. No audit findings relating uniquely to TAYplan were identified.</p>
<p>Statement on the system of internal financial control</p>	<p>TAYplan has prepared a statement on the system of internal financial control which outlines the framework of arrangements within which financial control is managed. No significant weaknesses in financial control have been identified, and disclosed within the statement. We are satisfied that the content of the statement on the system of internal financial control meets the requirements of the Code of Practice, and is consistent with our understanding of TAYplan's activities.</p> <p>The Local Authority Accounts (Scotland) Regulations 2014 will come into force on 10 October 2014, replacing regulations which have applied since 1985. One of the requirements of these regulations is the preparation of an annual governance statement. Management will require to make early consideration of the arrangements in place at TAYplan and what steps should be taken to ensure that this requirement can be met in the 2014-15 financial statements.</p> <p>We noted that it was not possible for the unaudited financial statements to be considered at the joint committee meeting by its members prior to their approval, due to the new meeting timings. Management must therefore have a clear process in place for documenting the approval of the unaudited financial statements by the joint committee.</p> <p style="text-align: right;">Recommendation two</p>
<p>Remuneration report</p>	<p>In accordance with regulations, TAYplan's remuneration report sets out the remuneration arrangements for members and senior management. 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>Maintaining standards of conduct and the prevention and detection of fraud and corruption</p>	<p>The members of TAYplan are drawn from the constituent councils, and as such are bound by the respective codes of conduct of those councils. Administration of the financial records of TAYplan is undertaken by Dundee City Council staff who are subject to Council policies on standards of conduct, fraud and corruption.</p> <p>We are satisfied that these arrangements are appropriate for TAYplan's circumstances.</p>

Appendices

There was one adjusted audit difference to the core financial statements and there are no unadjusted audit differences.

Area	Key content	Reference
Adjusted audit differences Adjustments made as a result of our audit	There was an adjusted audit difference in relation to VAT recovery received into Dundee City Council's bank account which resulted in an increase in cash balance of £2,140 on the balance sheet with a corresponding credit to debtors. This had no impact on the net assets or the surplus and deficit for the year.	Appendix two
Unadjusted audit differences	We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you. There are no unadjusted audit differences.	-
Confirmation of Independence Letter issued by KPMG to TAYplan	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.	Appendix three
Draft management representation letter Proposed draft of letter to be issued by TAYplan to KPMG prior to audit sign-off	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. We have management to confirm that they are satisfied that it remains appropriate not to seek to obtain additional information on potential pension liabilities arising in respect of the three members of staff employed by TAYplan. With the exception of this confirmation, all other representations sought are in line with those required specifically under auditing standards.	-

There is an adjusted audit difference relating to VAT recovery .

Adjusted audit differences

We are required by ISA (UK and Ireland) 260 to communicate all adjusted audit differences, other than those which are trivial, to you.

There is an adjusted audit difference relating to VAT recovery. Details of this adjusted audit difference are shown below.

Adjusted caption	Nature of difference	Statement of Financial Position	Statement of Comprehensive Net Expenditure
Changes to the prime financial statements		£	£
Cash held by DCC	VAT recovery received by DCC not transferred in TAYplan's ledger cashbook balances.	2,140	-
Short term debtors	VAT recovery received by DCC not transferred in TAYplan's ledger cashbook balances.	(2,140)	-
Net impact		-	-

Auditing standards require us to consider and confirm formally our independence and related matters in our dealings with TAYplan.

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 TAYplan 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 TAYplan.

Confirmation of audit independence

We confirm that as of 12 September 2014, 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 TAYplan and should not be used for any other purpose.

Yours faithfully

KPMG LLP

The action plan summarises specific recommendations arising from our work, together with related risks and management’s responses.

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)

Recommendation(s)

Agreed management actions

1 Application of IAS19 (employee benefits)

Grade two

Management continue to apply judgement in respect of the application of IAS 19 *Employee benefits*. Management does not believe that it is practical or represents value for money to seek to obtain an actuarial valuation of potential pension liabilities which could be directly attributable to TAYplan in respect of the Tayside Pension Fund.

There is a risk that pension liabilities could become material over time and we recommend that management continue to review the position.

Management will continue to review its position on this matter.

Responsible officer: Treasurer / SDPA Manager

Implementation date: 31 January 2015

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

2 Annual governance statement

Grade two

The Scottish Government has issued a consultation in respect of The Local Government Accounts (Scotland) Regulations 2013, which would replace the existing regulations. One of the requirements of these regulations will be the preparation of an annual governance statement.

Management will require to make early consideration of the arrangements at TAYplan and what steps should be taken to ensure that this requirement of producing an annual governance statement can be met in the 2014-15 financial statements. As part of this consideration, management should seek to ensure that the members of the joint committee have the opportunity to approve the unaudited financial statements, prior to their certification. This process should be clearly documented.

This matter will be progressed as part of 2014/15 year end preparations.

Responsible officer: Treasurer / SDPA Manager

Implementation date: 31 March 2015



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