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Tayside Contracts Joint Committee

Annual audit report to the members of Tayside Contracts Joint Committee and the Controller of Audit

Audit: year ended 31 March 2014

15 August 2014

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 Tayside Contracts Joint Committee and is made available to Audit Scotland and the Accounts Commission for Scotland (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except 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.

Headlines

This report is presented in connection with our audit of Tayside Contracts Joint Committee 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 the audit. In accordance with ISA (UK and Ireland) 260: *Communication with those charged with governance,* this report also 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 Joint Committee staff during the course of our work.

Area	Summary observations	Analysis
Use of resources		
Financial position	The Joint Committee achieved a surplus before transfers of £1.11 million compared with a budget of £806,000 in respect of the year ended 31 March 2014. The requirements to support the introduction of the Living Wage led to an additional £1.13 million being returned to the Councils in the year from reserves. The facilities division achieved the prescribed financial objective of obtaining a breakeven position over the previous three years with a net surplus including employee benefits adjustment, of £103,000 for the year. The construction division did not achieve this position for the year with a net deficit of £710,000 following the employee benefits adjustment.	Page 6 - 8
Financial statements and accounting		
Audit conclusions	We have issued an unqualified audit opinion on the financial statements for 2013-14. An emphasis of matter paragraph has been included in relation to the construction division significant trading operation not achieving its statutory objective.	Page 10
Significant risks and audit focus areas	We have considered inherent significant risks that the ISAs would require us to raise, covering risks in relation to revenue recognition and management override of controls and have satisfactorily concluded our work in these areas. We have considered key accounting judgements in relation to accounting for pensions under IAS 19 *Employee Benefits* Revised. We concur with management's judgements in respect of actuarial assumptions used to estimate the net pension liabilities. We have also considered management's position in relation to restoration provisions for the quarries.	Pages 10 - 12
Year-end process	The unaudited financial statements were authorised for issue by the Treasurer of the Joint Committee on 16 June 2014, and subsequently made available for public inspection, all in line with the statutory requirements. There are no unadjusted audit differences.	

Executive summary

Headlines (continued)

Area	Summary observations	Analysis
Governance, narrative reporting and performance management		
Governance framework	Our review of governance arrangements did not identify any issues. Corporate governance arrangements remain primarily uncharged and provide a sound framework for organisational decision making.	Page 14 - 15
Performance management	Our work has confirmed that the Joint Committee's performance management arrangements remain appropriate to its business objectives.	Page 16

Scope and responsibilities

Purpose of this report

The Accounts Commission for Scotland has appointed KPMG LLP as auditors of Tayside Contracts Joint Committee (“the Joint Committee”) under the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2011-12 to 2015-16, inclusive.

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Joint Committee 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 Committee at the outset of our audit for 2013-14.

Responsibilities

Audit Scotland’s *Code of Audit Practice* (“the Code”) sets out the Joint Committee’s and the Treasurer’s responsibilities 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 Act 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 the Joint Committee discharges the requirements of ISA 260.

Use of resources

Our perspective on the Joint Committee’s use of resources

Financial position

The Joint Committee achieved a surplus of £1.11 million compared with a budget of £806,000 in respect of the year ended 31 March 2014.

The business plan included an objective to return a surplus of £750,000 to the constituent councils in respect of 2013-14. The actual return was £1.1 million. The Joint Committee also returned a further £1.1 million to support the financing of Living Wage implementation.

Financial position

2013-14 was the final year of the Joint Committee's three year business plan which set out the strategic objectives of the Joint Committee and was supported by service plans for each division.

The 2013-14 budget anticipated a surplus of £806,000. The final outturn, prior to transfers, was a surplus of £1.11 million. A full analysis by division is carried out in the following pages, however, the following table summarises the Joint Committee's overall performance against budget in 2013-14.

	Budget £'000	Actual £'000	Variance £'000
Income	64,612	66,868	2,256
Expenditure	63,806	65,758	(1,952)
Surplus	**806**	**1,110**	**304**

During 2013-14, external income was £66.9 million (2012-13 £68.5 million). Charges to constituent local authorities – Angus, Dundee City and Perth and Kinross Councils – fell by £270,000 to £61.9 million compared with 2012-13 reflecting changed work patterns, including the impact of much less winter maintenance activity.

The Joint Committee remains reliant on the constituent local authorities and associated public bodies (including PPP school contracts) for the majority of its income (95%).

As a result of the revision of IAS 19 *Employee benefits,* restatement was required of the 2012-13 figures in order to take in to consideration the change in accounting policy. This led to a restatement of £1.3 million being an increase in the deficit on provision of services for 2012-13 and a corresponding amount through other comprehensive income and expenditure.

Comprehensive income and expenditure statement	2013-14	2012-13
	£000	**£000**
Net cost of service – construction	212	(637)
Net cost of service – facilities	366	(106)
Corporate and democratic core	45	42
Non distributed costs	47	76
Deficit/(surplus) on continuing operations	**670**	**(625)**
Other operating income	(28)	(3)
Financing & investment expenditure	1,811	2,070
Deficit on provision of services	**2,453**	**1,442**
Other comprehensive income and expenditure, being actuarial (gains) / losses on pension scheme, etc	13,615	(4,929)
Total comprehensive income and expenditure	**16,068**	**(3,487)**

During the year, and with the backing of the constituent councils, the Joint Committee implemented the Living Wage for all employees. This particularly impacted costs in the facilities services division and cost around £1 million.

Financial position (continued)

The facilities services division achieved the prescribed financial objective of achieving a break even position over a rolling three year period with surpluses of £103,000. The construction division did not as it reported a three year deficit of £710,000.

Movement in reserves statement 2013-14	Usable reserves	Unusable reserves	Total reserves
	£000	£000	£000
Opening balance at 1 April	1,627	(32,297)	(30,670)
Total comprehensive income and expenditure	(2,453)	(11,783)	(14,236)
Adjustments between accounting and funding basis under regulations	3,564	(3,158)	406
Interest adjustment	(1)	-	(1)
Increase/(decrease) before transfers	**1,110**	**(14,941)**	**(13,831)**
Contributions to constituent councils	(1,110)	-	(1,110)
Contributions to constituent councils in respect to Living Wage implementation	(1,127)	-	(1,127)
Increase / (decrease) in reserves	**(1,127)**	**(14,941)**	**(16,068)**
Balance at 31 March carried forward	**500**	**(47,238)**	**(46,738)**

Reserves

The Joint Committee holds a reduced general fund balance at the year end of £500,000 following contributions to constituent councils and additional contributions in relation to Living Wage implementation.

The Joint Committee has total net liabilities of £46.7 million as at 31 March 2014 (2013: £30.7 million), represented primarily by net pension liabilities of £48.9 million (2013: £33.8 million).

The financial statements have been prepared on a going concern basis as the statutory funding arrangements mean that the pension liabilities, which does not fall due in any one year, will be met through future requisitions from the constituent councils.

Significant trading operations

The Local Government in Scotland Act 2003 prescribes that the Joint Committee's trading operations should achieve a break-even position over a rolling three year period.

Whilst the facilities services division achieved this objective with a three year surplus of £103,000, the construction division did not as it reported a three year deficit of £710,000. It should be noted that these figures include the employee benefits adjustments made under accounting requirements and that without these figures facilities services would have achieved a three year surplus of £2.07 million and construction a three year surplus of £1.26 million.

As a result of the failure to deliver a three year surplus on the construction division, an emphasis of matter paragraph has been included within the audit opinion on the financial statements.

Financial position (continued)

The construction division exceeded expectations in 2013-14 despite a milder winter. The facilities services division has also performed well in the current year.

The introduction of the Living Wage in the current financial year represents a significant future challenge for the facilities services division as both catering and cleaning operations are staff intensive. The Joint Committee continues to work with the constituent councils to identify ways to fund this in future years.

Construction services division – trading account

The construction division exceeded expectations in 2013-14 against budget resulting in a surplus £44,000 better than forecast. This was despite the milder winter resulting in the lowest level of winter maintenance activity in many years, as seen by the year on year comparatives. This lower level of activity also led to a reduction in direct purchases of £1.7 million (11%), primarily as a result of a reduced need to purchase additional stocks of salt and other winter maintenance materials. The construction division also benefitted from a particularly dry summer in 2013 which allowed for much of their operations to be undertaken without weather delays.

Construction services division			
£'000	**2014**	**2013**	**Movement**
Charges to constituent councils	39,072	40,685	(1,613)
Other income	3,189	4,534	(1,345)
Charges to internal users	158	147	11
Income	**42,419**	**45,366**	**(2,947)**
Direct labour	9,912	10,363	(451)
Direct purchases	13,406	15,093	(1,687)
Sub-contractors	6,122	6,123	(1)
Transport and plant hire	2,092	2,478	(386)
Overheads	9,086	8,720	366
Depreciation	1,656	1,564	92
Depot rental charges	437	479	(42)
Interest payable	317	409	(92)
Expenditure	**43,028**	**45,229**	**(2,201)**
Net surplus/(deficit) including IAS19 adjustments	**(609)**	**137**	**(746)**

Source: Joint committee working papers

Facilities services division – trading account

The facilities services division also outperformed budget in 2013-14 exceeding budget by £219,000 at an income level. This led to an additional surplus of £259,000 for the year with strong performances in both the catering and cleaning units. There was a continued focus on enhancing efficiencies whilst maintaining and improving service standards. The catering unit saw an increase of 3% in the number of meals provided throughout Tayside in the year, with numbers for 2013-14 at 4.9 million. The cleaning unit experienced a profitable year with expenditure in new equipment yielding an additional £184,000 surplus.

Facilities services division			
£'000	**2014**	**2013**	**Movement**
Charges to constituent councils	22,835	21,422	1,413
Other income	1,772	1,825	(53)
Charges to internal users	175	157	18
Income	**24,782**	**23,404**	**1,378**
Direct labour	16,150	14,790	1,360
Direct purchases	4,407	4,140	267
Overheads	4,551	4,342	209
Depreciation	24	25	(1)
Depot rental charges	28	29	(1)
Interest payable	-	18	(18)
Expenditure	**25,160**	**23,344**	**1,816**
Net surplus/(deficit) including IAS19 adjustments	**(378)**	**60**	**(438)**

Source: Joint Committee working papers

Financial statements and accounting

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

Audit conclusions

We have issued, with the inclusion of an emphasis of matter paragraph in relation to the construction division, an unqualified audit opinion on the financial statements.

International Standards on Auditing require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk and that management override of controls is a significant risk. We have satisfactorily carried out audit work to address these risks.

Audit conclusions

Following approval of the financial statements by the Treasurer of the Joint Committee, we have issued an unqualified opinion, with the inclusion of an emphasis of matter paragraph, on the truth and fairness of the state of the Joint Committee'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. The emphasis of matter paragraph relates to the failure by the construction division to meet the prescribed financial objective of delivering a break even result over a three year period.

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 Committee's internal auditors 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; and
- 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.

Significant risks

Revenue recognition	International Standard on Auditing (UK and Ireland) 240 requires us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. As the Joint Committee's income is primarily received from the constituent local authorities, we did not regard the risk of fraud from this revenue recognition to be significant. We have however undertaken tests over revenue recognition for the purposes of our audit and have concluded appropriately on the amounts recognised in respect of 2013-14.
Management override of controls	To address this risk, we have performed testing of journal entries during the year and at the year end, undertaken a review of unusual transactions in the year, made enquiries with employees outside the finance department, incorporated audit tests of an unpredictable nature and undertaken testing of controls, including 'higher level' controls and reviewed management's accounting estimates for bias. Our work did not identify any matters that required adjustment in the financial statements or which require to be brought to your attention.

Audit conclusions (continued)

In addition to the significant risks identified as part of our audit, our audit planning also identified an area of audit focus around employee benefits valuation for participation in the Tayside Pension Fund.

Each of the assumptions used to value the Joint Committee's net pension deficit are within an acceptable range of KPMG's expectations.

We are of the view that this therefore represents a reasonable and balanced approach, in accordance with the requirements of IAS 19(R).

Our work in this area has therefore been satisfactorily concluded.

Audit focus area

The Joint Committee's financial statements has a significant estimate in respect of the actuarial assumptions used to estimate net liabilities of the Joint Committee arising from its participation in the Tayside Pension Fund in accordance with IAS19 *Employee Benefits.*

We have reviewed the assumptions used by the actuary in calculating the pension deficit as at 31 March 2014. 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.

The net pension liability has increased by £15.1 million as a result of changing assumptions.

The Joint Committee chose to adopt IAS 19 Revised in the year. This led to a restatement of the prior year financial statements reducing the financing and investment income by £1.3 million as well as the actuarial gains figure.

Assumption	Joint Committee	KPMG central	Comment
Discount rate	4.50%	4.40%	Acceptable – The proposed discount rate is within an acceptable range of KPMG's central rate as at 31 March 2014.
RPI inflation	3.70%	3.60%	Acceptable – The proposed RPI inflation rate is broadly in line with KPMG's central rates.
CPI inflation	2.90% RPI – 0.8%	2.60% RPI – 1%	The proposed CPI inflation rate is assumed to be the proposed RPI inflation rate less 0.8% which is consistent with last year. KPMG's view is that the differential between RPI and CPI should be higher and closer to 1%. The proposed assumption could therefore be considered to be overly prudent (higher liability). However, the assumption should not be considered in isolation (see comments below on net discount rate).
Net discount rate (discount rate – CPI)	1.60%	1.80%	Acceptable – the proposed adjustment is within an acceptable range of KPMG's central rate and therefore acceptable for IAS 19 purposes.
Salary growth (long term)	5.10% RPI + 1.4%	5.10% RPI + (0-1.5%)	Acceptable – The assumption reflects the long term view of public sector pay with an assumption of RPI plus 1.4%.

Accounting framework; year end process; other matters

There have been no substantive changes to the financial reporting framework as set out in the Code of Practice.

The implementation of revisions to IAS 19: *Employee benefits* did not have a material impact on the Joint Committee.

Accounting policies have been applied consistently.

Financial reporting framework	■ The Joint Committee prepared its financial statements in accordance with the Code of Practice which is based upon International Financial Reporting Standards ("IFRS"). ■ With the exception of the adoption of IAS 19 (Revised), during the year there have been no significant changes in financial reporting requirements, and consequently there are no other substantive changes to the Joint Committee's accounting policies. We are satisfied that the accounting policies adopted remain appropriate. ■ During the year new draft guidance was issued in relation to decommissioning obligations. The Joint Committee currently operate a number of quarries where the accounting treatment for the obligations does not adhere to this guidance. As the level of provision current recorded is sufficient for the work that will be required to be carried out at these sites, and the level of figures involved, it was agreed that the current accounting treatment for the quarries be accepted. If any new arrangements are entered in to by the Joint Committee these should then be accounted for in accordance with the new guidance. ■ No newly effective accounting standards are considered likely to have a material impact on the Joint Committee's financial statements in the coming year.
Financial statements preparation	■ The unaudited financial statements were authorised for issue by the Proper Officer of the Joint Committee on 16 June 2014, and passed to us for audit in line with the statutory timetable. ■ In accordance with regulations, the unaudited financial statements were made available for public inspection from 30 June to 18 July 2014. No objections were received. ■ Good quality supporting documentation was made available in electronic format to support the unaudited financial statements.
Going concern	■ The Joint Committee's balance sheet as at 31 March 2014 shows a net liabilities position of £46.74 million, the majority of which relates to employee benefit liabilities of £48.9 million. In the short to medium term, the employee benefit liabilities do not impact on the Joint Committee's general fund or budget requirements, and does not affect the Joint Committee's ability to continue trading as a going concern.
Other matters	■ Mandatory communications required by International Standards on Auditing are given in Appendix one. ■ There are no significant matters in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter content.

Governance, narrative reporting and performance management

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

Update on controls findings from our audit

Our perspective on the Joint Committee's performance management arrangements

Corporate governance and narrative reporting

We updated our understanding of the governance framework and did not identify any issues which require to be brought to your attention. We remain satisfied that the Joint Committee has established appropriate arrangements.

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 Committee and its Proper Officer 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 Committee 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 Committee activity, namely structures and governance; service delivery arrangements; internal control and risk management; and stakeholder focus. The revenue and capital budgets for the year are approved by the Joint Committee, 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 Committee's website to demonstrate openness and transparency of arrangements.
Annual governance statement	The Joint Committee's annual governance compliance statement for 2013-14 discloses that, in line with best practice, the Joint Committee undertook a self-assessment review of the effectiveness of its arrangements during the year, using a 31-point checklist completed by the Managing Director and the Corporate Management Team. The self-assessment indicated a high-level of compliance. We have reviewed the annual governance statement and confirm that it is consistent with our understanding of the Joint Committee's governance arrangements.
Remuneration report	In accordance with regulations, the Joint Committee's remuneration report sets out the remuneration arrangements for members and senior management of the Joint Committee. 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.
Systems of internal control	The Joint Committee is responsible for designing and implementing appropriate internal control systems. Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively.

Internal audit	The Joint Committee has an outsourced internal audit provider, who provide a broad coverage of work based on the audit needs assessment for the Joint Committee. The internal audit annual report to the Joint Committee at its meeting on 16 June 2014 provided an opinion that "*the Organisation 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*."
Prevention and detection of fraud / arrangements for maintaining standards of conduct	The members of the Joint Committee are drawn from the three constituent councils, and as such are bound by the respective codes of conduct of those councils. The Joint Committee 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. We are satisfied that these arrangements are appropriate for the Joint Committee's circumstances.

Performance management

The Joint Committee's performance management and Best Value and arrangements remain largely unchanged and we did not identify any issues which require to be brought to your attention.

Performance management	The Joint Committee measures its performance through regular reporting of key performance indicators and the generation of the annual performance report. Copies of the report are made available to the public through the Joint Committee's website.
Best Value	In April 2002 the Scottish Ministers introduced a non-statutory duty on accountable officers to ensure there are arrangements designed to secure Best Value. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector. Using the Scottish Executive's nine Best Value principles as a basis for audit activity, Audit Scotland previously selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working). We note that in working towards achieving best value, the Joint Committee participates in the Tayside Procurement Consortium, as well as having access to a number of national procurement programmes in which Dundee City Council participates.

Appendices

Mandatory communications

Mandatory communications regarding audit adjustments, auditor independence and representation letter content are given here.

Area	Key content	Reference
Adjusted audit differences Adjustments made as a result of our audit	There were no audit adjustments required to the draft financial statements which impacted on the net assets or the net expenditure for the year. A small number of numerical and presentational adjustments were required to some of the financial statements notes.	-
Unadjusted audit differences Audit differences identified that we do not consider material to our audit opinion	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 the Joint Committee	We have considered and confirmed our independence as auditors and our quality procedures, together with the objectivity of our Audit Director and audit staff.	Appendix two
Schedule of Fees Fees charged by KPMG for audit and non-audit services	Audit fees for 2013-14 were agreed with management in accordance with the range specified by Audit Scotland. There were no non-audit services.	-
Draft management representation letter Proposed draft of letter to be issued by the Joint Committee to KPMG prior to audit sign-off	There are no significant changes to the standard representations required for our audit from last year.	Appendix three

Auditor independence

Auditing Standards require us to consider and confirm formally our independence and related matters in our dealings with the Joint Committee.

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

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 Committee for professional services provided by us during the reporting period. 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
- 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 Committee.

Confirmation of audit independence

We confirm that as of 15 August 2014, in our professional judgment, 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 Committee and should not be used for any other purpose.

Yours faithfully

KPMG LLP

Management representation letter content

You are required to provide us with representations on specific matters such as your financial standing, application of accounting policies, and whether the transactions within the financial statements are legal and unaffected by fraud.

Beyond the requirements of Auditing Standards, in the management representation letter, we have obtained specific confirmation that:

- Information which comprises the managing director's report, the construction division operational report, the facilities services division operational report, foreword to the financial statements, and remuneration report is consistent with the financial statements.
- Operating segments have been identified appropriately based on the way in which the segments are organised within the Joint Committee for making operating decisions and in assessing performance. Subject to the specific requirements of IFRS 8 *Operating segments*, financial information is disclosed in the same manner and based on the same policies as they are reported internally and used by that person or group of persons (the Joint Committee's chief operating decision maker) that make decisions about the resources to be allocated to the operating segments and assess their performance.
- You have provided us with all relevant information regarding key assumptions concerning the future, and other key sources of estimation uncertainty at the date of the statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, including major assumptions concerning future events affecting classes of provisions, as required in specified circumstances by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

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