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 2015

17 September 2015

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 the Tay Road Bridge Joint Board and is made available to Audit Scotland and the Accounts Commission for Scotland (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 circumstances set out in the executive summary: scope and responsibilities.

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.

Headlines

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 summarises our work in relation to the financial statements for the year ended 31 March 2015.

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

Area	Summary observations	Analysis
Strategic overview		
Financial position	For the year ended 31 March 2015 the Joint Board reported a cost of services of £3.745 million. The outturn represents a £0.012 million underspend on the 2014-15 budget approved by the Joint Board.	Pages 6-7
Financial statements and accounting		
Audit conclusions	We have issued an unqualified audit opinion on the 2014-15 financial statements, following their approval by the Joint Board on 7 September 2015. The financial statements, management commentary, directors' report, governance statement and remuneration report were received by the start of audit fieldwork and were supported by high quality working papers.	Page 9
Significant risks and audit focus areas	The areas highlighted below are the specific audit focus areas identified within our audit strategy: ▪ management override of controls fraud risk. and other focus areas of: ▪ fraudulent revenue recognition ▪ property, plant and equipment; and ▪ pension liability. Audit work has been completed to satisfy the requirements of ISA 330 'The auditor's procedures in response to assessed risks', including tests of key financial controls. In respect of each matter, we are content with management's judgements and accounting treatment.	Page 10
Going concern	The Joint Board had net assets of £73.95 million as at 31 March 2015. The financial statements are prepared on a going concern basis, and the funding in respect of 2015-16 was agreed in advance of approving the budget.	Page 12
Accounting policies	There have been no changes to accounting policies applied by Joint Board in 2014-15. No newly effective accounting standards are expected to have a material impact on the 2015-16 financial statements.	Page 12

Headlines (continued)

Area	Summary observations	Analysis
Financial statements and accounting (continued)		
Governance and narrative reporting		
Governance	Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.	Pages 14-16
Internal controls	Testing of the design and operation of financial controls over significant risk points was undertaken as part of our testing. Our work concluded that controls relating to financial systems and procedures are designed appropriately and operating effectively.	Page 15
Performance management		
Performance management	Our work has identified that the Joint Board's performance management arrangements are generally appropriate to its business objectives.	Page 18

Scope and responsibilities

Purpose of this report

The Auditor General for Scotland ("the Auditor General") has appointed KPMG LLP as auditor of Tay Road Bridge Joint Board ("the Joint Board") under the Public Finance and Accountability (Scotland) Act 2000 ("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 Board and the Controller of the 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.

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.

Accountable officer responsibilities

Audit Scotland's *Code of Audit Practice* ("the Code") sets out the Joint Board's responsibilities in respect of:

- preparation of financial statements that show a true and fair view;
- 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.

Auditor responsibilities

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.

Scope

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 and our presentation to the audit and risk committee, together with previous reports to the Joint Board throughout the year, discharges the requirements of ISA 260.

Strategic overview

Our perspective on key business issues and financial position

Financial position

In the year ended 31 March 2015 the Joint Board reported an outturn of £1.156 million deficit, before IA19 and revaluation adjustments, which represents a £17,000 overspend on the budget approved for 2014-15 by the Joint Board.

Comprehensive income and expenditure statement

In the year ended 31 March 2015 the Joint Board reported a cost of services of £3,745,000 and deficit on provision of services of £1,156,000.

The outturn represents a £17,000 overspend on the budget approved for 2014-15 by the Joint Board, which formed the basis for the grants received the Scottish Government. The overspend is primarily due to a lower than budgeted non-specific grant income. The budget incorporated a 1% pay award.

2015-16 budget

The 2015-16 budget incorporates a break-even position, resulting in no change to the general fund positions. The revenue funding from the Scottish Government is forecast to remain at £1,700,000. The capital programme for 2015-16 shows capital expenditure of £925,000 funded by £500,000 grant funding and £425,000 capital grants carried forward from previous years.

Comprehensive income and expenditure statement

	Revised budget £'000	2014-15 £'000	(Under)/Over spend £'000
Cost of services	**3,757**	**3,745**	**(12)**
Other operating income	33	33	-
Financing & investment expenditure	82	78	(4)
Taxation & non specific grant income	(2,733)	(2,700)	33
Deficit on provisions of services	**1,139**	**1,156**	17
Surplus on revaluation of PPE*	(192)	(192)	-
Actuarial gain on pension assets/liabilities*	(640)	(640)	-
Total comprehensive income and expenditure	**307**	**324**	**17**

Source: Draft 2014-15 financial statements

*actual revaluations and actuarial movements are incorporated into the revised budget.

Financial position (continued)

During the year to 31 March 2015, the net asset position reduced by £0.324 million to £73.95 million.

Balance Sheet

The Joint Board had net assets as at 31 March 2015 of £73,950,000 (2013-14: net assets of £74,274,000).

Property, Plant & Equipment decreased by £226,000 from 2013-14, primarily a result of additions of £1,341,000, upwards revaluations of £239,000 and offset by a depreciation charge of £1,766,000. Total short term debtors remained broadly in line with prior year with a small increase of £1,000.

The cash balance decreased by £354,000 from the prior year, and the Joint Board's total assets decreased by £633,000.

Liabilities

There was a decrease in liabilities of £279,000 during 2014-15, which is attributed to the £293,000 decrease in net pension liability, as set out on page 23. Short term creditors remained relatively consistent, with an increase of £14,000 from the prior year.

Reserves

The general fund reserve decreased by £280,000 to £2,056,000 as at 31 March 2015. 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).

Balance Sheet	2015 £'000	2014 £'000
Property, Plant & Equipment	73,829	74,055
Investment Property	62	62
Total long term asset	**73,891**	**74,117**
Inventories	63	67
Short term debtors	20	19
Cash & cash equivalents	2,709	3,083
Total current assets	**2,792**	**3,169**
Total assets	**76,683**	**77,286**
Short term creditors	(798)	(784)
Total current liabilities	**(798)**	**(784)**
Net pension liabilities	(1,935)	(2,228)
Total long term liabilities	**(1,935)**	**(2,228)**
Total liabilities	**2,733**	**3.012**
Net assets	**73,950**	**74,274**

Source: Draft financial statements 2014-15

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 an unqualified audit opinion on the financial statements.

The financial statements, including the governance statement, treasurer's report and bridge manager's report, were made available on a timely basis and were accompanied by high quality working papers.

Audit conclusions

Following approval of the financial statements by the Treasurer we have issued an unqualified opinion on the truth and fairness of the state Joint Board's affairs as at 31 March 2015, and of Joint Board's deficit for the year then ended. There are no matters identified on which we are required to report by exception.

In gathering the evidence for our opinion we have:

- performed controls testing and substantive procedures to ensure that key risks to the financial statements have been covered;
- we reviewed internal audit reports as issued to the Joint Board to ensure all key risk areas which may be viewed to have an impact on the financial statements have been considered;
- reviewed estimates and accounting judgements made by management and considered these for appropriateness;
- considered the potential effect of fraud on the financial statements through discussions with senior management to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- attended the Joint Board meeting to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Financial statements preparation

- High quality working papers and draft financial statements were provided at the start of the audit fieldwork on 29 June 2015. This included the bridge manager's report, remuneration report, treasurer's report and governance statement.
- Reflective of the long standing working relationship the standard of documentation was good and there was evidence of accountability and ownership of working papers across the finance department.
- There were no significant issues with respect to compliance with the Code. We provided feedback to management on the content of the financial statements, annual report, governance statement and remuneration report and we are pleased to report that these were prepared appropriately.
- 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 consider that management has maintained a robust control environment.

Significant risks and audit focus areas

The significant areas of risk identified in our audit strategy were in respect of:

- **management override of controls fraud risk.**

and other focus areas of:

- **fraudulent revenue recognition;**
- **pension liability; and**
- **property, plant and equipment.**

We summarise below the risks of material misstatement as reported within the audit strategy document. We set out the key audit procedures to address those risks and our findings from those procedures, in order that the Joint Board may better understand the process by which we arrived at our audit opinion.

We have no changes to the risk or our approach to addressing the assumed ISA risks of fraud in management override of controls and risks of fraud in revenue recognition. We do not have findings to bring to your attention in relation to these matters. No control overrides were identified.

Audit focus area	Our response	Audit findings
Pension liability The Joint Board accounts for its participation in the Local Government Pension Fund in accordance with IAS 19 Retirement benefits, using a valuation report prepared by actuarial consultants. The Joint Board's actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases. IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The determination of the retirement benefit obligation is inherently judgemental and there is a financial statement risk as a result.	Our audit work consisted of: ▪ KPMG specialists reviewing the financial assumptions underlying actuarial calculations and comparison to our central benchmarks, the result of which are on page 23; ▪ testing the scheme assets and rolled-forward liabilities; ▪ testing the level of contributions used by the actuary to those actually paid during the year; and ▪ agreeing actuarial reports to financial statement disclosures.	We are satisfied that the pension liability: ▪ is correctly stated in the balance sheet as at 31 March 2015; ▪ has been accounted for and disclosed correctly in line with IAS19 *Retirement benefits*; and ▪ assumptions used in calculating this estimate and managements judgements are appropriate and within the acceptable KPMG range. We set out further information in respect of the pension liability on pages 23 and 24.

Significant risks and audit focus areas (continued)

Audit focus area	Our response	Audit findings
Property, plant and equipment Under the Code, property, plant and equipment ("PPE") is required to be held on the balance sheet at fair value. The property, plant and equipment balance comprises the majority of the Joint Board's assets and there was a revaluation in the year. During the year the Joint Board acquired fixed assets of £1,341,000.	Our audit work consisted of: ■ testing a sample of additions to ensure that the amounts added to the fixed asset register were accurate and that the additions were appropriate to capitalise; ■ performing substantive analytical procedures over the depreciation balance to assess whether the amount was in line with the expectation set by KPMG; and ■ understanding the revaluation process and assumptions, and confirming it is in line with expectations.	We are satisfied that the property, plant and equipment balance: ■ is correctly stated in the balance sheet as at 31 March 2015; and ■ has been accounted for and disclosed correctly in line with IAS16 *Property, plant and equipment*.

Accounting policies

The financial statements have been appropriately prepared on a going concern basis, having due consideration of the agreement of funding in respect of 2015-16.

Accounting framework and application of accounting policies

Area	Summary observations	Audit findings
Accounting policies and financial reporting framework	The Joint Board prepared its financial statements in accordance with the Code of Practice which is based upon International Financial Reporting Standards ("IFRS"). There have been no significant changes in financial reporting requirements, and consequently there are no other substantive changes to the Joint Board's accounting policies. We are satisfied that the accounting policies adopted remain appropriate. No newly effective accounting standards are considered likely to have a material impact on the Joint Board's financial statements in the coming year.	We are satisfied that the accounting policies adopted remain appropriate to Tay Road Bridge Joint Board. The accounting policies are in line with the Code of Practice and are applied consistently.
Going concern	The Joint Board's balance sheet as at 31 March 2015 shows a net asset position of £73.950 million and net current assets of £1.995 million. The financial statements have been prepared on a going concern basis in view of this position and forecast funding income.	We concur with management's view that the going concern assumption remains appropriate for the reasons noted. We are satisfied that the going concern disclosure remains appropriate.
Annual report, including the bridge manager's and treasurer's reports	The financial statements form part of the annual report of the Joint Board for the year ended 31 March 2015. We reviewed the contents of the bridge manager's and treasurer's reports and are content with the proposed reports. The Joint Board did not make changes in response to the new management commentary requirements, as a result of the relative simplicity of the Joint Board's operations. The management commentary will be further considered by management for 2015-16.	We are required to consider the explanatory foreword and governance statement, and provide our opinion on the consistency of it with the financial statements. We are satisfied that the information contained within the bridge manager's and treasurer's reports, governance statement and remuneration report is consistent with the financial statements.
Remuneration report	The remuneration report was included within the draft financial statements and supported by good quality information and working papers.	We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the financial statements.

Governance and narrative reporting

Our overall perspective on the narrative reporting, including the annual governance statement.

Update on controls findings from our audit

Corporate governance arrangements

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

Area	Summary observations	Audit findings
Annual governance statement and governance arrangements	The statement for 2014-15 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on Joint Board's governance framework, operated internal controls, the work of internal audit, internal financial controls and risk management arrangements and analyses the efficiency and effectiveness of these elements of the framework. 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 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 Board, which also receive regular monitoring reports at each meeting throughout the financial year to allow them to exercise and demonstrate stewardship and accountability for the use of their resources. Standing orders, financial regulations and tender procedures are approved, and have been published on the Joint Board's website to demonstrate openness and transparency of arrangements.	We consider the governance framework and annual governance statement to be appropriate for Joint Board and that the governance statement is in accordance with guidance and reflects our understanding of the organisation.

Corporate governance arrangements (continued)

Area	Summary observations	Audit findings
Internal controls	The Joint Board is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. Our testing 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. The findings of our controls testing relate only to those matters identified during our normal audit work, in accordance with the Code, and there may still be weaknesses or risks within the control environment which have not been identified through this work. KPMG's identification of weaknesses, where applicable, does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.	Our work concluded that that controls relating to financial systems and procedures are designed appropriately and operating effectively.
Prevention and detection of fraud	No material fraud or other irregularities were identified during the year. The arrangements include policies and codes of conduct for staff and board members, supported by a fraud prevention policy and response plan.	We consider that the Joint Board has appropriate arrangements to prevent and detect fraud.
Arrangements for maintaining standards of conduct and the prevention and detection of corruption	The Joint Board has arrangements including policies and codes of conduct for staff and board members, supported by a whistleblowing policy. Board members are responsible for setting the 'tone at the top' and are responsible for abiding by the code of conduct and disclosing interests which may be of importance, material or otherwise, to their work at Tay Road Bridge Joint Board. 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. Administration of the financial records of the Joint Board is undertaken by Dundee City Council staff who are subject to that Council's policies on standards of conduct, fraud and corruption.	We consider that Joint Board has appropriate arrangements to prevent and detect inappropriate conduct and corruption.

Corporate governance arrangements (continued)

Area	Summary observations	Audit findings
Internal audit	Internal audit is provided by Henderson Logie, an outsourced internal audit provider and supports management in maintaining sound corporate governance and internal controls through the independent examination and evaluation of control systems and the reporting of any weaknesses to management for action. Audit Scotland's Code of Audit Practice sets out the wider dimension of public sector audit. It requires external auditors to perform an annual assessment of the adequacy of the internal audit function. We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ('PSIAS'), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS. This included a review of the internal audit charter, reporting lines, independence, objectivity and proficiency and the range of work carried out by internal audit. From this assessment, and considering the requirements of International Standard on Auditing 610 *(Considering the Work of Internal Audit)*, we can apply internal audit's work to inform our procedures, where relevant. The review of internal audit reports and conclusions did not indicate additional risks and there is no impact on our planned substantive testing. Internal audit has completed its agreed plan for the year ended 31 March 2015, and the annual report states that *"in our opinion the Organisation has adequate and effective arrangements for risk management, control and governance. Proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work we have undertaken during the current and previous financial years".*	We have concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards. Internal audit has concluded that the Joint Board has a framework which supports management of key risks.

Performance management

Our perspective on the performance management arrangements, including follow up work on Audit Scotland reports

Performance management

Our work has identified that Joint Board's Best Value and performance management arrangements are generally robust.

Area	Summary observations	Audit findings
Performance management and best value	Scottish Government guidance on Best Value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes an organisation needs to focus on in order to deliver the duty of Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business. We note that in working towards achieving best value, the Joint Board participates in the Tayside Purchasing Consortium, as well as having access to a number of national procurement programmes in which Dundee City Council participates. The Joint Board measures its performance through key performance indicators in respect of the maintenance and enhancement of the road bridge. Details of these are made available to the public through the Joint Board website.	We consider that Joint Board has appropriate arrangements to effectively manage performance.
Financial capacity in public bodies	Through the process of feedback through Annual Audit Reports, current issues reports and sector meetings, Audit Scotland has identified, that overall reductions in staff numbers in public bodies may be affecting the capacity of back-office functions and specifically finance. Audit Scotland has requested the collation of baseline data across the public sector to inform sector specific overview reports and may inform a follow-up to the joint report on the public sector workforce which was published in November 2013 or support the development of the future performance audit programme. Due to the nature and size of the entity, the responsibility lies with a single accountant and the Proper Officer is responsible for Dundee City Council, and the other subsidiaries. Therefore, we are content with the financial capacity of the Joint Board.	We consider that the Joint Board has appropriate financial capacity to effectively manage the organisation.

Appendices

Mandatory communications

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

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 net operating cost for the year. A small number of minor numerical and presentational adjustments were required to some of the financial statement 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. There are no unadjusted audit differences.	-
Confirmation of Independence Letter issued to the Joint Board	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 non-audit services	No non audit fees have been charged by KPMG.	-
Draft management representation letter Proposed draft of letter to be issued by the Joint Board to KPMG	There are no changes to the standard representations required for our audit from last year.	-
Materiality The materiality applied to audit testing.	We assessed materiality based on our knowledge and understanding of the Joint Board's risk profile and financial statements balances. Materiality was determined at £1,500,000; approximately 2% of total expenditure, and is broadly consistent with the materiality identified in our audit strategy. We designed our audit procedures to detect errors at a lower level of precision, i.e. £1,125,000. We report identified errors greater than £75,000 to the Joint Board.	-

Auditor independence

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 Tay Road Bridge Joint Board and its related entities 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
- 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 board of directors.

Confirmation of audit independence

We confirm that as of 17 September 2015, 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 letter is intended solely for the information of the audit committee and should not be used for any other purpose.

Yours faithfully

KPMG LLP

Defined benefit obligations

In respect of employee benefits, each of the assumptions used to value the Joint Board'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.

We set out below the assumptions in respect of employee benefits.

Defined benefit pension liability		
2015 £'000	**2014 £'000**	**KPMG comment**
(1,935)	(2,228)	In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation. Details of key actuarial assumptions are included in the table, along with our commentary.

Assumption	Joint Board	KPMG central	Comment
Discount rate (duration dependent)	3.1%	3.2%	The proposed discount rate is slightly more prudent (higher liability) than KPMG's central rate as at 31 March 2015, but lies within an acceptable range for IAS 19 purposes. The proposed discount rate has been derived from the Merrill Lynch AA Corporate bond yield curve taking into account the Employer's weighted average duration of the liabilities.
CPI inflation	RPI less 0.8% (2.3%)	RPI less 1.0% (2.15%)	The proposed CPI assumption is more prudent (higher liability) than KPMG's central rate as at 31 March 2015, but lies within an acceptable range for IAS 19 purposes. Following the outcome of the ONS consultation on 10 January 2013, KPMG's view is that the differential between RPI and CPI should be higher and closer to 1% and we are seeing most companies adopt an assumption of around 1% for this differential.
Net discount rate (discount rate – CPI)	0.8%	1.0%	The proposed assumption is more prudent (higher liability) than KPMG's central rate as at 31 March 2015. However, the proposed assumption is within an acceptable range of KPMG's central rate and therefore acceptable for IAS 19 purposes.
Salary growth	RPI plus 1.0%	Typically 0%-1.5% above RPI	We note that the gap above RPI has reduced compared to last year, from 1.4% to 1%. Also, salaries are assumed to increase at a lower rate (in line with CPI) up to 31 March 2016, before reverting to the RPI + 1% long-term assumption The proposed assumption is acceptable under IAS 19 provided it is in line with the Directors' best estimate view on future remuneration.

The overall assumptions applied by management are considered to be reasonably balanced for a scheme with a liability duration of between 16 years. The closing deficit decreased by £293,000 compared to 2013-14, A reconciliation from opening to closing deficit is included on the next page.

Defined benefit obligations (continued)

The table opposite shows the reconciliation of the movement in the Balance Sheet.

	£'000	Deficit / loss	Surplus / gain	Impact	Commentary
	Opening pension scheme deficit			**2,228**	The opening IAS19 deficit at 31 March 2015 for the Scheme was £2.228 million (consisting of assets of £9.066 million and defined benefit obligation of £6.838 million).
CIES	Service cost			398	The Scheme remains open to accrual. The employer's share of the cost of benefits accruing over the year is £0.398 million.
CIES	Net interest			98	This is the interest on the opening deficit of £2.228 million, adjusted for contributions paid during the period, including administration expenses.
Cash	Contributions			149	The Company made cash contributions over the year of £0.149 million, which is broadly in line with contributions made last year, allowing for assumed salary increases.
CIES	Actuarial gain– financial assumptions			257	There was an actuarial gain on the financial assumptions of £0.257 million. This is the changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. This balance consists of changes in financial assumptions having a negative impact of £1.127 million. In addition, changes in demographic assumptions, and experience gain on the defined benefit obligation had a positive impact of £0.075 million and £0.795 million,
CIES	Actuarial gain – other adjustments			230	There was an actuarial gain of £0.23 million, as a result of better than expected experience between the 2011 and 2014 triennial valuations in respect of mortality, salary growth, and member movements.
CIES	Return on assets			667	The return on Plan assets, excluding interest of £0.3 million, was £0.667 million.
	Closing pension scheme deficit			**1,935**	The closing IAS19 deficit for the Scheme at 31 March 2015 is £1.935 million (consisting of assets of £7.984 million and defined benefit obligation of £9.919 million).

I&E – impacts on surplus /(deficit) within statement of comprehensive net expenditure

Cash – cash-flow impact

OCI – charged through other comprehensive income *cutting through complexity*