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Tayside Contracts Joint Committee

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

For the year ended 31 March 2016

31 August 2016

Contents

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 ("Joint Committee") and is made available to Audit Scotland and the Controller of Audit (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 introduction and responsibilities 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.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw who is the engagement leader for our services to Tayside Contracts Joint Committee, telephone 0131 527 6673, email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

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Executive summary

Executive summary

Audit conclusions		
● (green)	We have issued an unqualified audit opinion on the financial statements of Tayside Contracts Joint Committee ("the Joint Committee).	
Financial position		
● (green)	In 2015-16 the Joint Committee achieved a trading surplus, before IAS 19 pension adjustments, of £1.798 million for the combined divisions. This compares to a budgeted surplus of £0.814 million. The surplus returned to the three constituent councils therefore exceeded budget by £1.048 million. After IAS 19 pension adjustments the total comprehensive income was £0.133 million.	Page 6
● (amber)	The two trading divisions, facilities and construction services, failed to achieve the prescribed financial objective of attaining a breakeven position over a three year rolling period, due to the impact of recognising IAS 19 entries within each division. This has been noted in a "failure to meet a prescribed objective" paragraph in the audit opinion.	Page 7
● (green)	The financial statements have been prepared on a going concern basis, as management considers that future charges to constituent councils under agreed contracts and commercial workload are sufficient to ensure that the Joint Committee is able to meet debts as they fall due. The financial statements show net liabilities of £29.693 million, incorporating the £32.282 million retirement benefit obligation. As this obligation does not fall due within one year, it is not considered to impact on the going concern assumption. The 2016-17 budget forecasts a surplus of £0.750 million before IAS 19 adjustments.	Pages 6 - 8
Financial statements and related reports		
● (green)	We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in the audit strategy and plan document. We concur with management's accounting treatment and judgments. We have no matters to highlight in respect of: adjusted and unadjusted audit differences; independence; and changes to management representations.	Pages 10 - 15
Wider scope		
● (green)	We considered the wider scope audit dimensions and concluded positively in respect of financial sustainability, financial management, value for money and governance and transparency. The Joint Committee enjoys a strong joint working relationship with the constituent councils, reflected in the successful transfer and integration of services in September 2014 and April 2015, delivering ongoing financial savings for the councils.	Pages 17 - 23
● (amber)	We note delays to the completion of the National Fraud Initiative and limited workforce planning.	Pages 20 and 23

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Scope and responsibilities

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Tayside Contracts Joint Committee under part VII of 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 Tayside Contracts 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.

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

The Code sets out Tayside Contracts Joint Committee'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. Appendix five sets out how we have met each of the responsibilities set out in 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. Management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems.

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 Joint Committee, together with previous reports to the Joint Committee throughout the year, discharges the requirements of ISA 260.

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Financial position

Financial position

Overview

2015-16 was the second year of the Joint Committee's three year business plan 2014 – 2017. The plan includes five key business objectives:

- deliver on our financial targets;
- provide high quality services which meet clients' expectations;
- protect the environment
- effectively manage and develop our people; and
- ensure the safety and welfare of our people and the public

The 2015-16 budget assumed a surplus within the trading accounts of £0.814 million. The actual outturn, prior to transfers, was £1.798 million. A summary by division is presented on the following page, and the result for the Joint Committee as a whole is set out below. The table does not include IAS 19 and other adjustments, to provide a clear view of the construction and facilities divisions.

Trading performance

	2015-16 Budget £'000	2015-16 Actual £'000	Variance £'000	2016-17 Budget £'000
Total income	71,311	72,707	1,396	71,316
Total expenditure	(70,497)	(70,909)	(412)	(70,567)
Surplus/ (deficit)	**814**	**1,798**	**984**	**750**

In 2015-16 external income was £72.707 million, compared to £68.549 million in 2014-15. Charges to constituent councils (Angus, Dundee City and Perth & Kinross) rose £4.804 million from £64.065 million to £68.869 million. This reflects the first full year of trading since the transfer of janitorial and school crossing services from Angus and Dundee City councils in September 2014, Angus Council vehicle maintenance and fleet management in April 2015, and the provision of free school meals to P1-P3 from January 2015.

Services transferred to Joint Committee since Sept 2014

Service	Date	From councils	Division	Net positive impact 2015-16
Janitorial and School Crossing Patrols	01/09/2014	Angus Dundee City	Facilities	£72,995
Vehicle Maintenance and Fleet Management	01/04/2015	Angus	Construction	£54,475

The increase in income was partially offset by a rise in costs compared to 2014-15, with expenditure (excluding IAS 19 adjustments) increasing £3.390 million to £70.909 million. The increase was primarily due to greater direct labour and supervision costs associated with a full year of the increased staff numbers and activity that resulted from the aforementioned transfers and extended free school meal provision during financial year 2014-15.

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. The rolling three year deficit for the Construction division was £2.908 million and for the Facilities division it was £4.453 million. These results include IAS 19 pension adjustments made under accounting regulations without which the three year rolling surpluses would be £1.960 million and £1.405 million respectively. As a result of the failure to deliver a three year rolling surplus, the audit opinion notes a "failure to achieve a prescribed objective".

2016-17 Budget

The Joint Committee's budget for 2016-17 has been approved. The budget details an anticipated income for year ending 31 March 2017 of £71.316 million and expenditure of £70.567 million. The trading account surpluses before IAS 19 adjustments are forecast as £0.450 million and £0.300 million for the Construction and Facilities division respectively. The Joint Committee has budgeted a total return to the Constituent Councils of £0.750 million.

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Financial position (continued)

Construction services division – trading account

The division exceeded expectations in 2015-16 with income increasing by £1.460 million to £43.177 million. This reflects increased activity on behalf of the constituent councils, including the transfer of vehicle maintenance and fleet management services from Angus Council on 1 April 2015. The mix of work carried out, higher productivity and cost control increased the profit margin in the year.

Overheads increased by £1.710 million, largely due to the impact of IAS 19 adjustments (£1.119 million increase) in 2015-16, resulting in an increased net deficit.

Construction services division	2015-16 £'000	2014-15 £'000	Movement £'000
Charges to constituent councils	41,115	38,996	2,119
Charges to internal users	157	161	(4)
Other income	1,905	2,560	(655)
Income	43,177	41,717	1,460
Direct labour	10,429	10,068	361
Direct purchases	13,417	13,980	(563)
Sub-contractors	4,161	4,333	(172)
Transport and plant hire	2,696	2,329	367
Overheads	11,271	9,561	1,710
Depreciation	1,800	1,750	50
Depot rental charges	417	396	21
Interest payable	297	288	9
Expenditure	44,488	42,705	1,783
Net (deficit)/ surplus including IAS 19 adjustments	**(1,311)**	**(988)**	**(323)**

Source: draft 2015-16 financial statements

Facilities services division – trading account

The £2.685 million increase in income from the constituent councils reflects the first full year of trading following the transfer of janitorial and school crossing services during 2014-15. The personnel transferred from the councils for those services and additional personnel recruited to provide the extended free school meals provision, increased direct labour costs by £2.177 million.

Overheads increased by £1.384 million to £6.885 million, largely caused by IAS 19 adjustments and increased staff numbers.

Facilities services division	2015-16 £'000	2014-15 £'000	Movement £'000
Charges to constituent councils	27,754	25,069	2,685
Charges to internal users	186	182	4
Other income	1,933	1,924	9
Income	29,873	27,175	2,698
Direct labour	20,603	18,426	2,177
Direct purchases	5,091	4,581	510
Overheads	6,885	5,501	1,384
Depreciation	38	33	5
Depot rental charges	30	25	5
Expenditure	32,647	28,566	4,081
Net (deficit)/ surplus including IAS 19 adjustments	**(2,774)**	**(1,391)**	**(1,383)**

Source: draft 2015-16 financial statements

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Financial position (continued)

Balance sheet

The Joint Committee had net liabilities as at 31 March 2016 of £29.693 million, compared to £29.560 million as at 31 March 2015. The key elements of the movement are set out below.

Assets

Property, plant and equipment increased by £0.754 million in 2015-16, representing additions of £2.736 million less disposals of £0.144 million and depreciation of £1.838 million.

Short term debtors increased by £2.027 million compared to the prior year, primarily relating to the increased activity in the year and timing differences in payments. £12.86 million debtors are due from the constituent councils, therefore recoverability of debtors is assessed as a low risk.

Liabilities

Liabilities increased in the year, with the most significant being the £1.521 million increase in short term creditors. This is primarily due to the £0.768 million increase in the surplus due to be returned to the constituent councils.

The long term liabilities also increased, driven by prudential borrowing from Dundee City Council to fund capital investment and the £0.454 million increase in the net pension liability, further details of which are included in appendix three.

Balance Sheet

£'000	**2016**	**2015**	**Movement**
Property, plant and equipment	10,241	9,487	754
Non-Current Assets	**10,241**	**9,487**	**754**
Inventories	2,191	2,362	(171)
Short term debtors	13,637	11,610	2,027
Cash and cash equivalents	6	6	-
Current assets	**15,834**	**13,978**	**1,856**
Bank overdraft	(690)	(618)	(72)
Short term borrowing	(1,325)	(1,226)	(99)
Short term creditors	(14,219)	(12,698)	(1,521)
Short term provisions	(891)	(868)	(23)
Current Liabilities	**(17,125)**	**(15,410)**	**(1,715)**
Long term creditors	-	-	-
Long term provisions	(529)	(286)	(243)
Long term borrowing	(5,832)	(5,501)	(331)
Other long term liabilities	(32,282)	(31,828)	(454)
Long term liabilities	**(38,643)**	**(37,615)**	**(1,028)**
Net liabilities	**(29,693)**	**(29,560)**	**(133)**
Usable reserves	500	500	-
Unusable reserves	(30,193)	(30,060)	(133)
Total reserves	**(29,693)**	**(29,560)**	**(133)**

Source: draft 2015-16 financial statements

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Financial statements and related reports

Audit conclusions

Audit opinion
Following approval of the annual accounts by the Joint Committee we issued an unqualified opinion on the truth and fairness of the state of the Joint Committee's affairs as at 31 March 2016, and of the Joint Committee's deficit for the year then ended. A "failure to achieve a prescribed objective" paragraph is included within the audit opinion detailing the failure of the significant trading operations to achieve a break-even position over a three year rolling period.
Financial reporting framework, legislation and other reporting requirements
The Joint Committee is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 ("the Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the Code and relevant legislation.
Statutory reports
We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.
Other communications
We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.
Audit misstatements
There were no audit adjustments required to the draft annual accounts and there are no unadjusted audit differences.
Written representations
There are no changes to the standard representations required for our audit from last year.

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Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our planning materiality for 2015-16 of £1.4 million (2% of expenditure) remains appropriate. We report all misstatements greater than £70,000.

Forming our opinions and conclusions

In gathering the evidence for the above opinion(s) and conclusion(s) we have:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;
- reviewed internal audit's reports as issued to the Joint Committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts have been considered;
- reviewed estimates and accounting judgements made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- reviewed Joint Committee meeting minutes 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 prior to the start of the audit fieldwork on 20 June 2016. This included the management commentary, remuneration report and governance statement.

Significant risks and other focus areas in relation to the audit of the financial statements

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

Significant risks:

- management override of controls fraud risk; and
- fraudulent revenue recognition.

Other focus areas:

- provisions; and
- retirement benefits

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

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Significant risks and other focus areas

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Fraudulent revenue recognition International Standard on Auditing (UK and Ireland) 240 requires us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.	We compared income to our expectations, budget and the prior year. We sought explanations and supporting documentation for unexpected movements. We developed an expectation of other income and compared it to actual income recorded. We performed cut-off testing to verify that income and associated debtors were recorded in the correct accounting period. This included use of data and analytics techniques to compare the sales ledgers and general ledgers for March and April 2016 and investigate any unusual invoices. We verified a sample of year-end debtors to supporting documentation.	No exceptions were noted from the testing performed. We are satisfied that revenue recognition policies are appropriate and that income has been appropriately recognised in the financial statements in the period in which in relates.
OTHER FOCUS AREA	**OUR RESPONSE**	**AUDIT CONCLUSION**
Provisions Provisions are recognised in respect of quarry reinstatement costs, remedial works and legal costs and are inherently judgemental.	Our audit work consisted of: ■ updating our understanding of the basis of calculation of provisions and the processes in place to capture and record any warranty work required; ■ reviewing the calculation and application of provisions associated with quarry reinstatement and environmental legislation, taking into account future intentions for use and the underlying lease agreements which include other obligations; and ■ reviewing correspondence from DCC counsel relating to ongoing litigation and claims.	We are satisfied that the provisions balance: ■ is correctly stated in the balance sheet as at 31 March 2016; and ■ as an estimate, is free from management bias.

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Significant Risks and other focus areas (continued)

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Retirement benefit obligations The Joint Committee accounts for its participation in the Tayside Pension Fund in accordance with IAS 19 *Retirement benefits*, using a valuation report prepared by actuarial consultants. The Joint Committee'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 calculation of the pension liability is inherently judgemental.	Our work consisted of: ■ KPMG specialists reviewing the financial assumptions underlying actuarial calculations and comparison to our central benchmarks, the results of which are outlined in Appendix three; ■ testing of scheme assets and rolled-forward liabilities; ■ testing of the level of contributions used by the actuary to those actually paid during the year; ■ testing of membership data used by the actuary to data from the Joint Committee; and ■ agreeing actuarial reports to financial statement disclosures.	We are satisfied that the retirement benefit obligation: ■ is correctly stated in the balance sheet as at 31 March 2016; ■ has been accounted for and disclosed correctly in line with IAS19 *Retirement benefits*; and ■ assumptions used in calculating this estimate and management's judgments are appropriate and within the acceptable KPMG range. We set out further information in respect of the defined benefit obligation in Appendix three. The defined benefit obligation increased by £454,000 compared to 31 March 2015.

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REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Annual Report	The Local Authority Accounts (Scotland) Regulations 2014 requires the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015. The management commentary was included within the unaudited financial statements. This outlines the performance overview and the future plans and developments in line with the Joint Committee's priorities.	We are satisfied that the information contained within the Annual Report is consistent with the financial statements. We reviewed the contents of the management commentary against the guidance contained in the Local Government finance circular 5/2015 and are content with the proposed report.
Remuneration report	The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided. No amendments were required to the draft remuneration report to ensure its consistency with underlying records and presentational changes to ensure that it complied with Local Authority Accounts (Scotland) Regulations 2014.	We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made. Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.
Annual governance statement	The statement for 2015-16 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Joint Committee's governance framework, operated internal controls, the work of internal audit, and risk management arrangements and analyses the efficiency and effectiveness of these elements of the framework.	We consider the governance framework and annual governance statement to be appropriate to the Joint Committee and that the governance statement is in accordance with guidance and reflects our understanding of the organisation.

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Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by the Joint Committee to be appropriate, and there have been no changes to adopted accounting policies in the year. There are no significant accounting practices which depart from what is acceptable under IFRS or the Code.

Significant accounting estimates relate to the present value of defined benefit obligations and impairment of non current assets. For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Joint Committee's actuary, Barnett Waddingham) using agreed financial assumptions. We found the assumptions and accounting for pensions to be appropriate, as discussed in Appendix three.

Provisions are estimated by management based on internal and third party information, experience and judgment. We confirmed the approaches to individual provisions were in line with prior years. We did not identify indications of management bias.

Financial statement disclosures were considered against requirements of the Code, relevant legislation and IFRS. No departures from these requirements were identified.

Future accounting and audit developments

From 2016-17 the Code will adopt requirements of the Code on transport infrastructure assets ("the transport code"), which requires measurement of these assets on a depreciated replacement cost basis. We do not anticipate that this will have a significant impact for the Joint Committee as the Joint Committee does not own assets impacted by the change.

The 2016-17 Code also includes a new requirement for an expenditure and funding analysis, as well as revised formats for the comprehensive income and expenditure statement and movement in reserves statement. The expenditure and funding analysis provides a reconciliation of the statutory adjustments between the financial position on a funding basis and the surplus or deficit on the provision of services. The management commentary should refer to the outturn provided in the expenditure and funding analysis. The comprehensive income and expenditure statement line items have been amended to require authorities to present the service analysis on the basis of the organisational structure under which they operate. Bodies are therefore not required to follow the service expenditure analysis in the *Service Expenditure Reporting Code of Practice (SeRCOP).*

ISA (UK & Ireland) 700 and 720 have been revised for accounting periods beginning on or after 17 June 2016. These revise the requirements for the structure and content of the independent auditor's report. Audit Scotland is considering whether to early adopt the standards for 2016-17.

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Wider scope

Wider scope

Audit dimensions introduction

Introduction

The Code frames the wider scope of our audit in terms of four audit dimensions; financial management, financial sustainability, governance and transparency and value for money. At the centre of these dimensions is Best Value.

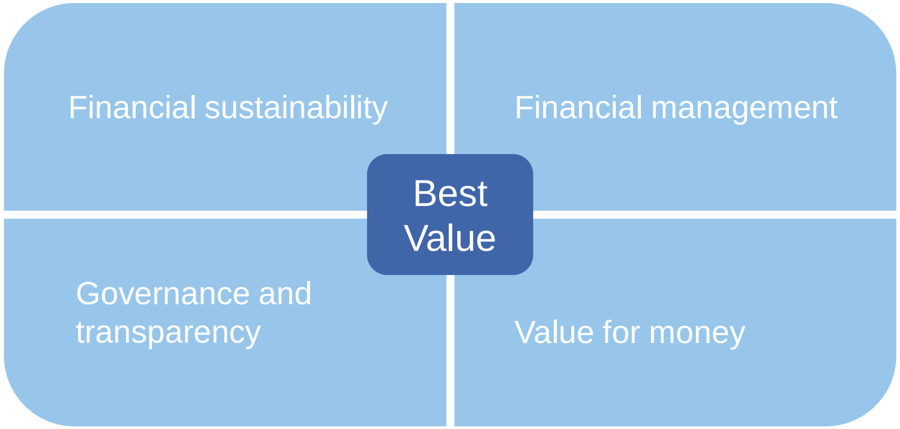
It remains the responsibility of the audited body to ensure that they have proper arrangements in place across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these proper arrangements.

During our work on the audit dimensions we have considered the work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code.

Audit work and conclusions

We summarise over the next few pages the work we have undertaken in the year to obtain assurances over the arrangements in place for each audit dimension and our conclusions on the effectiveness and appropriateness of these arrangements.

Where we have found arrangements to not be effective or are absent we have provided further narrative on the following pages and recommendations for improvement. Where we have found the arrangements to be generally effective and operating as expected we have identified this in the conclusions we have formed.



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Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

In considering financial sustainability of the Joint Committee we performed the following work:

- *Reviewing the financial position of the Joint Committee as at 31 March 2016 and future budgets and forecasts*; we provide commentary on the financial position on pages 6 to 8.
- *Reviewing financial forecasting, financial strategies and key risks over financial sustainability.* The 2016-17 budget was approved by the Joint Committee in February 2016. This included a capital programme for 2016-17 to 2018-19, including the 2016-17 capital budget.

Conclusion:

A revenue and capital budget for 2016-17 is in place. Both trading divisions are forecast to return trading surpluses before pension adjustments. Management continue to work closely with the Constituent Councils to anticipate the impact of future local government budget allocations.

We consider that the Joint Committee is financially sustainable and a going concern.

Value for money

Value for money is concerned with using resources effectively and continually improving services.

We consider value for money and Best Value throughout our testing. Areas where we had a specific focus on value for money and Best Value are:

- *Reviewing the procurement policy and performing controls testing over the procurement of goods and services.* No exceptions were found through our testing and the procurement policy was found to be in line with best practice. Our work did not extend to the detail of the tenders or technical specification, being a review of adherence to value for money principles. The tendering process provides evidence of scrutiny for value for money in the use of resources.

Conclusion:

The Joint Committee strives to achieve value for money and effective procurement controls are in place to help achieve this.

All major capital tenders are submitted to the Joint Committee for approval. Capital budgeting and competitive tendering are in place to ensure value for money.

The Joint Committee also participates in the Tayside Procurement Consortium, as well as having access to a number of national procurement programmes in which Dundee City Council participates.

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Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Our conclusion below is derived from the following audit tests, carried to determine the effectiveness of the financial management arrangements. This included:

- *Assessing the budget setting and monitoring processes within the Joint Committee.* We found these to be robust, with regular accurate reporting and scrutiny by senior management and the Joint Committee.
- *Consideration of the finance function and financial capacity within the Joint Committee.* We noted that the financial processes are efficient and effective Finance team members have appropriate skills, capacity and capability to support the Joint Committee and effectively manage the organisation.
- *Reviewing the Joint Committee's financial regulations.* The financial regulations are available to the finance department staff. These are updated regularly and we found them to be comprehensive.

Conclusion:

The Joint Committee's finance department has appropriate financial capacity for current operations. Sound budgetary processes are supported by a strong internal control environment, and no significant control deficiencies were identified. This is supported by regular reporting and scrutiny by senior management and Joint Committee members.

Management is engaged in the NFI process and there are controls in place for the prevention and detection of fraud.

We are also required to provide specific conclusions on the areas below, which relate to financial management and support our overall conclusion on this wider scope area.

Internal controls

Management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. We test we rely upon as part of our audit procedures.

A summary of the completion of prior year audit recommendations is provided at appendix three. Two 'grade two' (material) recommendations were raised in 2014-15; one of which has now been completed while the other remains in progress. No additional control recommendations were raised in 2015-16.

Conclusion: Internal controls we tested over risk management, financial, operational and compliance systems and procedures that are designed, implemented and operating effectively.

Standards of conduct and the prevention and detection of corruption

Testing over the processes to prevent and detect corruption included:

Review of policies (codes of conduct for staff and Joint Committee members, the whistleblowing policy and Anti-Bribery and Corruption Policy) against best practice guidance and examples. The Joint Committee's policies were found to be in line with relevant guidance

Consideration of the accessibility of policies to staff and Joint Committee members and if the policies had been implemented effectively. The policies and processes tested are readily available to staff and had been implemented effectively.

Conclusion: The Joint Committee has appropriate arrangements to prevent and detect inappropriate conduct and corruption.

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Arrangements for the prevention and detection of fraud and error

Testing over the processes to prevent and detect fraud and error included:

Inquiry with management as to procedures for the prevention and detection of fraud and error: Based on inquiries, the procedures in place, including codes of conduct, training and management oversight were considered to be appropriate for the Joint Committee.

Testing of management review controls: Management review controls were seen to be designed and operating effectively to detect fraud and error in the financial statements.

Conclusion: The Joint Committee has appropriate arrangements to prevent and detect fraud.

National Fraud Initiative

The National Fraud Initiative ("NFI") is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. This exercise runs every two years and provides a secure website for bodies and auditors to use for uploading data and monitoring matches.

We submitted a return to Audit Scotland summarising our conclusions on the Joint Committee's participation in NFI. The questionnaire covered reporting of NFI progress and outcomes, recording of results of investigations in the NFI system, action taken for alleged fraud cases and the overall engagement of the Joint Committee with NFI.

Conclusion: At the time the return was completed in March 2016, Tayside Contracts had not yet received NFI reports due to late submission and therefore had no outcomes to report. Management do not consider the NFI process to be particularly helpful. Tayside Contracts' involvement is limited to creditors and payroll, with a perception that any match is more likely to impact another body (e. g. a match between payroll and housing benefit would be perceived to be more of an issue for the relevant council rather than for Tayside Contracts). Creditors are also perceived to be a lower risk as most transactions are with commercial organisations and the constituent councils rather than individuals.

Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

In considering governance and transparency we performed the following work:

- *Reviewing the organisational structure, reporting lines and level of scrutiny within the Joint Committee.* The Joint Committee demonstrates effective scrutiny, challenge and transparency on decision making in the board minutes reviewed. There is a high level of transparency through the Joint Committee's website, which includes minutes and papers for all committee meetings.
- *Reviewing financial and performance reporting within the organisational structure.* Reporting is of high quality, accurate and transparent. Financial reporting is presented to the Joint Committee on a quarterly basis, including analysis of both revenue and capital. Reports are sufficiently detailed, giving narrative explanations to key movements from budget. Details of any changes to capital programmes is also given to allow these to be approved by the committee.
- *Reading the annual governance statement;* as discussed on page 14.
- *Consideration of scrutiny over key risks* The corporate risk register is updated regularly by management to ensure it is up to date.

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Wider scope

Audit dimensions (continued)

Conclusion:

The Joint Committee has sound and well-established governance arrangements that ensure effective scrutiny, challenge and transparency on decision making.

Risk registers are regularly updated and scrutinised and there is adequate internal audit coverage of key risk areas.

The chief executives of the constituent councils are considering the future development of the Joint Committee. Separately, the Joint Committee continues to discuss potential additional services that could be provided.

We are required to provide specific conclusions on the following areas which relate to governance and transparency and support our overall conclusion on this audit dimension.

Corporate governance

We updated our understanding of the governance framework and documented this through our overall assessment of the Joint Committee's risk and control environment. This included testing entity wide controls, including risk management, operational and compliance controls.

Conclusion: Governance controls were found to be operating effectively and we consider the governance framework to be appropriate for the Joint Committee.

Internal audit

We considered the internal audit plan and reports produced during 2015-16 as part of our risk assessment and planning. We also considered the requirements of International Standard on Auditing 610 *(Considering the Work of Internal Audit)*.

Conclusion: We applied the internal auditor’s work to inform our procedures, where relevant. The review of assurance reports and conclusions did not indicate additional risks and there was no impact on our planned substantive testing.

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Local follow up work

In November 2013 the Accounts Commission and Auditor General for Scotland published a report on Scotland's public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland in the public sector and made a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities.

We performed follow up work on the report, and submitted a return to Audit Scotland summarising our findings and conclusions. This work covered the following key issues:

- *Planning:* There is a set establishment detailing all posts in the organisation. While this is not forward looking, management have determined that its desired structure, as set out in the Establishment Control and Vacancy Management Policy.
- *Service delivery:* Policies are in place to inform changes to the set establishment. Scenario planning is carried out for significant service changes. Employees and trades unions are consulted before and after major changes.
- *Partnership working:* Partnership working with local authority partners is an inherent feature of the Joint Committee's work.
- *Challenge and scrutiny:* Service plans are provided to the Corporate Management Team and ultimately the approved by the Managing Director. Scrutiny is undertaken in the context of the needs of organisation rather than an evaluation of effectiveness and good practice.
- *Reporting:* The Corporate Management Team receives restructuring proposal reports which detail costs and net savings. An annual report is made to the Joint Committee on redundancies/early retirements/flexible retirements but it is not directly related to forward looking workforce planning.

Conclusion: The Joint Committee has considered workforce planning and invests time into the workforce planning process. Reporting arrangements are robust, however forward looking planning could be strengthened.

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Appendices

To the Joint Committee members

Assessment of our objectivity and independence as auditor of Tayside Contracts Joint Committee (the Joint Committee)

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

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the 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.

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

Independence and objectivity considerations relating to the provision of non-audit services

We have considered the fees charged by us to the Joint Committee for professional services provided by us during the reporting period.

The audit fee charged by us for the period ended 31 March 2016 was £38,000 (2015: £38,000). No other fees were charged in the period (2015: £nil). No non-audit services were provided to the Joint Committee and no future services have been contracted or had a written proposal submitted.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Joint Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner 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 purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

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We follow up prior year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2014-15 audit and their current status. We have provided a summary of progress against each prior year recommendations on the following page.

Grade	Number recommendations raised	Implemented	In progress	Overdue
One	0	0	0	0
Two	2	1	1	0
Three	0	0	0	0

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.

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Appendix two
Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
Journal Authorisation It was identified that the journal authorisation template form did not detail the preparer therefore it was not possible to evidence segregation of duties in the preparation and review of journals.	Management should enhance the journals authorisation form to document the preparer of the journal thereby evidencing segregation of duties within the journals process.	Management will enhance the journal template and ensure that the preparer and authoriser are different officers. **Responsible officer(s):** Financial Services Officer **Implementation date:** August 2015	Implemented. Journal authorisation template form amended to capture details of preparer.
NFI Partial data was originally submitted resulting in full submission occurring after the prescribed deadline.	Management should ensure that the NFI exercise is undertaken effectively to ensure that data is of high quality, resulting in high quality matches. Management should agree with DCC the process for investigation and submission of data matches for future years.	Due to the length of time that has passed since the datasets were previously produced, new datasets will be run as a matter of urgency and thereafter uploaded on to the NFI system. **Responsible officer(s):** Managing Director **Implementation date:** August 2015	In Progress. Full data was subsequently provided but due to the late submission, the matching process was delayed.

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In respect of employee benefits, 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.

We set out below the assumptions in respect of defined benefit obligations.

<table>
<tr><th colspan="3">Defined benefit pension liability</th></tr>
<tr><th>2016
£'000</th><th>2015
£'000</th><th>KPMG comment</th></tr>
<tr><td>(32,282)</td><td>(31,828)</td><td>
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.
<table>
<tr><th>Assumption</th><th>Tayside Contracts Joint Committee</th><th>KPMG central</th><th>Comment</th></tr>
<tr><td>Discount rate (duration dependent)</td><td>3.70%</td><td>3.48%</td><td>Acceptable. The proposed discount rate is less prudent (lower liability) than KPMG's central rate as at 31 March 2016 and lies at the top end of the range we would normally consider acceptable for IAS 19 purposes.</td></tr>
<tr><td>CPI inflation</td><td>RPI less 0.9%</td><td>RPI less 1.0%</td><td>Acceptable. KPMG's view is that the differential between RPI and CPI should be closer to 1%. The Joint Committee's assumptions could therefore be considered prudent (higher liability).</td></tr>
<tr><td>Net discount rate (discount rate – CPI)</td><td>1.30%</td><td>1.25%</td><td>Acceptable. The proposed assumptions are within the acceptable range of +/- 0.3% from the KPMG central range.</td></tr>
<tr><td>Salary growth</td><td>CPI + 1.8%</td><td>Typically 0% - 1.5% above RPI</td><td>Acceptable. The proposed assumptions are within the acceptable range.</td></tr>
</table>
The overall assumptions applied by management are considered to be reasonably balanced for a scheme with a liability duration of around 19 years.
</td></tr>
</table>

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Appendix four
Appointed auditors responsibilities

Area	Appointed auditors responsibilities	How we've met our responsibilities
Corporate governance	Review and come to a conclusion on the effectiveness and appropriateness of arrangements to ensure the proper conduct of the bodies affairs including legality of activities and transactions, Conclude on whether the monitoring arrangements are operate and operating in line with recommended best practice.	Page 21 sets out our conclusion on these arrangements.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements on whether financial statements give a true and fair view of the financial position of audited bodies and their expenditure and income Provide an opinion on whether financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements Provide an opinion on the regularity of the expenditure and income *(not required for local government).*	Page 10 summarises the opinion we expect to provide.
Financial statements and related reports	Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.	Page 14 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report. We have not reported on any grant claims.
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	No notifications to Controller of Audit required.
Financial statements and related reports	Review and conclude on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.	Pages 19 and 20 sets out our conclusion on these arrangements.
WGA returns and grant claims	Examine and report on WGA returns Examine and report on approved grant claims and other returns submitted by local authorities.	The Joint Committee is below the threshold for the completion of audit work on the WGA return.

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Appendix four
Appointed auditors responsibilities (continued)

Area	Appointed auditors responsibilities	How we've met our responsibilities
Standards of conduct – prevention and detection of fraud and error	Review and conclude on the effectiveness and appropriateness of arrangements for the prevention and detection of fraud and irregularities, bribery and corruption and arrangements to ensure the bodies affairs are managed in accordance with proper standards of conduct. Review National Fraud Initiative participation and conclude on the effectiveness of bodies engagement.	Page 19 sets out our conclusion on these arrangements. Page 20 concludes on the Joint Council's participation in the National Fraud Initiative.
Financial position	Review and conclude on the effectiveness and appropriateness of arrangements to ensure that the bodies financial position is soundly based.	Page 19 sets out our conclusion on these arrangements.
Financial position	Review performance against targets	Pages 6 to 8 summarise our review of how the body has performed against it's financial targets.
Financial position	Review and conclude on financial position including reserves balances and strategies and longer term financial sustainability.	Page 8 sets out our conclusion on the Joint Committee's financial position. Pages 6 and 18 set out our conclusion on the Joint Committee's financial strategies and longer term financial sustainability.
Best Value	Be satisfied that proper arrangements have been made for securing Best Value and complied with responsibilities relating to community planning.	Page 18 sets out our conclusion on these arrangements.
Performance information	Review and conclude on the effectiveness and appropriateness of arrangements to prepare and publish performance information in accordance with Accounts Commission directions.	The Annual Performance Report for 2015/16 has not yet been published.

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cutting through complexity

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