



cutting through complexity

Tay Road Bridge Joint Board

Annual audit report to the Members of Tay Road Bridge
Joint Board and the Controller of Audit

For the year ended 31 March 2016

30 September 2016

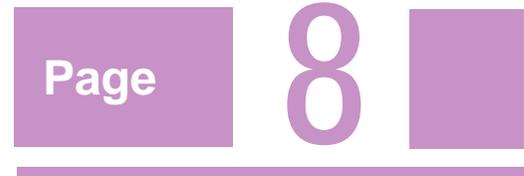
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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Tay Road Bridge Joint Board ("the Joint Board") and is made available to Audit Scotland and the 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 Tay Road Bridge Joint Board, 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.

Executive summary

Audit conclusions

- We have issued an unqualified audit opinion on the financial statements of Tay Road Bridge Joint Board (“the Joint Board”), having concluded the audit satisfactorily. Page 9

Financial position

- For the year ended 31 March 2016, the Joint Board reported a cost of services of £3,581,000. The outturn represents a £304,000 underspend on the 2015-16 budget approved by the Joint Board, after budget revisions for actual IAS 19 pension adjustments and asset revaluations. Page 6
- The Joint Board had net assets of £72,813,000 as at 31 March 2016. The financial statements are prepared on a going concern basis, and the funding in respect of 2016-17 was agreed in advance of approving the budget. Page 7

Financial statements and related reports

- 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. Page 9 - 14

Wider scope

- We considered the wider scope audit dimensions and concluded positively in respect of financial sustainability, financial management, value for money and governance and transparency. Pages 16 - 19

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Tay Road Bridge Joint Board 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 Tay Road Bridge Joint Board and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document.

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 Tay Road Bridge 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. Appendix three 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 Board, together with previous reports to the Joint Board throughout the year, discharges the requirements of ISA 260.

Financial position

Comprehensive income and expenditure statement

For the year ended 31 March 2016 the Joint Board reported a cost of services of £3,581,000 and deficit on provision of services of £1,623,000.

The outturn represents a £17,000 underspend on the budget approved for 2015-16 by the Joint Board, which formed the basis of grants received from the Scottish Government.

The underspend is primarily due to savings made in staff costs and expenditure offset by the unused revenue grant.

2016-17 budget

The 2016-17 budget incorporates a break-even position. The General Fund Reserve balance is projected to be £1,160,591 as at 31 March 2017. The revenue funding from the Scottish Government is forecast to remain at £1,700,000. The capital programme for 2016-17 shows capital expenditure of £687,000 funded by £500,000 capital grant funding and £187,000 capital grants carried forward from previous years.

Comprehensive income and expenditure statement

	Revised Budget £000	2015-16 £000	Over/(under) spend £000
Cost of services	3,885	3,581	(304)
Other operating income	-	(1)	(1)
Financing and investment expenditure	37	27	(10)
Taxation and non-specific grant income	(2,282)	(1,984)	298
Deficit on provision of services	1,640	1,623	(17)
Surplus on revaluation of PPE*	(51)	(51)	-
Actuarial gain on pension assets/liabilities*	(435)	(435)	-
Total comprehensive income and expenditure	(1,154)	(1,137)	(17)

Source: draft 2015-16 financial statements

* Actual revaluations and actuarial movements are incorporated into the revised budget

Balance sheet

The Joint Board had net assets as at 31 March 2016 of £72,813,000 (2014-15: £73,950,000).

Assets

Property, plant and equipment decreased by £1,437,000 from 2014-15 as a result of additions of £519,000, net downward revaluations of £54,000 and offset by a depreciation charge of £1,908,000. Total short term debtors remained broadly in line with the prior year with a small increase of £1,000.

The cash balance increased by £341,000 from the prior year, and the Joint Board's total assets decreased by £1,088,000.

Liabilities

There was a decrease in liabilities of £321,000 during 2015-16, which is attributed to the £321,000 decrease in net pension liability, as set out in appendix two. Short term creditors had an increase of £370,000 from the prior year, primarily due to unused revenue grant income creditor of £298,000.

Reserves

Useable reserves decreased by £19,000 to £2,037,000 as at 31 March 2016. The general fund balance is in excess of the previously identified £800,000 prudent level of reserves to be held. This is within the limit set out within the Tay Road Bridge Conformation Act 1991, Part V 39(3).

Balance Sheet			
£000	2016	2015	Movement
Property, plant and equipment	72,392	73,829	(1,437)
Investment property	71	62	9
Non-current assets	72,463	73,891	(1,428)
Inventories	61	63	(2)
Short term debtors	21	20	1
Cash and cash equivalents	3,050	2,709	341
Current assets	3,132	2,792	340
Short term creditors	(1,168)	(798)	(370)
Current liabilities	(1,168)	(798)	(370)
Net pension liabilities	(1,614)	(1,935)	321
Long term liabilities	(1,614)	(1,935)	321
Net assets	72,813	73,950	(1,137)
Useable reserves	2,037	2,056	(19)
Unusable reserves	70,776	71,894	(1,118)
Total reserves	72,813	73,950	(1,137)

Source: draft 2015-16 financial statements

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Financial statements and related reports

Audit opinion

Our audit work is complete and we have issued an unqualified opinion on the truth and fairness of the state of the Joint Board's affairs as at 31 March 2016, and of the Joint Board's deficit for the year then ended.

Financial reporting framework, legislation and other reporting requirements

The Joint Board 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.

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 £1.5 million (2% of total assets) remains appropriate. We report all misstatements greater than £75,000.

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 Board 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 Board 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 4 July 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 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.

Significant risks:

- management override of controls fraud risk

Other focus areas:

- property, plant and equipment;
- fraudulent revenue recognition; 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 do not have findings to bring to your attention in relation to this matter. No control overrides were identified.

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p>Fraudulent revenue recognition</p> <p>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.</p>	<p>We vouched grant income to grant offers from the Scottish Government and Dundee City Council. We sought explanations and supporting documentation for unexpected movements.</p> <p>We verified a sample of year-end debtors to supporting documentation.</p>	<p>No exceptions were noted from the testing performed.</p> <p>We are satisfied that revenue recognition policies are appropriate and that income is appropriately recognised in the financial statements in the period in which it relates.</p>
<p>Property, plant and equipment</p> <p>Under the Code, property, plant and equipment (“PPE”) is required to be held on the balance sheet at fair value.</p> <p>The property, plant and equipment balance comprises the majority of the Joint Board’s assets and there was a revaluation in the year.</p> <p>During the year the Joint Board acquired fixed assets of £519,000.</p>	<p>Our audit work consisted of:</p> <ul style="list-style-type: none"> ■ testing a sample of additions to ensure that the amounts added to the fixed asset register are accurate and that the additions are 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. 	<p>We are satisfied that the property, plant and equipment balance:</p> <ul style="list-style-type: none"> ■ is correctly stated in the balance sheet as at 31 March 2016; and ■ has been accounted for and disclosed correctly in line with IAS16 <i>Property, plant and equipment</i>.

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p>Retirement benefit obligations</p> <p>The Joint Board accounts for its participation in the Tayside Pension Fund in accordance with IAS 19 <i>Retirement benefits</i>, using a valuation report prepared by actuarial consultants.</p> <p>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.</p> <p>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.</p>	<p>Our work consisted of:</p> <ul style="list-style-type: none"> ■ KPMG specialists reviewing the financial assumptions underlying actuarial calculations and comparison to our central benchmarks, the results of which are outlined in appendix two; ■ 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 Board; and ■ agreeing actuarial reports to financial statement disclosures. 	<p>We are satisfied that the retirement benefit obligation:</p> <ul style="list-style-type: none"> ■ is correctly stated in the balance sheet as at 31 March 2016; ■ has been accounted for and disclosed correctly in line with IAS19 <i>Retirement benefits</i>; and ■ assumptions used in calculating this estimate and management's judgments are appropriate and within the acceptable KPMG range. <p>We set out further information in respect of the defined benefit obligation in appendix two. The defined benefit obligation decreased by £321,000 compared to 31 March 2015.</p>

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Management commentary	<p>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.</p> <p>The Management Commentary – Bridge Manager’s Report and Management Commentary – Treasurer’s Report were included within the unaudited financial statements. These outline the performance overview and the future plans and developments in line with the Joint Board’s priorities.</p>	<p>We are satisfied that the information contained within the management commentary is consistent with the financial statements.</p> <p>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.</p>
Remuneration report	<p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p> <p>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.</p>	<p>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.</p> <p>Our independent auditor’s report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
Annual governance statement	<p>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 Board’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.</p>	<p>We consider the governance framework and annual governance statement to be appropriate to the Joint Board and that the governance statement is in accordance with guidance and reflects our understanding of the organisation.</p>

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 Board 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 Board's actuary, Barnett Waddingham) using agreed financial assumptions. We found the assumptions and accounting for pensions to be appropriate, as discussed in appendix two.

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 anticipate that this change will significantly increase the balance sheet value of the Joint Board's highways network asset and subsequently significantly increase the annual charge to the comprehensive income and expenditure statement.

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.

Wider scope

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.



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 Board we performed the following work:

- *Reviewing the financial position of the Joint Board as at 31 March 2016 and future budgets and forecasts*; we provide commentary on the financial position on pages 6 to 7.
- *Reviewing financial forecasting, financial strategies and key risks over financial sustainability*. The 2016-17 budget was approved by the Joint Board in December 2015. 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. It forecasts a budgeted surplus of £50,000.

We consider that the Joint Board is financially sustainable.

We have concluded that the Joint Board's use of the going concern basis of accounting is appropriate.

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*. The procurement policy was reviewed and 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 Board strives to achieve value for money and an effective procurement policy is in place to help achieve this.

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

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 Board.* We found these to be robust, with regular accurate reporting and scrutiny by senior management and the Joint Board.
- *Consideration of the finance function and financial capacity within the Joint Board.* We noted that the financial processes are efficient and effective. Finance team members have appropriate skills, capacity and capability to support the Joint Board and effectively manage the organisation.
- *Reviewing the Joint Board'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 Board'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 quarterly reporting to Joint Board members.

There are appropriate controls in place for the prevention and detection of fraud.

We are also required to provide specific conclusions on the areas opposite, 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 those we rely upon as part of our audit procedures.

Conclusion: Internal controls we tested over budget setting and monitoring and bank reconciliations were seen to be designed 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 Board members, the whistleblowing policy and Anti-Bribery and Corruption Policy) against best practice guidance and examples. The Joint Board's policies were found to be in line with relevant guidance

Consideration of the accessibility of policies to staff and Joint Board 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 Board has appropriate arrangements to prevent and detect inappropriate conduct and corruption.

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 were considered to be appropriate for the Joint Board.

Testing of budget monitoring controls: Budget monitoring controls were seen to be designed and operating effectively to detect fraud and error in the financial statements.

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

National Fraud Initiative

The Joint Board is not required to participate in the National Fraud Initiative.

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 Board.* The Joint Board demonstrates effective scrutiny, challenge and transparency on decision making in the board minutes reviewed. There is a high level of transparency through the Joint Board'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 Board 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 13.
- *Consideration of scrutiny over key risks* The corporate risk register is updated regularly by management to ensure it is up to date.

Conclusion:

The Joint Board 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.

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 Board'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 Board.

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.

Appendices

To the Joint Board members

Assessment of our objectivity and independence as auditor of Tay Road Bridge Joint Board (the Joint Board)

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 Board for professional services provided by us during the reporting period.

The audit fee charged by us for the period ended 31 March 2016 was £12,030 (2015: £12,030). No other fees were charged in the period (2015: £nil). No non-audit services were provided to the Joint Board 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 Board.

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 Board 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

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 defined benefit obligations.

Defined benefit pension liability																							
2016 £000	2015 £000	KPMG comment																					
(1,614)	(1,935)	<p>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.</p> <p>Details of key actuarial assumptions are included in the table, along with our commentary.</p> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Tay Road Bridge Joint Board</th> <th>KPMG central</th> <th>Comment</th> </tr> </thead> <tbody> <tr> <td>Discount rate (duration dependent)</td> <td>3.50%</td> <td>3.42%</td> <td>Acceptable. The proposed discount rate is less prudent (lower liability) than KPMG's central rate as at 31 March 2016 but lies within 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 Board'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 assumption is slightly less prudent (lower liability) than KPMG's central rate as at 31 March 2016 but lies within the range we would normally consider acceptable for IAS 19 purposes.</td> </tr> <tr> <td>Salary growth</td> <td>CPI + 1.8%</td> <td>Typically 0% - 1.5% above RPI</td> <td>Acceptable. This assumption is one for the employer to take a view on, based on expectations on future pay growth.</td> </tr> </tbody> </table> <p>The overall assumptions applied by management are considered to be reasonably balanced for a scheme with a liability duration of around 16 years.</p>		Assumption	Tay Road Bridge Joint Board	KPMG central	Comment	Discount rate (duration dependent)	3.50%	3.42%	Acceptable. The proposed discount rate is less prudent (lower liability) than KPMG's central rate as at 31 March 2016 but lies within the range we would normally consider acceptable for IAS 19 purposes.	CPI inflation	RPI less 0.9%	RPI less 1.0%	Acceptable. KPMG's view is that the differential between RPI and CPI should be closer to 1%. The Joint Board's assumptions could therefore be considered prudent (higher liability).	Net discount rate (discount rate – CPI)	1.30%	1.25%	Acceptable. The proposed assumption is slightly less prudent (lower liability) than KPMG's central rate as at 31 March 2016 but lies within the range we would normally consider acceptable for IAS 19 purposes.	Salary growth	CPI + 1.8%	Typically 0% - 1.5% above RPI	Acceptable. This assumption is one for the employer to take a view on, based on expectations on future pay growth.
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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 (<i>not required for local government</i>).	Page 9 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 13 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.	Page 18 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 Board is below the threshold for the completion of audit work on the WGA return.

Appendix three

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 18 sets out our conclusion on these arrangements.
Financial position	Review and conclude on the effectiveness and appropriateness of arrangements to ensure that the bodies financial position is soundly based.	Page 17 sets out our conclusion on these arrangements.
Financial position	Review performance against targets	Page 6 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 7 sets out our conclusion on the Joint Board's financial position. Pages 6 and 17 set out our conclusion on the Joint Board'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 17 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 Joint Board is not required to publish a separate annual performance report.



cutting through complexity

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