

REPORT TO: DUNDEE, PERTH, ANGUS AND NORTH FIFE
STRATEGIC DEVELOPMENT PLANNING AUTHORITY
JOINT COMMITTEE MEETING ON 26th MARCH 2013

REPORT ON: TAYplan BUDGET UPDATE AND 3 YEAR PROPOSED BUDGET

REPORT BY: PAMELA EWEN, STRATEGIC DEVELOPMENT PLANNING
AUTHORITY MANAGER

REPORT NO: SDPA03-2013

1 PURPOSE OF REPORT

- 1.1 This report provides an update on the Strategic Development Planning Authority's budget for the year ending 31st March 2013 and a proposed 3 year budget to the period 31st March 2016.

2 SUMMARY

- 2.1 The projected expenditure within the current financial year 2012/13 is £255,987 less than previously projected and reported to Members at the last Joint Committee meeting (SDPA11-2012: TAYplan Budget Update). The 3 year budget projections are: 2013/14 - £304,280; 2014/15 - £244,275; and 2015/16 - £244,833. The reserve balance is projected at £212,067.
- 2.2 The report provides an update on the legal challenge and potential budget implications, in addition to the requirement for temporary posts within the core team to deliver the work programme over 2013/14. TAYplan's audit strategy overview and plan for the current financial year is set out in Appendix Three.

3 RECOMMENDATION

- 3.1 It is recommended that The Joint Committee:
- a) Note the current budget projections for current year ending 31st March 2013 as set out in Appendix One; and,
 - b) Note the 3 year budget projections to 31st March 2016 as set out in Appendix Two and monitoring thereof, as set out in para 5.12 of the report.

4 FINANCIAL IMPLICATIONS

- 4.1 There are no financial implications arising from this report.

5 BUDGET UPDATE

- Budget update for current year ending 31st March 2013
- 5.1 The budget expenditure for the financial year 2012/13 is set out in Appendix One. The key areas of expenditure beyond staff costs relate to the end of the Examination process, with advertising and related activities following the Ministers' approval of the Strategic Development Plan in June 2012, together with external consultancy work.

- 5.2 The Examination of the Plan was significantly less than that previously projected. The cost of the Examination in total (over two financial years) was £13,623+VAT. Within this financial year there was an expenditure of £9,824 against a projected spend of £35,000. Given that there had not been any examinations of Strategic Development Plans and that no hearings were called by the Reporter, the Examination was a speedier and far less costly process than anticipated.
- 5.3 Consultancy work has been progressing to inform the review of the Plan and the Main Issues Report (programmed to be presented to Joint Committee in February 2014). Work has progressed on a new TAYplan website, and a partnership project working with Universities to identify new areas of research in relation to potential strategic landuse change over a period to 2035-50. The report to this Committee on Project Plan Update (SDPA04-2013: Project Plan Update) sets out a more detailed update on each of these areas.
- 5.4 The projected expenditure for this current financial year, 2012/13 is £255,987.
- 5.5 TAYplan's audit strategy overview and plan for the current financial year is set out in Appendix Three. The plan sets out the audit process on page 12 of the Appendix and sets out a reduced fee proposal of £2,790 for future years (currently £3,100).

Proposed 3 year budget to 31st March 2016

Context

- 5.6 The budget projections are based on delivering the current Project Plan, as agreed by The Joint Committee in October 2012 (Report 11-2012: SDPA Project Plan) and based on annual contributions of £60,000p.a. per Authority. The Planning etc. Scotland Act 2006 (section 10(9)) requires a subsequent Strategic Development Plan to be submitted within 4 years after the date on which the current plan was approved by The Scottish Ministers (8th June 2012). The consequence of this is that the development plan-making process is continuous.

Proposed Three Year Budget

- 5.7 The proposed budget for the next three years is:

2013/14	£304,280
2014/15	£244,275
2015/16	£244,833

- 5.8 Appendix Two provides the detailed breakdown of the three year projections. Over the period to March 2016 there are a number of costs which are proposed to remain largely unchanged, for example office rent. The known differential costs relate to external consultancy, legal fees, advertising, temporary staffing and printing. These reflect the different annual activities in the process of preparing a Strategic Development Plan.
- 5.9 Within 2013/14 year £30,000 has been included for legal costs. Members were briefed at the last Joint Committee (Report 09-2012: Review of the Strategic Development Plan Project Plan) on the legal challenge to the Court of Session relating to the TAYplan Strategic Development Plan, as approved by Ministers. This appeal remains sisted pending the outcome of the appellant's challenge to the Supreme Court in respect of the Fife Structure Plan. The Supreme Court case was heard in early March and a decision is anticipated in May/June 2013. Members will be kept updated with the TAYplan legal case.

- 5.10 To assist with delivering the project plan, additional temporary resource is needed over 2013/14. A summer planning placement has been advertised for students/recent graduates over approx. 12-13 week period. This post assists with resourcing TAYplan as well as providing valuable training for a planning student. Further planning resource is being sought to assist with pre-Main Issues Report work and the Strategic Environmental Assessment. In the first instance an opportunity for short term secondment(s) from within the 4 constituent Councils will be sought, before going external. The secondment(s) will be funded by TAYplan.

Justification

- 5.11 Within the context of wider budget pressures, these three year budget projections are presented as the most realistic and cost efficient. These projections are based on actual costs on the process to date of producing the first Plan.

Reserve Balance

- 5.12 A significant positive reserve balance is projected at the end of this current financial year of £212,067 (Appendix One). The reserve balance is projected to decrease in 2013/14 with potential legal costs to £150,587 (Appendix Two). Annually the balance is accrued with interest retained. Within TAYplan's first financial year (2008/09) the four constituent Councils made a contribution of £25,000 and this together with a one-off grant from the Scottish Government of £120,000 provided the start-up budget for the new Authority. In following years each Council has contributed £60,000 pa.

Justification for reserve balance 2012/13

- 5.13 The reserve balance has increased in recent years due to actual costs being less than projected, for example the examination. The TAYplan Board continues to monitor this reserve. Para 5.8 above sets out the current position in respect of the legal case against the Scottish Government on TAYplan. Once TAYplan has clarity on whether this legal case is to progress or not, the TAYplan Manager and the Board will discuss the implications on the budget and the reserve balance. A decision will be taken by the Board before the end of the 2013/14 financial year on the appropriate level of the reserve balance.

6.0 CONSULTATIONS

- 6.1 The Treasurer and Clerk to TAYplan, the Director of Infrastructure Services, Angus Council, The Director of City Development, Dundee City Council, The Head of Enterprise, Planning and Protective Services, Fife Council and the Executive Director (Environment), Perth & Kinross Council have been consulted and are in agreement with the contents of this report.

7.0 BACKGROUND PAPERS

- 7.1 Report SDPA11-2012: TAYplan Budget Update, Joint Committee, 2nd October, 2012.
- 7.2 Circular 1/2009: Development Planning
<http://www.scotland.gov.uk/Resource/Doc/261030/0077887.pdf>.
- 7.3 The Planning etc. Scotland Act 2006
http://www.legislation.gov.uk/asp/2006/17/pdfs/asp_20060017_en.pdf.

Pamela Ewen
Strategic Development Planning Authority Manager
13th March 2013

Appendix 1

update @ 28/2/2013

		12/13 Projected Expenditure (£)	12/13 Ledger updated at 31/01/13 (£)	12/13 Committed (£)	12/13 Base Budget (£)	Projected Variance (£)
STAFF COSTS						
	GROSS PAY	117,266	107,107	0	116,240	1,026
	SUPERANNUATION	21,108	19,279	0	21,504	(396)
	NATIONAL INSURANCE	10,233	9,343	0	10,090	143
	STUDENTS/TEMPORARY/CASUAL STAFF RELOCATIONS	2,532 0	2,532	0	3,000 0	(468) 0
	TRAINING/CONF/OTHER STAFF EXPENSES	3,000	2,488	0	2,000	1,000
		154,139	140,749	0	152,834	1,305
PROPERTY COSTS						
10100	RENT	14,300	14,190	0	14,300	0
		14,300	14,190	0	14,300	0
SUPPLIES & SERVICES						
24111	BOOKS & MATERIALS	200	75	0	200	0
24106	STATIONERY	3,000	1,005	1,432	3,500	(500)
20302	OFFICE FURNITURE & EQUIPMENT	0	0	0	1,000	(1,000)
26000	COMPUTER CONSUMABLES inc. licences	10,700	5,463		10,500	0
24005	PRINTING & PHOTOCOPYING	4,700	4,498	0	26,000	(21,300)
26900	POSTAGES	750	602	0	1,500	(750)
26111	TELEPHONES	200	139	0	500	(300)
25010	LEGAL FEES	3,318	3,318	0	0	3,318
27202	ADVERTISING	1,100	1,101	0	12,000	(10,900)
25003	AUDIT	2,556	696	0	3,100	(544)
27210	HOSPITALITY	1,200	879	0	1,000	200
27300	VENUE HIRE	0	0	0	1,200	(1,200)
	EXAMINATION	9,824	9,824	0	35,000	(25,176)
		37,548	27,600	1,432	95,500	(58,152)
TRANSPORT COSTS						
27700	CAR ALLOWANCES	750	622	0	1,250	(500)
35700	OTHER TRANSPORT COSTS	2,250	1,676	0	1,500	750
		3,000	2,298	0	2,750	250
3RD PARTY PAYMENTS						
25020	EXTERNAL CONSULTANTS	39,000	23,456	0	20,000	19,000
		39,000	23,456	0	20,000	19,000
SUPPORT SERVICES						
27800	RECHARGE FROM CENTRAL DPTS (LEGAL etc)	8,000	8,000	0	8,000	0
		8,000	8,000	0	8,000	0
	TOTAL GROSS EXPENDITURE	255,987	216,293	1,432	293,384	(37,397)
INCOME						
78900	CONTRIBUTIONS LA	240,000	240,000	0	240,000	0
70600	SALE OF DOCUMENTS	150	70		200	(50)
	INTEREST ON REVENUE BALANCES	1,000	0	0	1,000	0
	RESEARCH STUDY CONTRIBUTIONS	17,500	8,000	0	0	17,500
	TOTAL INCOME	258,650	248,070	0	241,200	17,450
	NET EXPENDITURE	(2,663)	(31,777)	1,432	52,184	(54,847)
RESERVE						
	Opening Reserve Balance	209,404			209,404	0
	Transfer To / (From) Reserve	2,663			(52,184)	54,847
	Balance Carried Forward	212,067			157,220	54,847

Appendix 2

update @ 28/2/2013

		13/14 Projected	14/15 Projected	15/16 Projected
STAFF COSTS				
	GROSS PAY	124,276	126,354	128,521
	SUPERANNUATION	22,991	23,376	23,776
	NATIONAL INSURANCE	10,923	11,155	11,396
	STUDENTS/TEMPORARY/CASUAL STAFF RELOCATIONS	18,000	3,100	3,100
		0	0	
	TRAINING/CONF/OTHER STAFF EXPENSES	2,250	2,250	2,250
		178,440	166,235	169,043
PROPERTY COSTS				
10100	RENT	14,300	14,300	14,300
		14,300	14,300	14,300
SUPPLIES & SERVICES				
24111	BOOKS & MATERIALS	200	200	200
24106	STATIONERY	2,750	2,750	2,750
20302	OFFICE FURNITURE & EQUIPMENT	1,000	1,000	1,000
26000	COMPUTER CONSUMABLES inc. licences	10,750	11,000	11,000
24005	PRINTING & PHOTOCOPYING	8,000	14,000	12,000
26900	POSTAGES	1,500	1,500	1,500
26111	TELEPHONES	500	500	500
25010	LEGAL FEES	30,000	0	0
27202	ADVERTISING	1,000	6,000	6,000
25003	AUDIT	2,790	2,790	2,790
27210	HOSPITALITY	1,500	1,500	1,500
27300	VENUE HIRE	300	1,000	1,000
	EXAMINATION	0	0	0
		60,290	42,240	40,240
TRANSPORT COSTS				
27700	CAR ALLOWANCES	750	1,000	750
35700	OTHER TRANSPORT COSTS	2,500	2,500	2,500
		3,250	3,500	3,250
3RD PARTY PAYMENTS				
25020	EXTERNAL CONSULTANTS	40,000	10,000	10,000
		40,000	10,000	10,000
SUPPORT SERVICES				
27800	RECHARGE FROM CENTRAL DPTS (LEGAL etc)	8,000	8,000	8,000
		8,000	8,000	8,000
TOTAL GROSS EXPENDITURE		304,280	244,275	244,833
INCOME				
	CONTRIBUTIONS LA	240,000	240,000	240,000
78900	SALE OF DOCUMENTS	300	200	200
70600	INTEREST ON REVENUE BALANCES	1,000	800	800
	RESEARCH STUDY CONTRIBUTIONS	1,500	0	0
	TOTAL INCOME	242,800	241,000	241,000
NET EXPENDITURE		61,480	3,275	3,833
RESERVE				
	Opening Reserve Balance	212,067	150,587	147,312
	Transfer To / (From) Reserve	(61,480)	(3,275)	(3,833)
	Balance Carried Forward	150,587	147,312	143,479



cutting through complexity™

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

Audit strategy overview and plan

Year ending 31 March 2013

7 March 2013



Contents

The contacts at KPMG in connection with this report are:

Stephen Reid

Director, KPMG LLP

Tel: 0131 527 6795

Fax: 0131 527 6666

stephen.reid@kpmg.co.uk

Keith Macpherson

Senior Manager, KPMG LLP

Tel: 0141 300 5806

Fax: 0141 204 1584

keith.macpherson@kpmg.co.uk

Robin Soutar

Audit in-charge, KPMG LLP

Tel: 0131 527 6862

Fax: 0131 527 6666

robin.soutar@kpmg.co.uk

	Page
Overview	2
Audit strategy and planning	3
Other audit areas	9
Delivery of the audit	10
Appendices	13

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 only Dundee, Perth, Angus and North Fife Strategic Development Planning Authority and is made available to the Accounts Commission and Audit Scotland (all together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy 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 Stephen Reid, who is the engagement leader for our services to Dundee, Perth, Angus and North Fife Strategic Development Planning Authority, telephone 0131 527 6795 email: stephen.reid@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, 110 George Street, Edinburgh, EH2 4LH.

This document describes how we will deliver our audit for Dundee, Perth, Angus and North Fife Strategic Development Planning Authority (“TAYplan”) for the year ending 31 March 2013.

This includes the opinions on the financial statements in accordance with relevant legal and accounting requirements.

Experience *Page 10*

Our senior management team from 2012 remains unchanged so you retain strong continuity. As previously, we will use specialists from our pensions teams to provide on the ground support to our core audit team.

Tailored approach *Pages 4 to 6*

We continue to invest the time to understand the key challenges and drivers affecting your operations. Our audit approach is carefully designed to align with these.

Independence *Appendix 1*

Independence and quality are at the foundation of our approach. We have systems and processes in place to ensure our ongoing independence and will report formally on this, together with any non-audit fees received. We are satisfied that we are independent.

Risk based approach *Pages 4 to 6*

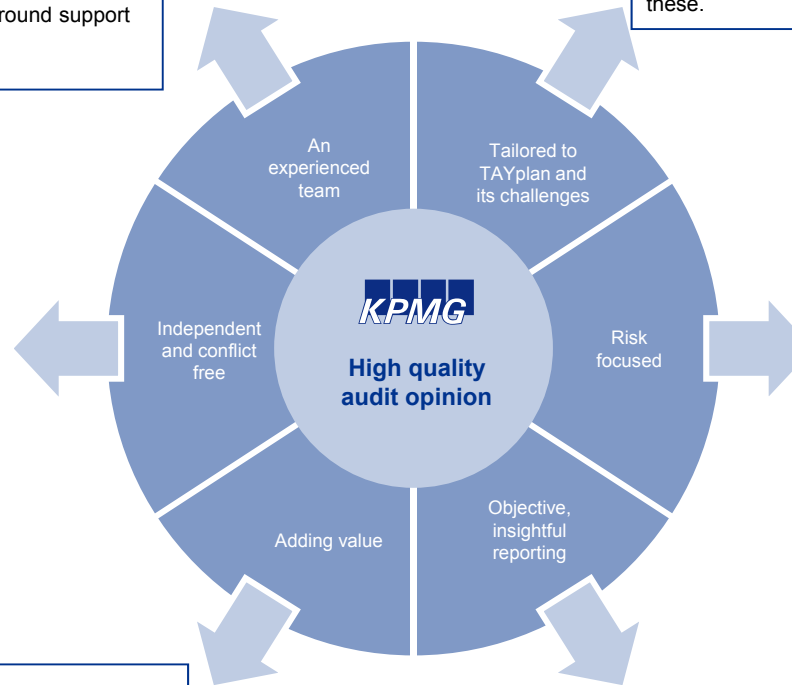
We continue to work with management to inform our understanding of the business and its challenges to ensure our audit responds to changes in the business.

Adding value

The knowledge gained from our previous audit means we understand your business issues and how they impact the financial statements. We keep you advised of new accounting standards and accounting issues as they arise. We will report on identified material control weaknesses and other performance improvement observations as well as unadjusted audit differences.

Insightful reporting

You expect us to form independent views on the key issues. We will express these clearly and concisely in a way that is understandable to accountants and non-accountants alike. Our audit gives us an independent view on your business. We use this knowledge to challenge the key messages delivered by your internal reporting systems. We will discuss these areas with TAYplan and management.



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

The Accounts Commission has appointed KPMG LLP as auditors of Dundee, Perth, Angus and North Fife Strategic Development Planning Authority ("TAYplan") under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2011-12 to 2015-16, inclusive. This document summarises our responsibilities as external auditors for the year ending 31 March 2013 and our intended approach to issues impacting TAYplan's activities in that year. We carry out our audit in accordance with our statutory responsibilities under the Act and in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board ("APB") and the wider responsibilities embodied in Audit Scotland's *Code of Audit Practice*. Under this *Code of Audit Practice* auditors address and comment upon a number of objectives, together with complying with a number of obligations. The *Code of Audit Practice* also places a number of obligations on TAYplan.

Auditors' objectives in relation to the *Code of Audit Practice* are to:

- audit the financial statements and place a certificate on the statements stating that the audit has been conducted in accordance with Part VII of the Act;
- satisfy ourselves that:
 - the financial statements have been prepared in accordance with all applicable statutory requirements;
 - proper accounting practices have been observed in the preparation of the financial statements;
 - the body has made proper arrangements for securing Best Value and is complying with its community duties; and
 - the body has made adequate arrangements for collecting, recording and publishing prescribed performance information;
- hear any objection to the financial statements lodged by an interested person.

We conduct our audit of the financial statements in line with International Standards on Auditing (UK and Ireland), taking into account the UK Auditing Practices Board's Practice Note 10 (revised). We have a professional responsibility to report if the financial statements do not comply, in any material respect, with the IFRS-based *Code of Practice on Local Authority Accounting in the United Kingdom 2012-13* ("the Code"), taking account of the international financial reporting standards issued by the International Accounting Standards Board and relevant guidance issued by the Chartered Institute of Public Finance and Accountability ("CIPFA") / Local Authorities (Scotland) Accounts Advisory Board ("LASAAC").

As part of our audit we also review the financial information contained in the foreword to ensure that it is consistent with the financial statements. We also review the statement on the system of internal financial control to ensure it has been prepared in accordance with the Code and other relevant guidance, taking account of the financial statements and other information gained by us as auditors.

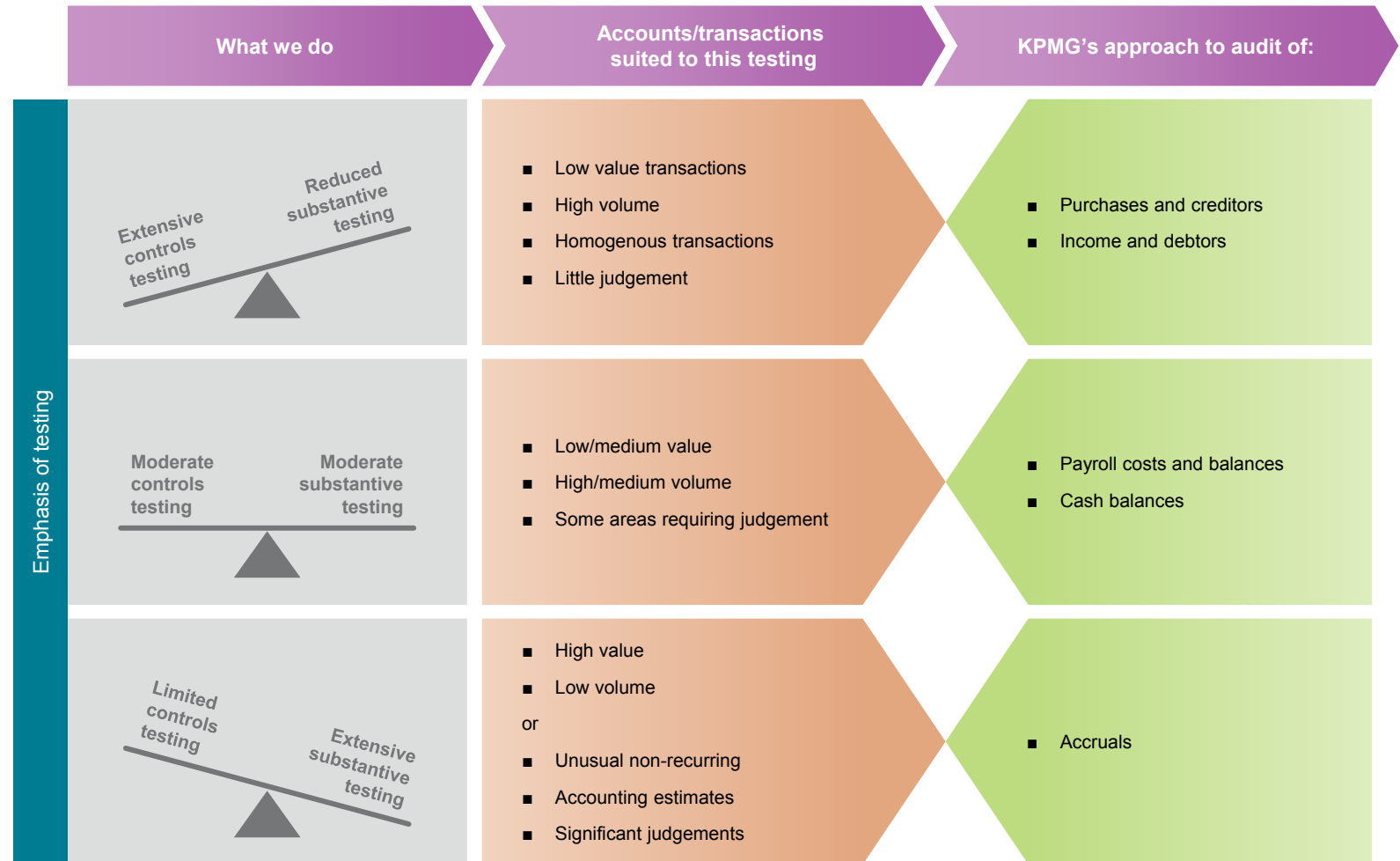
International Standard on Auditing (UK and Ireland) 240: *The auditor's responsibility to consider fraud in an audit of financial statements* applies to our work. In particular, this Standard requires us to consider directly the possibility that management may choose to override the system of internal controls that otherwise may appear to be operating effectively. The Standard requires the auditor to maintain an attitude of professional scepticism, recognising the possibility that a material misstatement due to fraud could exist – notwithstanding the auditor's experience with regard to the honesty and integrity of management and those charged with governance.

In accordance with International Standard on Auditing (UK and Ireland) 260: *Communication with those charged with governance* we will report to you all non-material, non-trivial errors, which have not been adjusted.

In respect of the financial statements, we identify the constituent account balances and significant classes of transaction and focus our work on identified risks over completeness, existence, accuracy, valuation, ownership and presentation.

Determining the most effective balance of internal controls and substantive audit testing enables us to ensure the audit process runs smoothly and with the minimum disruption to your team.

The graphic opposite outlines how we apply that to the audit of TAYplan's financial statements.



Note: Assuming controls are found to operate as designed.

Our audit approach in relation to the financial statements and testing of systems of internal control is driven by our assessment of the inherent risk of misstatement of the captions in the financial statements.

We use our experience from the 2011-12 audit to inform our assessment.

On this page we link the captions with significant inherent risks to the relevant processes for TAYplan's financial statements

Inherent risk assessment:

- Higher
- Moderate
- Lower

Comprehensive income and expenditure statement caption	2011-12 balance (£'000)	Planning risk assessment	Process				Inherent risk areas
			Income	Expenditure	Payroll	Other	
Cost of services	201	●		✓	✓		■ Remuneration report disclosures do not comply with regulations
Other operating income & expenditure	(2)	●	✓	✓			
Financing and investment income and expenditure	(1)	●				✓	
Requisition income	(240)	●					
Balance sheet caption							
Short term debtors	3	●	✓				
Cash and cash equivalents	211	●				✓	
Short term creditors	(7)	●		✓			
Useable reserves	(209)	●				✓	
Unuseable reserves	(2)	●				✓	

There are no significant changes in the content of the *Code of Practice on Local Authority Accounting in the United Kingdom 2012-13* (“the Code”), we will update our understanding of this position around the year end.

TAYplan is required to prepare financial statements in accordance with the Code. KPMG is committed to working with management to enhance the clarity and impact of the financial statements.

Code of practice on Local Authority Accounting in the United Kingdom 2012-13 (“the Code”)

The 2012-13 financial statements will be prepared in accordance with the *Code of practice on local authority accounting in the United Kingdom 2012-13* (“the Code”) which is based on International Financial Reporting Standards (“IFRS”).

The 2012-13 Code has a number of amendments from the 2011-12 version and management should reflect these changes to the reporting requirements in the draft financial statements. The amendments include:

- changes in relation to the objective of the financial statements and the qualitative characteristics of financial information;
- encouragement for local authority bodies to prepare the Explanatory Forward taking into consideration the requirements of the Government’s Financial Reporting Manual (FReM).

Presentation of financial statements

The current version of the Code was first applicable in respect of the year ended 31 March 2011 and typically had the effect of increasing the length and complexity of financial statements. The Audit Commission issued a briefing for those that prepare IFRS-based financial statements in local government, *Let’s be clear* in January 2012. The briefing notes that the financial statements of those applying the Code are, on average, 113 pages long and while this supports transparency, there is a risk that the users of the financial statements are daunted by their complexity and find them difficult to interpret and understand.

Much of this complexity comes from the need to reconcile financial statements, prepared in accordance with IFRS, with the control framework imposed by government. This includes a series of adjustments necessary to reconcile the accounting cost of services, with the cost which is charged to the general fund on a statutory basis.

This briefing, and CIPFA’s publication, *IFRS: how to tell the story* suggest a number of ways in which accessibility and clarity of financial statements could be improved including:

- the use of summaries and extracts which provide key elements of information;
- reducing and / or eliminating unnecessary disclosures; and
- critically reviewing the financial statement template to reduce the length and focus of reporting.

It is likely that there will be continued focus on the presentation of information and we will work with management to consider the implications of any updated guidance and support management to enhance the clarity and impact of the financial statements.



Audit strategy and planning

Mandatory communications

Mandatory communications required by Auditing Standards are set out opposite.

Area	Issue	KPMG response
Fraud risks	<ul style="list-style-type: none">■ It is the responsibility of management to implement accounting and internal control systems which are designed to prevent and detect fraud and error. Such systems reduce but do not eliminate the risk of misstatements caused by fraud or error.■ Those charged with governance must ensure, through oversight of management, the integrity of these systems and that appropriate controls are in place, including those for monitoring risk, financial control and compliance with laws. This is in the context of preparing financial statements that give a true and fair view and that do not contain material misstatements arising from fraudulent reporting (intentional misstatements/ omissions to deceive the financial statement user) or from the misappropriation of assets.	<ul style="list-style-type: none">■ Our audit procedures are designed to have a reasonable chance of detecting misstatements as a result of fraud or error. The audit team will review and discuss fraud related risks and controls with the treasurer and senior management, and consider the work of internal audit.■ Our risk assessment procedures will include a number of interviews with senior personnel concerning processes to identify and respond to risks of fraud.
Related party transactions	<ul style="list-style-type: none">■ Management has processes in place to identify related party transactions and a number were disclosed in the 2011-12 financial statements. All material related party transactions must be disclosed in the financial statements.	<ul style="list-style-type: none">■ We will ensure that there continues to be appropriate processes in place as part of the financial statements preparation process to identify any related party transactions.
Independence	<ul style="list-style-type: none">■ Auditing Standards require us to consider our independence and related matters in our dealings with TAYplan.	<ul style="list-style-type: none">■ We have provided our formal independence communication in appendix one. In respect of any non-audit services provided to TAYplan we have completed internal conflict checks to confirm that the services may be provided with no threat to our audit independence.

Our audit is geared to identify material errors in the financial statements.

We are required by Auditing Standards to report to TAYplan unadjusted audit differences other than non-trivial items.

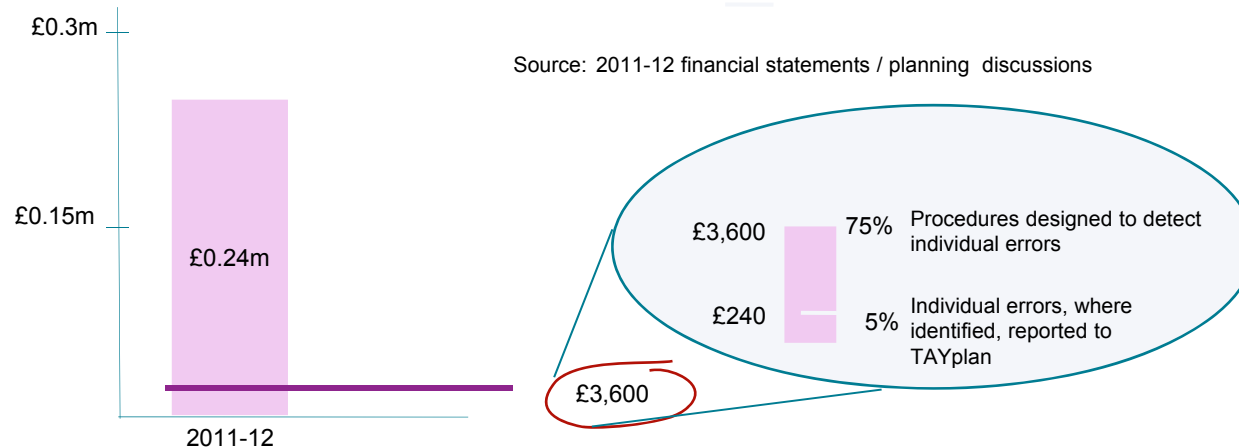
In accordance with International Standard on Auditing (UK and Ireland) 320 *Materiality in planning and performing an audit*, we plan and perform our audit to be able to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. The assessment of what is material is a matter of professional judgment and includes consideration of both the amount (quantity) and nature (quality) of misstatements.

Audit materiality is both a quantitative and qualitative measure and the figures below are a guide only and are based on prior year total income. We realise that the tolerance for error in certain disclosures in the financial statements is lower and therefore, we will report to TAYplan smaller errors in areas such as senior officer's remuneration and related party transactions. The overriding objective is to preserve the true and fair view presented by the financial statements and we will consider any audit differences, individually and cumulatively, in that context.

Our planning materiality has been calculated on the basis of total income for TAYplan for 2011-12 as detailed below. On this basis, our procedures will be designed to detect individual errors over £3,600 and we will report all errors over £240 to TAYplan.

Our final materiality will be based on the draft financial statements and we will inform you of any changes to our planning materiality.

Total income 2011-12



We distinguish between fraud and error and use our sector knowledge to inform specific control testing.

Fraud versus error

The term 'error' refers to an unintentional misstatement in the reporting of an entity. The term 'fraud' refers to an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception or misconduct to obtain an unjust or illegal advantage.

There are two types of misstatements relevant to an auditor's consideration of fraud:

- misstatements resulting from fraudulent financial reporting, which involves intentional misstatements or omissions of amounts or disclosures in financial reporting to ultimately deceive financial statement users; and
- misstatements resulting from misappropriation of assets, which typically involve theft of an entity's assets and is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing.

Legality and propriety

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements but also providing a view, where appropriate, on matters such as the legality, propriety, performance and the use of resources in accordance with the principles of Best Value.

TAYplan is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of its arrangements. This includes involving those charged with governance in the monitoring of arrangements.

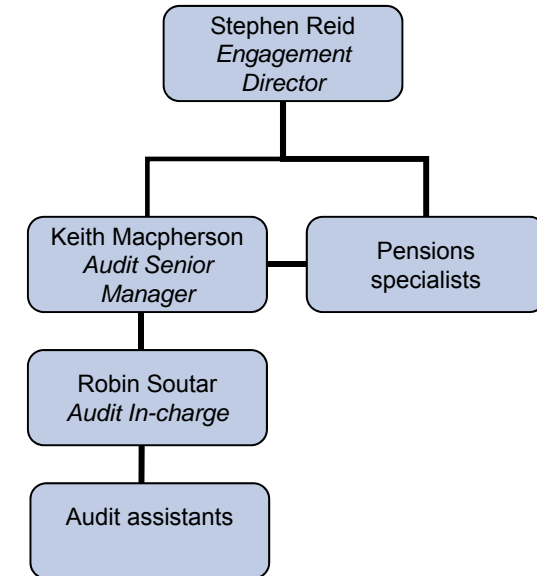
Best Value

Under the Local Government in Scotland Act 2003 ("the 2003 Act"), auditors have a duty to be satisfied that councils have made proper arrangements to secure best value. In response to these duties, the Accounts Commission introduced specific arrangements for the audit of best value and community planning under section 52 of the 2003 Act.

We will seek to understand the arrangements which management has established internally to ensure Best Value in its use of the resources made available to it.

The team benefits from strong continuity at senior level, building on Stephen and Keith's involvement in the audit of TAYplan in 2011-12.

Team member	Role
Stephen Reid – <i>Engagement Director</i> KPMG Edinburgh Tel: 0131 527 6795 Email: stephen.reid@kpmg.co.uk	Stephen has overall authority and responsibility for the audit engagements, including reporting on the financial statements, and will review key conclusions reached by the engagement team on all accounting and auditing matters.
Keith Macpherson – <i>Audit Senior Manager</i> KPMG Glasgow Tel: 0141 300 5806 Email: keith.macpherson@kpmg.co.uk	Keith serves as the day-to-day audit liaison between management and KPMG and a first point of contact. He also provides technical accounting, regulatory and other advice in the first instance.
Robin Soutar – <i>Audit In-charge</i> KPMG Edinburgh Tel: 0131 527 6862 Email: robin.soutar@kpmg.co.uk	Robin coordinates the onsite audit fieldwork, liaising directly with the key finance staff in respect of the preparation for, and conduct of the financial statements audit work.



Reporting

Through regular meetings at appropriate levels, there will be open and regular discussion between management, auditors and management. As a result, accounting and control issues can be identified and reported to allow you to manage them throughout the year.

Audit Scotland's *Code of Audit Practice* requires us to communicate to management findings arising as a result of the audit work completed. Reports to management will be submitted throughout the course of the year, with draft reports discussed and agreed with management and action plans developed to include the recommendations, target dates for implementation and the member of staff responsible for implementation.

We envisage submission of the following report in respect of 2012-13:

- by 30 September 2013, annual audit report to the members of TAYplan and the Controller of Audit.



Delivery of the audit Fee proposals

Our audit fees are set according to the fee ranges set by Audit Scotland.

Fee proposals

Audit Scotland requires that the fee for our work is set within an indicative range, depending on the assessment of risk and other factors facing TAYplan. Audit Scotland has notified us, and TAYplan, that the fee range for 2012-13 is £5,616 to £8,424 based on a mid-point of £2,790.

We have proposed a fee with management of £2,790 which represents the mid-point on the indicative range.

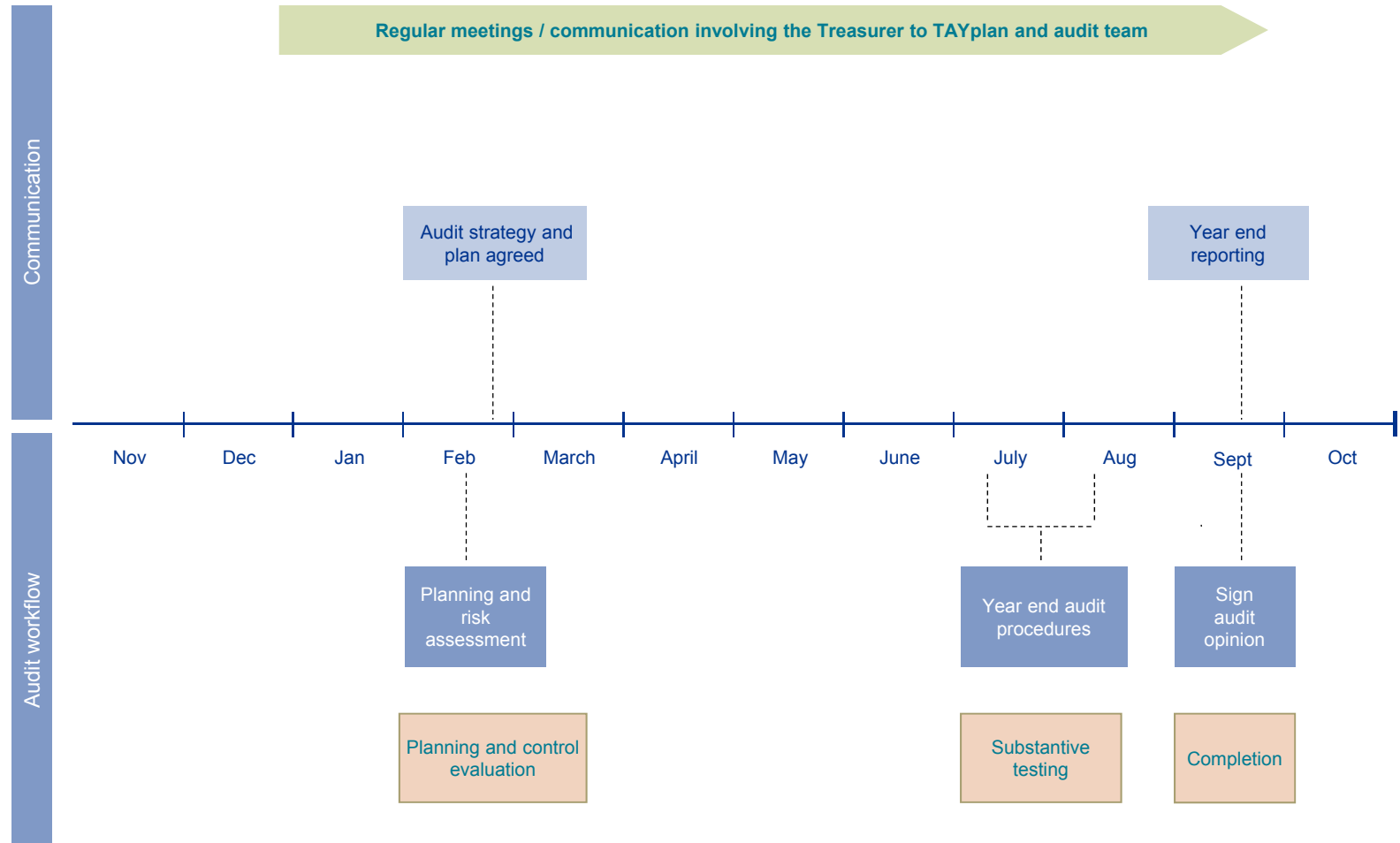
As with other audits, our fee proposals are based on the following assumptions to ensure an efficient audit process:

- draft report, financial statements and full electronic files of supporting work papers available at the start date of our on site visit agreed with officers preferably in electronic format;
- reliance on your internal controls;
- availability of key members of staff during the audit fieldwork; and
- completion within the agreed timetable.

Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus, or should other matters arise, we will discuss with management the impact of this on our proposed fee.

Audit fee summary	Total £
Mid-point on the fee range for 2011-12	2,920
2011-12 agreed fee	3,100
Mid-point on the fee range for 2012-13	2,790
Proposed audit fee for 2012-13	2,790

We have developed a proposed timetable to discharge our responsibilities based on initial discussions with management.





cutting through complexity™

Appendices

Auditing Standards require us to communicate to the members of TAYplan in writing at least annually on any matters which may reasonably be thought to bear on our independence and set out the safeguards in place in relation to these matters and confirm that we are independent.

Professional ethical standards require us to communicate to you as part of planning all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Audit Director and the audit team. This letter is intended to comply with this requirement although we will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

We are satisfied that our general procedures support our independence and objectivity, except for those detailed below where additional safeguards are in place.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

Confirmation of audit independence

We confirm that as of 7 March 2013, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the members of TAYplan and should not be used for any other purposes.

Yours faithfully

KPMG LLP

Financial statements

Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice);
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

Systems of internal control

Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions;
- developing and implementing strategies to prevent and detect fraud and other irregularity;
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and
- participating, when required, in data matching exercises carried out by Audit Scotland.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;
- promoting appropriate values and standards; and
- developing, promoting and monitoring compliance with standing orders and financial instructions.

Audit Scotland code of audit practice – responsibilities of TAYplan (continued)

Financial position

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and future use; and
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.



cutting through complexity™

© 2013 KPMG LLP, a UK Limited Liability Partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity.
All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).