



# **Forth Estuary Transport Authority 2014-15**

Annual audit report to  
Treasurer and the  
Controller of Audit

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. ([www.audit-scotland.gov.uk/about/ac](http://www.audit-scotland.gov.uk/about/ac))

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

The Accounts Commission has appointed David McConnell as the external auditor of Forth Estuary Transport Authority 2014-15 for the period 2011/12 to 2015/16.

This report has been prepared for the use of Forth Estuary Transport Authority 2014-15 and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the Authority. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

## Key contacts

David McConnell, Assistant Director  
[dmcconnell@audit-scotland.gov.uk](mailto:dmcconnell@audit-scotland.gov.uk)

Allister Perston, Audit Manager  
[aperston@audit-scotland.gov.uk](mailto:aperston@audit-scotland.gov.uk)

Kenneth Stewart, Auditor  
[kstewart@audit-scotland.gov.uk](mailto:kstewart@audit-scotland.gov.uk)

Audit Scotland  
4<sup>th</sup> Floor, The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1 BT

Telephone: 0131 625 1500

Website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

# Contents

Key messages .....	4	Governance and transparency.....	10
Introduction .....	5	Best Value and performance.....	12
Audit of the 2014/15 financial statements.....	6	Appendix 1 – Audit risks.....	13
Financial management and sustainability .....	9	Appendix 2 – Summary of local audit reports 2014/15 .....	15

# Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none"><li>• Unqualified auditor's report on the 2014/15 financial statements.</li><li>• Working papers were of a good standard and officers provided good support which enabled the audit team to complete fieldwork by the planned target date.</li></ul>
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none"><li>• Financial management remains strong, the Authority operated within a budget of £9.080 million, recording an underspend of £2.226 million.</li><li>• Income received was £2.895 million over budget due to one off compensation payment received during 2014/15.</li></ul>
 <p>Governance and transparency</p>	<ul style="list-style-type: none"><li>• Systems of internal control operated effectively.</li><li>• Overall, sound governance arrangements were in place during 2014/15.</li></ul>
 <p>Outlook</p>	<ul style="list-style-type: none"><li>• During 2015/16 the Authority will be dissolved on 1 June 2015 with responsibility for the operation for the present bridge, the new Queensferry Crossing and surrounding roads network transferred to a single operator.</li></ul>

# Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of the Forth Estuary Transport Authority (“the Authority”).
2. The management of the Forth Estuary Transport Authority is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of the Forth Estuary Transport Authority, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. The Forth Estuary Transport Authority was dissolved in line with the Forth Road Bridge Act 2013 from 1st June 2015. All of the Authority's property, rights and liabilities will be transferred to the Scottish Government. The Scottish Government awarded a contract to Amey LG Ltd to manage and maintain both the Queensferry Crossing, Forth Road Bridge and part of the adjacent trunk road network in its new capacity as a dedicated public transport corridor.
6. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures. Consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
7. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Audit of the 2014/15 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"><li>• We have completed our audit and issued an unqualified independent auditor's report.</li></ul>
<b>Going concern</b>	<ul style="list-style-type: none"><li>• The financial statements of the Authority have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern until dissolution.</li></ul>
<b>Other information</b>	<ul style="list-style-type: none"><li>• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.</li></ul>

## Submission of financial statements for audit

8. We received the unaudited financial statements on 9 June 2015 in accordance with the agreed timetable. The working papers were of a good standard and staff provided good support to the audit team which assisted the delivery of the audit to deadline.

## Overview of the scope of the audit of the financial statements

9. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Authority in March 2015.

10. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
11. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix 1** sets out the audit risks identified during the course of the audit and how we

addressed each risk in arriving at our opinion on the financial statements.

12. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

13. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. In addition, a misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
14. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
15. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Forth Estuary Transport Authority, we set planning materiality for 2014/15 at £91,000 (1% of gross expenditure). We report all misstatements greater than £1,000. Performance materiality was

calculated at £68,000 to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

16. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and set materiality for 2014/15 at £147,000. We report all misstatements greater than £1,500. Performance materiality was calculated at £110,000. The change in materiality levels is mainly due to changes in actuarial assumptions affecting the Authority's financial statements.

## Evaluation of misstatements

17. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. We have no unadjusted misstatements to bring to your attention.

## Significant findings from the audit

18. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
  - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

- Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.
  - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
19. During the course of the audit we identified one issue, which requires to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
20. **Operating Lease Disclosure** - A potential operating lease has not been disclosed separately in the financial statements leasing note on the basis of a confidentiality agreement with the lessee. The omission is not considered material.

to the local authority context. There are no significant changes to accounting requirements introduced by the 2015/16 Code which are likely to impact on the financial statements of the Authority, given the dissolution of the body.

## Future accounting and auditing developments

### Revisions to the Code of Practice

21. The financial statements of the Authority are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS)

# Financial management and sustainability

## Financial management

22. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the officer responsible for finance has sufficient status to be able to deliver good financial management
  - standing financial instructions and standing orders are comprehensive, current and promoted within the body
  - reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance
  - members provide a good level of challenge and question budget holders on significant variances.
23. The main financial management arrangements for the Authority have been considered and based on our accumulated knowledge and our review of relevant papers we conclude that the Authority made appropriate financial management arrangements.

## Financial outcomes

24. The cost of services in 2014/15 was £8.147 million (£11.842 million in 2013/14). After accounting for income, mainly Government grant

and interest on pension plan assets of £7.498 million (£10.412 million in 2013/14) and interest costs on pension plan obligation of £0.891 million (£0.914 million in 2013/14) there is a deficit on the provision of services of £1.540 million (£2.344 million in 2013/14).

25. Within these figures, the Authority made overall savings of £2,226,000 against budget, mainly due to Income exceeding budget by £2,895,000 due to a one off compensation payment being received. Other savings were due to underspends over a number of areas including legal fees, bridge maintenance and weather emergency. These were partially offset by unbudgeted costs being incurred in relation to employee costs and non-domestic rates.

## 2015/16 and beyond

26. In February 2015 the Authority agreed a revenue and capital budget of £1.478 million for the 2015/16 financial year. As Transport Scotland has provisionally agreed not to provide a grant for 2014/15, this would require all costs incurred during 2015/16 until the point of dissolution to be met through the Authority's reserve.
27. The Authority's General Fund balance at 31st March 2015 was £5.345 million. Should revenue and capital expenditure for financial year 2015/16 be incurred in line with the total budget of £1.478 million proposed, the reserve balance would be £3.867 million at 1st June 2015.

# Governance and transparency

## Corporate governance

28. Members and management of the Authority are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
29. FETA comprised elected members from four constituent authorities but is a body corporate in its own right, separate from those authorities. It is incumbent on all members to ensure that, in the context of their service to the Authority, all of the necessary disclosures have been made to ensure that the risk of conflicts of interest is adequately managed. There is a link against each member on the Authority's website to the members' relevant council website, where their interests can be inspected. The Clerk to the Authority wrote annually to each member reminding them that the register should include any interests to be registered in respect of the authority.
30. The Forth Estuary Transport Authority Order 2002 requires that the positions of Convener and Vice-Convener of the authority be rotated between the City of Edinburgh Council and Fife Council, over two-year periods. Accordingly, from 1 July 2013, the position of

Convener of the Authority is held by City of Edinburgh Council and the Vice-Convener by the Fife Council

31. The Forth Estuary Transport Authority was dissolved from 1st June 2015, which resulted in the authority having to manage a number of risks. The Board chose to address the risk over retention of senior engineering coverage up to the point of dissolution, through a pension enhancement to two senior staff. The amounts of £60,318 and £32,687 respectively, are disclosed in the 'Remuneration Report'.
32. From our work undertaken during the year, we have concluded that the Authority had effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

## Accounting and Internal control systems

33. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
34. A number of key financial systems of the Authority were provided through City of Edinburgh Council (CEC), and our consideration of the internal control environment for the Authority is informed by our CEC audit work. No material weaknesses in the accounting and internal control systems were identified during the audit which could

adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

## Internal audit

35. Internal audit provides members and management of the Authority with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
36. Our review established that the work of internal audit is of a good quality allowing us to place reliance on their work on the annual governance statement. We had planned to place reliance on internal audit's work in relation to accounts payable however, due to the scope of internal audit work carried out, we were unable to place reliance on it for this area and we modified our procedures accordingly.

## Arrangements for the prevention and detection of fraud

37. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements. There were no instances of fraud or corruption reported by the Authority in 2014/15.

38. We assessed the arrangements for the prevention and detection of fraud during the planning phase of our audit. The Authority's anti-fraud, bribery and corruption policy provided a framework for deterring and preventing fraud and also dealing with any frauds which may occur.
39. We concluded that there were effective arrangements for the prevention and detection of fraud, although it should be noted that no system can eliminate the risk of fraud entirely.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

40. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.

## Change in FETA Status

41. Given the approaching change in FETA's status, being replaced by one contractor to manage and maintain the Queensferry Crossing, the Forth Road Bridge and adjoining road network as a dedicated public transport corridor, it is important that members continue to recognise and underline the importance of effective governance at this time of change.

# Best Value and performance

42. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The Authority should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

## Performance management

43. Over the past years the Authority has been working on significant capital projects including upgrading of the Acoustic Monitoring System and improvements to the suspended span under deck gantries.
44. A risk analysis was undertaken as part of the 2015/16 budget process, however, given the Authority's abolition on 31<sup>st</sup> May 2015, the risk of unforeseen maintenance works of a significant nature has reduced and from 1<sup>st</sup> June 2015 the risk will be held by Transport Scotland.

## Overview of performance targets in 2014/15

45. The review of financial performance by the Authority is based on management accounting information rather than the Annual

Accounts. The Movement in Reserves Statement shows an increase in the total usable reserve of £2.226 million. Total usable reserves at the beginning of the year amounted to £3.119 million which, when increased by the surplus of £2.226 million, results in a total usable reserve at 31<sup>st</sup> March 2015 of £5.345 million

# Appendix 1 – Audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Risk of management override of control</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries</p> <p>Review of accounting estimates</p> <p>Evaluating significant transactions that are outside the normal course of business</p>	<p>Testing completed with no issues identified</p>

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor’s wider responsibility under the Code of Audit Practice</b>		
<p><b>FETA Dissolution/Going Concern</b></p> <p>There are risks that FETA may find it difficult to:</p> <ul style="list-style-type: none"> <li>retain suitably qualified staff to carry out its activities; and</li> <li>FETA's members may not be fully focused on governance matters as the body's status is changed.</li> </ul>	<p>The Board is continuing to monitor key personnel and staffing levels in conjunction with the Chief Engineer and Bridgemaster, in the light of the recent departure of the Engineering Manager. Who in the absence of the Chief Engineer and Bridgemaster would have been the lead officer.</p> <p>FETA's Board Members are kept regularly informed via Board papers prepared by the Chief Engineer &amp; Bridgemaster of the programme for change.</p>	<p>We monitored developments and payments in respect of retention of senior staff up to dissolution.</p>
<p><b>Transfer of Assets and Liabilities to Scottish Government on Dissolution</b></p> <p>On dissolution FETA's assets, rights and liabilities will transfer to Scottish Government. There is a risk that:</p> <ul style="list-style-type: none"> <li>title deeds/assets to be transferred do not match asset registers</li> <li>liabilities on transfer may not be fully established.</li> </ul>	<p>Detailed work is being undertaken by Transport Scotland's consultant, C2HMHill with input from FETA to minimise this risk. It should be noted that ownership of this risk is held by the Scottish Government.</p>	<p>We will continue to monitor developments in this area and confirm the transfer of asset balances to Transport Scotland in relation to 2015/16 statement of balances.</p>

# Appendix 2 – Summary of local audit reports 2014/15



