

# Forth Estuary Transport Authority

## Annual report on the 2011/12 audit



Prepared for the Forth Estuary Transport Authority Board and Controller of Audit  
October 2012

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# Key messages

## 2011/12 audit findings

We have audited the 2011/12 financial statements and looked at aspects of performance management and governance, including the key financial risks faced by the Forth Estuary Transport Authority (FETA). This report sets out our main findings, summarising key outcomes from the 2011/12 audit and the outlook for the period ahead.

## Key outcomes from the 2011/12 audit

Overall we found the financial stewardship of FETA during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- we have given an unqualified opinion on the financial statements of the authority
- final accounts preparation procedures and working papers were of a high standard, as were responses to audit queries
- matters arising from the audit have been included in the ISA 260 report to those charged with governance on the 2011/12 audit
- many aspects of a sound corporate governance framework are in place
- Internal Audit concluded that reasonable assurance could be placed upon the adequacy and effectiveness of the authority's internal control system
- Total Usable Reserves have increased to £7.009 million mainly due to advanced grant funding, which will be used to help meet the authority's future capital expenditure.

## Outlook

Key issues for FETA in the future include:

- Significantly reduced capital grant has led to greater capital project prioritisation and the deferment of some projects beyond 2012-2015. This may impact on future project costs
- a decision has been taken by the Scottish Government to dissolve FETA and transfer the Forth Road Bridge assets to a contractor to be appointed through competitive tender
- Delivering consistently high level of services in the face of uncertainty about the future of FETA and a difficult economic climate with increasing financial constraints.

Key issues for the attention of members are outlined in an Action Plan included at appendix B of this report.

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# Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the Forth Estuary Transport Authority (FETA). The nature and scope of the audit were outlined in the Audit Plan presented to the Board on 27 February 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and governance and accountability.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that FETA understands its risks and has arrangements in place to manage these risks. The Board should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to the Board and the Controller of Audit and should form a key part of discussions, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the Board.
6. The management of FETA is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, 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.

# Financial statements

7. 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.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
  - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
  - the regularity of the expenditure and income (except for local government bodies).
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the foreword, annual governance statement, statement of responsibilities for the financial statements and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

## Audit opinion

10. We have given an unqualified opinion on the financial statements of the authority for 2011/12.
11. In accordance with the requirement of the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011/12 Code), we have also provided an opinion, that in all material aspects, the expenditure and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

## Going concern

12. As at 31 March 2012 FETA has a net surplus on provision of services of £5.282 million (£7.145 million net surplus as at 31 March 2011). Current 'Total Useable Reserves' of £7.009 million (£6.152 million as at 31 March 2011) have increased by £857,000. The financial statements have been prepared on an ongoing basis as FETA has no reason to believe that the support of the Scottish Government will not be forthcoming.

## Annual Governance Statement/Remuneration Report

13. We are satisfied with the disclosures made in the Annual Governance Statement and the Remuneration Report as well as the adequacy of the process put in place by FETA to obtain assurances on the systems of Internal Control.

## Accounting issues

14. Local Authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the UK (the code). The Code is based on International Financial Reporting Standards (IFRS). We are satisfied that the Code has been followed without any significant variations.
15. As is normal practice, immaterial unadjusted errors have been reported to the Treasurer and the authority via our letter issued in line with International Standard on Auditing 260 (ISA 260) - 'Communication of audit matters to those charged with governance'. Details of an accounting issue which arose during the course of our audit is summarised below.
16. A potential operating lease has not been disclosed in the financial statements on the basis of a confidentiality agreement with the lessee. The omission is not considered material.

## Accounts submission

17. The financial statements were submitted for audit on 18 June in accordance with a pre-agreed timetable. The audit fieldwork was completed on 27 July and matters arising were discussed with the FETA accountant. Working papers provided to support the financial statements were of a high standard as were the responses to audit queries.

## Presentational and monetary adjustments to the unaudited accounts

18. A small number of presentational changes were required to the annual report and accounts as a result of our review of the disclosures required by the Code and the audited financial statements have been adjusted to reflect this.

## Prior year adjustments

19. There are no prior year adjustments.

## Post balance sheet events

20. In April 2012 FETA reported on further defects in some nuts on the Cable Band Bolt assemblies. There appears to be a high risk that the rate of failure of these nuts will increase with time and as a result, all 944 Cable Band Bolt assemblies require to be replaced at an approximate cost of £5m. The financial statements and notes have not been adjusted for this event.

## Whole of Government Accounts

21. The Whole of Government Accounts (WGA) is the consolidated financial statements for all branches of government in the United Kingdom. FETA submitted its pack to Audit Scotland for audit on 19 July. We have submitted our WGA report by the audit deadline of 5th October 2012.

# Financial position

22. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
23. Auditors consider whether audited bodies have established adequate arrangements and examine:
  - financial performance in the period under audit
  - compliance with any statutory financial requirements and financial targets
  - ability to meet known or contingent, statutory and other financial obligations
  - responses to developments which may have an impact on the financial position
  - financial plans for future periods.
24. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

25. The outturn for the year is included in the Movement in Reserves Statement and shows an increase in the Total Usable Reserves of £0.857 million (2010/11: increase of £0.693 million). Grant received for 2011/12 was £16.904 million (Grant in Aid for 2010/11 was £15.244 million). Expenditure against this grant was £16.047 million and the increase in Total Usable Reserves is attributable to transfers in from revenue of £0.314 million and capital of £0.543 million.
26. The revenue underspend is mainly due to employer and other recurring costs coming under budget.
27. Increased capital spend on the works programme, payment of compensation events on the Viaducts Bearing Replacement project and on various other capital projects was covered by increased advances of Scottish Government grant.
28. The total usable reserves at the beginning of the year amounted to £6.152 million (2010/11: £5.459 million) which, taken with the underspend for the year results in Total Usable Reserves carried forward of £7.009 million.

## Capital investment and performance 2011/12

29. The capital outturn for FETA in 2011/12 was £11.261 million against a capital expenditure budget of £10.859 million. Total capital grant received in the year was £11.804 million, which was an increase over the budgeted amount and resulted in a net transfer to reserves of £0.543 million.
30. Over the last two years, the Scottish Government has advanced £1.4 million of Grant from 2011/12 into 2010/11 and advanced £3.204 million of capital grant from 2012 - 2015 to

2011/12. The effect of advanced grant funding has been that FETA instead of having to draw down reserves for increased capital expenditure has increased its net reserves. However, FETA is planning to use its reserves to meet future capital expenditure.

## Treasury management

31. The Treasury Section of the City of Edinburgh Council undertakes the investment of FETA's surplus funds on the authority's behalf. All of FETA's surplus funds, along with those of the City of Edinburgh Council, Lothian Pension Fund and other associated organisations, are currently invested together under CEC's Treasury Cash Fund pooled investment arrangements. The council operates to the CIPFA Code of Practice on Treasury Management in the Public Sector.
32. The Cash Fund's Investment Strategy continues to be based around security of the investments. There is still a large proportion of the fund with more secure assets such as Local Authorities and Government Guaranteed instruments. A large proportion of deposits with banks are on call or near call with the exception of some short fixed deposits.

## Financial planning to support priority setting and cost reductions

33. In November 2011 the Scottish Government announced that FETA will be replaced by a single external contractor who will manage and maintain both the Forth Replacement Crossing and the Forth Road Bridge. Although timing is yet to be confirmed, the dissolution of FETA is likely to take place in approximately three years time. The Forth Road Bridge revenue and capital budgets for the next three years have been formulated to take account of this governance change.
34. The budget for capital expenditure was cut significantly and a report highlighting the impact on the Capital Plan was noted by Board Members. The report also prioritised capital projects for FETA over the next three years. Officials of FETA and Transport Scotland will meet regularly to review the capital plan. This will include a review of budget estimates, the profile of expenditure, risks and the level of reserves throughout the next three years.
35. It is expected that FETA's reserves will be utilised to meet planned capital funding shortfalls over the next three years. However, a risk exists around future bridge strengthening and improvement works yet to be determined. There are no anticipated shortfalls for revenue expenditure.

## Asset management

36. The proposed three year capital grant for FETA has been reduced by 65% and, as a result, a major review of FETA's Capital Plan over this period was carried out. This review has confirmed that FETA's current contractual obligations can be met and has also identified the balance of funding available to carry out the non-committed capital schemes.

37. Using risk analysis techniques, a priority ranking of the non-committed schemes has been carried out to determine which schemes can be taken forward within the available budget. Several schemes have had to be deferred and others reduced in scope. However, key risks remain with the condition of the Anchorages and the Main Cable and these are being investigated. When the results from these investigations are known then the level of risk can be fully evaluated and the impact assessed on FETA's Capital Plan.

### Workforce reduction

38. The Chief Engineer and Bridgemaster updated members on the Scottish Government's announcement that a competitive tender exercise will be held for a single contractor to manage and maintain both the Forth Replacement Crossing and the Forth Road Bridge. All FETA staff will transfer to the winning bidder and, in discussion, it was noted that the Minister had given an assurance to all FETA staff that their jobs would be protected by TUPE. Currently, savings on staff costs have arisen because of vacant posts in Administration being removed.

## Outlook

### 2012/13 budget & forecasts beyond 2012/13

39. The impact of the Scottish Government's decisions on the dissolution of FETA and substantially reducing FETA's capital grant has been taken into account in its 2012/13 revenue and capital budgets onwards.
40. It is expected that FETA's reserves will be utilised to meet planned capital funding shortfalls over the next three years. However, risks exist around future bridge strengthening and improvement works yet to be determined. (See paragraphs 33-37)

### Significant financial risks

41. As with 2010/11, the economic recession has impacted heavily on public sector expenditure and constraints on expenditure have continued to increase significantly with a 65% reduction in FETA's three year capital grant. FETA has also had to face major change with the dissolution of FETA to be replaced by one contractor to manage and maintain both the Forth Replacement Crossing and the Forth Road Bridge in its new capacity as a dedicated public transport corridor.

**Key Risk Area, Action 1**

# Governance and accountability

42. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
43. Through its chief executive or accountable officer, each body 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 these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
44. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
  - corporate governance and systems of internal control
  - the prevention and detection of fraud and irregularity
  - standards of conduct and arrangements for the prevention and detection of corruption.
45. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

46. FETA is comprised of 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 will write annually to each member reminding them that the register should include any interests to be registered in respect of the authority.
47. 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 2011, the position of Convener of the authority is held by Fife Council and the Vice-Convener by the City of Edinburgh Council.
48. FETA'S Standing Orders and Scheme of Delegation were revised and adopted as of the 27 February 2012. The intention is to include the policies, procedures and guidelines in the new Operations Manual as part of the Quality Management System which is currently being developed. A target date for full implementation by April 2013 is proposed. FETA has also set

an objective to modernise pay and harmonise employees' conditions of service. A target has been set to try to achieve change by April 2013.

49. The Business Improvement Project was approved in June 2009 with work commencing in September 2009. FETA continues to work towards ISO 9001: 2008 and Investors in People accreditation. Through the Forth Road Bridge Project Improvement Programme Plan FETA is focusing on its Visions, Aims and Values and is realigning its engineering and operational activities towards achieving its objectives. The timescale for the plan has increased from two to four years, with completion in the summer of 2013.

#### **Key Risk Area, Action 2**

50. The section 95 officer K Kelly of City of Edinburgh Council has been replaced H Dunn of City of Edinburgh Council, due to employment opportunities within the council. This change has not presented any problems in the completion of the audit.
51. Given the proposed changes in FETA's status being replaced by one contractor to manage and maintain both the Forth Replacement Crossing and the Forth Road Bridge in its new capacity as a dedicated public transport corridor, it is important that members continue to recognise and oversee the importance of effective governance at this time of change.

#### **Key Risk Area, Action 3**

### **Internal Audit**

52. Internal audit holds a key role in the authority's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. FETA's internal audit service is provided by the City of Edinburgh Council's. Our review of internal audit was conducted as part of the audit of the City of Edinburgh Council. The review found that the work is conducted in accordance with CIPFA's Code of Practice for Internal Audit in Local Government, that the audit plan was sufficient and that all work on which we planned to place reliance was completed and the relevant assurances obtained. We also reviewed aspects of the internal audit services' work specific to FETA.

### **Internal control**

53. FETA's financial transactions are processed through the City of Edinburgh Council's financial systems. It is therefore the responsibility of the council's management to maintain adequate financial systems and associated internal controls. The City of Edinburgh Council's auditor evaluates significant financial systems and associated internal controls for the purpose of giving an opinion on the financial statements and as part of the review of the adequacy of governance arrangements.
54. Our review of these systems was conducted as part of the audit of City of Edinburgh Council, supplemented by specific audit work on the authority's financial statements. Overall there are no material issues or concerns in relation to the main financial systems.

55. An Annual Governance Statement was included within the financial statements. FETA has put in place arrangements, detailed in the Local Code, for monitoring each element of the framework and providing evidence of compliance. The Chief Engineer and Bridgemaster reviews the effectiveness of the Local Code and reports annually to FETA's Board.
56. The review of the effectiveness of FETA's governance framework, including the system of internal financial control, is informed by the Chief Engineer and Bridgemaster's Certificate of Assurance on internal control, the work of managers, and internal and external auditors.
57. The Treasurer has provided the Chief Executive with a statement on the adequacy and effectiveness of the authority's internal financial control system for the year ended 31st March 2012. It is the Treasurer's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of FETA's internal control system. In accordance with good practice, the statement was approved by the Board in June 2012. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.
58. The Treasurer's opinion on the effectiveness of the FETA's Governance and System of Internal Financial Control is provided within the Annual Governance Statement on pages 40-41. The Treasurer's opinion is informed by the work of Internal Audit, Managers in FETA and External Audit.

### Service level agreements

59. A range of support functions are provided by the City of Edinburgh Council to FETA. Currently, the arrangements under which these services are provided are not subject to formal Service Level Agreements (with the exception of the management of the authority's investments in the City of Edinburgh Council's Loans Fund). Both FETA and the service provider would benefit from formal documentation of their roles and responsibilities and the standards of service to be provided.

**Key Risk Area, Action 4**

### Prevention/detection of fraud, bribery and corruption

60. FETA has arrangements in place to prevent and detect fraud, corruption and inappropriate conduct. These arrangements include standing orders and financial regulations, a whistle blowing policy, an anti-fraud and corruption policy and codes of conduct for elected members and staff. We are pleased to note that the Board continues to have appropriate arrangements in place to minimise the risk of fraud and corruption. Each year, Audit Scotland gathers information on such cases of fraud identified by audited bodies. In 2011/12 there were no such cases reported for the authority.

### Outlook

61. Currently, City of Edinburgh Council's interim Chief Internal Auditor is from PricewaterhouseCoopers and a review of the Internal Audit Service is being undertaken. Any

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change in FETA's Internal Audit arrangements requires to be monitored; however, I would not envisage any material impact on the service FETA receives.

62. FETA continues to face significant challenges including:
- the maintenance of bridge operations in the face of key risks arising from the unpredictability of maintenance requirements, difficulties in estimating contract costs, continuing inspection and monitoring of the main cables, and the need to ensure the long term structural integrity of the bridge anchorages; and
  - the decision to build a second Forth crossing will have a significant impact on the operations of the existing bridge with a reduction in the volume of traffic, the resulting need to review maintenance priorities and a possible further review of funding.

## Final Remarks

63. The members of the Forth Estuary Transport Authority are invited to note this report. We would be pleased to provide any additional information that members may require.
64. The co-operation and assistance given to us by officers of FETA and the City of Edinburgh Council is gratefully acknowledged.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Board
Annual Audit Plan	15 February 2012	27 February 2012
Report on financial statements to those charged with governance	24 August 2012	3 September 2012
Audit opinion on the 2011/12 financial statements	24 August 2012	3 September 2012
Audit opinion on the 2011/12 Whole of Government accounts consolidation pack	3 October 2012	N/A
Report to Members on the 2011/12 audit	16 October 2012	26 October 2012

# Appendix B: action plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	41	<p><b>Significant Financial Risks</b></p> <p>Constraints on expenditure have continued to increase significantly with a 65% reduction in FETA's three year capital grant.</p> <p><b>Risk</b></p> <p>Funding arrangements continue to provide management with challenges.</p>	<p>The revenue and capital budgets of the Authority will continue to be reported throughout 2012/13 with a two year budget prepared for approval in February 2013. This will include a full review of reserves and recommendations. The Chief Engineer and Bridgemaster will also meet regularly with Transport Scotland to discuss the Capital Plan and any funding issues.</p>	Chief Engineer and Bridgemaster and Treasurer	March 2013
2	49	<p><b>Business Improvement Project</b></p> <p>The timescale for the implementation of the Business Improvement Project has increased from two to three years, to three to four years at an estimated total cost of £311,000.</p> <p><b>Risk</b></p> <p>Slippage in the implementation of the Business Improvement Project may result in additional costs.</p>	<p>Any additional costs will be closely monitored and reported.</p>	Chief Engineer and Bridgemaster	April 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	51	<p><b>FETA's Status</b></p> <p>During the proposed dissolution of FETA it is important that members continue to recognise the importance of effective governance at this time of change.</p> <p><b>Risk</b></p> <p>FETA's members may not be fully focused on governance matters as the body's status is changed.</p>	<p>FETA's Members will be kept regularly informed via Board papers prepared by the Chief Engineer &amp; Bridgemaster of the programme for change. However, there will be no change to the organisation's status or governance up until the point of dissolution.</p>	<p>Chief Engineer and Bridgemaster</p>	<p>June 2015</p>
4	59	<p><b>Service Level Agreements</b></p> <p>A CEC service level agreement is currently in draft for comment. This should be formalised and approved by the Chief Engineer &amp; Bridgemaster as soon as possible.</p> <p><b>Risk</b></p> <p>FETA cannot fully monitor the performance of services provided by the City of Edinburgh Council.</p>	<p>A draft SLA was sent to the Chief Engineer &amp; Bridgemaster and it is in the process of being reviewed by both parties. The timescale for agreement is prior to March 2013.</p>	<p>Chief Engineer and Bridgemaster and Treasurer</p>	<p>March 2013</p>