

Forth Estuary Transport Authority

Annual report on the 2012/13 audit



Prepared for Members of Forth Estuary Transport Authority and the Controller of Audit
October 2013

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Key Messages

2012/13 audit findings

We have audited the 2012/13 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 2012/13 audit and the outlook for the period ahead.

Key outcomes from the 2012/13 audit

We have given an unqualified opinion that the financial statements give a true and fair view of the state of the affairs of the Forth Estuary Transport Authority as at 31 March 2013 and of its income and expenditure for the year. Overall we found the governance arrangements of FETA during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- 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 2012/13 audit
- many aspects of a sound corporate governance framework are in place, including arrangements for the prevention and detection of fraud
- Internal Audit concluded that reasonable assurance could be placed upon the adequacy and effectiveness of the authority's internal control systems
- Total Usable Reserves have decreased to £2.652 million mainly due to meeting planned capital expenditure programmes.

Outlook

Key issues for FETA moving forward include:

- on dissolution FETA's assets will transfer to the Scottish Government and staff to the appointed contractor who will manage and maintain the Forth Road Bridge
- significantly reduced capital grant has led to greater capital project prioritisation and the deferment of some projects beyond 2015. This may impact on future project costs
- delivering a consistently high level of services in the face of uncertainty about the future of FETA and a difficult economic climate with increasing financial constraints.

The financial position of FETA appears stable on the basis of its current financial reporting and budget projections. However the financial position going forward is likely to become more challenging, and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

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

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of The Forth Estuary Transport Authority (FETA). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the 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 prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of FETA and no responsibility to any third party is accepted.
3. [Appendix A](#) 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. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is also addressed to the Controller of Audit and will be published on our website after consideration by the Board.

Financial statements

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Board on the 25 February 2013 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. 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 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

Audit opinion & accounting issues

7. We have given an unqualified opinion that the financial statements give a true and fair view of the state of the affairs of the Forth Estuary Transport Authority as at 31 March 2013 and of its income and expenditure for the year. The audit opinion was formally issued and signed on 24 September 2013.
8. We received the unaudited financial statements on 31 May 2013 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 20 September 2013. FETA is required to follow the 2012/13 Code of practice on local authority accounting, we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

Going concern

9. The Scottish Government has taken the decision to dissolve FETA and transfer the Forth Road Bridge assets to their ownership. A contractor will be appointed through competitive tender to manage them and the adjoining road network. FETA's staff will also be transferred to the contractor. Dissolution is expected to take place in June 2015. As at 31 March 2013 FETA has a net deficit on provision of services of £3.729 million (£5.282 million net surplus as at 31 March 2012). Current 'Total Useable Reserves' were £2.652 million (£7.009 million as at 31 March 2012) these having decreased by £4.357 million. 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.

Significant findings (ISA260)

10. 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.

11. **Operating Lease Disclosure** - 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.

Whole of Government Accounts

12. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. FETA submitted the consolidated pack to support its 2012/13 WGA return to the Scottish Government prior to the deadline of 7 August 2013. Due to the threshold limit of £300 million for gross assets, liabilities, income and expenditure there is no requirement to subject the WGA return to an audit.

Financial position

2012/13 Outturn

13. The main financial objective for FETA is to ensure that the financial outturn for the year is within the approved expenditure for revenue and capital.
14. FETA operated within the approved revenue and capital budgets for 2012/13 as detailed in Table 1 below.

Table 1: Budget

	Final Budget (£'000)	Actual Outturn (£'000)	Variance (£'000)
Revenue:			
Expenditure	4,993	4,853	(140)
Grant	(4,993)	(5,100)	(107)
(Under)/Overspend	0	(247)	(247)
Capital:			
Expenditure	8,528	10,884	2,356
Grant	(8,528)	(6,280)	2,248
(Under)/Overspend	0	4,604	4,604

Source: FETA 2012/13 Audited Accounts

15. FETA has spent £0.247 million less on revenue expenditure than the revenue grant in 2012/13. The revenue underspend is mainly due to maintenance and operations costs coming in under budget.
16. FETA has spent £4.6 million more on capital expenditure than the capital grant in 2012/13. A £2.248 million drawdown on reserves was undertaken to fund planned and approved capital expenditure of £8.528 million for 2012/13 which exceeded the capital grant for 2012/13 of £6.280 million. The balance of £2,356 million was also funded from reserves. The main capital overspend relates to the replacement of cable band bolts. This has resulted in £2.6 million of additional expenditure for 2012/13 however the original budget was only for remedial work, not wholesale replacement.
17. Grant received for 2012/13 was £11,380 million (£16,904 million, 2011/12). Expenditure against this grant was £15.737 million (£16.047 million, 2011/12).

2012/13 Financial position

Table 2 Usable reserves

Description	31 March 2012	31 March 2013
	£ million	£ million
General Fund	6.152	2.652
Capital Grants Unapplied	0.857	0
Total Usable Reserves	7.009	2.652

18. The outturn for the year is included in the Movement in Reserves Statement and shows a decrease in the Total Usable Reserves of £4.357 million (2011/12: increase of £0.857 million). The total usable reserves at the beginning of the year amounted to £7.009 million (2011/12: £6.152 million) which, when added to the overspend for the year results in Total Usable Reserves carried forward of £2.652 million.
19. 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.

Financial planning

20. In November 2011 the Scottish Government announced that FETA will be replaced by a single external contractor who will manage and maintain the Queensferry Crossing, the Forth Road Bridge and adjoining road network. The dissolution of FETA is expected to take place in June 2015. The Forth Road Bridge revenue and capital budgets have been formulated to take account of this organisational change.

21. The budget for capital expenditure was reduced significantly and a report highlighting the impact on the Capital Plan for 2012-15 was noted by Board Members in February 2012. The report also prioritised capital projects for FETA till dissolution. Officials from FETA and Transport Scotland meet regularly to review the capital plan. These discussions will include a review of budget estimates, the profile of expenditure, risks and the level of reserves over the next two years.
22. The budget approved by FETA in February 2013 was £11.752 million, forecast expenditure to be reported to the Board in October is estimated to be £11.089 million, which would result in an under spend of £0.663 million. This forecast under spend consists of a £0.197 million forecast over spend on Revenue, off-set by a forecast under spend on Capital of £0.860 million.
23. The overall net under spend of £0.663 million will be off-set by a planned reduction in reserves of £1.052 million which was approved in February 2013 as well as a £1 million reduction in Capital Grant for 2013/14 at the request of the Scottish Government. This grant income will now be paid 2014/15. The net drawdown from the General Fund Reserve for 2013/14 is therefore estimated to be £1.389 million.
24. Closing reserves for 2013/14 and 2014/15 are forecast to be £1.263 million and £0.460 million. As FETA is due to be dissolved in June 2015, the level of funding for the final three months of existence in 2015/16 is yet to be confirmed by Transport Scotland.

Significant financial risks

25. As with 2011/12, the economic downturn has impacted heavily on public sector expenditure and constraints on spending have continued to increase significantly with FETA experiencing a 65% reduction in its three year capital grant to 2014/15. FETA is facing a major change with the dissolution of the body, to be replaced by one contractor to manage and maintain the Queensferry Crossing, the existing Forth Road Bridge and the adjoining road network in its new capacity as a dedicated public transport corridor.

Key Risk Area, Action 1

Corporate governance and systems of internal control

Overall governance arrangements

26. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found FETA had satisfactory governance arrangements in place.

Processes and committees

27. 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 writes annually to each member reminding them that the register should include any interests to be registered in respect of the authority.

28. 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.

Accounting and internal control systems

29. 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.
30. 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.
31. Internal audit is an important element of the FETA governance structure. Our review established that the work of internal audit is of a good quality allowing us to place reliance on a number of areas including payroll controls. This not only avoided duplication of effort but also enabled us to focus on other key risk areas.

Change in FETA's Status

32. 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 oversee the importance of effective governance at this time of change.

Key Risk Area, Action 2

Service level agreement

33. A range of support functions are provided by the City of Edinburgh Council to FETA and the timescale for completion of the relevant Service Level Agreement was by March 2013. Currently, the arrangements under which these services are provided are not subject to a formal Service Level Agreement (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 during the remaining period of operation.

Key Risk Area, Action 3

Prevention and detection of fraud and irregularity

34. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion FETA's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

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

35. 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. No issues have been identified by us for inclusion in this report.

Acknowledgements

36. We would like to express our thanks to the staff of FETA and City of Edinburgh Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	25	<p>Significant Financial Risks</p> <p>Constraints on expenditure have continued with FETA experiencing a 65% reduction in its three year capital grant.</p> <p>Risk</p> <p>Funding arrangements continue to present operational challenges for FETA.</p>	<p>The revenue and capital budgets of the Authority will continue to be reported throughout 2013/14 with a one year budget prepared for approval in February 2014. A budget for the final three months of the Authority 2015/16 will be presented in February 2015. Both these reports 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 2014
3	32	<p>FETA's Status</p> <p>During the process of FETA's dissolution members need to continue to recognise the importance of effective governance at this time of change.</p> <p>Risk</p> <p>FETA's members may not</p>	<p>FETA's Members will be kept regularly informed via Board papers prepared by the Chief Engineer & Bridgemaster of the programme for change. However, there will be no change to the</p>	Chief Engineer and Bridgemaster and Treasurer	June 2015

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		be fully focused on governance matters as the body's status is changed.	organisation's status or governance up until the point of dissolution.		
3	33	<p>Service Level Agreements A CEC service level agreement is currently in draft. This should have been formalised and approved before 31 March 2013 by the Chief Engineer & Bridgemaster.</p> <p>Risk FETA cannot fully monitor the performance of services provided by the City of Edinburgh Council.</p>	There is an issue regarding the City of Edinburgh Council's liability. This matter is being addressed by City of Edinburgh's legal advisers and efforts will continue to try to find a resolution.	Chief Engineer and Bridgemaster and Treasurer	Ongoing