

Forth Estuary Transport Authority

Report to the Members and Controller of Audit
on the 2007/08 Audit



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Introduction

1. This report summarises the findings from our 2007/08 audit of the Forth Estuary Transport Authority (FETA). The scope of the audit is set out in our Annual Audit Plan, which was submitted to the authority in April 2008.
2. The financial statements of FETA are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the authority to prepare financial statements that present fairly its financial position and the income and expenditure for the year.
3. The members and officers of the authority are responsible for the management and governance of the organisation. As external auditors we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed
 - the authority's system of recording and processing transactions provides an adequate basis for the preparation of financial statements and the effective management of assets and interests
 - the authority has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability
 - the systems of internal financial control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption
 - the authority has proper arrangements for securing best value in its use of resources.



Financial statements

Introduction

4. In this section we summarise key outcomes from our audit of the authority's financial statements for 2007/08. We also summarise key aspects of the authority's reported financial position and performance to 31 March 2008.
5. We audit the financial statements and give an opinion on:
 - whether they present fairly the financial position of the authority and its expenditure and income for the year
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
6. We also review the statement on the system of internal financial control by considering the adequacy of the process put in place by the authority to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the authority.

Overall conclusion

7. We have given an **unqualified** opinion on the financial statements of the Forth Estuary Transport Authority for 2007/08.
8. The unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. The authority is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the SORP). Some amendments were made to the figures included in the unaudited accounts made available for public inspection. In particular, adjustment was required to reflect the diminution in the value of assets relating to the toll collection function following the abolition of tolls. Final accounts preparation processes and working papers merit some review to ensure there is an adequate package available for audit.
9. Audited accounts were finalised prior to the target date of 30 September 2008 and are now available for presentation to the authority and publication.



Financial position

10. The surplus or deficit on the income and expenditure account measures the authority's financial results for the year, recognising the resources that have been consumed and generated in accordance with Generally Accepted Accounting Principles. The authority achieved net operating income in 2007/08 of £212,000 before making a contribution to the capital accounts of £12.302 million resulting in an overall income and expenditure deficit of £12.090 million.
11. The movement on the general fund balance is an important aspect of the authority's stewardship as the main budget reference point, the main differences being:
 - capital investment is accounted for as it is financed rather than when fixed assets are consumed
 - retirement benefits are charged for amounts payable to pension funds and pensioners rather than as future benefits are earned.
12. After adjusting for these items, the authority incurred a deficit of £8.568 million compared with a planned deficit of £13.433 million. When this deficit is deducted from the amount brought forward from 2006/07 the authority has a general fund balance of £4.486 million. In his foreword to the accounts the Treasurer sets out the main factors contributing to the budget underspend in the year. The main factors impacting on the year end position were an underspend on supplies and services and an underspend on capital projects due to the deferral of some projects. Income was also reduced due to the abolition of tolls from 11 February 2008.

Accounting practice

Impairment of fixed assets

13. The main amendment to the financial statements was required to recognise the impairment of assets used in the collection of tolls. The SORP identifies an impairment as a reduction in the value of a fixed asset below its carrying amount in the balance sheet. A review for impairment of a fixed asset is required to be undertaken when events or circumstances indicate that the carrying amount of the fixed asset may not be recoverable. Where the value of a fixed asset is permanently reduced below its carrying value that amount is required to be written off to the income and expenditure account. An adjustment of £606,000 was made to reflect the impairment of assets previously used in the collection of tolls but rendered obsolete by their abolition.

Action plan, no 1



Pension costs

14. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying for them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.
15. The authority's estimated pension liabilities at 31 March 2008 exceeded its share of the assets in the Lothian Pension Fund by £0.950 million, reducing from £1.874 million in the previous year. Budgeted contributions are to be 375% of employee contributions in 2007/08 and 405% in 2008/09, reflecting the actuarial valuation as at 31 March 2005. The next full actuarial valuation will assess the position as at 31 March 2008. Recent changes to the Local Government Pension Scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners.

Legality

16. Each year we request written confirmation from the Treasurer that the authority's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in the audit programmes and checklists. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Chief Engineer and Bridgmaster and Senior Management Team, the financial transactions of the authority were in accordance with the relevant legislation and regulations governing its activities.
17. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Looking ahead

18. In the coming years the authority may face significant financial challenges including:
 - adapting to the direct grant funding regime which has replaced toll income and operating in accordance with the grant aid made available by the Scottish Government
 - the ongoing maintenance and health and safety requirements of the bridge and in particular, the need to halt corrosion in the main cables if further loss of strength and potential restriction on heavy goods vehicles is to be avoided
 - difficulties in predicting future maintenance requirements and estimating contract costs



- specific cost pressures which may arise from the need to fund pension costs.

19. These areas and the controls put in place by management to address the issue are likely to be subject to on-going review during the 2008/09 audit.



Governance

Introduction

20. In this section we comment on key aspects of the authority's governance arrangements during 2007/08.

Overview of arrangements in 2007/08

21. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. The authority has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
22. A Statement on the System of Internal Financial Control is included within the annual financial statements and highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the authority's internal financial control system. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.
23. The authority formally adopted a local code of governance in June 2006 based on best practice identified jointly by CIPFA and SOLACE. A Statement of Assurance on Corporate Governance is included within the annual financial statements and has been signed by the Convenor, Chief Executive and Chief Engineer and Bridgemaster.
24. The Statement on the System of Internal Financial Control and the Statement of Assurance on Corporate Governance are supported by the Chief Internal Auditor's Annual Report and Statement of Assurance and Annual Review of the Local Code of Corporate Governance respectively. These documents were not considered by the authority until 10 October 2008.
25. The Internal Audit Annual Report, the Statement of Assurance and the Annual Review of the Local Code of Corporate Governance are key elements of the process to ensure the adequacy and effectiveness of internal financial controls and are an important component of the Statement on the System of Internal Financial Control. Good practice would be for the authority to consider these documents prior to the submission of the draft financial statements for audit to permit effective scrutiny.

Action plan, no 2

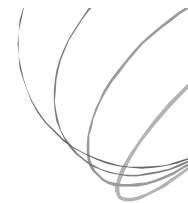


Audit committee and internal audit

26. Effective scrutiny is central to good governance, with a significant role for authority members to scrutinise performance and hold management to account. Due to the size of the organisation, the authority has not established an audit committee. However, the authority considers reports by internal and external audit, and the Chief internal Auditor provides an annual report, including a statement on the adequacy and effectiveness of the internal control system.
27. Internal audit plays 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. An internal audit service is provided to the authority by the City of Edinburgh Council's Chief Internal Auditor. From our review of the service, we found that the work is conducted in accordance with CIPFA's Code of Practice for Internal Audit in Local Government and that all work on which we planned to place reliance was completed and the relevant assurances obtained.
28. Risk management has continued to feature in the Internal Audit report. The Chief Internal Auditor notes that the authority has commissioned consultants to develop risk management across the authority.

Systems of internal control

29. The authority'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 auditor evaluates significant financial systems and associated internal controls both for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.
30. 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 of concern in relation to the operation of the main financial systems.



Prevention and detection of fraud and irregularities

31. The authority has arrangements in place to prevent and detect fraud, inappropriate conduct and corruption. 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 authority continues to have appropriate arrangements in place to minimise the risk of fraud and corruption.

Looking ahead

32. In the coming years, the authority may 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, new guidelines for the inspection and maintenance of the main cables, and the need to ensure the long term structural integrity of the bridge anchorages
 - ensuring that appropriate funding is in place to support day to day operations and to provide for the maintenance of the bridge in accordance with guidelines and legislative requirements
 - being able to respond flexibly and appropriately to recent and anticipated future Scottish Government decisions arising from the abolition of tolls and a new Forth crossing.
33. These areas and the controls put in place by management to address the issue are likely to be subject to ongoing audit review during the 2008/09 audit.



Final Remarks

34. 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.
35. The co-operation and assistance given to us by officers of the authority and City of Edinburgh Council is gratefully acknowledged.

Audit Scotland
October 2007



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.	13	Impairment Review The authority does not conduct an annual review of assets to identify whether events or circumstances have led to a permanent diminution in the carrying value. <i>Risk: asset values in the Balance Sheet may be misstated leading to incorrect charges to the Income and Expenditure account.</i>	Carry out an annual review of the main fixed assets to determine whether or not there has been a permanent diminution in the carrying value.	Chief Engineer/ Bridgemaster	September 2009
2.	25	Internal Audit Reports The Annual Reports and Statement of Assurance provided by the Chief Internal Auditor should be reviewed by the authority prior to the submission of the draft financial statements for audit. <i>Risk: members are not permitted adequate opportunity to scrutinise the Statement on the System of Internal Financial Control.</i>	Will consider this in conjunction with Committee Services.	Chief Internal Auditor	December 2008