

# Forth Estuary Transport Authority

Report to Members and the Controller of Audit  
on the 2009/10 Audit

October 2010



 AUDIT SCOTLAND

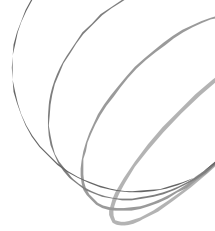


# Forth Estuary Transport Authority

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# Key Messages

We have audited the 2009/10 financial statements and looked at aspects of performance management and governance, including the key financial risks faced by the Forth Estuary Transport Authority (the authority). This report sets out our main findings, summarising key outcomes from the 2009/10 audit and the outlook for the period ahead.

## Key outcomes from the 2009/10 audit

Overall we found the financial stewardship of the authority 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
- many aspects of a sound corporate governance framework are in place. These have been strengthened by the adoption of a local code of corporate governance
- Internal Audit concluded that reasonable assurance could be placed upon the adequacy and effectiveness of the authority's internal control system.

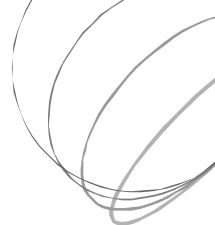
## Outlook

Key issues for the authority in the future include:

- delivering continuous improvement in service delivery and use of resources in the face of increasing financial constraints
- continuing to effectively manage the day to day operation of the bridge in the face of uncertainty over future funding levels and the future role of the authority in relation to the Forth Replacement Crossing.

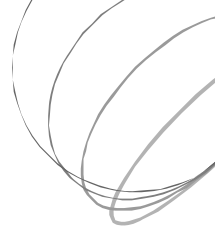
Key issues for the attention of members are outlined in an Action Plan included at appendix A of this report.

**October 2010**



# Introduction

1. This report summarises the findings from our 2009/10 audit of the authority. The scope of the audit is set out in our Annual Audit Plan which was submitted to the authority in April 2010.
2. The financial statements of the authority are the means by which it accounts for the stewardship of the resources made available and its financial performance in the use of those resources. It is the responsibility of the authority to prepare financial statements that give a true and fair view of its financial position and of its 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 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

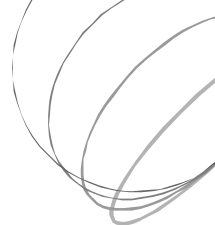
4. In this section we summarise the key outcomes from our audit of the authority's financial statements for 2009/10. We also summarise key aspects of the authority's reported financial position and performance to 31 March 2010.
5. We audit the financial statements and give an opinion on:
  - whether they give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of the authority as at 31 March 2010 and its income and expenditure for the year then ended
  - whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
6. We also review the Annual Governance Statement by considering the adequacy of the process put in place by the authority to obtain assurances on the 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 authority for 2009/10.
8. We were satisfied with disclosures made in the Annual Governance Statement and the adequacy of the process put in place by the authority to obtain assurances on the systems of internal control.
9. The authority's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Working papers provided to support the financial statements were of a high standard as were the responses to audit queries.
10. The accounts were certified and available for publication on 02 August 2010, well before the target date of 30 September 2010, and were presented to members at the 27 August 2010 Board Meeting. The financial statements are an essential means by which the authority accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

## Accounting issues

11. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice* (the SORP). No major changes were introduced by the 2009 SORP and we were satisfied that the authority prepared the accounts in accordance with the 2009 SORP.



12. The authority has adjusted the financial statements to reflect audit findings. 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 accounting issues which arose during the course of our audit are summarised below.
13. A review of fixed assets and potential intangible assets should be carried out to ensure that assets are properly classified for the introduction of IFRS. Similarly, there are potential finance leases in relation to a building lease and rental income from the Forth Road Bridge duct space and we recommend that this area is considered again to ensure compliance with IFRS in 2010/11.

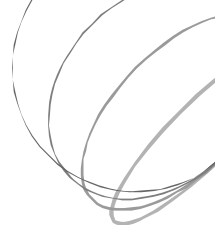
### **Key Risk Area, Action 1**

## **Financial Position**

14. The surplus or deficit on the income and expenditure account measures the authority's financial result for the year, recognising the resources that have been consumed and generated in accordance with Generally Accepted Accounting Principles. The authority's net cost of service in 2009/10 was £9.8 million (2008/09: £12.6 million). After revenue grant-in-aid from the Scottish Government the authority showed a deficit of £4.3 million (2008/09: £2.3 million).
15. The movement on the general fund balance is also 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 as amounts become payable to pension funds and pensioners rather than as future benefits are earned.
16. After adjusting for these items the authority returned a general fund deficit of £1.4 million for the year (2008/09: £2.4 million surplus) reducing the general fund balance to £5.5 million (2008/09: £6.9 million).

## **Legality**

17. Through our planned audit work we consider the legality of the authority's financial transactions. In addition the Treasurer confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the authority's management team, the financial transactions of the authority were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.



## Outlook

### IFRS adoption

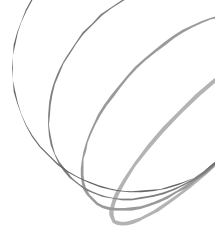
18. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth. We are pleased to note that the authority undertook work in preparation for the introduction of IFRS in 2009/10 and a restated balance sheet for 2008/09 has been provided. Shadow accounts for 2009/10 will also be required.

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

19. The economic recession continues to impact significantly on public sector expenditure and constraints on expenditure are likely to increase significantly as the Government seeks to reduce its debt burden. The authority will face some difficult decisions in the coming years to ensure that it manages its budget in the light of increasing financial pressures and the impact of age and traffic volumes on the bridge.
20. Funding arrangements continue to provide management with challenges. Funding for 2011-2014 has still to be agreed with the Scottish Government.

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





# Governance and accountability

## Introduction

21. In this section we comment on key aspects of the authority's governance arrangements during 2009/10. We also provide an outlook on future governance issues, including our views on potential risks.

## Overview of arrangements in 2009/10

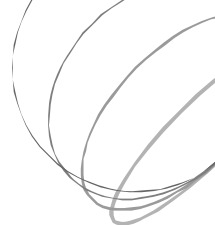
22. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. The authority has a responsibility to put in place arrangements for the conduct of the affairs of the organisation, ensure the legality of activities and transactions, and to monitor the adequacy and effectiveness of those arrangements.

## Structure and policies

23. Corporate governance is about direction and control of organisations. In June 2010 the authority's internal auditor recommended that the Local Code of Corporate Governance as presented to the authority in June 2006 be updated and presented to the authority for approval. This will reflect the revised Corporate Governance Framework which is now in place and which was produced in line with the revised guidance published by CIPFA/SOLACE in 2007/08. We would support that recommendation.

## Roles and relationships

24. The authority 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. We noted in our 2008/09 Report to Members that it would be appropriate for the authority to maintain its own register of interests where members should record interests of relevance to their roles in the authority and which may vary from those that require disclosure in their parent council's register of interests. We are pleased to note that there is now a link against each member on the FETA website to the register of members' interests on the relevant council website. 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 FETA.



## **Internal Audit**

25. Internal audit provides 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. The authority's internal audit service is provided by the City of Edinburgh Council's Chief Internal Auditor. Our review of internal audit was conducted as part of the audit of 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.

## **Systems of internal control**

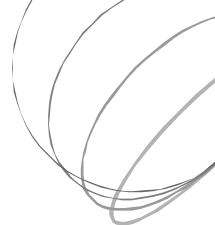
26. The authority's financial transactions are processed through the City of Edinburgh Council's financial systems. It is therefore the responsibility of the council's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated internal controls for the purpose of giving an opinion on the financial statements and as part of the review of the adequacy of governance arrangements.

27. 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 main financial systems.

28. An Annual Governance Statement was included within the financial statements. The authority has put in place arrangements, detailed in the Local Code, for monitoring each element of the framework and providing evidence of compliance. A Principal Officer within the authority has been nominated to review the effectiveness of the Local Code and will report annually to the authority Board.

29. The review of the effectiveness of the authority's governance framework, including the system of internal financial control, is informed by the Chief Engineer & Bridgemaster's Certificate of Assurance on internal control, the work of managers, and internal and external auditors.

30. 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 2010. It is the Treasurer's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the authority's internal control system. In accordance with good practice, the statement was approved by the Board in June 2010. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.



## Service level agreements

31. A range of support functions are provided by the City of Edinburgh Council to the authority. Currently, the arrangements under which these services are provided are not subject to formal Service Level Agreements. Both the authority 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**

## Procurement

32. There is no authorised signatory list in place for procurement. There is a risk that procurement may not be appropriately authorised.

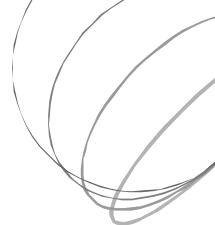
**Key Risk Area, Action 5**

## Prevention and detection of fraud and irregularities

33. The authority 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 2009/10 there were no such cases reported for the authority.

## Outlook

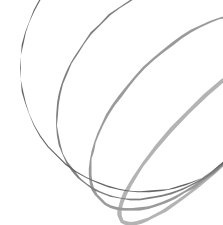
34. The authority continues to face significant challenges including:
- the maintenance of bridge operations in the face of key risks arising from the unpredictability of maintenance requirements, difficulties in estimating contract costs, continuing inspection and monitoring of the main cables, and the need to ensure the long term structural integrity of the bridge anchorages
  - the Comprehensive Spending Review 2010 may impact on the funding available
  - 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.
35. These areas and the controls put in place by management to address the issues are likely to be subject to ongoing audit review in 2010/11.



# Final remarks

36. 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.
37. The co-operation and assistance given to us by officers of the authority and the City of Edinburgh Council is gratefully acknowledged.

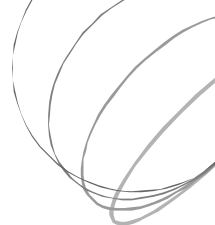
**Audit Scotland  
October 2010**



# 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	<p><b>Asset disclosures</b></p> <p>A review of fixed assets and potential intangible assets should be carried out to ensure that assets are properly classified for the introduction of International Financial Reporting Standards (IFRS). Similarly, there are potential finance leases in relation to a building lease and rental income from the Forth Road Bridge duct space and we recommend that this area is considered again to ensure compliance with IFRS in 2010/11.</p> <p><b>Risk</b> <i>Fixed assets, intangible assets and finance lease disclosures may not be IFRS compliant in 2010/11.</i></p>	As part of the restatement of the 2008/09 Balance Sheet, fixed assets, intangible assets and leases have been examined to ensure compliance with IFRS. These will be re-examined as part of the requirement for the production of shadow IFRS compliant 2010/11 accounts.	Treasurer / Chief Engineer	April 2011
2	18	<p><b>IFRS preparedness</b></p> <p>Local government will move from UK Generally Accepted Accounting Principles to IFRS with effect from 2010/11. Shadow accounts for 2009/10 will be required.</p> <p><b>Risk</b> <i>The necessary management information processes may not be in place to generate IFRS compliant financial statements in 2010/11.</i></p>	Working groups have been formed to aid transition to IFRS compliant accounts.	Treasurer / Chief Engineer	December 2010 and April 2011
3	20	<p><b>Funding</b></p> <p>Funding for 2011-2014 has still to be agreed with the Scottish Government.</p> <p><b>Risk</b> <i>Funding arrangements continue to provide management with challenges.</i></p>	Ongoing discussion with Scottish Government/ Transport Scotland.	Chief Engineer / Treasurer	April 2011



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	31	<p><b>Service Level Agreements</b> Service level agreements between the Forth Estuary Transport Authority and the City of Edinburgh Council should be formalised and presented to the authority for their approval.</p> <p><b>Risk</b> <i>The authority cannot monitor the performance of services provided by the City of Edinburgh Council.</i></p>	Work ongoing Treasurer / Chief Engineer.	Treasurer / Chief Engineer	April 2011
5	32	<p><b>Procurement</b> There is no authorised signatory list in place for procurement.</p> <p><b>Risk</b> <i>There is a risk that procurement may not be appropriately authorised.</i></p>	Detailed procurement procedures are being developed as part of the adoption of an Integrated Quality Management System. A list of authorised signatories will be drawn up by December 2010.	Chief Engineer	March 2012