

# Forth Estuary Transport Authority

Report to Members and the Controller of Audit  
on the 2008/09 Audit

October 2009



 AUDIT SCOTLAND

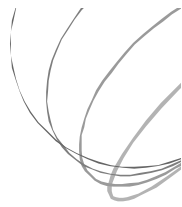


# Forth Estuary Transport Authority

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# Contents

<b>Key Messages</b>	<b>2</b>	<b>Governance and accountability</b>	<b>7</b>
<b>Introduction</b>	<b>3</b>	<b>Final remarks</b>	<b>10</b>
<b>Financial statements</b>	<b>4</b>	<b>Appendix A: Action Plan</b>	<b>11</b>



# Key Messages

We have audited the 2008/09 financial statements and looked at aspects of performance management and governance, including the key financial risks faced by the authority. This report sets out our main findings, summarising key outcomes from the 2008/09 audit and the outlook for the period ahead.

## Key outcomes from the 2008/09 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 Forth Estuary Transport Authority
- final accounts preparation procedures and working papers were generally good
- 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 financial control systems in the year to 31 March 2009.

## Outlook

Key issues for the authority in the future include:

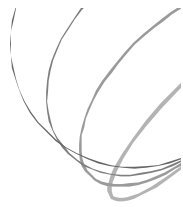
- delivering continuous improvement in service delivery and use of resources in the face of increasing financial constraints
- continuing to effectively manage the day to day operation of the bridge in the face of uncertain future maintenance needs.

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



# Introduction

1. This report summarises the findings from our 2008/09 audit of the Forth Estuary Transport Authority. The scope of the audit is set out in our Annual Audit Plan which was submitted to the authority in February 2009.
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.

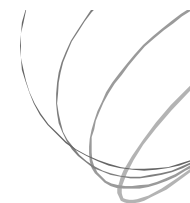


# Financial statements

4. In this section we summarise the key outcomes from our audit of the authority's financial statements for 2008/09. We also summarise key aspects of the authority's reported financial position and performance to 31 March 2009.
5. We audit the financial statements and give an opinion on:
  - whether they give a true and fair view of the financial position of the authority and its income and expenditure 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 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 Forth Estuary Transport Authority for 2008/09.
8. We were satisfied with disclosures made in the statement on the system of internal financial control 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 prior to the deadline of 30 June. Working papers provided to support the financial statements have improved since last year, but there remains scope for further improvement. We will work closely with finance staff from the City of Edinburgh Council to support the improvement process.
10. The accounts were certified by the target date of 30 September 2009 and are now available for presentation to members and publication. 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.

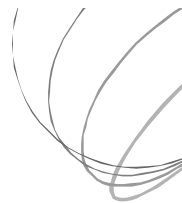


## Accounting issues

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 2008 SORP and we were satisfied that the authority prepared the accounts in accordance with the 2008 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 one accounting issue which arose during the course of our audit are summarised below.
13. **Fixed assets financed by capital grants:** the SORP requires that grants related to capital expenditure should be credited to revenue over the expected useful life of the assets. The amount of the grant or contribution should be credited to a government grants deferred account and written off to the income and expenditure account over the useful life of the asset to match the depreciation of the asset to which it relates. This allows the assets to be carried at gross current value in the balance sheet reflecting their worth. The revised accounting treatment now meets this requirement in respect of the A8000 upgrade.

## 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 operating expenditure in 2008/09 was £9.4 million (2007/08 - £0.2 million). After revenue grant from the Scottish Government the authority showed a deficit of £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 surplus of £2.4 million for the year increasing the general fund balance to £6.9 million (2007/08 - £4.5 million).



## Legality

17. Through our planned audit work we consider the legality of the authority's financial transactions. In addition the Treasurer has 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. But it is important that the authority starts the transition period in 2009/10. A comparative balance sheet as at 1 April 2009 will be required.

### Key Risk Area, Action 1

19. The economic recession has had a major impact on the finances of local authorities and current projections are for the constraints on public sector expenditure 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.



# Governance and accountability

## Introduction

20. In this section we comment on key aspects of the authority's governance arrangements during 2008/09. We also provide an outlook on future governance issues, including our views on potential risks.

## Overview of arrangements in 2008/09

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 the affairs of the organisation, ensure the legality of activities and transactions, and to monitor the adequacy and effectiveness of those arrangements.

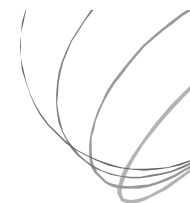
## Structures and policies

22. Corporate governance is about direction and control of organisations. In April 2009 the authority's internal auditor recommended that the authority review its existing Local Code of Corporate Governance to reflect the CIPFA /SOLACE guidance: *Delivering Good Governance in Local Government*. We would support that recommendation.

## Roles and relationships

23. 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. At present the authority relies upon members declaring their interests in the register of interests of their own councils.
24. In our view it would be appropriate for the authority to maintain its own register of interests where members should record interests of relevance to their roles on the authority and which may vary from those that require disclosure in their parent council's register of interest..

**Key Risk Area, Action 2**



## **Internal audit**

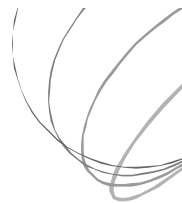
25. Internal audit provides a key role in the authority's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The authority's internal audit service is provided by the City of Edinburgh Council's Chief Internal Auditor. 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, that the audit plan was sufficient and that all work on which we planned to place reliance was completed and the relevant assurances obtained.

## **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 a 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. A Statement on the System of Internal Financial Control was included within the financial statements. Following receipt of the Chief Engineer & Bridgemaster's certificate of assurance on financial controls, and consideration of the work of managers, and internal and external auditors, the Treasurer concluded that he was satisfied that reasonable assurance could be placed on the adequacy and effectiveness of the systems of internal control operated by the authority.
29. In accordance with good practice, the statement was reviewed by the authority in April 2009 prior to signature by the Treasurer and is supported by a high level review of the adequacy and effectiveness of internal financial controls undertaken by Internal Audit. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

## **Service level agreements**

30. A range of support functions are provided by the City of Edinburgh and Fife councils 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..



## **Prevention and detection of fraud and irregularities**

31. The authority has arrangements in place to prevent and detect fraud, inappropriate conduct and Roles and relationships 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 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 2008/09 there were no such cases reported for the authority.

## **Outlook**

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
- 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.

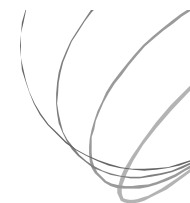
33. These areas and the controls put in place by management to address the issues are likely to be subject to ongoing audit review in 2009/10



# 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 the City of Edinburgh Council is gratefully acknowledged.

**Audit Scotland  
October 2009**



# 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.	18	<b>IFRS adoption</b> Local government will move from UK GAAP to IFRS based accounting in 2010/11. It is important that the authority starts the transition period in 2009/10 to ensure that it is prepared for 2010/11. <i><b>Risk:</b> the necessary management information processes may not be in place to generate IFRS compliant financial statements.</i>	Working groups have been formed to aid transition to IFRS	Treasurer/Chief Engineer and Bridgemaster	February 2010
2.	24	<b>Register of interests</b> The authority does not maintain a register of interests for members separate from those held by the constituent councils. <i><b>Risk</b> Members may place themselves in a position of conflict of interests.</i>	To create and maintain a Register of Interest for members.	Chief Executive and Clerk	January 2010



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	30	<p><b>Service Level Agreements</b></p> <p>Service level agreements between the authority and the council from which it procures services should be formalised and presented to the authority for its approval.</p> <p><b>Risk</b></p> <p><i>The Authority cannot monitor the performance of services provided by the City of Edinburgh and Fife councils.</i></p>	To develop a Service Level Agreement with the City of Edinburgh Council	Chief Engineer and Bridgemaster/Treasurer	April 2010