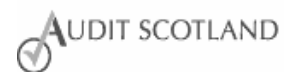


Erskine Bridge

Report on the 2005-06 Audit

November 2006



Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds



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Executive Summary

Introduction

In 2005-06 we audited the financial statements of the Erskine Bridge and looked at aspects of corporate governance. This report sets out our key findings.

Financial Statements

We have given an unqualified opinion on the financial statements of the Erskine Bridge for 2005-06.

At the planning stage we identified five main audit issues and risks which informed our audit procedures. From our audit work we can conclude that these issues and risks are being satisfactorily managed by Scottish Executive staff.

Governance

The corporate governance and control arrangements operated satisfactorily in the period under review. We have also found the work of the internal audit service to be satisfactory and continue to place formal reliance on its work.

Performance Management

Reliance was placed upon the performance management systems operated by the Scottish Executive. No specific work was carried out in relation to Erskine Bridge.

I would like to record my thanks to management and staff for their co-operation and assistance.

Alastair Reid,
Senior Audit Manager,
6 November 2006



Introduction

Scope of the Audit

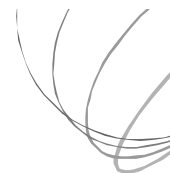
1. This report summarises the findings from our 2005-06 audit of the Erskine Bridge. The scope of the audit was set out in our Audit Plan which was submitted to The Scottish Executive in March 2006. This plan described the work we planned to carry out on financial statements and governance.
2. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all the weaknesses which may exist. Although we include a recommendation in this report to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to Erskine Bridge. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
3. The contents of this report have been agreed with relevant officers to confirm factual accuracy.
4. This report will be submitted to the Auditor General for Scotland and will be published on our website at www.audit-scotland.gov.uk.

Outcome on Issues and Risks Identified in the Audit Plan

5. Five audit issues and risks were identified at the planning stage. The outcome against planned activity is summarised at Appendix A. We can conclude from the results of our work on these issues and risks that they are being satisfactorily managed by Scottish Executive staff and do not indicate areas of material concern with the exception of asset values (paragraphs 6, 15 and 19).

Prior Period Follow Up

6. Seven issues were identified in our Report on the Audit for the financial year 2004-05. With one exception, we are satisfied that either our recommendations have been implemented or the issue no longer exists since the suspension of tolls. The issue that still presents a risk is the accurate reflection of asset values in the accounts. This issue is again highlighted in this report (see paragraphs 15 and 19).



Management Action

7. An Audit recommendation, together with management comments, on those areas where further improvements could be achieved is included in the action plan at Appendix B of this report.



Financial Statements

Our Responsibilities

8. We audit the financial statements and give an opinion on whether:

- they give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, on the state of affairs of the Erskine Bridge as at 31 March 2006 and of its net operating cost, recognised gains and losses and cash flows for the year then ended
- they have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Erskine Bridge Tolls Act 1968 and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000.

Overall Conclusion

9. We have given an unqualified opinion on the financial statements of Erskine Bridge for 2005-06. We are able to conclude that the financial statements of Erskine Bridge give a true and fair view of the financial position for the year from 1 April 2005 to 31 March 2006 and that, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance.
10. Following discussion with Scottish Executive Staff, a date of 7 August 2006 was agreed for the provision of the accounts for audit. Accordingly audit work was scheduled to achieve a certification date that would permit the laying of the accounts before the Scottish Parliament by the end of October. As a consequence of late submission of expenditure figures by an external contractor, the accounts were not received until 11 September, a consequence of this was that the accountable officer did not sign the accounts until 25 October 2006 (agreed deadline 16 October 2006) and the accounts were not certified until 2 November 2006 (agreed deadline 31 October 2006).

Financial Performance

11. Erskine Bridge's operating account statement for the year records a surplus for the year of £2.847 million.



Statement on Internal Control

12. The Erskine Bridge Account does not have a separate statement on internal control as it is an extract of the Scottish Executive Consolidated Account. It is therefore covered by the Scottish Executive Consolidated Account Statement on Internal Control.
13. We are satisfied that the Scottish Executive Consolidated Account Statement complies with Scottish Executive guidance, the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate and the contents of the Statement are consistent with the information emerging from our normal audit work.

ISA 260: Communication of Audit Matters to Those Charged with Governance

14. My responsibilities in relation to the communication of audit matters to those charged with governance are covered in International Standard on Auditing 260 and outcomes against the requirements of the Standard are included as part of this report.

Unadjusted misstatements:

15. The net value of access roads was overstated by £85,000 in the financial statements. Audit Scotland agreed that this amount was not sufficiently material to require adjustment to the accounts. There are no other significant judgements included in the accounts on which we wish to comment.

Material weaknesses in the accounting and internal control systems identified during the audit:

16. The audit has not identified any material weaknesses in accounting and internal control arrangements.

Qualitative aspects of accounting practices and financial reporting:

17. As part of the audit process minor accounting and disclosure adjustments were required.

Matters specifically required by other auditing standards to be communicated:

18. There are no matters on which we wish to comment.



Issue Arising

19. We would like to draw attention to the following issue arising from our audit of the financial statements:

- The figures in the accounts for access roads do not agree to RAVS. The consequence of this is that the net value of access roads is overstated by £85,000

Action Point 1



Governance

Introduction

20. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of an organisation. This section sets out the main findings arising from our review corporate governance arrangements for Erskine Bridge as they relate to:

- fraud prevention and detection arrangements
- systems of internal control
- review of internal audit.

Overall Conclusion

21. During our audit we reviewed the governance systems operating at Erskine Bridge. In general, we are content that they are soundly based.

Fraud Prevention and Detection Arrangements

22. The arrangements for preventing and detecting fraud and corruption were assessed during the Erskine Bridge audit and found to be satisfactory. No frauds were identified in 2005-06.

Systems of Internal Control

23. See paragraph 19 for finding on systems of internal control.

Review of Internal Audit

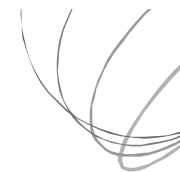
24. Internal audit is a key element of the Erskine Bridge internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system that has been established. To maximise the reliance that external audit can place on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.

25. Internal audit is provided by Scottish Executive Audit Services. Audit Scotland's Scottish Executive audit team carried out a review of the Executive's arrangements for internal audit as part of 2004-05 audit work. As part of 2005-06 audit work they have assessed Audit Services' progress in implementing the agreed action plan from 2004-05. Their review of Audit Services' working paper



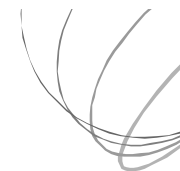
files confirms that they continue to comply with Government Internal Audit Standards in adopting a risk based audit approach in planning and undertaking their work. As a result we intend to place reliance on a number of aspects of Audit Services' work during 2005-06 as was anticipated in our audit plans.

26. We planned to place formal reliance on the work of internal audit, in terms of the International Statement on Auditing 610 (considering the work of Internal Audit), for our financial statements audit work, in the following areas:
- arrangements for setting and monitoring budgets, making payments and collecting income
 - financial reporting
 - procurement
27. A follow-up report was produced by Internal Audit during 2005-06. We reviewed the report. None of the observations and related risks precluded planned assurance from being taken for our financial statements audit.



Appendix A: Outcome on Issues and Risks Identified in the Audit Plan

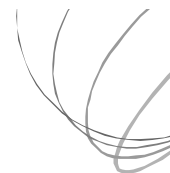
Risk	Outcome
Risk that income may be incorrect due to errors in the reconciliation of cash received to the bank account and to the ledger.	No significant errors were identified as a consequence of the reconciliation process.
Risk that asset valuation in the account may not reflect the revised RAVS model valuation.	The value of the Erskine bridge in the accounts agreed with RAVS. However the valuation of the access roads was overstated by £85k. Therefore this risk still exists. <i>Action Point 1 (Paragraphs 15 and 18).</i>
Risk that fixed asset register movements and content may not be accurate or complete.	All Erskine bridge assets which have been recorded on FAR are correctly reflected in the financial statements.
Risk that Amey invoices and certificate may not be accurately, completely or appropriately represented in the accounts.	The Performance Audit Group (PAG) review the work and invoices from AMEY. The work of PAG provided assurance on the AMEY invoices and year-end certificates.
Risk that notional income is not included in the accounts where appropriate.	Notional income has been included in the financial statements. In the first draft it was not considered to have been given sufficient prominence and this issue was addressed in the subsequent draft.



Appendix B: Action Plan: Recommendation for Further Improvements

Action Point	Para. No	Issue, Risk and Audit Recommendation	Importance	Management Response	Responsible Officer	Target Date
1	15, 18	<p>Reconciliation of asset values in the accounts to RAVS</p> <p>The initial RAVS-derived figures provided for accounts preparation changed as a result of the RAVS model being re-run. This change occurred at a late stage in the audit and the net effect (£85,000 understatement) was not deemed material enough to justify changing the account.</p> <p><i>We recommend that Scottish Executive Staff ensure that any changes to asset values in RAVS are reflected in the financial statements.</i></p>	High	<p>Issue arose from Erskine Accounts being prepared to separate timetable than Core.</p> <p>The final White Paper Account (2006-07) asset workings in relation to Roads & Special Structures will be prepared <i>after</i> final RAVS iteration has been agreed for Core Accounts.</p>	Transport Scotland TS F and CS Corporate Finance	September 2007





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