

Forth Estuary Transport Authority

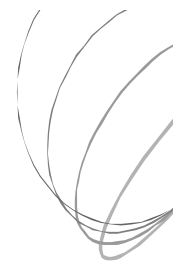
Report to Members on the 2005/06 Audit

31 October 2006



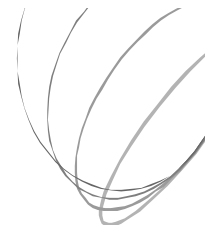
Audit Scotland, on behalf of the Accounts Commission for Scotland, is responsible for:

- providing independent reports to the Commission and the wider public on how public money is spent, what it achieves and what improvements can be made
- providing independent reports to public sector bodies on their finances, their corporate governance and how they manage their performance and secure value for money
- providing an independent opinion on whether the annual financial statements of public sector bodies have been prepared in accordance with statutory requirements



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Executive summary

1. This report summarises the main issues arising from the 2005/06 audit. Overall, the financial stewardship of Forth Estuary Transport Authority during the year was satisfactory. Our conclusions on key aspects of the Authority's performance are highlighted in the table below, based on the audit work undertaken during the year and an assessment range of very good, good, fair and unsatisfactory.

Financial statements & financial position	Good
<ul style="list-style-type: none">• The financial statements present fairly the Authority's financial position• Balances held at 31 March 2006 provides the Authority with £18.643 million to be utilised on the capital programme in future years as part of the Local Transport Strategy• The Statement on the System of Internal Financial Control complies with accounting requirements and is not inconsistent with audit findings• Final accounts preparation procedures & working papers were satisfactory	
Corporate governance	Good
<ul style="list-style-type: none">• Many aspects of a sound corporate governance framework are in place with the approval of the scheme of delegation in the year, and of the Local Code of Corporate Governance and the Business Continuity Plan on 23 June 2006• A corporate anti-fraud & corruption strategy, including a fraud response plan, is in place• Internal Audit concluded that <i>'reasonable assurance can be placed upon the adequacy and effectiveness of the Authority's internal control system in the year to 31 March 2006'</i>	

Introduction

2. 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 the financial statements and the effective management of assets and interests
 - the Authority has adequate corporate 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 mis-statement, error, fraud or corruption
 - the Authority has proper arrangements for securing best value in its use of resources
3. This report summarises the most significant issues arising from our work during 2005/06.

Financial statements

Auditor's report

4. The financial statements present fairly the Authority's financial position at 31 March 2006 and income and expenditure during the year.

Financial position

5. The Authority's actual surplus for the year was £2.172 million compared to a budgeted deficit of £10.489 million. Capital expenditure totalled £13.539 million and was funded by revenue contributions to capital of £5.458million and Scottish Executive grant of £8.081million, negotiated during the financial year. This grant was not included in the original budget, and is the main transaction impacting on the year-end position, along with an underspend on the toll equipment contract. The main factors contributing to the underspend are outlined in the Foreword to the Report and Accounts.
6. The £2.172 million surplus together with the revenue balances brought forward from 2004/05 provides the Authority with a balance of £18.643 million to be utilised on the capital programme as part of the Local Transport Strategy in future years.

Issues arising

7. The Authority's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation procedures and working papers were satisfactory.
8. One adjustment was made to the unaudited accounts made available for public inspection. The authority received a grant of £8.081 million in respect of work on the A8000 upgrade. Where grants can be matched to assets, accounting practice requires the grant to be recorded separately in balance sheet and written down to revenue over the useful life of the asset, to offset depreciation charges. However, in the unaudited accounts the value of infrastructure assets was disclosed net of the capital grant. The audited accounts have now been amended to reflect the actual depreciated value of infrastructure assets, and separately disclose the value of deferred grants. This amendment is presentation and does not affect the disclosed surplus in the financial statements. No other material adjustments were made to the figures included in the unaudited accounts made available for public inspection.
9. A few matters arising from the audit of the financial statements also require to be brought to the attention of members and these are summarised below.

Pension liabilities

10. 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. 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 them, even if the actual payment will be made years into the future.
11. The Authority participates in the Local Government Pension Scheme, a defined benefits scheme administered by Lothian Pension Fund. Note 6 to the accounts highlights that the Authority's scheme liabilities at 31 March 2006 are £2.940 million. This is not a material change from the position at 31 March 2005 of £3.357million and represents a fairly steady set of financial assumptions used to calculate scheme liabilities.
12. The full actuarial valuation of the Lothian Pension Fund at 31 March 2005 calculated that deficits in the fund in respect of benefits already accrued should be met by additional contributions of £57,000, £98,000 and £142,000 in the years 06/07, 07/08 and 08/09 respectively, on top of an employers' contribution (known as the "future service rate") of 16.8% of salaries.

Legality

13. 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 audit programmes and checklists. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the General Manager and Senior Management Team of Forth Estuary Transport Authority, the financial transactions of the Authority were in accordance with the relevant legislation and regulations governing its activities.
14. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Statement on the system of internal financial control

15. The 2005/06 financial statements include a Statement on the System of Internal Financial Control which gives the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Authority's internal financial control system. The Treasurer notes that the control environment is continuing to improve as a result of the introduction of a Scheme of Delegation and work undertaken to introduce a Local Code of Corporate Governance and Business Continuity Plan, both now approved on 23 June 2006.
16. In accordance with good practice, the statement was reviewed by the Authority on 27 June prior to being signed 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.

Looking ahead

17. In the coming years the Authority may face significant challenges including:
 - the potential need to close the bridge to heavy vehicles by 2014 if corrosion cannot be halted in the main cables. The authority highlighted this issue at its meeting in November 2005, and significant capital investment is planned to install measures to monitor and control this, including a £12 million dehumidification system
 - specific cost pressures which may arise in pursuit of the Authority's Local Transport Strategy specifically in relation to the business case for a new multi-modal crossing of the Forth estuary in the context of Scottish Ministers' proposed national Transport Strategy
 - the significant investment for the M9 spur and A8000 upgrade
 - specific cost pressures which may arise from the need to fund increased pension costs.
18. These areas and the controls put in place by management to address the issue are likely to be subject of on-going review during the 2006/07 audit.

Corporate governance

Overview

19. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Last year we reported that although the Authority had many aspects of a sound corporate governance framework in place, work was continuing to introduce a Local Code of Corporate Governance and to embed risk management processes.
20. As highlighted in the Statement on the Systems of Internal Financial Control, the control environment has continued to improve as a result of work undertaken to introduce a Local Code of Corporate Governance and a Business Continuity Plan nearing completion. Further progress has been made with the approval of a Scheme of Delegation.

Anti-fraud and corruption arrangements

21. The Authority has appropriate arrangements in place to reduce the risk of fraud and corruption. These arrangements include the Councillors' Code of Conduct, an Anti-Fraud and Corruption Strategy and a whistle blowing policy.

Systems of internal control

22. The previous system of centrally based controls over capital expenditure was replaced from April 2004 by a prudential regime based largely on self-regulation by local authorities/boards. The basic principle of the new system is that boards are free to invest so long as their capital spending plans are affordable, prudent and sustainable. CIPFA has issued a code of practice '*The prudential code for capital finance in local authorities*', which sets out the prudential indicators that should be used, and the factors that they must take into account, to demonstrate that they have fulfilled this objective.
23. The Authority has had no requirement to make use of any additional borrowing in relation to capital expenditure during 2005/06 and has not, therefore, used the prudential indicators. While there is no requirement for the Authority to monitor these indicators it may represent good practice to develop and monitor the indicators appropriate to the Authority. As borrowing is expected in 2007/08, this year would be a good opportunity to begin preparing the indicators for the comparison figures.

Looking ahead

24. Internal audit forms an important part of the Authority's internal control arrangements and in ensuring appropriate monitoring of risks and controls takes place. We will seek to take assurance from the work carried out by the Authority's internal audit service during the 2006/07 audit.