

# Report to those charged with governance on the 2013/14 audit

Audited Body:	<b>Forth Estuary Transport Authority</b>
Committee:	<b>Forth Estuary Transport Authority Board</b>
Date:	<b>September 2014</b>

## Background

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. This report sets out for the Forth Estuary Transport Authority Board (FETA) consideration the matters arising from the audit of the financial statements for 2013/14 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. It should be noted that the audit opinion reflects recent discussions with management and is subject to satisfactory conclusion of any outstanding matters.
3. We also present for your consideration our annual report on the 2013/14 audit which identifies significant findings from the financial statements audit. This report is attached at Appendix C.

## Status of the work

4. We have completed the audit of the Forth Estuary Transport Authority accounts. The issues arising from the financial statements audit were discussed with Toby MacDonald, Finance Accountant during August/September 2014. No significant issues arose during the audit.

## Fraud

5. In presenting this report to the Forth Estuary Transport Authority Board we seek confirmation from those charged with governance of any instances of fraud that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

## Audit opinion and representations

6. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 24 September 2014 (the proposed report is attached at [Appendix A](#)). There are no anticipated modifications to the audit report.

7. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000.
8. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with the Finance Accountant who agreed to amend the unaudited financial statements.
9. We therefore have no unadjusted misstatements to bring to your attention.
10. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the Accountable Officer with the signed financial statements prior to the independent auditor's opinion being certified.

### Significant findings and key judgements

11. In our view, the following issue requires to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
12. **Operating Lease Disclosure** - A potential operating lease has not been disclosed separately in the financial statements leasing note on the basis of a confidentiality agreement with the lessee. The omission is not considered material.

### Outstanding matters

13. There are no outstanding matters.

### Acknowledgements

14. We would like to express our thanks to the staff of FETA and City of Edinburgh Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

# APPENDIX A: Proposed Independent Auditor's Report

## **Independent auditor's report to the members of Forth Estuary Transport Authority and the Accounts Commission for Scotland**

I certify that I have audited the financial statements of Forth Estuary Transport Authority for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash-Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Treasurer and auditor**

As explained more fully in the Statement of Responsibilities, the Treasurer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Forth Estuary Transport Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Foreword and accounts to identify material inconsistencies with the audited

financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the state of the affairs of the Forth Estuary Transport Authority as at 31 March 2014 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

### **Opinion on other prescribed matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

**David McConnell**  
**Assistant Director**  
**Audit Scotland**  
**4th Floor**  
**8 Nelson Mandela Place**  
**Glasgow**  
**G2 1BT**  
**Date 24 September 2014**

# Appendix B: ISA 580 - Letter of Representation

David McConnell

Assistant Director

Audit Scotland

4th Floor

8 Nelson Mandela Place

Glasgow

G2 1BT

Dear Mr McConnell

## **Forth Estuary Transport Authority**

### **Annual Accounts 2013/14**

This representation letter is provided in connection with your audit of the financial statements of Forth Estuary Transport Authority for the year ended 31/3/2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Forth Estuary Transport Authority, as at 31/3/2014 and its income and expenditure for the year then ended.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Chief Executive and the Senior Management Team, the following representations given to you in connection with your audit of the Forth Estuary Transport Authority for the year ended 31/3/2014.

### **General**

I acknowledge my responsibility and that of Forth Estuary Transport Authority for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Forth Estuary Transport Authority have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.

The information given in the Foreword to the financial statements represents a balanced picture of Forth Estuary Transport Authority and is consistent with the financial statements.

I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

### **Financial Reporting Framework**

The financial statements have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (The Code), and in accordance with the requirements of all relevant legislation including all relevant presentation and disclosure requirements.

Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of the Forth Estuary Transport Authority for the year ended 31/3/2014.

### **Accounting Policies & Estimates**

All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code.

The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

### **Going Concern**

The Board has assessed the Forth Estuary Transport Authority's ability to carry on as a going concern given the Scottish Government's decision to dissolve FETA on the 1 June 2015 and transfer of the property, rights and liabilities to Scottish Ministers. As identified in the Statement of Accounting Policies, and disclosed, in the financial statements, the transfer of property, rights and liabilities between public sector bodies does not impact on their value due to consistent absorption accounting approaches and should not result in any material uncertainties as a result.

### **Related Party Transactions**

All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code.

### **Events Subsequent to the Balance Sheet**

There have been no material events since the date of the Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

Since the date of the Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

### **Corporate Governance**

I acknowledge as Section 95 Officer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.

The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code. There have been no changes in the corporate governance arrangements or issues identified, since the 31/03/2014 which require disclosure.

### **Fraud**

I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

### **Assets**

The assets shown in the Balance Sheet at 31/3/2014 were owned by the Authority, other than assets which have been purchased under operating leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

### **Liabilities**

All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31/3/2014.

### **Carrying Value of Assets and Liabilities**

The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.



**Provisions**

Provisions have been made in the financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31/3/2014 and of which the Authority could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31/3/2014.

Yours sincerely

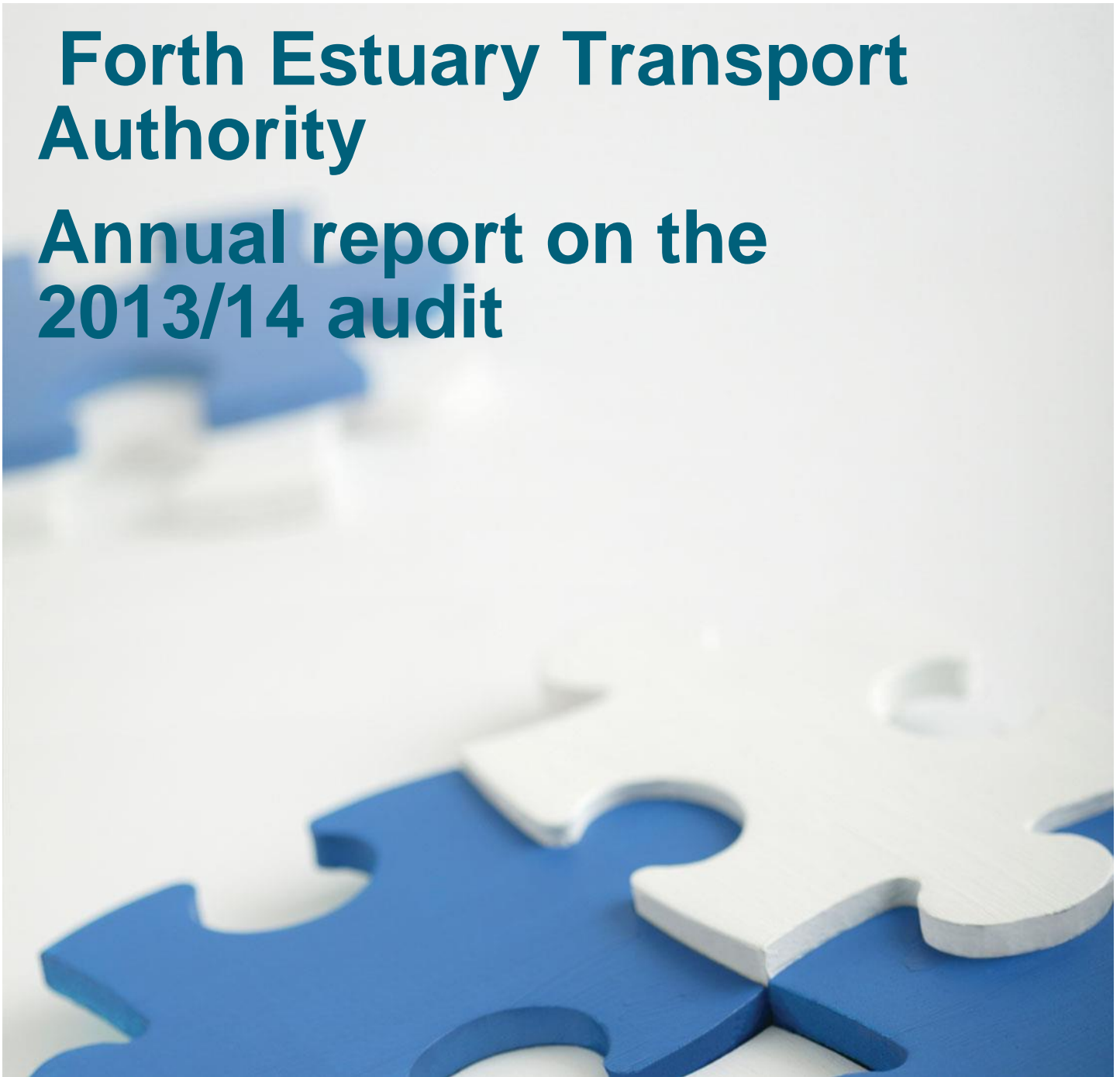
Hugh Dunn

(Treasurer)

# Appendix C

## Forth Estuary Transport Authority

### Annual report on the 2013/14 audit



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 Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Key Messages

## 2013/14 audit findings

We have audited the 2013/14 financial statements and looked at aspects of performance management and governance, including the key financial risks faced by the Forth Estuary Transport Authority (FETA). This report sets out our main findings, summarising key outcomes from the 2013/14 audit and the outlook for the period ahead.

## Key outcomes from the 2013/14 audit

We have given an unqualified opinion that the financial statements give a true and fair view of the state of the affairs of the Forth Estuary Transport Authority as at 31 March 2014 and of its income and expenditure for the year. Overall we found the governance arrangements of FETA during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- final accounts preparation procedures and working papers were of a high standard, as were responses to audit queries
- matters arising from the audit have been included in the ISA 260 report to those charged with governance on the 2013/14 audit
- many aspects of a sound corporate governance framework are in place, including arrangements for the prevention and detection of fraud
- Internal Audit concluded that reasonable assurance could be placed upon the adequacy and effectiveness of the authority's internal control systems
- Total Usable Reserves have increased to £3.119 million mainly due to deferment of planned capital expenditure programmes.

## Outlook

Key issues for FETA moving forward include:

- FETA is being dissolved on 1 June 2015. On dissolution FETA's assets, rights and liabilities will transfer to Scottish Government and staff to the appointed contractor who will manage and maintain the Forth Road Bridge
- significantly reduced capital grant has led to greater capital project prioritisation and the deferment of some projects beyond 2015. This may impact on future project costs
- delivering a consistently high level of services in the face of uncertainty about the future of FETA and a difficult economic climate with increasing financial constraints.

The financial position of FETA appears stable on the basis of its current financial reporting and budget projections. However the financial position going forward to dissolution is

challenging, and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

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

# Introduction

1. This report is the summary of our findings arising from the 2013/14 audit of The Forth Estuary Transport Authority (FETA). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of FETA and no responsibility to any third party is accepted.
3. Appendix A sets out the key audit risks identified at the planning stage and details how we addressed each risk in arriving at our opinion on the financial statements. B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that FETA understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is also addressed to the Controller of Audit and will be published on our website after consideration by the Board.

# Financial statements

## Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Board on the 21st February 2014 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

## Audit opinion & accounting issues

7. We have given an unqualified opinion that the financial statements give a true and fair view of the state of the affairs of the Forth Estuary Transport Authority as at 31st March 2014 and of its income and expenditure for the year. The audit opinion was formally issued and signed on 24 September 2014.
8. We received the unaudited financial statements on 23 June 2014 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our on-site fieldwork in August. FETA is required to follow the 2013/14 Code of practice on local authority accounting; we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

## Going concern

9. The Scottish Government has taken the decision to dissolve FETA and transfer the Forth Road Bridge assets to their ownership. A contractor will be appointed through competitive tender to manage them and the adjoining road network. All FETA's staff will transfer directly into the employment of the Bridge Operating Company, and the TUPE regulations will apply. In addition, Transport Scotland confirmed their intention to include admission to the Lothian Pension Fund as a contractual obligation on the new Bridge Operating Company. This ensures continuation of the current pension scheme when FETA employees are transferred to the operating company.



10. The financial statements identify that it is appropriate to adopt a going concern basis for the preparation of the Financial Statements taking into account the Authority's overall financial resources, the risks identified, the arrangements in place to manage those risks and the agreement on future funding with the Scottish Government. The ministerial announcement on 16 November 2011 stated that the Authority will be dissolved and the property, rights and liabilities transferred to Scottish Ministers. The transfer of property, rights and liabilities between public sector bodies does not impact on their value due to consistent absorption accounting approaches.

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

11. Dissolution is expected to take place in June 2015. As at 31 March 2014 FETA has a net deficit on provision of services of £2.344 million (£3.863 million net deficit as at 31 March 2013). As at 31 March 2014 current 'Total Useable Reserves' were £3.119 million (£2.652 million as at 31 March 2013) these having increased by £0.467 million. The financial statements have been prepared on an ongoing basis as FETA has no reason to believe that the support of the Scottish Government will not be forthcoming.

### **Significant findings (ISA260)**

12. During the course of the audit we identified one issue, which requires to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
13. **Operating Lease Disclosure** - A potential operating lease has not been disclosed separately in the financial statements leasing note on the basis of a confidentiality agreement with the lessee. The omission is not considered material.

### **Whole of Government Accounts**

14. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. FETA submitted the consolidated pack to support its 2013/14 WGA return to the Scottish Government prior to the deadline of 23 July 2014. Due to the threshold limit of £350 million for gross assets, liabilities, income and expenditure there is no requirement to subject the WGA return to an audit.

## Financial position

### 2013/14 Outturn

15. The main financial objective for FETA is to ensure that the financial outturn for the year is within the approved expenditure for revenue and capital. FETA operated within the approved revenue and capital budgets for 2013/14 as detailed in Table 1 below.

**Table 1: Budget**

	Final Budget (£'000)	Actual Outturn (£'000)	Variance (£'000)
Revenue:			
Expenditure	5.100	5.062	(38)
Grant	(5.100)	(5.100)	0
(Under)/Overspend	0	(38)	(38)
Capital:			
Expenditure	6.652	4.171	(2.481)
Drawdown - Approved February 2013	(1.052)		1.052
Grant	(5.600)	(4.600)	1.000
(Under)/Overspend	0	(429)	(429)
Movement in total Useable reserves			(467)

Source: FETA 2013/14 Audited Accounts

16. FETA has spent £0.038 million less on revenue expenditure than the revenue grant in 2013/14. The revenue underspend is mainly due to maintenance and operations costs coming in under budget.
17. FETA has spent £0.429 million less on capital expenditure than the capital grant in 2013/14. A £1.052 million drawdown on reserves was planned to be undertaken to fund approved capital expenditure of £6.652 million for 2013/14 which exceeded the capital grant for 2013/14 of £4.600 million. The underspend of £2.481 million was as a result of deferring £1.35 million of project costs to 2014/15, and underspends of £1.131 million, mainly on the Anchorage Investigation project. £1 million of Grant was also deferred to 2014/15.
18. Grant received for 2013/14 was £9,700 million (£11,380 million, 2012/13). Expenditure against this grant was £9.233 million (£15.737 million, 2012/13).

## 2013/14 Financial position

**Table 2 Usable reserves**

Description	31 March 2013	31 March 2014
	£ million	£ million
General Fund	2.652	3.119
Capital Grants Unapplied	00	0
<b>Total Usable Reserves</b>	<b>2.652</b>	<b>3.119</b>

19. The outturn for the year is included in the Movement in Reserves Statement and shows an increase in the Total Usable Reserves of £0.467 million (2012/13: decrease of £4.357 million). The total usable reserves at the beginning of the year amounted to £2.652 million (2012/13: £7.009 million) which, when added to the underspend for the year results in Total Usable Reserves carried forward of £3.119 million.
20. It is expected that FETA's reserves will be utilised to meet planned capital funding shortfalls over the next twelve months. However, a risk exists around future bridge strengthening and improvement works yet to be determined. Compensation claims for work on the M9 spur are also being managed within planned budgets and are not viewed as a major risk. There are no anticipated shortfalls for revenue expenditure.

## Financial planning

21. In November 2011 the Scottish Government announced that FETA will be replaced by a single external contractor who will manage and maintain the Queensferry Crossing, the Forth Road Bridge and adjoining road network. The dissolution of FETA is projected to take place on the 1st June 2015.
22. The Forth Road Bridge revenue and capital budgets have been formulated to take account of this organisational change based on projected grants from Transport Scotland up to 31 March 2015. Transport Scotland has confirmed that budget arrangements have been made for the funding of the Authority from 31 March 2015 until the projected dissolution date of 1 June 2015. These budget arrangements have been, and will continue to be, subject to future discussions between FETA officers and Transport Scotland officials and the outcome of these discussions will be reported to future Board meetings.
23. The budget for capital expenditure was reduced significantly and a report highlighting the impact on the Capital Plan for 2012-15 was noted by Board Members in February 2012. The report also prioritised capital projects for FETA till dissolution. Officials from FETA and Transport Scotland continue to meet regularly to review the capital plan. These discussions include reviews of budget estimates, the profile of expenditure, risks and the level of reserves until dissolution on the 1st June 2015.

24. Currently, FETA has set out a clear plan to utilise its reserve to fund capital projects prior to dissolution. The forecast expenditure budget approved by FETA in February 2014 was £9.080 million against Revenue and Capital Grant funding of £6.816 million. This consists of a Revenue Grant of £5.100m and a Capital Grant of £1.716m. The overall net over spend of £2.264 million will be off-set by a planned reduction in reserves prior to the transfer of the operation and maintenance of the Forth Road Bridge to an external organisation in June 2015.
25. FETA needs to ensure that all capital contracts entered in to between now and the Authority's dissolution are affordable in terms of the proposed budgets. The closing reserve for 2013/14 was £3.119 million.

### Significant financial risks

26. As with 2013/14, the economic downturn has impacted heavily on public sector expenditure and constraints on spending have continued with FETA managing a reduced capital grant until dissolution.

**Key Risk Area, Action 2**

## Corporate governance and systems of internal control

### Overall governance arrangements

27. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found FETA had satisfactory governance arrangements in place.

### Processes and committees

28. FETA 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. There is a link against each member on the authority's website to the members' relevant council website, where their interests can be inspected. The Clerk to the Authority writes annually to each member reminding them that the register should include any interests to be registered in respect of the authority.
29. The Forth Estuary Transport Authority Order 2002 requires that the positions of Convener and Vice-Convener of the authority be rotated between the City of Edinburgh Council and Fife Council, over two-year periods. Accordingly, from 1 July 2013, the position of Convener of the authority is held by City of Edinburgh Council and the Vice-Convener by the Fife Council.

### Accounting and internal control systems

30. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial

systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

31. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
32. Internal audit is an important element of the FETA governance structure. Our review established that the work of internal audit is of a good quality allowing us to place reliance on a number of areas including payroll controls. This not only avoided duplication of effort but also enabled us to focus on other key risk areas.

### Change in FETA's Status

33. Given the approaching change in FETA's status, being replaced by one contractor to manage and maintain the Queensferry Crossing, the Forth Road Bridge and adjoining road network as a dedicated public transport corridor, it is important that members continue to recognise and underline the importance of effective governance at this time of change.

**Key Risk Area, Action 3**

### Service level agreement

34. A range of support functions are provided by the City of Edinburgh Council to FETA and the timescale for completion of the relevant Service Level Agreement was by March 2013. Currently, the arrangements under which these services are provided are not subject to a formal Service Level Agreement (with the exception of the management of the Authority's investments in the City of Edinburgh Council's Loans Fund). Both FETA and the service provider would benefit from formal documentation of their roles and responsibilities and the standards of service to be provided during the remaining period of operation.

**Key Risk Area, Action 4**

### Prevention and detection of fraud and irregularity

35. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion FETA's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

### Standards of conduct and arrangements for the prevention and detection of corruption

36. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial

instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

### **Acknowledgements**

37. We would like to express our thanks to the staff of FETA and City of Edinburgh Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

# Appendix A: Key Audit Risks

## Key Audit Risks and Associated Audit Work

Audit Risk	Overview of the scope of audit work to address the risks
<p><b>FETA Dissolution/Going Concern</b> - There are risks that FETA may find it difficult to retain suitably qualified staff to carry out its activities and FETA's members may not be fully focused on governance matters as the body's status is changed.</p>	<p>We have monitored developments in this area through review of Board minutes, papers and attendance at Board meetings. There have been no major changes to staff or staffing at FETA. FETA's Board Members are kept regularly informed via Board papers prepared by the Chief Engineer &amp; Bridgemaster of the programme for change. We would conclude that Board recognises the challenge it faces and we will continue to monitor and report on the Board's performance.</p>
<p><b>Budget Pressures</b> - There is a risk that FETA may not be able to manage unexpected budgetary/capital expenditure challenges so that their current bridge responsibilities can be managed within available funding and reserves.</p>	<p>We have monitored developments in this area through review of Board minutes, papers and discussions with finance staff. The financial position of FETA appears stable on the basis of its current financial reporting and budget projections. FETA is undertaking close monitoring of its financial position going forward to dissolution to identify and address any emerging budget pressures or projected overspends at an early stage. We would conclude that Board recognises the financial challenge it faces and we will continue to monitor and report on the Board's performance.</p>

<b>Audit Risk</b>	<b>Overview of the scope of audit work to address the risks</b>
<p><b>Capital Programme</b> - There is a risk that constraints on capital expenditure could lead to some essential but not committed schemes not being carried out and that the long term integrity of the bridge and its approaches could be compromised.</p>	<p>We have monitored developments in this area through review of Board minutes, papers and discussions with finance staff. Currently, FETA has set out a clear plan to utilise its reserve to fund capital projects prior to dissolution and is closely monitoring all capital contracts entered in to between now and the Authority's dissolution are affordable in terms of the proposed budgets. We would conclude that Board is clearly focused on making appropriate capital expenditure and we will continue to monitor and report on the Board's performance.</p>
<p><b>Reserves</b> - There is a risk that FETA may not have enough funds to respond to unexpected situations.</p>	<p>We have monitored developments in this area through review of Board minutes, papers and discussions with finance staff. FETA has set out a clear plan to utilise its reserve to fund capital projects prior to dissolution and is undertaking close monitoring of its financial position going forward to dissolution to identify and address any emerging budget pressures or projected overspends at an early stage. We would conclude that Board recognises the financial challenge it faces and we will continue to monitor and report on the Board's performance.</p>
<p><b>Compensation Claims</b> - There is a risk that the liabilities arising from compensation claims for noise, vibration and smells relating to work for the M9 Spur may be much higher than currently estimated.</p>	<p>We have monitored developments in this area through review of Board minutes, papers and discussions with finance staff. Compensation claims for work on the M9 spur are being managed within planned budgets. We would conclude that Board recognises the financial challenge it faces and we will continue to monitor and report on the Board's performance.</p>



# Appendix B: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	10	<p><b>Transfer of Assets and Liabilities to Scottish Government on Dissolution</b></p> <p>On dissolution FETA's assets, rights and liabilities will transfer to Scottish Government.</p> <p><b>Risk</b></p> <p>There is a risk that:</p> <ul style="list-style-type: none"> <li>• title deeds/assets to be transferred do not match asset registers</li> <li>• liabilities on transfer may not be fully established.</li> </ul>	<p>Detailed work is being undertaken by Transport Scotland's consultant, C2MHill with input from FETA to minimise this risk. It should be noted that ownership of this risk is held by the Scottish Government.</p>	Chief Engineer and Bridgemaster and Treasurer	April 2015

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
2	26	<p><b>Significant Financial Risks</b></p> <p>Constraints on spending have continued with FETA managing a reduced capital grant till dissolution.</p> <p><b>Risk</b></p> <p>FETA needs to ensure that all capital contracts entered in to between now and the Authority's dissolution are affordable in terms of the proposed budgets to ensure they do not exceed their reserve balance.</p>	<p>The revenue and capital budgets of the Authority will continue to be reported throughout 2014/15 with a 15/16 budget prepared for approval in February 2015.</p> <p>Both these reports will include a full review of reserves and recommendations.</p> <p>The Chief Engineer and Bridgemaster will also meet regularly with Transport Scotland to discuss the Capital Plan and any funding issues.</p>	Chief Engineer and Bridgemaster and Treasurer	March 2015
3	33	<p><b>FETA's Status</b></p> <p>During the process of FETA's dissolution members need to continue to recognise the importance of effective governance at this time of change.</p> <p><b>Risk</b></p> <p>FETA's members may not be fully focused on governance matters as the body's status is changed.</p>	<p>FETA's Members will be kept regularly informed via Board papers prepared by the Chief Engineer &amp; Bridgemaster of the programme for change. However, there will be no change to the organisation's status or governance up until the point of dissolution.</p>	Chief Engineer and Bridgemaster and Treasurer	June 2015

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	34	<p><b>Service Level Agreements</b> A CEC service level agreement has not been completed as yet. This should have been formalised and approved before 31 March 2013 by the Chief Engineer &amp; Bridgmaster.</p> <p><b>Risk</b> FETA cannot fully monitor the performance of services provided by the City of Edinburgh Council.</p>	<p>Previous audit reports referred to the lack of a service level agreement (SLA) for the services provided by the City of Edinburgh Council to the Board. Both parties have decided that it would not represent best use of resources to adopt an SLA at this time given the dissolution of the Authority on 1 June 2015.</p>	-	-