

Connecting Shetland
Ze Trans
ZETLAND TRANSPORT PARTNERSHIP



Annual Financial Statements 2010/11 (Audited)

ZETLAND TRANSPORT PARTNERSHIP (ZetTrans)
2010/11 ANNUAL FINANCIAL STATEMENTS

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INTRODUCTION

The Shetland Transport Partnership "STP" was established by, and exists in accordance with, the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005 made under the Transport (Scotland) Act 2005.

The Scottish Government agreed the change of name to Zetland Transport Partnership with the working name "ZetTrans" on 20 September 2007 (ZetTrans Minute Ref 02/07).

The Zetland Transport Partnership Members for 2010/11 were as follows:

Members:

Mrs I J Hawkins (Chairperson)
Mr A S Wishart (Vice-Chairperson)
Mr F A Robertson
Mrs C H J Miller

Other Members:

Dr S Taylor (NHS Shetland)
Mr S Robertson (HIE Shetland)

Substitute Members:

Mr A T Doull
Mr R S Henderson

Observer / Advisers:

Mr J L B Smith (Sumburgh Airport Consultative Committee)
Mr A Steven (Promote Shetland)
Mr R Moore (Head of Ports & Harbours Operations)
Ms S Laurenson (Lerwick Port Authority)
Mr J G Simpson (Development Committee Chairperson)
Mr S Mathieson (VisitShetland)

Executive Officers:

Secretary & Proper Officer for Legal Proceedings - Head of Legal & Administration - Jan-
Robert Riise
Proper Officer for Finance - Head of Finance - Hazel Sutherland

Lead Officer:

Head of Transport - Michael Craigie

EXPLANATORY FOREWORD

1 Purpose

The purpose of this document is to present a public statement on the stewardship of funds for the benefit of Members of the Zetland Transport Partnership (ZetTrans) and the public. This is the fifth annual report of Zetland Transport Partnership. The Statement of Accounts is the subject of external audit and the Partnership's external auditor is Audit Scotland.

The purpose of this foreword is to explain the most significant aspects of the Partnership's financial performance, year end financial position and cash flows in a concise and understandable manner.

2 Regulatory Framework

In Scotland the local authority accounting framework is enacted as follows:

- local authorities are defined as a council constituted under section 2 of the Local Government (Scotland) Act 1994, the Strathclyde Partnership for Transport, and those bodies to which section 106(1) of the Local Government (Scotland) Act 1973 applies (i.e. committees, joint committees and joint boards, the members of which are appointed by local authorities, charities, etc, the trustees of which are local authorities or their members and transport partnerships created under the Transport (Scotland) Act 2005);
- section 96 of the Local Government (Scotland) Act 1973 requires Scottish authorities to keep accounts;
- section 12 of the Local Government in Scotland Act 2003 places a duty of Best Value on the authority and also a duty to observe proper accounting practices; the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) supported by International Financial Reporting Standards (IFRS), the Best Value Accounting Code of Practice and the Prudential Framework and other statutory guidance issued under section 12 of the 2003 Act defines proper accounting practices for local authorities in the UK;
- under paragraph 3 of the Local Authority Account (Scotland) Regulations 1985 (s1 1985/267, Finance circular 5/1985) the "proper officer" is formally responsible for the form of accounts; the Code requires this officer to sign, date and submit the un-audited statement of accounts to the authority and the Controller of Audit by 30 June.

The Code reiterates the primacy of legislative requirements whereby the overriding principle of public sector accounts is that where an accounting treatment is prescribed by law the legal requirement must be applied.

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The Code was developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board and has effect for financial years commencing on or after 1 April 2010. The Code is based on International Financial Reporting Standards (IFRS) with interpretation appropriate to the public sector. As the financial statements have been prepared on an IFRS basis for the first time, the layout has been changed as required. No restatement of comparatives was necessary.

The overriding requirement of the Code is that the Statement of Accounts provides a true and fair view of the financial position and the financial transactions of the authority.

3 Primary Financial Statements

The Statement of Accounts summarises the Partnership's transactions for the year, its year end position at 31 March 2011 and its cash flows. The three primary financial statements and their relationships are explained in more detail below:

The **Comprehensive Income and Expenditure Statement** shows the accounting costs of providing the service in accordance with generally accepted accounting practices (GAAP). These costs are recovered through central government grant-in-aid and amounts requisitioned from Shetland Islands Council to reach a break even position. The central and local government funding must be used to meet the running costs of the Partnership and the implementation of the Regional Transport Strategy in accordance with the grant conditions and the local authority governance arrangements.

The **Balance Sheet** shows the value (ie the net worth of the entity) of the assets and liabilities recognised by the Partnership.

The **Cash Flow Statement** is a key indicator of the extent to which the operations are funded by way of grant-in-aid or income from the authority and how the Partnership uses the cash and cash equivalents.

No Remuneration Report is included as the Partnership has no employees. Remuneration of the Chair and Vice-Chair of the Partnership is disclosed in the Shetland Islands Council Statement of Accounts. No additional remuneration is paid for acting for the Partnership.

4. Comparison of Outturn against Budget

During 2010/11 the Partnership received funding of £155,000 from the Scottish Government and £1,552,957 from Shetland Islands Council towards running costs of £1,708,215. This was an unbudgeted increase of £238,981 from Shetland Islands Council.

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Scottish Government revenue funding (granted under section 70 of the Transport (Scotland) Act 2001) was £155,000 for both 2009/10 and 2010/11 but is set to fall in 2011/12.

Expenditure and income in 2010/11 may be summarised as follows:

Revenue	Budget	Actual	Variance
	£	£	£
Policy Strategy & Projects	236,301	256,113	(19,812)
Bus Operations	1,232,675	1,452,098	(219,423)
Financing Costs (Bank Charges)	0	4	(4)
Total Expenditure	1,468,976	1,708,215	(239,239)
Scottish Government Grant	(155,000)	(155,000)	0
SIC Grant	(1,313,976)	(1,552,957)	238,981
Financing Income (Bank Interest)	0	(258)	258
Total Income	(1,468,976)	(1,708,215)	239,239
Net (Surplus)/Deficit for Year	0	0	0

5. Implementation of Policies

In November 2006, responsibility for bus services was transferred to the Zetland Transport Partnership, inter-island air services were to follow in 2007 and the inter-island ferry service was to transfer to the Partnership in 2008/09. The Zetland Transport Partnership and HITRANS have completed a Review of Air Services in the Highlands and Islands and it was concluded, amongst other things, that there may be opportunities to more efficiently deliver inter-island air services if local authorities collaborate on the development and procurement of contracts. The Partnership will work with partners during 2011/12 to explore the potential for collaboration and a shared services approach to air services and the issue of functional transfers will be considered as part of that process.

Progress of the inter-island ferry service transfer continues to be suspended while the Government carries out its Ferries Review. The Government has adjusted its timetable for completion of the Ferries Review and it is now anticipated that the outcome of the Review will be known late in 2011.

Capital funding was rolled up into the Local Authority Settlement in 2008/09 and is no longer ring fenced for use by the Partnership. It is not possible for Regional Transport Partnerships to accumulate reserves. Operational funding for the Partnership is secured from Shetland Islands Council (SIC), with support provided by the Scottish Government. The majority of projects and actions arising from the Regional Transport Strategy are likely to be funded either through Shetland Islands Council's capital and revenue funds or from the Scottish Government.

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

1. Zetland Transport Partnership's Responsibilities

The Zetland Transport Partnership is required:

- to make arrangements for the proper administration of its financial affairs and to secure that the Proper Officer for Finance has the responsibility for the administration of those affairs. For Zetland Transport Partnership, the Proper Officer for Finance is the Head of Finance of the Shetland Islands Council;
- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets; and
- to acknowledge the audited accounts at a meeting of the Partnership within two months of receipt of the audit certificate.

2. The Proper Officer for Finance's Responsibilities

The Proper Officer for Finance is responsible for the preparation of the Zetland Transport Partnership's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

It is the responsibility of the Proper Officer for Finance to sign, date and submit the un-audited Statement of Accounts to the Partnership and Controller of Audit by 30 June.

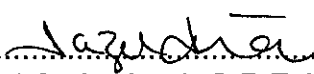
In preparing this Statement of Accounts, the Proper Officer for Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

The Proper Officer for Finance has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts presents a true and fair view of the financial position of the Zetland Transport Partnership at the reporting date and its income and expenditure for the year ended 31 March 2011.

..........
Hazel Sutherland C.P.F.A.
Proper Officer for Finance

31 August 2011

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

This statement is given in respect of the statement of accounts for the Zetland Transport Partnership. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

The system of internal financial control can provide only reasonable not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a reasonable period.

The system of internal financial control is based on a framework of guidance and management information. Key aspects include:

- comprehensive and up to date financial regulations;
- comprehensive budgeting systems;
- regular review of financial data;
- targeted reporting of budget against actual to managers;
- close management of capital expenditure.

The Proper Officer for Finance is responsible for Internal Audit within the Partnership. The Service Manager - Internal Audit is responsible to the Proper Officer for Finance for the day to day discharge of the internal audit function. It is the responsibility of Internal Audit to assist management in establishing an operating environment which is controlled, efficient and effective. Internal Audit operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government, the Institute of Internal Auditors Standards and Guidelines for the Professional Practice of Internal Auditing and operates in accordance with the ISO 9001:2008 quality standard for systems based audit work.

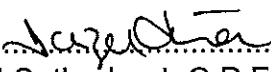
The effectiveness of internal financial control is also informed by:

- the work of managers for the Partnership;
- the work of internal audit, as mentioned above;
- the external auditors in their annual letter and other reports.

The conclusion of Internal Audit after a follow up report in May 2010 was that the application of internal controls was weak within the Transport Service and the Zetland Transport Partnership. Key issues identified in the Transport Service audit in 2008/09 had not been addressed. Of particular concern were further identified breaches of Standing Orders and in one case EU regulations within the Transport Service in 2009/10. Audit & Scrutiny requested a progress report and this was duly submitted in January 2011. Commitment to resolve all issues has been received from management.

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Following a further review by officers from the Finance team in May 2011, there is good evidence that some issues have now been resolved and that work is ongoing to resolve others. However, some matters have not yet been resolved. The ongoing work needs to be completed and all further outstanding matters need to be resolved and management has undertaken to do this as a matter of urgency.


..... 31 August 2011
Hazel Sutherland C.P.F.A.
Proper Officer for Finance

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**COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR
ENDED 31 MARCH 2011**


2009/10 Net Expenditure £		2010/11 Net Expenditure £
282,147	Policy, Strategy & Projects	256,113
1,297,057	Bus Operations	1,452,098
1	Other Payments (Bank Charges)	4
<u>1,579,205</u>	Cost of Services	<u>1,708,215</u>
(282)	Financing and Investment Income	(258)
(1,578,923)	Taxation and non-specific grant income ^(Note 7)	(1,707,957)
<u>(0)</u>	(Surplus) or Deficit on Provision of Services	<u>0</u>
0	Other Balance Sheet gains or losses	0
<u>0</u>	Total Comprehensive Income & Expenditure	<u>0</u>

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BALANCE SHEET AS AT 31 MARCH 2011

31 March 2010 £		31 March 2011 £	31 March 2011 £
1,423,924	Short term debtors ^(Note 2)	1,567,957	
86,764	Cash and cash equivalents ^(Note 3)	<u>25,381</u>	
	Current Assets		1,593,338
(1,510,688)	Short term creditors ^(Note 4)	<u>(1,593,338)</u>	
	Current Liabilities		(1,593,338)
0	Net Assets		0

The unaudited accounts were issued on 28 June 2011 and the audited accounts were authorised for issue on 31 August 2011.



 Hazel Sutherland C.P.F.A.
 Proper Officer for Finance

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

2009/10 TOTAL £	Operating Activities	2010/11 TOTAL £
	Cash Inflows	
(1,778,966)	Grants	(1,563,924)
(282)	Bank Interest	(258)
<u>(1,779,248)</u>	Cash inflows generated from operating activities	<u>(1,564,182)</u>
	Cash Outflows	
1,746,324	Other Payments for Operating Activities	1,625,565
<u>1,746,324</u>	Cash outflows generated from operating activities	<u>1,625,565</u>
<u>(32,924)</u>	Net Cash outflows/(inflows) from operating activities	<u>61,383</u>
<u>(32,924)</u>	Net decrease/(increase) in cash and cash equivalents	<u>61,383</u>
53,840	Cash and cash equivalents at the beginning of the reporting period	86,764
86,764	Cash and cash equivalents at the end of the reporting period ^(Note 3)	25,381
<u>(32,924)</u>	Net cash outflows/(inflows) in cash and cash equivalents in year	<u>61,383</u>

NOTES TO THE PRIMARY FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Principles

The Code specifies the applicable accounting policies for:

- selecting measurement bases for recognising assets, liabilities, gains and losses in the statement of accounts;
- making changes to reserves;
- the minimum disclosure requirements.

A valid estimation technique can be used to derive the monetary amount (i.e. the one that best reflects the economic reality of a transaction or event) to be recognised in the financial statements in such circumstances when the basis of measurement for the monetary amount cannot be applied with certainty (and the range of options is considered to be material).

Accounting Conventions and Concepts

The accounting convention adopted in the Statement of Accounts is historical cost modified by the revaluation of certain categories of non-current assets and financial instruments.

The concept of the partnership as a going concern is based on the premise that its functions and services will continue in existence for the foreseeable future.

The concept of materiality derives from the premise that financial statements need not be precisely accurate to represent a true and fair view. It is a matter of professional judgement as to whether users of the accounts could come to different conclusions about the partnership's standards of stewardship or make different economic decisions as a result of deviations from the provisions set out in the Code.

The accounting policies which have a significant effect on the amounts recognised in the financial statements of the Zetland Transport Partnership are summarised below.

(a) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Partnership transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Partnership.

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- Revenue from the provision of services is recognised when the Partnership can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Partnership.
- Supplies are recorded as expenditure when they are consumed but where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

(b) Cash and Cash Equivalents

In the Cash Flow Statement cash is shown net of bank overdrafts that are repayable on demand.

(c) Government Grants and Contributions

Government grants, third party contributions and donations are recognised as due to the Partnership and hence credited to the Comprehensive Income and Expenditure Statement when there is reasonable assurance that the Partnership will comply with any conditions attached to payment of the grants.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

(e) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received.

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NOTE 2 SHORT TERM DEBTORS

31 March 2010 £		31 March 2011 £
9,992	Central government bodies	15,000
1,413,932	Local authorities	1,552,957
1,423,924	Total	1,567,957

NOTE 3 CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2010 £		31 March 2011 £
86,764	Bank current accounts	25,381

NOTE 4 SHORT TERM CREDITORS

31 March 2010 £	Creditors	31 March 2011 £
1,510,688	Local authorities	1,593,338

NOTE 5 MEMBERS' EXPENSES

The Partnership Members do not receive an attendance allowance, however expenses incurred in the course of carrying out approved duties are reimbursed and therefore the Partnership paid the following amounts to Members during the year.

2009/10 £	Members Expenses	2010/11 £
882	Members Expenses	442

NOTE 6 EXTERNAL AUDIT COSTS

The Partnership has incurred the following costs in respect of external audit services provided by Audit Scotland in accordance with the Code of Audit Practice:

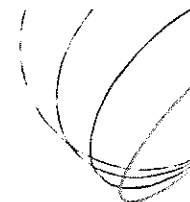
2009/10 £	External Audit Costs	2010/11 £
10,500	Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice	10,240

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NOTE 7 GRANT INCOME

The Partnership credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

2009/10 £	Grants Credited to Services	2010/11 £
(155,000)	Scottish Government Revenue Expenditure Grant	(155,000)
(9,992)	Scottish Government Sustainable Travel Grant	0
(1,413,931)	Shetland Islands Council Grant	(1,552,957)
(1,578,923)	Total	(1,707,957)



Appendix A

Independent Auditor's Report

Independent auditor's report to the members of Zetland Transport Partnership and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Zetland Transport Partnership for the year ended 31 March 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statements, Balance Sheet, and Cash-Flow Statement, the related notes and the Summary of Significant Accounting Policies. 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 2010/11 (the 2010/11 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 123 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 Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page 7, the Responsible Financial Officer 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 body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and the overall presentation of the financial statements. In addition, I read all the other financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements. 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 2010/11 Code of the state of the affairs of the transport partnership as at 31 March 2011 and of the 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 2010/11 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 information given in the Explanatory 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 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 Statement on the System of Internal Financial Control does not comply with the 2010/11 Code.

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight

*Fiona Mitchell-Knight FCA
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G74 1LW*

31 August 2011