

# Zetland Transport Partnership

Report to Members and the Controller of Audit  
on the 2010/11 Audit

October 2011



 AUDIT SCOTLAND



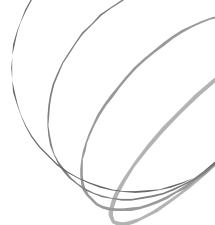
# Zetland Transport Partnership

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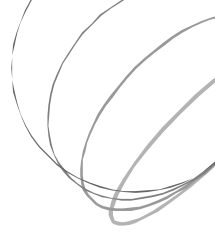
# Key Messages

We have given an unqualified opinion on the financial statements of Zetland Transport Partnership.

No high level risks have been identified from the audit.

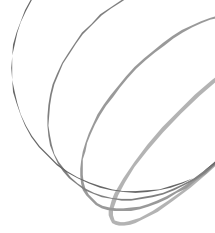


**October 2011**



# Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Zetland Transport Partnership (the transport partnership). The report focuses mainly on the transport partnership's financial statements and addresses any significant findings that have arisen throughout the year. The scope of the audit was set out in our audit fee letter issued on 2 February 2011.
2. The financial statements are the means by which the transport partnership accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the transport partnership to prepare financial statements that present a true and fair view of its financial position and the income and expenditure for the year.
3. The members and officers of the transport partnership 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 transport partnership'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 transport partnership has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability
  - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption
  - the transport partnership has proper arrangements for securing best value in its use of resources.
4. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for his annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the Scottish Parliament.



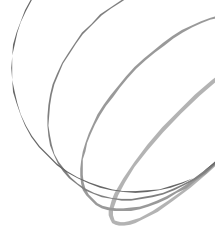
# Financial statements

## Introduction

5. In this section we summarise key outcomes from our audit of the transport partnership's financial statements for 2010/11.
6. We audit the financial statements and give an opinion on:
  - whether they present a true and fair view of the financial position of the transport partnership and its expenditure and income for the year
  - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
7. We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the transport partnership to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge.

## Audit Opinion

8. We have given an unqualified opinion that the financial statements of Zetland Transport Partnership for 2010/11 give a true and fair view of the financial position and expenditure and income of the transport partnership for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
9. We were satisfied with disclosures made in the statement on the system of internal financial control and the adequacy of the process put in place by the transport partnership to obtain assurances on systems of control.
10. The transport partnership's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. The accounts were certified by the target date of 31 August 2011 and are now available for presentation to members and publication. The financial statements are an essential means by which the transport partnership accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.



## Accounting issues

11. Local authority bodies in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom (the Code)* supported by International Financial Reporting Standards (IFRSs). 2010/11 was the first year of implementation of IFRSs and this has resulted in changes to the format of the financial statements. Partly as a result of this, the audit team identified more changes to be made to the draft accounts than they had in previous years. We were satisfied that the final set of accounts were in accordance with the Code and IFRSs.

## Audit testing

12. The transport partnership's financial transactions are processed through Shetland Islands Council's financial systems. As part of our work, we took assurance from a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- Payroll
- Accounts payable
- Main accounting system
- Accounts receivable

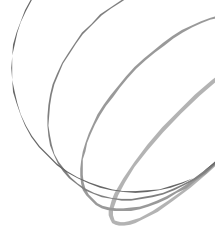
13. We also relied on the work of internal audit to support our work in these areas.

## Prevention and detection of fraud and irregularities

14. The transport partnership does not have in place its own arrangements for the prevention and detection of fraud and corruption, but complies with the relevant policies of Shetland Islands Council.

## Legality

15. Through our planned audit work we consider the legality of the transport partnership's financial transactions. In addition the Proper Officer of Finance confirmed that, to the best of her knowledge and belief, and having made appropriate enquiries of other senior officers, the financial transactions of the transport partnership were in accordance with relevant legislation and regulations.
16. The only additional potential legality issue arising from our audit which requires to be highlighted relates to the breach of EU regulations as reported at paragraph 33. Management assurances have been obtained from the proper officer of finance that the partnership has reviewed its arrangements to ensure no further breaches of EU regulations have taken place in 2010/11.



# Use of resources

## Financial results

17. In 2010/11, Zetland Transport Partnership spent £1,708,215 on the provision of services. This was met by funding from the Scottish Government of £155,000, funding from Shetland Islands Council of £1,552,957 and bank interest of £258.
18. The Proper Officer of Finance summarises performance against budget in the Explanatory Foreword to the accounts. Overall, the contribution received from Shetland Islands Council was £238,981 more than budgeted and this was required to offset increased bus operations costs.

## Reserves and balances

19. The transport partnership did not hold any reserves or balances at the year end.

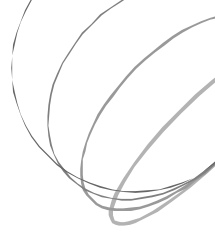
## Going concern

20. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. Under the Transport (Scotland) Act 2005, constituent local authorities are required to meet the transport partnership's new expenses, i.e. those expenses not met by grants or other income. The transport partnership has therefore considered it appropriate to adopt a going concern basis for the preparation of the financial statements.

## Financial planning

21. The proposed levels of revenue expenditure for 2011/2012 were presented to the partnership on 19 September 2011. The budgeted expenditure for the core running costs and the implementation of the regional transport strategy for 2011/12 is £278,607. This will be met from £131,750 revenue grant funding from the Scottish Government and £146,857 match funding from the council. The partnership also has responsibility for providing the scheduled bus service in Shetland. The budgeted cost for 2011/12 is £1,586,272, all of which will be funded by Shetland Islands Council.





# Governance and accountability

## Introduction

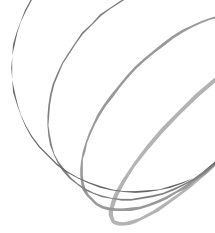
22. We believe that an effective organisation is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers.
23. In this section we comment on key aspects of the transport partnership's governance arrangements during 2010/11.

## Structure and policies

24. Zetland Transport Partnership was established under the Transport (Scotland) Act 2005, to be responsible for bringing together key stakeholders in transport planning to produce and deliver strategies that aim to make a real improvement to users.
25. The transport partnership is a separate statutory body and draws its membership from nominated members of Shetland Islands Council and representatives of NHS Shetland. There are also a number of observers and advisors appointed to the transport partnership.

## Partnership Working

26. The transport partnership works in cooperation with a number of stakeholders and interested bodies, including bus operators, airlines and ferry companies with the aim of developing a sustainable transport network.
27. The transport partnership completed a joint study with HITRANS to review air services in the Highlands and Islands. The aim of the review was to establish what needs to be done in air services over the next 12 years to ensure that organisations within the Highlands and Islands area fully contribute to increasing the levels of sustainable economic growth. The overall conclusion from the review was that there may be several opportunities to deliver more effective inter-island air services if local authorities collaborate on the development and procurement of contracts. The partnership will be working with partners during 2011/12 to explore these opportunities and the potential for a shared services approach to air services.



## Public performance reporting

28. The transport partnership monitors delivery of the transport strategy using a series of key performance indicators (KPIs). The KPIs give information and statistics on a number of areas. A summary of the main points is made available to the public through the ZetTrans annual report as discussed as paragraph 38.

## Governance and internal control

29. The transport partnership has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.

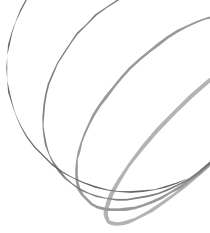
30. A Statement on the System of Internal Financial Control is included within the annual financial statements. This highlights internal audit's conclusion that the application of internal controls was within the transport service, and therefore the Zetland Transport Partnership. This is discussed further at paragraph 33. Overall, the statement complies with accounting requirements and is not inconsistent with our knowledge of the client or the findings of our audit.

## Systems of internal control

31. The transport partnership's financial transactions are processed through Shetland Islands Council's financial systems. It is the responsibility of the council's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated internal controls both for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.

32. Our review of these systems was conducted as part of the audit of Shetland Islands Council, supplemented by specific audit work on the transport partnership's financial statements.

33. Internal audit's follow up work in 2010 found that a number of key audit issues identified in the transport service audit in 2008/09 had not been addressed. Of particular concern were the identified breaches of the council's standing orders and in one case EU regulations with regard to tendering. The audit and scrutiny committee received a progress report in January 2011 which concluded that although not all issues were completed, substantial progress had been made and that all matters should be closed by the end of the financial year.

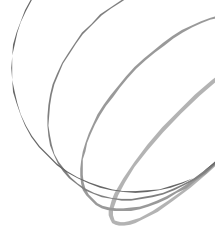


34. The partnership's SSIFC states that a further review by finance officers in May 2011 indicated that a number of the issues have now been resolved and that work is ongoing to resolve the outstanding issues. Management have undertaken to do this as a matter of urgency.

**Risk Identified:** until all outstanding issues are resolved, there is a risk that further breaches of standing orders could have taken place throughout the year.

**Planned Management Action:** management are committed to resolving all issues as a matter of urgency.

**Target Date:** Ongoing



# Performance management and improvement

## Introduction

35. We believe that an effective organisation has a clear and ambitious vision for what it wants to achieve for its locality and communities and to secure high quality services and effective outcomes for local people. The vision is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective organisation has a performance management culture which is embedded throughout the organisation. This section provides a high level overview of performance management in the transport partnership.

## Vision and strategic direction

36. The transport strategy's vision and objectives were developed following an extensive period of community and stakeholder consultation, analysis of constraints and drivers, and also an assessment of key problems and opportunities.

37. The vision is to develop an effective, efficient, safe and reliable transport system for Shetland. The transport system will comprise an integrated network of accessible and affordable internal, inter-islands and external links, which will contribute to the development of a safe, healthy, vibrant and inclusive society; a diverse, successful and self-sufficient economy, and enhanced environmental quality.

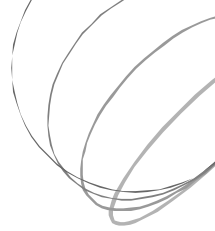
## Performance management

38. The Transport (Scotland) Act 2005 requires regional transport partnerships, as soon as practicable after year end, to publish and submit an annual report to Scottish Ministers on the performance during that year. The report for 2010/11 will not be available until the next board meeting on 14 November 2011.

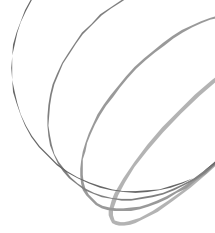
**Risk Identified:** there is a risk that the transport partnership is not fulfilling its statutory duties in relation to performance reporting.

**Planned Management Action:** future performance reports will be published and submitted Scottish ministers within the appropriate timescales.

Target Date: 30 June 2012



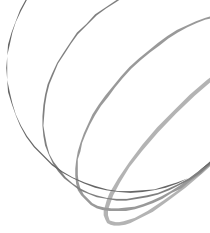
39. As reported above, the transport partnership uses a series of KPIs to monitor delivery of the transport strategy. The KPIs give information and statistics on a number of areas, including:
- the reliability of Shetland's transport
  - standards of road maintenance
  - fuel consumption levels
  - market growth on Shetland's transport network
  - public transport accessibility
  - sustainable transport use
  - road safety levels
  - transport integration opportunities.
40. A full report for 2009/10 was published in November 2010, and the same timescale is expected for 2010/11.



# Final Remarks

41. The members of Zetland Transport Partnership are invited to note this report. We would be pleased to provide any additional information that members may require.
  
42. The co-operation and assistance given to us by officers of the transport partnership is gratefully acknowledged.





# Appendix A

## External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date Issued
Report on financial statements to those charged with governance	31/8/11	31/8/11
Audit opinion on the 2009/10 financial statements	31/8/11	31/8/11