



# Zetland Transport Partnership

2015/16 Annual audit report to Members and the Controller of Audit

September 2016

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This report has been prepared for the use of Zetland Transport Partnership and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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# Key messages

## Audit of financial statements

- Unqualified auditor's report on the 2015/16 financial statements.
- Only minor presentational and disclosure adjustments required to the financial statements presented for audit

## Financial management and sustainability

- The partnership reported an overspend of £0.127 million against its budget of £2.027 million for the year
- We confirm the financial sustainability of Zetland Transport Partnership on the basis of its financial position

## Governance and transparency

- Overall, we found that Zetland Transport Partnership had generally sound governance arrangements in place during 2015/16
- Governance review being carried out during 2016/17
- Systems of internal control operated effectively during 2015/16

## Best Value

- Regional Transport Strategy has been refreshed with an updated version covering 2016-20 being considered later in 2016.
- An annual report on performance for 2015/16 is being produced in September 2016

## Outlook

- The partnership has approved a budget of £2.836 million for 2016/17 and expenditure and income during the year will require close monitoring to identify and address any emerging budget pressures

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Zetland Transport Partnership. The report is divided into sections which reflect our public sector audit model.
2. The management of Zetland Transport Partnership is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Zetland Transport Partnership, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of 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; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of local reports have been issued by Audit Scotland during the course of the year. These reports have been summarised in **Appendix II**.
6. **Appendix III** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Zetland Transport Partnership understands its risks and has arrangements in place to manage these risks. Members and officers should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of Zetland Transport Partnership will be Deloitte LLP. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

# Audit of the 2015/16 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"> <li>We have completed our and issued an unqualified independent auditor's report.</li> </ul>
<b>Going concern</b>	<ul style="list-style-type: none"> <li>The financial statements have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the partnership's ability to continue as a going concern.</li> </ul>
<b>Other information</b>	<ul style="list-style-type: none"> <li>We review and report on other information published with the financial statements, including the management commentary and annual governance statement. We have nothing to report in respect of these statements.</li> </ul>

## Submission of financial statements for audit

- We received the unaudited financial statements on 13 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.

## Overview of the scope of the audit of the financial statements

- Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan issued in March 2016.

- 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 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix I](#)

sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved 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.

## Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Zetland Transport Partnership Zetland Transport Partnership we set our planning materiality for 2015/16 at £18,200 (1% of gross expenditure). We report all misstatements greater than £1,000. Performance materiality was calculated at £15,500, to reduce to an

acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

18. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

## Evaluation of misstatements

19. No misstatements were identified during the audit.
20. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements.

## Significant findings from the audit

21. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
  - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
  - Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.
  - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

22. There are no matters, others than those set out elsewhere in this report, to which we wish to draw your attention.

24. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

## Future accounting and auditing developments

### Code of Audit Practice

23. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:

- Financial sustainability
- Financial management
- Governance and transparency; and
- Value for money

# Financial management and sustainability

## Financial management

25. In this section we comment on Zetland Transport Partnership's financial outcomes and assess the financial management arrangements in place. The partnership sets an annual budget to meet its service and other commitments for the forthcoming financial year. The funding is largely provided by Shetland Islands Council which is working within challenging financial targets.

## Financial outcomes

26. Zetland Transport Partnership incurred expenditure of £2.154 million (£2.237 million 2014/15) on the provision of services. This was met by funding from the Scottish Government of £0.131 million, funding from Shetland Islands Council of £2.021 million and bank interest of £464. Overall the partnership reported an overspend of £0.127 million (6%) against its budget of £2.027 million. This was mainly due to fare income being less than anticipated.
27. This is the fourth year in a row that the partnership has recorded an overspend against its budget. Although the overspend in 2015/16 is lower than in previous years, it remains essential that the partnership closely monitors budget positions during the year to identify variances and enable appropriate action to be taken.

### Appendix III – action plan no. 1

## Exhibit 1: Overspends

Description	2012/13 £million	2013/14 £million	2014/15 £million	2015/16 £million
Budgeted expenditure	1.370	1.613	1.759	2.027
Overspend	0.278	0.130	0.478	0.127
	20%	8%	27%	6%

Source: Zetland Transport Partnership annual accounts

## Financial planning

28. The partnership set its 2016/17 budget in December 2015. The 2016/17 budget was set at £2.836 million to be met by £0.131 million from the Scottish Government, £0.699m from fares & charges and funding from Shetland Islands Council of £2.006 million.



# Governance and transparency

29. Members and management of Zetland Transport Partnership are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
30. We concluded that the partnership had generally satisfactory governance arrangements in place which included standing committees overseeing key aspects of governance.

## Corporate governance

31. The partnership completed a self assessment of governance arrangements in 2015 as part of a review by Shetland Islands Council's Governance and Law service. This review identified a number of areas for improvement in the governance arrangements at the partnership, including:
  - Review of constitutional documents
  - Performance Management Framework
  - Risk management strategy
  - Minute of Agreement with Shetland Islands Council

32. It is anticipated that the detailed actions for improvement will be reported to the partnership in November 2016.

## Appendix III – Action plan no. 2

## Internal control

33. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.
34. Zetland Transport Partnership uses the corporate financial systems of Shetland Islands Council for its operations. As external auditors of the council we have reviewed the systems and have been able to take assurance from this work. No material weaknesses in the accounting and internal control systems were identified during the audit which would 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.

## Internal audit

35. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work

where possible. The internal audit work for Shetland Islands Council provided assurance over the financial statements.

## **Arrangements for the prevention and detection of fraud**

36. 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, the overall arrangements for the prevention and detection of fraud at Zetland Transport Partnership are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

## **Arrangements for maintaining standards of conduct and the prevention and detection of corruption**

37. 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.

# Best Value

been prepared and will be presented to the partnership in September 2016.

## Appendix III – action plan no. 3

38. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The partnership should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

## Performance management

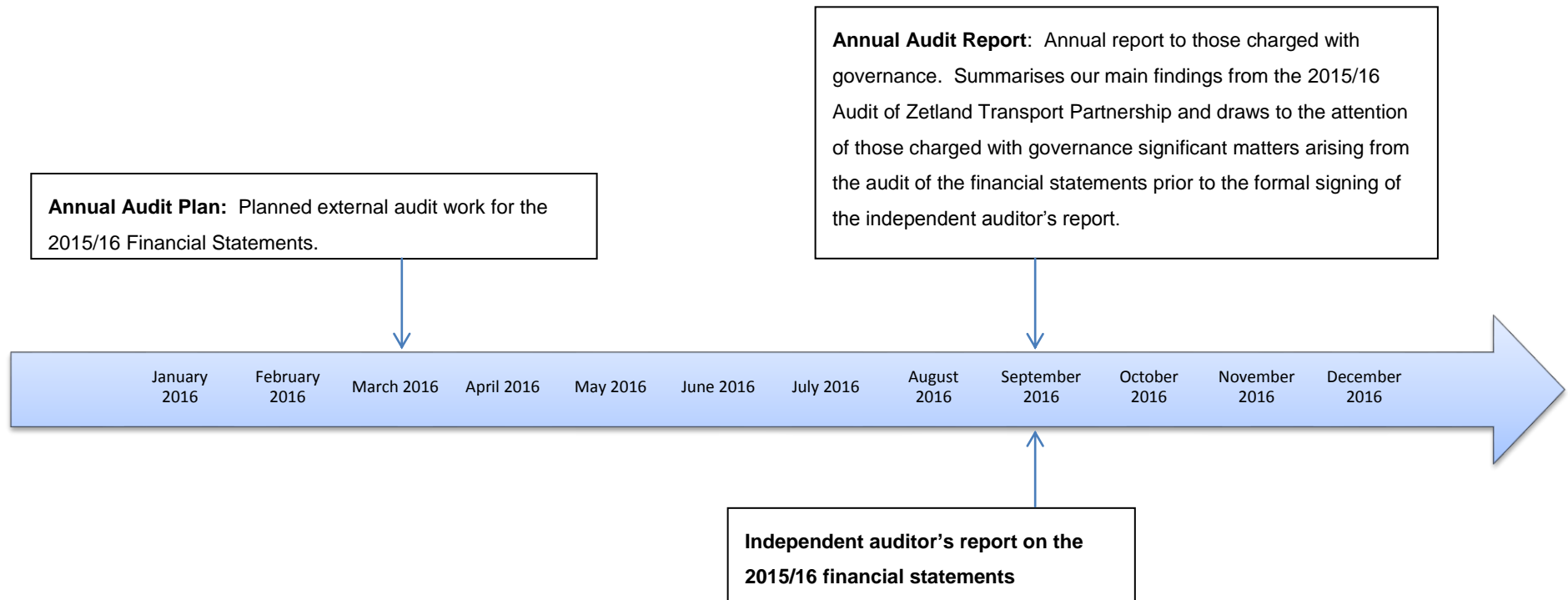
39. The aims of the partnership are set out in the Shetland Transport Strategy required under the Transport (Scotland) Act 2005 (the Act). The latest version of the strategy was agreed in 2008. Work on refreshing the Transport Strategy has been carried out during 2015/16 and a refreshed strategy covering 2016-20 is due to be considered by the partnership in late 2016.
40. Under the Act the partnership is required to produce an annual report detailing the overall performance of the Partnership and how it is performing against its Transport Strategy. As noted in our 2014/15 report, Zetland Transport Partnership had not reported performance against key performance indicators (KPIs) in 2014/15 mainly due to the lack of available resources. A recruitment exercise completed in March 2016 has addressed this lack of resources and an annual report of performance for 2015/16 has

# Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Management override of controls</b></p> <p>ISA240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries</li> <li>• Review of accounting estimates</li> <li>• Evaluating significant transactions that are outside the normal course of business</li> <li>• Focused testing of accruals</li> </ul>	<p>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We did not identify any incidents of management override of controls.</p>
<p><b>Income</b></p> <p>Zetland Transport Partnership receives a significant amount of income from bus service receipts.</p> <p>The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> <li>• Substantive testing of transactions carried out as part of the audit</li> <li>• Work carried out by the partnership to monitor and verify fare income during the year</li> </ul>	<p>No issues identified from the audit testing performed.</p> <p>No issues with fare income have been identified by checks carried out by transport staff</p>

# Appendix II: Summary of local audit reports 2015/16



# Appendix III: Action plan

No.	Page / Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	8 / 27	<p><b>Issue</b></p> <p>Zetland Transport Partnership has overspent against its budget for each of the previous four years.</p> <p><b>Risk</b></p> <p>Without robust financial planning and monitoring arrangements there is a risk that the partnership is unable to deliver the required school and public bus service requirements within the agreed budget.</p> <p><b>Recommendation</b></p> <p>Going forward, it is essential that appropriate budgets are set and that variances are monitored promptly.</p>	<p>Additional staffing resources have been approved which will increase the quality of financial data and the ability to accurately forecast the outturn cost for the Partnership in the quarterly monitoring reports.</p> <p>This in turn will provide better information for the budgeting process and enable early intervention to deal with any budgetary issues at monitoring meetings.</p>	<p>Michael Craigie, Executive Manager – Transport Planning</p> <p>Ongoing</p>

No.	Page / Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	9 / 32	<p><b>Issue</b></p> <p>A self assessment of governance arrangements has identified a number of areas where arrangements could be strengthened.</p> <p><b>Risk</b></p> <p>Governance arrangements in place may not allow for best value.</p> <p><b>Recommendation</b></p> <p>Actions identified in the action plan should be implemented to ensure the governance arrangements reflect recommended good practice guidance.</p>	<p>The governance review is well underway and the aim to present the outcome of the first stage of the review to the Partnership in early November 2016.</p>	<p>Jan Riise, Secretary &amp; Proper Officer</p> <p>31 December 2016</p>

No.	Page / Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	11 / 40	<p><b>Issue</b></p> <p>The partnership has not produced an annual report of performance in recent years.</p> <p><b>Risk</b></p> <p>The partnership may not be able to effectively monitor how it has performed during the year.</p> <p><b>Recommendation</b></p> <p>Arrangements should be in place to make sure that performance reports are produced each year.</p>	A draft annual report will be presented to the Partnership in late September 2016 with the final annual report presented for approval in November 2016.	<p>Michael Craigie, Executive Manager – Transport Planning</p> <p>31 December 2016</p>