

Zetland Transport Partnership

Annual report on the 2011/12 audit report



Prepared for Members and the Controller of Audit
October 2012

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

2011/12

We have given an unqualified opinion on the 2011/12 financial statements of Zetland Transport Partnership.

No high level risks have been identified from the audit.

During 2011/12 Zetland Transport Partnership spent £1,870,829 on the provision of services which was £20,959 less than budgeted.

Outlook

The 2012/13 budget for the provision of services is £1,744,247 which is a reduction of 7.8% from the previous year.

Introduction

1. This report is the summary of our findings arising from the 2011/12 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 dated 2 February 2012.
2. Appendix 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 the transport partnership 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.
3. 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.
4. 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.
5. This report is addressed to members and the Controller of Audit. Reports are available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting. The report will be published on our website after consideration by the partnership. 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.

6. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
9. We also review the Annual Governance Statement 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

10. We have given an unqualified opinion that the financial statements of Zetland Transport Partnership for 2011/12 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.

Annual Governance Statement

11. For the first time, the 2011/12 financial statements include an annual governance statement. The inclusion of an annual governance statement is in line with good practice as set out by CIPFA/SOLACE in 'Delivering good governance in local government'.
12. We were satisfied with disclosures made in the annual governance statement and the adequacy of the process put in place by the transport partnership to obtain assurances on systems of control.

Accounting issues

13. We are satisfied that the financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Accounts submission

14. The transport partnership's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2012. The accounts were certified by the target date of 31 August 2012 and are now available for presentation to members and publication.

Financial position

15. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
16. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
17. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Financial Position

18. In 2011/12, Zetland Transport Partnership spent £1,870,829 on the provision of services. This was met by funding from the Scottish Government of £131,750, funding from Shetland Islands Council of £1,738,761 and bank interest of £318.
19. The Proper Officer of Finance summarises performance against budget in the Explanatory Foreword to the accounts. The transport partnership spent £252,202 on Policy Strategy and Projects, which was £26,405 (9.5%) less than budget, and spent £1,618,627 on Bus Operations, which was £5,446 (0.3%) more than budget. Overall, the transport partnership spent £20,959 (1.1%) less than budgeted.

Reserves and balances

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

Going concern

21. 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 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

22. The transport partnership is currently working on an internal public transport network redesign project which is a review of bus service provision across Shetland. A main aim of the project is to allow the transport partnership to reduce the cost of public transport costs in line with budget pressures through improved integration of transport services and more efficient packaging of contracts.
23. In June 2012 the transport partnership reported that the total budget for bus service provision would be £3.842 million excluding administration costs. The tender exercise is due for completion in January 2013 and the award of new contracts is planned for March 2013. Should the costs of the preferred tenders exceed the budget amount, the transport partnership, together with Shetland Island Council, will need to decide on the level of service provision that is affordable.

Refer Action Plan no. 1

Partnership Working

24. 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. Areas where the transport partnership is working with other stakeholders include:
 - Shetland transport strategy
 - Shetland's internal public transport network redesign project
 - Shetland external transport forum
 - Scottish ferries review
 - Move on Green project

Outlook

2012/13 budget

25. The proposed levels of revenue expenditure for 2012/13 were presented to the transport partnership on 19 March 2012. The 2012/13 overall budget for the provision of services is £1,744,247.
26. Budgeted expenditure for the core running costs and the implementation of the regional transport strategy is £157,975. This will be met from £131,750 revenue grant funding from the Scottish Government and the balance will be funded by Shetland Islands Council.
27. The transport partnership also has responsibility for providing the scheduled bus service in Shetland. The budgeted cost for 2012/13 is £1,586,272 all of which will be funded by Shetland Islands Council.

Significant financial risks

28. As with most public sector bodies, the transport partnership is faced with a significant reduction in funding. The 2012/13 budget for the provision of services of £1,744,247 is a reduction of £147,541 (7.8%) from 2011/12.

Refer Action Plan no. 2

Governance and accountability

29. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
30. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
31. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
32. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

33. 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.
34. 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.
35. An Annual Governance Statement is included within the annual financial statements. This is the first time such a statement has been prepared and is in line with good practice. Overall, the statement complies with accounting requirements and is not inconsistent with our knowledge of the transport partnership or the findings of our audit.
36. Following the local government elections in May 2012, a new chair and vice-chair were appointed to the transport partnership. The transport partnership has also recently reviewed the appointment of advisors and is revising the governance and administration arrangements, with a report on the new arrangements expected in January 2013.

Internal control

37. 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.
38. 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.
39. 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. This includes our reliance on the work of the internal auditor in a number of areas.
40. We have concluded that these arrangements are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Prevention and detection of fraud and irregularities

41. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. We are not aware of any specific issues that we need to identify in this report.

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

42. 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. We have concluded that the arrangements are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Performance management and improvement

Introduction

43. 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

44. 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.

45. 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

46. 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. It is anticipated that the next annual report will be submitted in November 2012.

47. 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.

48. A full report for 2010/11 was published in November 2011, and the same timescale is expected for 2011/12.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue
Annual Audit Plan	February 2012
Report on financial statements to those charged with governance	31 August 2012
Audit opinion on the 2011/12 financial statements	31 August 2012
Annual Audit Report	31 October 2012

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	The cost of tenders for the required bus service provision exceeds the allocated budget.	If the cost of tenders for the required bus service provision exceeds the allocated budget then the level of service provision will be revisited. This is to ensure that the budget is met.	Executive Manager - Transport Planning	31 March 2013
2	The transport partnership is unable to achieve the savings that the significant reduction in funding requires.	The transport partnership budget will be monitored rigorously throughout the 2013-14 financial year to ensure that savings are delivered and action taken if this is at threat.	Executive Manager - Finance	31 March 2014