

# Zetland Transport Partnership

## Annual report on the 2012/13 audit



Prepared for Members and the Controller of Audit  
August 2013

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

## 2012/13

We have given an unqualified opinion that the financial statements of Zetland Transport Partnership for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. No significant risks have been identified when conducting the audit of Zetland Transport Partnership for 2012/13.

Overall, Zetland Transport Partnership's arrangements for the prevention and detection of fraud were satisfactory during 2012/13. From our review of the key controls within the main financial systems, we concluded that Zetland Transport Partnership's systems of internal control are operating effectively.

During 2012/13, Zetland Transport Partnership spent £1,647,325 on the provision of services which was £277,781 more than budgeted. The Bus Operations budget was exceeded as Shetland Islands Council had planned to make savings elsewhere to offset the overspend. Due to the fact that these planned savings were not achieved there was a significant overspend of 25%.

## Outlook

We confirm the financial sustainability of Zetland Transport Partnership on the basis of its financial position. The financial position going forward will be even more challenging than previous years with limited increases in funding coupled with increasing cost pressures.

This represents a major challenge for Zetland Transport Partnership 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.

Against this background, the partnership also faces the challenge of delivering the Redesign of Shetland's Internal Public Transport Project.

The 2013/14 budget for the provision of services is £1,613,244 which is an increase of 17.8% over the previous year.

# Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Zetland Transport Partnership. The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinion (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 Zetland Transport Partnership and no responsibility to any third party is accepted.
3. [Appendix A](#) 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 Zetland 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.
4. This report is also addressed to the Controller of Audit and will be published on our website after consideration by the partnership.

# 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 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 2012/13 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 of Zetland Transport Partnership for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion will be formally issued and signed at the beginning of September 2013.
8. We received the unaudited financial statements on 14th June 2013 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 on 26th July 2013. Zetland Transport Partnership is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

## Significant findings (ISA260)

9. No issues require to be brought to your attention regarding the appropriateness of the partnership's accounting policies or accounting estimates and judgements, the timing of transactions, the existence of any material unusual transactions or the potential effect on the financial statements of any uncertainties.

## Financial position

### 2012/13 Outturn

10. The main financial objective for Zetland Transport Partnership is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.
11. Zetland Transport Partnership operated outwith the resource budgets for 2012/13 as detailed in Table 1 below which also shows the variance between the budget and actual revenue figures for the year.

**Table 1: Financial Performance**

2011/12 Actual Revenue		2012/13 Budget	2012/13 Actual	2012/13 Variance
252,202	Policy Strategy & Projects	157,975	132,670	25,305
1,618,627	Bus Operations	1,211,619	1,514,705	(303,086)
<b>1,870,829</b>	<b>Total Expenditure</b>	<b>1,369,594</b>	<b>1,647,375</b>	<b>(277,781)</b>

Source: Zetland Transport Partnership Audited Accounts 2012/13

12. In 2012/13, Zetland Transport partnership spent £1,647,375 (£1,870,829 2011/12) on the provision of services. This was met by funding from the Scottish Government of £131,750, funding from Shetland Islands Council of £1,515,219 and bank interest of £407. The significant reason for the deficit is mainly due to increased costs in Bus Operations of £303,086. The Bus Operations budget was exceeded as Shetland Islands Council had planned to make savings elsewhere to offset the overspend. Due to the fact that these planned savings were not achieved there was a significant overspend of 25%.
13. The Proper Officer for Finance summarised performance against budget in the Explanatory Foreword of the accounts. The transport partnership spent £132,670 on Policy Strategy and Projects, resulting in an underspend of £25,305 (16.1%) and spent £1,514,705 on Bus Operations, which was £303,086 (25.0%) more than budget. Overall, the transport partnership spent £277,781 (17.8%) more than budgeted. Going forward, it is essential that appropriate budgets are set and that variances are monitored promptly.

**Refer Action Plan 1**

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

### Financial planning

15. In June 2013, the transport partnership approved the 2013/14 budget of £1,613,244. This will be met by funding from Scottish Government of £131,750 and funding from Shetland Islands Council of £1,481,494. It is important that the partnership has effective financial management arrangements in place to meet the agreed 2013/14 budget.

**Refer Action Plan 2**

16. The transport partnership also has a responsibility for providing the scheduled bus service in Shetland. The budgeted cost for 2013/14 is £1,445,436, all of which will be funded by Shetland Islands Council.

17. At present, the transport partnership is engaged in the delivery of the Redesign of Shetland's Internal Public Transport Project. A recent tendering exercise resulted in invitations for 288 contracts, however, this process highlighted some budgetary and operational issues which are currently being assessed and developed.

**Refer Action Plan 3**

## **Corporate governance and systems of internal control**

### **Overall governance arrangements**

18. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and, overall, we found Zetland Transport Partnership had satisfactory governance arrangements in place which included a number of standing committees overseeing key aspects of governance. As highlighted by Internal Audit, there is scope for improvement to existing governance arrangements around procurement to help ensure compliance with Shetland Islands Council Standing Orders for Contracts.

### **Accounting and internal control systems**

19. 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.
20. 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.

### **Prevention and detection of fraud and irregularity**

21. 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 of fraud at Zetland Transport Partnership 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**

22. 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

### Best value and performance

23. Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.
24. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning.
25. We also have a responsibility to review and report on the arrangements that the partnership has to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
26. The transport partnership uses a series of Key Performance Indicators (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.
27. A full report for 2011/12 was submitted to the partnership committee in November 2012, and the same timescale is expected for 2012/13.

### Acknowledgements

28. We would like to express our thanks to the staff of Zetland Transport Partnership 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: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	13	There is a risk of excessive levels of expenditure if budgets are not set at an appropriate level or if variances are not investigated promptly.	As part of the 2014-15 budget setting process, we will review arrangements for developing budgets to ensure that deliver a robust budget.  Variances will be investigated through monitoring.	Lead Officer & Proper Officer for Finance	30 September 2013
2	15	There is a risk that the partnership is unable to deliver the required internal public transport requirements within the agreed 13/14 budget.	Budget monitoring reports will be presented to all ZetTrans meetings that project the annual outturn. This will identify any failings sufficiently early in the year so that actions can be taken to address any projected overspends.	Proper Officer for Finance	Immediately
3	17	There is a risk that the partnership is unable to deliver the Redesign of Shetland's Internal Public Transport Project.	An external Transport Planning consultancy firm has been used to assist with this project to ensure that it delivers the outcomes desired by both ZetTrans and the Council.	Director of Development Services Proper Officer for Finance	31 March 2014