

# Zetland Transport Partnership

## Annual report on the 2013/14 audit



Prepared for Members and the Controller of Audit  
August 2014

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# Key Messages

## 2013/14

We have given an unqualified opinion that the financial statements of Zetland Transport Partnership for 2013/14 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 2013/14.

Overall, Zetland Transport Partnership's arrangements for the prevention and detection of fraud were satisfactory during 2013/14. 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 2013/14, Zetland Transport Partnership spent £1,742,975 on the provision of services which was £129,731 more than budgeted. The 2013/14 budget was exceeded as Shetland Islands Council carried out a second Bus Network Redesign review with the assistance of an external Transport Planning consultancy firm.

Zetland Transport Partnership and Shetland Islands Council recently approved 144 contracts beginning August 2014 for the delivery of both school and public transport services in Shetland.

## 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.

The 2014/15 budget for the provision of services is £1,759,069 which is an increase of 9.0% over the previous year.

# Introduction

1. This report is the summary of our findings arising from the 2013/14 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 2013/14 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 2013/14 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 end of August 2014.
8. We received the unaudited financial statements on 12th June 2014 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 4th July 2014. Zetland Transport Partnership is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 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 2013/14 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**

2012/13		2013/14	2013/14	2013/14
Actual		Budget	Actual	Variance
Revenue				
132,670	Policy Strategy & Projects	167,808	216,625	(48,817)
1,514,705	Bus Operations	1,445,436	1,526,349	(80,913)
0	Bank Charges	0	1	(1)
<b>1,647,375</b>	<b>Total Expenditure</b>	<b>1,613,244</b>	<b>1,742,975</b>	<b>(129,731)</b>

Source: Zetland Transport Partnership Audited Accounts 2013/14

12. In 2013/14, Zetland Transport Partnership spent £1,742,975 (£1,647,375 2012/13) on the provision of services. This was met by funding from the Scottish Government of £131,750, funding from Shetland Islands Council of £1,610,739 and bank interest of £486.
13. The Proper Officer for Finance summarised performance against budget in the Explanatory Foreword of the accounts. The transport partnership spent £216,625 on Policy Strategy & Projects, resulting in an overspend of £48,817 (29.1%) and spent £1,526,349 on Bus Operations, which was £80,913 (5.6%) more than budget. Overall, the transport partnership spent £129,731 (8.0%) more than budgeted.
14. The significant reason for the deficit is mainly attributed to increased costs in Bus Operations and Policy, Strategy & Projects. The initial Bus Network Redesign review did not result in tenders that met the planned budget and existing contracts were extended to August 2014 to allow a second review to be carried out.
15. Going forward, it is essential that appropriate budgets are set and that variances are monitored promptly.

**Refer Action Plan 1**

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

## Financial planning

17. In April 2014, the transport partnership approved the 2014/15 budget of £1,759,069. This will be met by funding from Scottish Government of £131,750 and funding from Shetland Islands Council of £1,627,319. It is important that the partnership has effective financial management arrangements in place to meet the agreed 2014/15 budget.

**Refer Action Plan 1**

18. With the assistance of external consultants Zetland Transport Partnership and Shetland Islands Council recently carried out a review of the Bus Network Redesign project. The subsequent tender exercise resulted in the approval of 144 contracts beginning August 2014 for the delivery of both school and public transport services in Shetland. Compared to the previous tendering exercise in 2013, savings of £5,500,000 over the next 5 years were identified.

## Corporate governance and systems of internal control

### Overall governance arrangements

19. 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

20. 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.
21. 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

22. 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

23. 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

24. 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.
25. 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.
26. 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.
27. 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.
28. Full reports for 2012/13 and 2013/14 are due to be submitted to the partnership committee on 9 October 2014. These reports have been delayed due to the tender process relating to the Redesign of Shetland's Internal Public Transport.

### Acknowledgements

29. 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	15 & 17	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.	The ZetTrans budget will be closely monitored during 2014-15 following the implementation of the new bus contracts. The main budget risk will be around the achievement of income from bus fares now that ZetTrans will retain income as a result in a change to the new bus contracts.	Proper Officer for Finance	31 March 2015