

Zetland Transport Partnership

**Report to Members and the Controller of Audit
on the 2009/10 Audit**

October 2010



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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 2010



Introduction

1. This report is the summary of our findings arising from the 2009/10 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 29 January 2010.
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 her 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 Local Government and Communities Committee of 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 2009/10.
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 2009/10 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 2010 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 – a Statement of Recommended Practice* (the SORP). No major changes were introduced by the 2009 SORP which would have an impact on the transport partnership's financial statements. We were satisfied that the transport partnership prepared the accounts in accordance with the 2009 SORP.

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 his 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 2009/10.



Use of resources

Financial results

17. In 2009/10, Zetland Transport Partnership spent £1,579,206 on the provision of services. This was met by funding from the Scottish Government of £164,992, funding from Shetland Islands Council of £1,413,933 and bank interest of £281.
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 £77,342 less than budgeted, consisting of reductions in match funding of £68,489 and in the grant for bus services of £8,853.

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 2010/2011 were presented to the partnership on 14 June 2010. The total proposed expenditure for 2010/11 is £221,104. This is to be met from £155,000 revenue grant from the Scottish Government and £66,104 match funding from the council. The partnership also has responsibility for providing the scheduled bus service in Shetland. The budgeted cost for 2010/11 is £1,229,618, 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 2009/10.

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's joint study with HITRANS to carry out a review of air services in the Highlands and Islands is an example of this. 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 outcomes and recommendations of the study were reported to the partnership on 22 February 2010 and a workshop was held on 26 March 2010 to review and assign a level of priority to these recommendations.



Public performance reporting

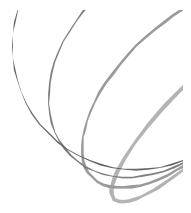
28. The transport partnership monitors delivery of the transport strategy using a series of key performance indicators (KPIs). The KPIs give information and statistics on a number of areas. A summary of the main points is made available to the public through the ZetTrans annual report, however, the report for 2009/10 will not be available until 11 November 2010. Performance monitoring is discussed further at paragraph 37.

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, and highlights the Proper Officer of Finance's view that reasonable assurance can be placed upon the adequacy and effectiveness of the transport partnership's internal financial control system. The statement complies with accounting requirements and is not inconsistent with 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. The conclusion of internal audit was that the application of internal controls was weak within the transport service and the transport partnership.



33. A number of key audit issues were identified by internal audit in 2008/09. The follow up work in 2009/10 found that most of these issues had not been resolved. Of particular concern were the identified breaches of the council's standing orders and in one case EU regulations with regard to tendering. Management are committed to resolving all issues and a progress report will be provided to the audit and scrutiny committee within 6 months.

Risk Identified: there is a risk that further breaches of standing orders have taken place during the year.

Planned Management Action: management are committed to resolving all issues and a progress report will be issued to the audit and scrutiny committee within 6 months.

Target Date: 31 October 2010



Performance management and improvement

Introduction

34. 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

35. 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.
36. 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

37. The Transport (Scotland) Act 2005 requires regional transport partnerships to publish and submit an annual report to Scottish Ministers on the performance of their functions. 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.
38. A full report for 2008/09 was published in August 2009, however, the 2009/10 report will not be available until 11 November 2010.

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.

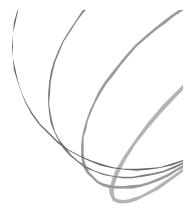
Target Date: 31 March 2011



Final Remarks

39. 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.
40. 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 2009/10

| Title of report or opinion | Date of issue | Date Issued |
|---|---------------|-------------|
| Report on financial statements to those charged with governance | 31/8/10 | 20/8/10 |
| Audit opinion on the 2009/10 financial statements | 31/8/10 | 23/8/10 |