



# Zetland Transport Partnership 2014/15

Annual audit report to  
Members and the  
Controller of Audit

September 2015

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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.

This report will be published on our website after it has been considered by the partnership. 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

<p>Audit of financial statements</p>	<ul style="list-style-type: none"> <li>• Unqualified independent auditor's report on the 2014/15 financial statements.</li> <li>• Only minor presentational and disclosure adjustments required to the financial statements presented for audit.</li> </ul>
<p>Financial management and sustainability</p>	<ul style="list-style-type: none"> <li>• The partnership reported an overspend of £478,327 against its budget of £1,759,069 for the year.</li> <li>• We confirm the financial sustainability of Zetland Transport Partnership on the basis of its financial position</li> </ul>
<p>Governance and transparency</p>	<ul style="list-style-type: none"> <li>• Overall, we found Zetland Transport Partnership had sound governance arrangements in place during 2014/15.</li> <li>• Systems of internal control operated effectively during 2014/15.</li> </ul>
<p>Best Value</p>	<ul style="list-style-type: none"> <li>• The Partnership did not produce Key Performance Indicator information during 2014/15</li> </ul>
<p>Outlook</p>	<ul style="list-style-type: none"> <li>• The Partnership has approved a 2015/16 budget of £1,819,724 and expenditure during the year will require close monitoring to identify and address any emerging budget pressures.</li> </ul>

# Introduction

1. This report is a summary of our findings arising from the 2014/15 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.

# Audit of the 2014/15 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"><li>• We have completed our audit 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 a 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

9. We received the unaudited financial statements on 12 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and the 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

10. 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 February 2015.

11. 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 2014/15 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.
12. 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.

13. 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

14. 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. In addition, 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).
15. 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.
16. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Zetland Transport Partnership we set our planning materiality for 2014/15 at £17,500 (1% of gross expenditure). We report all misstatements greater than £750. Performance materiality was calculated at £15,000, to reduce to an acceptable level the probability of

uncorrected and undetected audit differences exceeding our planning materiality level.

17. 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

18. No misstatements were identified during the audit.
19. 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

20. 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.

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

## **Future accounting and auditing developments**

22. The financial statements are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. There are no significant changes to accounting requirements introduced by the 2015/16 Code which are likely to impact on the financial statements of Zetland Transport Partnership.

# Financial management and sustainability

## Financial management

23. 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 who is working within challenging financial targets.

12/13	13/14	14/15
<ul style="list-style-type: none"> <li>• £278k</li> <li>• 18%</li> </ul>	<ul style="list-style-type: none"> <li>• £130k</li> <li>• 8%</li> </ul>	<ul style="list-style-type: none"> <li>• £478k</li> <li>• 27%</li> </ul>

## Financial outcomes

24. In 2014/15, Zetland Transport Partnership incurred expenditure of £2,237,396 (£1,742,975 2013/14) on the provision of services. This was met by funding from the Scottish Government of £131,750, funding from Shetland Islands Council of £2,105,217 and bank interest of £429. Overall the partnership reported an overspend of £478,327 (27%) against its budget of £1,759,069. This was mainly due to costs relating to the new bus contracts as well as one-off costs during the year for refitting engines on two buses.
25. Zetland Transport Partnership has recorded an overspend against its budget for each of the last three years as shows in the table below. It is essential that appropriate budgets are set and that variances are monitored throughout the year to enable appropriate action to be taken.

26.

## Financial planning

27. The partnership set its 2015/16 budget in June 2015. The 2015/16 budget was set at £1,819,724. This will be met by funding from the Scottish Government of £131,750 and funding from Shetland Islands Council of £1,687,974.

### Appendix III – action plan point 1

# Governance and transparency

28. 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.
29. We concluded that the partnership had satisfactory governance arrangements in place which included standing committees overseeing key aspects of governance.
30. During 2015 the governance arrangements at the partnership are being reviewed by Shetland Islands Council's Governance and Law service. This process will involve a self assessment, a review of documents, and a clarification of the roles and responsibilities of members and officers, including the relationship between the council's transport function and that of the transport partnership.

## Internal control

31. 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.

32. Zetland Transport Partnership uses the corporate financial systems of Shetland Islands Council for its operations. As external auditors of the council we have reviewed these 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 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.

## Internal audit

33. Internal audit provides members and management with independent assurance on risk management, internal control and corporate governance processes. We are required by internal 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 wherever possible. The internal audit work for Shetland Islands Council provided assurance over the financial statements..

## Arrangements for the prevention and detection of fraud

34. 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

35. 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

36. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. Zetland Transport 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 information

37. Under the Transport (Scotland) Act 2005, regional transport partnerships are required to publish a report on their performance each financial year.
38. Zetland 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, however during 2014/15 it was not possible to undertake the work necessary to gather data to inform the indicators due to temporary constraints on staff resources. It is anticipated that the full range of indicators will be available for 2015/16.

### Appendix III – action plan point 2

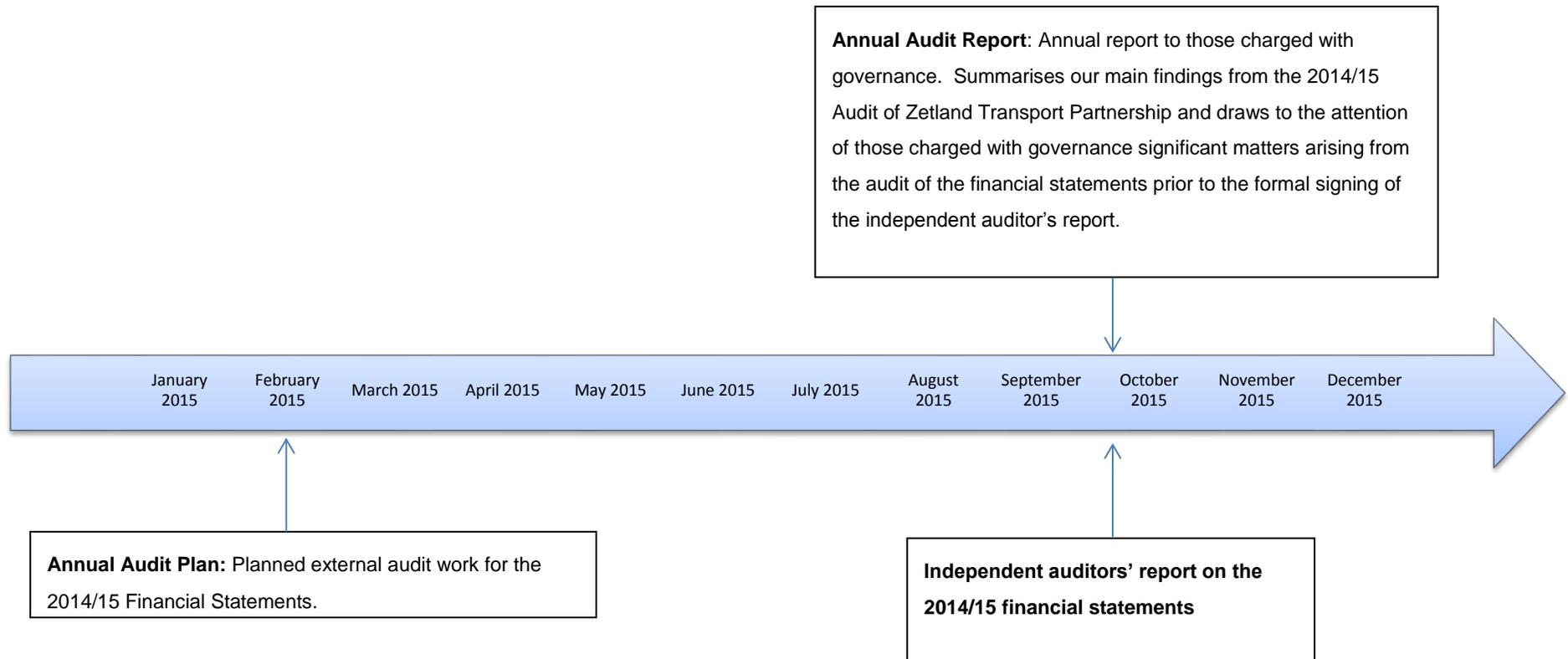
# Appendix I – Significant audit risks

The table below sets out the audit risks, how we addressed each risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Risk of management override of control</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p><b>Risk</b></p> <p>Management’s ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</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>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Proper Officer for Finance</b></p> <p>The Executive Manager – Finance, Shetland Islands Council left in December 2014 and the council appointed the Head of Finance at Aberdeen City Council to this post in a shared capacity. The new Executive Manager - Finance splits his time between Shetland Islands Council and Aberdeen City Council as part of a partnership agreement</p> <p><b>Risk</b></p> <p>There was a risk that the changed arrangements regarding the Proper Officer for Finance may result in financial statements that do not comply with the 2014/15 Code.</p>	<ul style="list-style-type: none"> <li>• An officer has been appointed with the appropriate experience in the role of a Proper Officer for Finance.</li> <li>• Ongoing liaison with the council's Finance Services to ensure that the unaudited financial statements are prepared in line with the 2014/15 Code.</li> <li>• Year-end audit of financial statements to ensure compliance with the 2014/15 Code.</li> </ul>	<p>We liaised with finance staff throughout the year and reviewed the financial statements to ensure compliance with the Code.</p> <p>No issues were identified in respect of financial management and accounting arrangements.</p>
<p><b>Local Authority Accounts (Scotland) Regulations 2014</b></p> <p>The partnership is required to comply with the revised Local Authority Accounts (Scotland) Regulations 2014.</p> <p><b>Risk</b></p> <p>There is a risk that the Board does not comply with the requirements of the new regulations.</p>	<ul style="list-style-type: none"> <li>• Ongoing liaison with the council's Finance Services and Governance &amp; Law regarding the requirements of the Local Authority Accounts (Scotland) Regulations 2014.</li> <li>• Review of the Partnership's arrangements to ensure compliance with the requirements of the Local Authority Accounts (Scotland) Regulations 2014.</li> </ul>	<p>We liaised with council staff throughout the year regarding the requirements of the new regulations.</p> <p>No issues were identified.</p>

# Appendix II - Summary of local audit reports 2014/15



## Appendix III - Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 9/25	<p><b>Issue</b></p> <p>Zetland Transport Partnership has overspent against its budget for each of the last three 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>	The budget will continue to be monitored throughout the year with information being reported to the partnership.	Lead Officer in conjunction with Proper Officer for Finance	31 March 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 12/38	<p><b>Issue</b></p> <p>During 2014/15 Zetland Transport Partnership was not able to undertake the work necessary in order to produce key performance indicators.</p> <p><b>Risk</b></p> <p>The partnership is not able to effectively monitor and report on how it is performing during the year.</p> <p><b>Recommendation</b></p> <p>Arrangements should be put in place to make sure that performance information is recorded and reported.</p>	Work is underway to ensure that a full range of indicators will be available for 2015/16.	Lead Officer	31 March 2016