



Zetland Transport Partnership

Agenda Item

1

Meeting(s):	Zetland Transport Partnership	21 September 2017
Report Title:	Zetland Transport Partnership – Management Accounts 2017/18 – Projected Outturn at Quarter 1	
Reference Number:	ZTP–20–17-F	
Author / Job Title:	Jonathan Belford – Proper Officer for Finance	

1.0 Decisions / Action required:

- 1.1 The Zetland Transport Partnership RESOLVE to review the Management Accounts showing the projected outturn position for ZetTrans at Quarter 1.

2.0 High Level Summary:

- 2.1 The purpose of this report is to enable the Zetland Transport Partnership to note its financial performance of ZetTrans for the 2017/18 financial year.
- 2.2 On 21 February 2017, (ZTP Min Ref: 10/17) the Zetland Transport Partnership approved its 2017/18 revenue budgets. It is vital to the economic wellbeing of the Partnership and its stakeholders that the financial resources are managed effectively and expenditure and income is delivered in line with the approved budget.
- 2.3 This report forms part of the financial governance and stewardship framework, which ensures that the financial position of the Partnership is acknowledged, understood and quantified on a regular basis. It provides assurance to the members that resources are being managed effectively and allows corrective action to be taken where necessary.
- 2.4 It is essential that budgets are delivered by the year end, as any overspend is required to be met by an increased contribution from Shetland Islands Council.

3.0 Key Issues:

- 3.1 This report presents the projected outturn position for 2017/18 as at the end of the first quarter. The forecasts have been determined by Shetland Islands Council Finance Services after consultation with the Lead Officer.
- 3.2 The projected outturn position for ZetTrans is equal to the budget set for Core Services and the Public Bus Service.
- 3.5 See appendix 1 for detailed information on the outturn position.

4.0 Exempt and/or confidential information:

- 4.1 None.

5.0 Implications :	
5.1 Service Users, Patients and Communities:	None.
5.2 Human Resources and Organisational Development:	None.
5.3 Equality, Diversity and Human Rights:	None.
5.4 Legal:	<p>The Zetland Transport Partnership was established by and exists in accordance with legislation made under the Transport (Scotland) Act 2005. Under The Transfer of Functions to the Shetland Transport Partnership Order 2006 certain functions relating to public transport were transferred from the Council to ZetTrans. These include the duties of the Council under section 63 of the Transport Act 1985 namely:</p> <ul style="list-style-type: none"> • to secure the provision of such public passenger transport services as the Council consider it appropriate to secure to meet any public transport requirements within their area which would not in their view be met apart from any action taken by them for that purpose; and • to formulate from time to time general policies as to the descriptions of services they propose to secure. ZetTrans are, specifically, not responsible for the Council's transport functions insofar as they refer to educational or social work purposes. <p>By Minute of Agreement between the Council and ZetTrans the parties agreed that certain administrative and, where requested, professional services be provided to ZetTrans. In the provision of such services the Council acts as agent of ZetTrans and Council officers have the authority to enter into contracts on behalf of ZetTrans.</p>

5.5 Finance:	<p>In accordance with Section 3 of the Transport (Scotland) Act 2005, the net expenses of ZetTrans for each financial year shall be paid by the Council, however the main financial objective for ZetTrans shall be to ensure that the financial outturn achieved in 2017/18 is within the approved resource budget, in line with that allocated by Scottish Ministers.</p> <p>The projected revenue outturn position for ZetTrans is to meet its budget on Core Services and Public Bus Services.</p>	
5.6 Assets and Property:	None.	
5.7 ICT and new technologies:	None.	
5.8 Environmental:	None.	
5.9 Risk Management:	<p>There are numerous risks involved in the delivery of services and the awareness of these risks is critical to successful financial management.</p> <p>From a financial perspective, risks are an integral part of planning for the future, as assumptions are required to be made. These assumptions can be affected by many internal and external factors, such as supply and demand, which may have a detrimental financial impact.</p> <p>The main financial risks for ZetTrans are:</p> <ul style="list-style-type: none"> • security of public bus fare income. 	
5.10 Policy and Delegated Authority:	<p>The Partnership has authority to take decisions and monitor performance in terms of its statutory obligations in relation to its delegated functions.</p> <p>This report provides information and assurance, to the Partnership, in respect of service provision in relation to approved budgets.</p>	
5.11 Previously considered by:	Not Applicable.	

Contact Details:

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Appendices:

Appendix 1 – Zetland Transport Partnership – Draft Revenue Outturn Position 2017/18
Financial Year

Zetland Transport Partnership

1.0 - Projected Revenue Outturn Position 2017/17 Financial Year

ZetTrans - Quarter 1 - 2016/17	Annual Budget 2017/18 £000	Projected Outturn Quarter 1 2017/18 £000	Proj. Outturn Variance Quarter 1 (Adv) / Pos £000
<u>CORE SERVICES</u>			
Support Services	161	161	0
Consultants	0	0	0
External Audit Fees	11	11	0
Grants to Organisations	5	5	0
Total Core Expenditure	177	177	0
Regional Transport Funding	(132)	(132)	0
SIC Match Funding	(45)	(45)	0
Bank Interest	(0)	(0)	0
Total Core Funding Income	(177)	(177)	0
Core Services Variance	0	0	0
<u>PUBLIC BUS SERVICES</u>			
Contracts	2,633	2,633	0
Total Public Bus Service Expenditure	2,633	2,633	0
Concession Income	(104)	(104)	
Public Bus Service Income	(609)	(609)	0
Public Bus Service Contribution (SIC)	(1,920)	(1,920)	0
Total Public Bus Service Income	(2,633)	(2,633)	0
Public Bus Services Variance	0	0	0

Overall, at this early stage ZetTrans' outturn position is equal to its budget, requiring no additional contribution from the Council.

Explanations of the main variances at Quarter 1 are set out below:

1.1 Core Services, Support Services – Projected Outturn as budgeted

There is no significant variance in this area.

1.2 Core Services, SIC Match Funding - Projected Outturn as budgeted

There is no significant variance in this area.

1.3 Public Bus Services, Contracts – Projected Outturn as budgeted

There is no significant variance in this area.

1.4 Public Bus Services, Contribution (SIC) - Projected Outturn as budgeted

There is no significant variance in this area.



Agenda Item

2

Meeting(s):	Zetland Transport Partnership	21 September 2017
Report Title:	Annual Audit Report on the 2016/17 Audit – Zetland Transport Partnership	
Reference Number:	ZTP-21-17-F	
Author / Job Title:	Partnership Proper Officer for Finance	

1.0 Decisions / Action required:

1.1 That the Partnership:

- a) NOTES the findings of the 2016/17 audit as contained in the external auditor's annual report at Appendix 1;
- b) CONSIDERS a verbal report by the external auditor;
- c) APPROVES the audited Annual Accounts for 2016/17 (Appendix 2) for Zetland Transport Partnership for signature;

2.0 High Level Summary:

- 2.1 The Local Authority Accounts (Scotland) Regulations 2014 (“the Regulations”) require the Partnership to prepare and publish annual accounts that are subject to external audit. The appointed external auditor is Deloitte LLP.
- 2.2 Section 10 of the Regulations requires the Partnership to consider any report made by the appointed auditor before deciding whether to sign the audited accounts.
- 2.3 International Standard on Auditing 260 (ISA 260) requires the external auditors to communicate 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; and
 - other matters which in the auditor's professional judgement, are significant to the oversight of the financial reporting process.
- 2.4 Deloitte LLP’s ISA260 findings are included in the Annual Audit Report at Appendix 1 and confirms their unmodified opinion, which means that the annual accounts are free from material misstatement and present a true and fair view of the Partnership’s financial position at 31 March 2017.

2.5	The unaudited accounts for the year to 31 March 2017 were approved by the Partnership on 29 June 2017 and there is no change to the accounting deficit or net assets in the audited annual accounts attached at Appendix 2.
3.0	Corporate Priorities and Joint Working:
3.1	The preparation and presentation of the Annual Accounts is a key element of the Partnership's overall governance and reporting arrangements.
4.0	Key Issues:
4.1	The Partnership's annual accounts for the year to 31 March 2017 were submitted to Deloitte LLP by the statutory deadline of 30 June 2017. The external auditor was required to complete the audit by 30 September 2017 and to report on certain matters arising to those charged with governance.
4.2	The Annual Audit Report (Appendix 1) highlights two significant risk areas that auditors reviewed, as follows: <ul style="list-style-type: none"> a) Completeness and accuracy of income; and b) Management override of controls.
4.3	Pages 9 to 11 of the report at Appendix 1 presents how, in each of these areas, the result of the audit control testing was satisfactory.
4.4	During the course of the audit, there were no required adjustments identified.
4.5	As well as reviewing the annual accounts, the scope of the audit includes wider issues, such as financial sustainability. In this area, as detailed in Appendix 1, the auditors found that: <p><i>“Effective short- to medium-term budgeting is in place to assess ongoing risk of under / overspend. As the financial position for SIC becomes more challenging, it is important the Partnership also looks to the medium-longer term to identify any funding gaps and efficiency savings required.”</i></p>
5.0	Exempt and/or confidential information:
5.1	None.
6.0	Implications :
6.1 Service Users, Patients and Communities:	None
6.2 Human Resources and Organisational Development:	None
6.3 Equality, Diversity and Human Rights:	None
6.4 Legal:	The Local Authority Accounts (Scotland) Regulations 2014 require the Partnership to meet to consider and aim to approve the audited Annual Accounts for signature no later than 30 September each year, having regard to any report made on

	those accounts and any advice given by the proper officer or the auditor.	
6.5 Finance:	None	
6.6 Assets and Property:	None	
6.7 ICT and new technologies:	None	
6.8 Environmental:	None	
6.9 Risk Management:	The Annual Audit Report includes the identification of key risks and internal control arrangements in place to manage those risks, together with any improvement actions required.	
6.10 Policy and Delegated Authority:	The Partnership's remit includes consideration of all reports from the external auditors, including the External Auditor's Annual Report and to review the financial performance as contained in the Annual Report.	
6.11 Previously considered by:	N/A	

Contact Details:

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12 September 2017

Appendices:

Appendix 1: Annual Audit Report 2016/17 for Zetland Transport Partnership

Appendix 2: Audited Annual Accounts 2016/17 for Zetland Transport Partnership

Background Documents: [The Local Authority Accounts \(Scotland\) Regulations 2014](#)



Final report to the Partnership and the Controller of Audit on the 2016/17 audit

21 September 2017

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Director introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

As set out in our plan, due to the relative size and scale of the functions delivered by the Partnership, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the governance statement; and
- The financial sustainability of the partnership and the services that it delivers over the medium to longer term.

I have pleasure in presenting our final report to the Partnership for the 2016/17 audit.

As detailed in our plan presented to the Zetland Transport Partnership ("the Partnership", "ZetTrans") in February 2017, the new Code of Audit Practice, which came into force for 2016/17 audits sets out our responsibilities under core audit and wider scope requirements. A reminder of the requirements is set out below.

- *Opinion on the financial statements and regularity*
- *National performance audits and Best Value audits*



- *Public reporting and audit findings*
- *Wider scope reporting*

Director introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Statutory audit

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
 - Completeness and accuracy of income; and
 - Management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 9.
- We have identified no audit adjustments from our procedures to date.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion.

Insight

- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year to mitigate the risks of fraudulent activity. Insights from this analytics work has been noted for consideration by management and the Partnership, as detailed on page 13.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - Update from Head of Legal and Governance on any legal issues;
 - Finalisation of our internal quality control procedures;
 - Receipt of signed management representation letter; and
 - Our review of events since 31 March 2017.

Director introduction (continued)

The key messages in this report (continued)

Best Practice

Overall conclusion

- We have reviewed the management commentary with reference to the statutory guidance set out in Regulation 8(2) of The Local Authority Accounts (Scotland) Regulation 2014 and Finance circular 5/2015 The Local Authority Accounts (Scotland) Regulations 2014 – management commentary. We have confirmed that the management commentary complies with the statutory guidance requiring local authorities, including transport partnerships, to include in the management commentary those matters which companies are required to disclose in a strategic report, with some modification to interpret for local authorities.
- As a new requirement in 2016/17, we are required to provide an opinion on whether:
 - information given in the management commentary is consistent with the financial statements;
 - the management commentary has been prepared in accordance with the statutory guidance;
 - information given in the annual governance statement is consistent with the financial statement; and
 - the annual governance statement has been prepared in accordance with proper practice.
- Based on the current status of our audit work, we envisage issuing unmodified opinions on the above.
- In addition to the opinion, we have read the management commentary and confirmed that the information contained is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
- No Remuneration Report has been prepared as ZetTrans has no employees and the remuneration of the Chair and Vice Chair of the Partnership is disclosed in the annual accounts of Shetland Islands Council. No additional remuneration is paid to officers or members for acting on behalf of the Partnership. This has been appropriately disclosed in the Management Commentary.

Director introduction (continued)

The key messages in this report (continued)

Adds Value

Governance Statement

Regulation 5 of the Accounts Regulations requires local authority bodies to undertake an annual review of their systems of internal control and report the results in an annual governance statement published as part of the annual accounts. The regulations require the annual governance statement to be prepared in accordance with proper practices in relation to internal control, which are those set out in Delivering Good Governance in Local Government: Framework 2016 published by CIPFA and SOLACE.

We have confirmed that the Partnership's governance statement is in compliance with this guidance and is consistent with our knowledge gained during the audit. We are not aware of any significant events between 31 March 2017 and date of authorisation which have not been included in the governance statement. We have confirmed that appropriate disclosure has been made in relation to the ongoing governance review which is expected to clarify and fully describe ZetTrans relationship with Shetland Islands Council (SIC). This includes a review of the statutory powers that have been transferred to ZetTrans. The outcome of this work will be followed up as part of our 2017/18 audit work.

Financial Sustainability

Total outturn for 2016/17 was £2,031k, which matched exactly the funding received from the Scottish Government and SIC. ZetTrans reported an underspend in the year of £106k compared to budget due to providing a more reliable bus service on certain routes that haven't required the level of repair and service costs anticipated in the budget.

Effective short- to medium-term budgeting is in place to assess ongoing risk of under/overspend, however SIC is statutorily obliged to fund the Partnership under Section 3 of the Transport (Scotland) Act 2005, therefore the main financial objective of ZetTrans is to deliver against its annual approved budget. Management accounts are prepared and reviewed monthly and discussed at board meetings quarterly where any outturn variances against budgets are investigated. An approved 2017/18 budget is in place, which is largely in line with 2016/17. As the financial position for SIC becomes more challenging, it is important the ZetTrans also looks to the medium-longer term to identify any funding gaps and efficiency savings required.

No funding gaps or major risks have been identified in relation to the financial sustainability of the partnership.

Pat Kenny
Audit Director

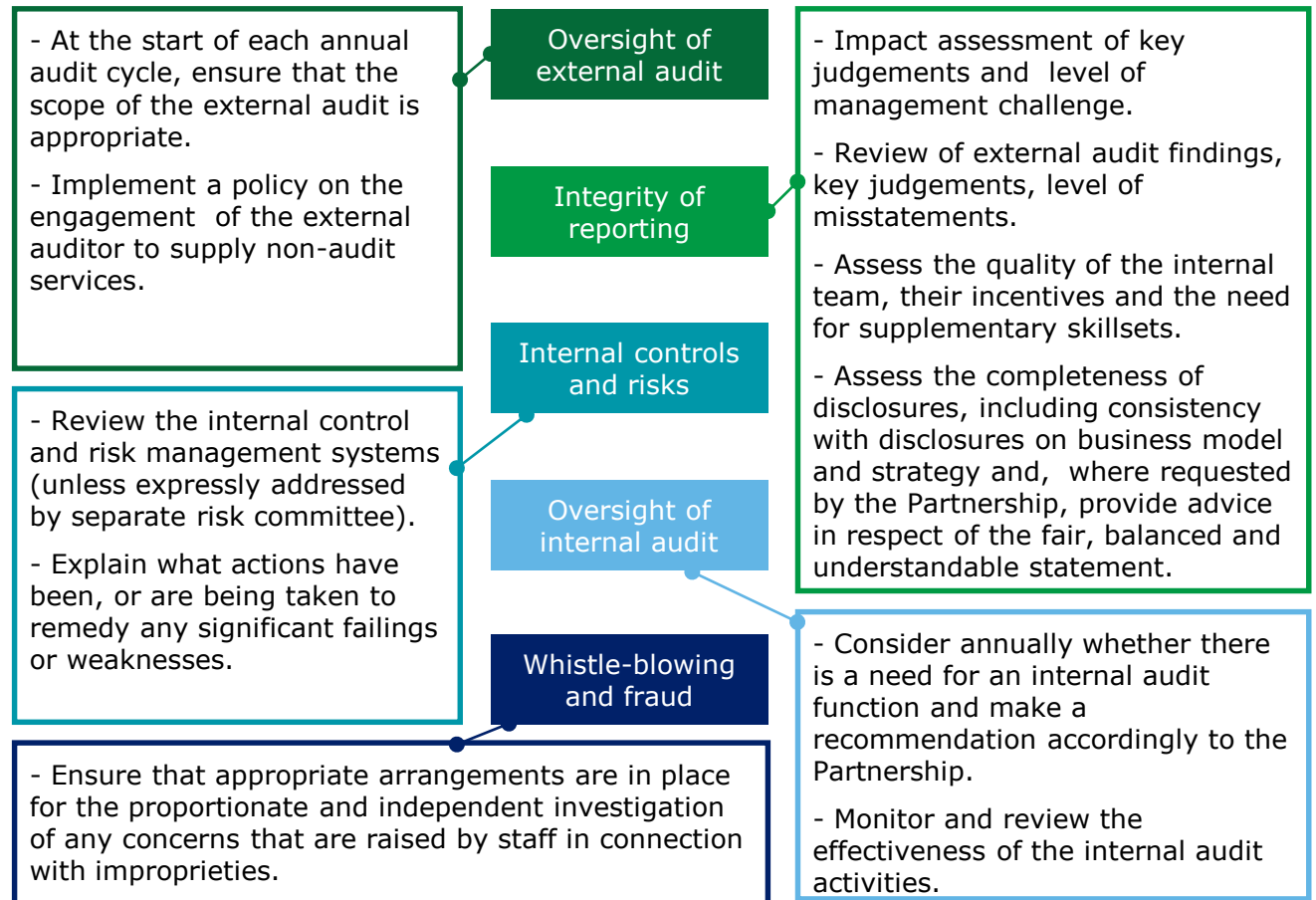
Responsibilities of the Audit Committee/ Partnership

Helping you fulfil your responsibilities

The primary purpose of the Auditor's interaction with the Partnership:

- Clearly communicate the planned scope of the financial statements audit
- Provide timely observations arising from the audit that are significant and relevant to the Partnership's responsibility to oversee the financial reporting process
- In addition, we seek to provide the Partnership with additional information to help them fulfil their broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee, which is part of the role of the Partnership, has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered:

- The appropriateness of the disclosures in the governance statement; and
- The financial sustainability of the Partnership and the services that it delivers over the medium to longer term.

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 9 provides a summary of our risk assessment of your significant risks.

Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

Key developments in your business

As noted in our planning report, ZetTrans continues to face financial pressures in achieving its remit with limited resources.

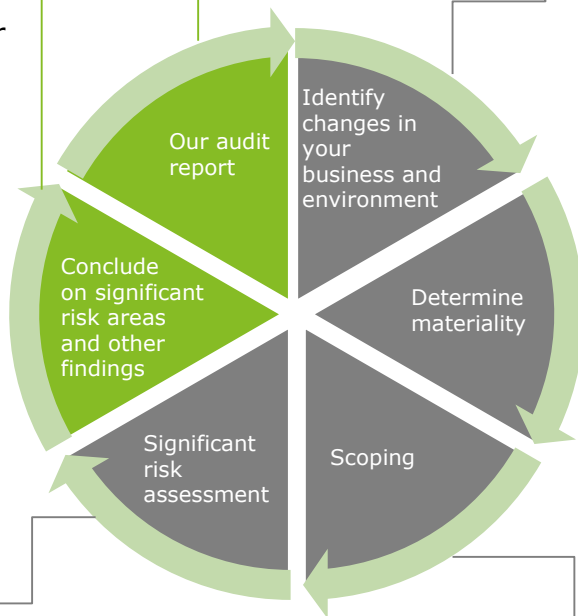
Materiality

The materiality of £32k and performance materiality of £24k has been based on the benchmark of gross expenditure (£2,031k) and is in line with that reported in our planning paper.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £0.6k.

Scope of the audit

We have audited the financial statements for the year ended 31 March 2017 of Zetland Transport Partnership.



Timeline 2017

November–December 2016

Meetings with management and other staff to understand the processes and controls.

21 February 2017
Audit Plan presented to Partnership

July – August 2017

Review of draft accounts, testing of significant risk and performance of substantive testing of results.

February 2017
Partnership meeting to present audit plan

22 August 2017
Audit close meeting







21 September 2017
Partnership meeting and accounts sign off

Quality and Independence

We confirm we are independent of the Zetland Transport Partnership. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Completeness and accuracy of income			D+I	Satisfactory		No issues noted with the design or implementation of this control.	10
Management override of controls			D+I	Satisfactory		No issues noted with the design or implementation of this control.	11



Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Completeness and Accuracy of Income

Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The main components of income for the Partnership are grants received from SIC and the Scottish Government. The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received. In our planning paper, we had highlighted the risk to be around bus fare income, however, during the audit it was identified that the bus fare income is offset as part of the SIC grant funding therefore is not deemed to be a significant risk.

Our Audit Approach

We have performed the following:

- Tested income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process and that the income matches the expenditure incurred in accordance with the Act; and
- Confirmed the management accounts have been reviewed on a regular basis monitoring expenditure and matched income.



Deloitte view

We have concluded that income has been recognised correctly in accordance of the requirements of the Local Authority Code of Audit Practice.

Significant risks (continued)

Management override of controls

Risk identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.



Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- Budgeted against actual income and expenditure was monitored closely throughout the year; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- The control environment is appropriate for the size and complexity of the Partnership.

Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest.

Accounting estimates

Due to the nature of ZetTrans operations and interaction with SIC who are required to fund all expenditure incurred, there are very few accounting estimates processed by Zetrans therefore the risk of management override is low.

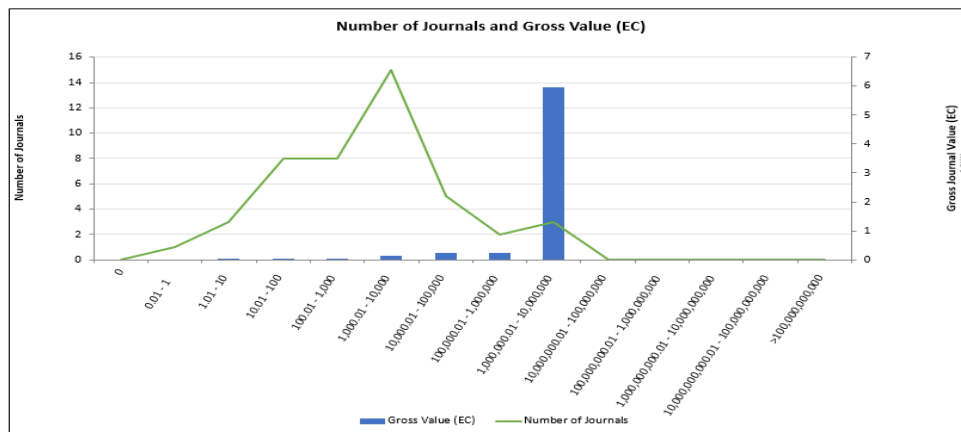
Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

Insights

We have utilised **Spotlight** to perform analytics on all of the journal entries processed during the year. We have highlighted some key themes arising from this work for your consideration.

- The journal descriptions (as illustrated), did not highlight any unusual transactions descriptions and all were in line with our understanding of ZetTrans..
- There is a relatively high number of small value journals. While this could indicate an inefficient use of staff time processing small value journals, given the overall number of journals processed by ZetTrans is low, we do not consider this to be a significant issue.



Your annual report

We welcome this opportunity to set out for the Partnership our observations on the annual report. We are required to provide an opinion on the performance report, the annual governance statement and the remuneration and staff report.

	Draft Annual Report	Deloitte response
Management Commentary	The Management Commentary comments on financial performance, strategy and performance review and targets. Deloitte note that the Management Commentary has been prepared in line with issued guidance. The commentary included both financial and non financial KPIs.	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance. No exceptions noted. We would, however, highlight that greater use could be made of graphs and charts to make the report more user friendly.</p> <p>We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading</p>
Remuneration Report	No Remuneration Report has been prepared as ZetTrans has no employees and the remuneration of the Chair and Vice Chair of the Partnership is disclosed in the annual accounts of Shetland Islands Council. No additional remuneration is paid to officers or members for acting on behalf of the Partnership.	We have confirmed that this is in accordance with the statutory guidance and our understanding of the Partnership. We have also confirmed that these facts have been disclosed in the Management Commentary.
Annual Governance Statement	The Annual Governance Statement reports that Shetland Islands Council governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.

Wider scope requirements

Financial sustainability

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Areas considered



- The financial planning systems in place across the shorter and longer terms
- The arrangements to address any identified funding gaps
- The affordability and effectiveness of funding and investment decisions made

Deloitte response



We have monitored the partnership's actions in respect of its short, medium and longer term financial plans to assess whether financial balance can be achieved.

Deloitte view

Effective short-term planning is in place with management accounts being prepared on a monthly basis and quarterly accounts being presented to the Partnership. This identifies any expenditure variances which are discussed at partnership meetings. The budget for the following financial year is approved and funding has been allocated by the SIC.

As SIC is statutorily obliged to fund the Partnership under Section 3 of the Transport (Scotland) Act 2005, the main financial objective of ZetTrans is to deliver against its annual approved budget and no longer term plans are in place. As the financial position for SIC becomes more challenging, it is important the ZetTrans also looks to the medium-longer term to identify any funding gaps and efficiency savings required.

Short-term

Approved funding budget of £2,810k has been obtained from the SIC and regional transport funding for 2017/18 which is £27k (1%) lower than the 2016/17 approved budget. Deloitte is satisfied that the overall budget spend is unlikely to be exceeded in the year, and any funding gaps will be funded by SIC in accordance with the Act.

Medium-term

Due to the size and nature of ZetTrans and its operations, there is no medium-to-long term financial plan in place.

Wider scope requirements

Governance statement disclosures

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the disclosures in the governance statement.



Areas considered

- The completeness of the disclosures in meeting the requirements of the essential features, as specified in the good governance framework.
- Inconsistencies between the disclosures or between the disclosures and audit knowledge.

Deloitte view

The governance statement meets the requirements of the good governance framework and no inconsistencies have been noted between the disclosures and our knowledge gained during the audit.



Deloitte response

In the year, there no notable changes in either board members or in the senior leadership team of ZetTrans.

We have confirmed that appropriate disclosure has been made in relation to the ongoing governance review which is expected to clarify and fully describe ZetTrans relationship with Shetland Islands Council (SIC). This includes a review of the statutory powers that have been transferred to ZetTrans. The outcome of this work will be followed up as part of our 2017/18 audit work.

No inconsistencies have been noted in relation to the disclosures or between the disclosures and our audit work.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Partnership discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Partnership.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated to you with the planning report.

This report has been prepared for the Partnership, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



Deloitte LLP

Glasgow

6 September 2017

Appendices



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Audit adjustments

Corrected misstatements

- No corrected misstatements have been identified from our audit work performed.

Uncorrected misstatements

- No uncorrected misstatements have been identified from our audit work performed.

Disclosure misstatements

- Auditing standards require us to highlight significant disclosure misstatements to enable the partnership to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.

A verbal update will be provided to the Partnership if anything arises from any outstanding work before financial statements are signed.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Partnership to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Partnership to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the partnership on the process for identifying, evaluating and managing the system of internal financial control.

Deloitte view:

From our year-end audit procedures and discussions with management we have noted there must be a more robust documentation process of meetings that have occurred in relation to the preparation of Management accounts. Meetings should be documented, or there should be documented follow up communication with action points from the meeting.



Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	<p>The audit fee for 2016/17 is £10,187 as detailed in our Audit Plan.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p>
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>





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Annual Accounts 2016/17

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Introduction

The Shetland Transport Partnership (STP) was established by, and exists in accordance with, the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005 made under the Transport (Scotland) Act 2005.

The Scottish Government agreed the change of name to Zetland Transport Partnership with the working name 'ZetTrans' on 20 September 2007 (ZetTrans minute ref 02/07).

The Zetland Transport Partnership Members for 2016/17 were as follows:

Shetland Islands Council Members:

Mr M Stout (Chairperson)
Mr S Coutts (Vice Chairperson)
Mr B Fox (Council Member)
Mr D Sandison (Council Member)

Other Members:

Mr I Kinniburgh (NHS Shetland)
Mrs R Hunter (HIE Shetland)

Substitute Members:

Mr D Ratter (Council Member)
Mr G Smith (Council Member)

Observer / Advisers:

Mr A Steven (Promote Shetland)
Ms S Laurenson (Lerwick Port Authority)
Mr S Mathieson (Visit Shetland)
Mr J Smith (Sumburgh Airport Consultative Committee)

Executive Officers:

Lead Officer: Michael Craigie, Executive Manager – Transport Planning.

Proper Officer for Finance: Jonathan Belford, Executive Manager – Finance.

Secretary and Proper Officer for Legal Proceedings: Jan Robert Riise, Executive Manager - Governance & Law.

Local Government Elections May 2017

Following local council elections in May 2017, the composition of the Zetland Transport Partnership changed, as follows:

Council Members:

Mr R Thomson (Chairperson)
Mr R McGregor (Vice Chairperson)
Mr A Priest (Council Member)
Mr D Sandison (Council Member)

Substitute Members:

Mr S Coutts (Council Member)
Mr D Simpson (Council Member)

All other members remain unchanged.

Management Commentary

The purpose of the Management Commentary is to inform all users of the accounts, to help them assess how ZetTrans has performed during 2016/17 and understand the year-end financial position at 31 March 2017. In addition, it provides a narrative on the financial outlook for ZetTrans during the financial year 2017/18 and beyond.

Background

The Zetland Transport Partnership (ZetTrans) was established under the Regional Transport Partnership (Establishment and Constitution) (Scotland) Order 2005, effective 5 December 2005. The power granted to the new body came into force on 1 April 2006 and functional responsibility for transport services transferred in November 2006. ZetTrans is one of seven Scottish Regional Transport Partnerships (RTPs).

The Annual Governance Statement refers to the review of its own governance and the importance of completing this, including work on the statutory powers that transferred to ZetTrans. The review is in progress and is expected to be concluded by 31 March 2018.

ZetTrans is required to develop a transport strategy for Shetland that supports economic well-being, promotes safety, social inclusion and equal opportunity, plans for a sustainable transport system and integrates across boundaries with other partnerships. The strategy must take account of future needs and set priorities for transport development and improvement and should set the framework for investment in strategic transport infrastructure for the next 5 to 10 years.

It does this by working together with a number of key stakeholders and interested bodies, including Shetland Islands Council, Transport Scotland, bus operators, airlines and ferry companies. Its role continues to evolve and develop, as do other RTPs, to ensure that both regional and national objectives are sustainable and can be delivered efficiently.

Shetland Islands Council, the primary funder for ZetTrans, has been working to reduce costs for a number of years. In planning for the future, the Council's Medium Term Financial Plan for 2016/17 – 2021/22 identifies an expected funding gap of £20m by 2021/22. It is therefore more important than ever that all services provided, including the work done by ZetTrans, are

reviewed and challenged, to reduce service costs where possible, while maintaining or improving outcomes.

Strategy and Performance Management

Revision of the Shetland Transport Strategy

The Shetland Transport Strategy (the Strategy) fulfils the requirements of the Transport (Scotland) Act 2005 and supports the Scottish Government's key objectives and Shetland Community Planning Partnership's Local Outcomes Improvement Plan. The Strategy:

- sets out the vision for Shetland's Transport;
- provide an assessment of the existing situation;
- sets out a programme of activities, projects and interventions for investment and infrastructure;
- guides and co-ordinates transport-related activities in Shetland; and
- makes the case for specific projects that meet funding criteria from the Scottish Government.

The Strategy adopts a scenario of reducing revenue and capital funding, which remains relevant in the current climate.

The Strategy is currently being refreshed and will adopt a ten-year horizon when considering strategic direction. It will incorporate the findings of other studies, such as the Shetland Inter-island Transport Study and the Northern Isles Ferry Services STAG study. In addition, the new Strategy will align with the Shetland Partnership's community planning process, including the Local Outcomes Improvement Plan (LOIP). The revised plan is due to be reported to the partnership in November 2017.

Through early engagement with partners and stakeholders, four key points have been identified. The refreshed Strategy must:

- clearly define ZetTrans' current purpose and image;
- be concise, and focus precisely on what is important;
- be the core of ZetTrans' direction and business planning and be supported by a realistic annual delivery / action plan; and
- ensure adequate input from stakeholders and avoid being overly long or complicated.

The main themes identified during the recent consultation exercise in 2016/17 were:

- Lifeline transport
- Transport robustness
- Community support
- Integration support
- Behavioural change
- Change management

Key Performance Indicators

ZetTrans adopted an agreed set of key performance indicators (KPIs) to monitor the delivery of its transport strategy in February 2016 and further revised them in September 2016. These KPIs will be reported to the Zetland Transport Partnership on a quarterly basis and are incorporated into the 2016/17 Annual Report.

ZetTrans Annual Report

Under the Transport (Scotland) Act 2005, ZetTrans is required to produce an annual report detailing its overall performance and how this compares to its regional transport strategy and delivery programme. ZetTrans submitted its 2015/16 Annual Report to Transport Scotland in January 2017. A copy can be found at <http://www.zettrans.org.uk/aboutus/AnnualReportandAccounts.asp>.

Projects / Initiatives

Inter-island Transport Study

ZetTrans is working in partnership with Shetland Islands Council, the Highlands and Islands Transport Partnership (HITRANS), Orkney Islands Council and Transport Scotland to undertake a network wide study of inter-island transportation in each of the archipelagos which will inform a process with the Scottish Government to establish a "Fair Funding" position in relation to inter island transport provision.

The Lead Officer / Executive Manager – Transport Planning led the process to develop and agree options for funding and responsibility for inter-island transport. These were designed firstly to ensure that a decision on funding for 2017/18 could be agreed in time for Shetland Islands Council to set its 2017/18 budget; and that the long-term position on responsibility, delivery and funding could be agreed by mid-2017 with a plan for implementation from 1 April 2018 onwards.

The Scottish Government has not yet come forward with a funding position for 2017/18 and this work now continues to establish funding solutions for 2017/18 onwards.

2018 Northern Isles Ferry Service Contract

On 13 August 2015, the Minister for Transport and Islands announced that the Scottish Government intended to undertake a Scottish Transport Appraisal Guidance (STAG) study into the Northern Isles Ferry Services. The original timescale was to have the study complete by September 2016 to feed into the procurement process for the next Northern Isles Ferry Services contract. However, the Scottish Government has extended the study to take into account a ferry fares review and a procurement review and it is now anticipated that the STAG study will not be complete until autumn 2017. ZetTrans will continue to contribute to the study as well as the reviews of fares and procurement.

Workforce Management

Shetland Islands Council provides staffing resources, which were significantly enhanced in spring 2016 bringing the service to full capacity. Since then, staff have re-established and refined processes and procedures to support service delivery, business planning, performance management and performance reporting.

Primary Financial Statements

The Annual Accounts 2016/17 summarise ZetTrans transactions and cash flows for the year and its year-end position as at 31 March 2017. The accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is based on International Financial Reporting Standards (IFRS), with interpretation appropriate to the public sector and the overriding requirement of the Code is that the annual accounts provide a true and fair view of the financial position and the financial transactions of the Partnership.

A description of the purpose of the primary statements has been included immediately prior to each of the financial statements: the Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement.

These three statements are accompanied by notes to the accounts, which set out the accounting policies adopted by the Partnership and provide more detailed analysis of the figures disclosed on the face of the primary financial statements. These statements and notes form the relevant annual accounts for the purpose of the auditor's certificate and opinion.

No Movement in Reserves statement has been included because ZetTrans does not hold any reserves.

There is no Remuneration Report included in the accounts, as ZetTrans has no employees. The remuneration of the Chair and Vice-Chair of the Partnership is disclosed in the annual accounts of Shetland Islands Council. No additional remuneration is paid to officers or members for acting on behalf of the Partnership.

Financial Performance in 2016/17

The Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement (CIES) show that the full economic cost of providing ZetTrans services in 2016/17 was £2.031m. This expenditure was met through grant income from the Scottish Government and Shetland Islands Council, as well as interest received on bank balances.

The final outturn position compared to the estimated budget for 2016/17 is summarised as follows:

2015/16 Actual £000	Revenue	2016/17 Budget £ 000	2016/17 Actual £ 000	2016/17 Variance £ 000
138	Policy Strategy & Projects	195	168	27
2,016	Bus Operations	1,942	1,863	79
2,154	Total Expenditure	2,137	2,031	106
(132)	Scottish Government Grant	(132)	(132)	0
(2,022)	SIC Grant	(2,005)	(1,899)	(106)
(2,154)	Total Income	(2,137)	(2,031)	(106)
0	Net (Surplus)/Deficit for Year	0	0	0

Expenditure is categorised into two main areas:

Policy, Strategy & Projects (£0.168m), which is a £0.030m (22%) increase when compared to expenditure in 2015/16 (£0.138m). This was mainly due to an increase of £0.040m in Shetland Islands Council based staff costs following the recruitment process carried out in spring 2016 in order to bring the service up to complete staffing levels. However, there were also savings through the reduction in grants awarded to other bodies and in costs associated with the Regional Transport Partnership.

Bus Operations (£1.863m), which is a £0.153m (8%) decrease when compared to expenditure in 2015/16 (£2.016m). This is primarily due to higher value of fares and concessionary fares collected

in 2016/17, coupled with increased the value of the Bus Service Operators Grant.

Comparison of Outturn v Budget

In 2016/17, there was a budget underspend of £0.027m in Policy Strategy & Projects and £0.079m in Bus Operations. This is due to a more reliable bus service on certain routes that haven't required the level of repair and service cover costs anticipated in the budget, as well as minor savings in operating and administration costs over the course of the year.

This resulted in a reduced grant from Shetland Islands Council, which is ultimately responsible for providing ZetTrans funding.

2017/18 Budget Outlook

The provision of suitable transport arrangements across the Shetland Islands is vital to the people and communities of Shetland and as such, the delivery of reliable and affordable transport solutions is a key priority of ZetTrans. Having implemented the bus contracts across the Islands in 2014, the Council, will continue to pursue a new long-term funding arrangement for the Inter Islands Ferry Services in conjunction with ZetTrans, HITRANS Scottish Government, Transport Scotland and Orkney Islands Council. The financial climate for the delivery of this is challenging, due to the nature of services, revenue and capital costs associated with funding of operations and replacement costs of the required infrastructure. Work continues on the Public Service Obligation, for the provision of air services to the outer islands and will be addressed through an Outline Business Case following on from the Shetland inter-Island Transport Study, completed in November 2016.

The approved revenue budget for ZetTrans for 2017/18 is £2.810m, of which £0.177m is for core activities and the implementation of the Regional Transport Strategy and £2.633m is for scheduled public bus services in Shetland.

The core running costs and implementation of the Regional Transport Strategy work, including the work to access better information on the services being delivered and implementing the processes for better performance management, is funded by a grant of £0.132m from Scottish Government and match funding of £0.045m from Shetland Islands Council.

Public bus services are budgeted to cost £2.618m and are funded by fare income of £0.609m and a contribution from Shetland Islands Council of £2.025m.

A detailed review has recently taken place to ensure that Council and ZetTrans budgets are aligned, and can be separately identified for VAT purposes. Officers continue to review and validate fares income levels to ensure that revenue security is assured.

Acknowledgements

Finally, we would like to acknowledge all the hard work of the officers who have had a role in the preparation of the annual accounts and those who have worked diligently throughout the year in the delivery of ZetTrans objectives.

.....
Ryan Thomson
Chairperson
Zetland Transport Partnership

21 September 2017

.....
Jonathan Belford CPFA
Proper Officer for Finance
Zetland Transport Partnership

21 September 2017

.....
Jan Robert Riise LLB (Hons) LEG-Dip
Secretary & Proper Officer for Legal
Proceedings
Zetland Transport Partnership

21 September 2017

Statement of Responsibilities

Zetland Transport Partnership's Responsibilities

ZetTrans is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that the Proper Officer for Finance has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For Zetland Transport Partnership, that officer is the Executive Manager - Finance of Shetland Islands Council;
- Manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- Ensure that the annual accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and so far as it is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and
- Approve the annual accounts for signature.

I confirm these audited annual accounts were approved for signature by the Partnership at its meeting on 21 September 2017.

Signed on behalf of Zetland Transport Partnership.

.....
Ryan Thomson
Chairperson
Zetland Transport Partnership

21 September 2017

The Proper Officer for Finance's Responsibilities

The Proper Officer for Finance is responsible for the preparation of the Zetland Transport Partnership's annual accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the annual accounts, the Proper Officer for Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the legislation; and
- Complied with the local authority Code (in so far as it is compatible with legislation).

The Proper Officer for Finance has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the Zetland Transport Partnership at the reporting date and the transactions for the year ended 31 March 2017.

.....
Jonathan Belford CPFA
Proper Officer for Finance
Zetland Transport Partnership

21 September 2017

Annual Governance Statement

Scope of Responsibility

ZetTrans is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this accountability, members collectively and senior officers individually, are responsible for putting in place proper arrangements for the governance of the organisation's affairs and the stewardship of the resources at its disposal and the management of risk. They cannot eliminate all risk of failure of policies, aims and objectives and can therefore only provide reasonable, rather than absolute, assurance of effectiveness.

The Governance Framework

ZetTrans is a statutory body and its role is set out in the Transport Scotland Act 2005 and was established under the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005. ZetTrans' functional responsibilities are defined in The Transfer of Functions to the Shetland Transport Partnership Order 2006. The functions covered and arrangements in place to assess the adequacy of provision of services are matters being considered in conjunction with the review of governance arrangements, referred to below. The overall strategic direction, in terms of setting the priorities for ZetTrans and allocating its resources, rests with the Zetland Transport Partnership.

The governance framework in place is built upon that of Shetland Islands Council. Complete details of the governance framework have been included in the Shetland Islands Council annual accounts, should a user of these accounts require any further information.

The Code of Governance was adopted by the Council on 20 September 2012 and is consistent with the principles of the CIPFA / SOLACE Framework 'Delivering Good Governance in Local Government'. This underpinned the governance framework for the majority of the year. At its meeting of 22 March 2017, the Council approved a revised Code of Corporate Governance.

The Zetland Transport Partnership is currently undergoing its own governance review with the main purpose to clarify and fully describe its relationship with the Shetland Islands Council. This includes a review of the statutory powers that have been transferred to ZetTrans, which is underway; it is expected that any changes arising from this will be addressed in financial year 2017/18.

The review will also establish a Planning and Performance Management Framework to underpin the governance arrangements, including a focus on service prioritisation, resource allocation, performance management and securing efficiencies.

The ZetTrans governance review will also consider whether its decision-making process is appropriately supported and challenged and ensure that the audit and scrutiny arrangements and standards within ZetTrans are robust.

It is anticipated that the conclusions and recommendations from this work will be reported to ZetTrans in autumn of 2017.

The financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Review of Effectiveness

ZetTrans has a responsibility on an annual basis for reviewing the effectiveness of the governance framework and for ensuring its continued effectiveness and the adequacy of the systems of internal control. The review of effectiveness is informed by:

- progress towards key strategic and service objectives;
- financial and budget monitoring;
- Internal Audit reviews on specific services and on activities which occur across the Council; and
- External Audit and the Accounts Commission observations, comments and recommendations for improvement.

The governance framework can provide only reasonable and not absolute assurance that assets are safeguarded and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

Internal Audit and Finance Staff undertook a series of checks on bus and ferry services in November 2015 in a bid to improve the overall ticketing process and possibly fare income.

An initial analysis of the data collected during the exercise suggested that there were no immediate concerns regarding fare income. It was agreed by the project board that further observation and analysis were required to establish sufficient data that would enable a better informed decision on fare income. A report on bus network usage in 2015/16 was presented to the Partnership in December 2016 along with recommendations on changes that could be made to the network routes. However, additional work was expected to be carried out and without which, has delayed the realisation of the benefits anticipated from this exercise.

As noted in the Management Commentary, staff working for ZetTrans are covered by a number of Shetland Islands Council policies and procedures. Internal Audit undertook work on behalf of the Council during 2016/17 and identified some weaknesses in the application of these policies during the year. In addition, a number of queries were raised in relation to the recording and reporting of grant information and other KPI information.

The management of ZetTrans has accepted the recommendations of Internal Audit and has agreed an action plan and timescales for the resolution of all audit issues and observations.

Conclusion

Overall, we consider that the governance and internal control environment operating in 2016/17 provides reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

Aside from the governance review described above, there are no significant issues that require to be disclosed.

.....
Jan Robert Riise LLB (Hons) LEG-Dip
Secretary & Proper Officer for Legal
Proceedings
Zetland Transport Partnership

21 September 2017

.....
Ryan Thomson
Chairperson

Zetland Transport Partnership

21 September 2017

Primary Financial Statements

Comprehensive Income and Expenditure Statement for the year ended 31 March 2017

The CIES shows the accounting costs of providing the service in accordance with generally accepted accounting practices. These costs are recovered through Scottish Government and Shetland Islands Council grant funding to reach a break-even position. This funding must be used to meet the running costs of ZetTrans and the implementation of the Regional Transport Strategy in accordance with grant conditions and local authority governance arrangements.

2015/16 Net Expenditure £		Notes	2016/17 Gross Expenditure £	2016/17 Gross Income £	2016/17 Net Expenditure £
137,984	Policy, Strategy & Projects		167,697	0	167,697
2,016,027	Bus Operations		2,559,954	(696,315)	1,863,639
2,154,011	Net Cost of Services		2,727,651	(696,315)	2,031,336
(464)	Financing and Investment Income				(251)
(2,153,547)	Taxation and Non-Specific Grant Income	6			(2,031,085)
0	(Surplus) or Deficit on Provision of Services				(2,031,336)
0	Other Comprehensive Income and Expenditure				0
0	Total Comprehensive Income and Expenditure				0

Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate how the funding available to the partnership for the year has been used in providing services in comparison with those resources consumed or earned in accordance with accounting practices. It also shows how this expenditure is allocated for decision making purposes Partnership's activities. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the CIES.

2015/16				2016/17		
Net Expenditure chargeable to ZetTrans £	Presentation Adjustments £	Net Expenditure in the CIES £		Net Expenditure chargeable to ZetTrans £	Presentation Adjustments £	Net Expenditure in the CIES £
137,984	0	137,984	Policy, Strategy & Projects	167,697	0	167,697
2,016,027	0	2,016,027	Bus Operations	1,863,639	0	1,863,639
2,154,011	0	2,154,011	Net Cost of Services	2,031,336	0	2,031,336
(2,153,547)	(464)	(2,154,011)	Other income and expenditure	(2,031,085)	(251)	(2,031,336)
464	(464)	0	(Surplus) or Deficit	251	(251)	0

Balance Sheet as at 31 March 2017

This statement shows the value as at 31 March 2017 of the assets and liabilities recognised by ZetTrans. It should be noted that total current assets equal total current liabilities in the Balance Sheet and that both are the same value as the Cost of Service total appearing in Comprehensive Income and Expenditure Statement. This is because Shetland Islands Council will only cover the net cost of provision of services by ZetTrans, resulting in the net assets of ZetTrans being nil at the year-end. Consequently, ZetTrans does not hold or carry forward any usable reserves as at 31 March 2017.

As at 31 March 2016 £		Notes	As at 31 March 2017 £
2,021,810	Short term debtors		1,899,335
132,201	Cash and cash equivalents	1	132,001
2,154,011	Current Assets		2,031,336
(2,154,011)	Short term creditors		(2,031,336)
(2,154,011)	Current Liabilities		(2,031,336)
0	Net Assets		0

Shetland Islands Council incurs the day-to-day costs of the public bus service during the year, which is then invoiced to ZetTrans at the end of the financial year. The sum owed by ZetTrans to Shetland Islands Council is shown as a short-term creditor at the year-end. ZetTrans also receives grant funding from Shetland Islands Council, which in turn appears as a short-term debtor in the Balance Sheet.

The audited accounts were authorised for issue on 21 September 2017.

.....
Jonathan Belford CPFA
Proper Officer for Finance
Zetland Transport Partnership

21 September 2017

Cashflow Statement

This statement shows the changes in cash and cash equivalents of the Partnership during the reporting period and how ZetTrans generates and uses cash and cash equivalents. The amount of net cash flows arising from operating activities is a key indicator of the extent to which operations are funded by way of taxation and grant income, or from the recipients of services provided.

2015/16 £	Note	2016/17 £
	Cash inflows from operating activities	
(2,236,967)	Grants due	(2,153,547)
(451)	Bank Interest	(265)
(53,067)	Taxation due	(83,715)
2,105,217	Adjusted for non-cash items (debtors and creditors)	2,021,797
(185,268)	Cash inflows from operating activities	(215,730)
	Cash outflows from operating activities	
2,237,396	Payments due for operating activities	2,154,012
53,067	Taxation received	83,715
(2,105,217)	Adjusted for non-cash items (debtors and creditors)	(2,021,797)
185,246	Cash outflows from operating activities	215,930
(22)	Net Cash outflows/(inflows) from operating activities	200
(22)	Net decrease/(increase) in cash and cash equivalents	200
132,179	Cash and cash equivalents at the beginning of the reporting period	132,201
132,201	Cash and cash equivalents at the end of the reporting period	132,001
(22)	Net cash outflows/(inflows) in cash and cash equivalents in year	200

Since all costs, and therefore cash outflow, of ZetTrans is fully funded by Shetland Islands Council, the net cash outflow of £200 is a result of timing differences between the receipt and transfer of grant income and VAT reclaimed from HM Revenue & Customs.

Notes to the Financial Statements

Note 1: Accounting Standards Issued not Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted.

There are no new or amended accounting standards due to be adopted in the 2017/18 Code that apply to ZetTrans.

Note 2: Cash and Cash Equivalents

Cash and Cash Equivalents is comprised of:

As at 31 March 2016 £		As at 31 March 2017 £
132,201	Bank current accounts	132,001
132,201	Total	132,001

Note 4: External Audit Costs

The Partnership has incurred the following costs in respect of external audit services provided in accordance with the Code of Audit Practice:

2015/16 £		2016/17 £
9,530	Fees payable in respect of external audit services undertaken in accordance with the Code of Audit Practice	10,187
9,530	Total	10,187

Note 5: Grant Income

The Partnership credited the following grants, contributions and donations to the CIES in 2016/17:

2015/16 £		2016/17 £
(131,750)	Scottish Government Revenue Expenditure Grant	(131,750)
(2,021,797)	Shetland Islands Council Grant	(1,899,335)
(2,153,547)	Total	(2,031,085)

Note 6: Related Parties

The Partnership is required to disclose material transactions with related parties, ie bodies or individuals that have the potential to control or influence the Partnership or to be controlled or influenced by the Partnership. Disclosure of these transactions allows readers to assess the extent to which the Partnership may have been constrained in its ability to operate independently,

Note 3: Members' Expenses

The Partnership members do not receive an attendance allowance; however, expenses incurred in the course of carrying out approved duties are reimbursed. ZetTrans paid the following amounts to members during the year:

2015/16 £		2016/17 £
8,737	Members' expenses	5,073
8,737	Total	5,073

or might have secured the ability to limit another party's ability to contract freely with them.

The Scottish Government is responsible for providing the statutory framework within which the Partnership operates. It provides some funding in the form of grants and prescribes the terms of many of the transactions that the Transport Partnership has with other parties.

In 2016/17, the Scottish Government provided £0.132m to fund running costs of the Partnership (£0.132m in 2015/16).

Shetland Islands Council is responsible for funding the net expenditure of the Partnership under the Transport (Scotland) Act 2005. In 2016/17 the Council provided £1.864m (£2.016m in 2015/16) to fund the delivery of bus service and a further £0.035m (£0.006m in 2015/16) of match funding for core running costs. ZetTrans does not employ its own staff and during 2016/17, Shetland Islands Council charged ZetTrans £0.145m (£0.105m in 2015/16) in respect of staff, supplies and other support services.

Note 7: Critical Judgements in applying accounting policies

There is a high degree of uncertainty about future levels of funding for local government in general, however, the Partnership has determined that this uncertainty is not an indication that the level of service provision will be materially reduced.

Note 8: Accounting Policies

General Principles

The Code specifies the applicable accounting policies for:

- selecting measurement bases for recognising assets, liabilities, gains and losses in the annual accounts;
- making changes to reserves; and
- the minimum disclosure requirements.

A valid estimation technique can be used to derive the monetary amount to be recognised in the financial statements in such circumstances when the basis of measurement for the monetary amount cannot be applied with certainty.

Accounting Conventions and Concepts

The accounting convention adopted in the annual accounts is historical cost.

The concept of the Partnership as a going concern is based on the premise that its functions and services will continue in existence for the foreseeable future.

The concept of materiality derives from the premise that financial statements need not be precisely accurate to represent a true and fair view.

The accounting policies that have a significant effect on the amounts recognised in the financial statements of the Zetland Transport Partnership are summarised below.

A Accruals of Income and Expenditure

Activity is accounted for in the year in which it takes place, not simply when cash payments are made or received. In particular, income and expenditure in relation to services provided or received is recorded as income or expenditure when the service has been provided, rather than when receipts or payments have been made.

B Government Grants and Contributions

Government grants, third party contributions and donations are recognised as due to the Partnership and hence credited to the CIES when there is reasonable assurance that the Partnership will comply with any conditions attached to payment of the grants.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the CIES.

C Value Added Tax

VAT payable is included as an expense only where it is not recoverable from HM Revenue and Customs.

Independent Auditor's Report

Independent auditor's report to the members of Zetland Transport Partnership and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Zetland Transport Partnership for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, Balance Sheet, Cashflow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the body as at 31 March 2017 and of its (surplus) or deficit on the provision of services for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Proper Officer for the financial statements

As explained more fully in the Statement of Responsibilities, the Proper Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Proper Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves 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. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the body and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Proper Officer; and the overall presentation of the financial statements.

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual accounts

The Proper Officer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements in accordance with ISAs (UK&I), our responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Report on other requirements

Opinions on other prescribed matters

We are required by the Accounts Commission to express an opinion on the following matters.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

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Pat Kenny, CPFA (for and on behalf of Deloitte LLP)
110 Queen Street
Glasgow
G1 3BX
United Kingdom

21 September 2017