

Zetland Transport Partnership

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Zetland Transport Partnership and the Controller of Audit
September 2024

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Key messages

2023/24 annual accounts

- 1 Audit opinions on the annual accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2 We have no significant findings to report from the audit. There were no material adjustments arising from the audit of the accounts.
- 3 Limited progress has been made on prior year recommendations. The documentation of policy and processes for annual indexation of bus contracts has still to be completed.

Wider Scope

- 4 ZetTrans has effective and appropriate arrangements in place to continue to deliver services.
- 5 Limited progress has been made on reviewing key performance indicators and targets to ensure they remain appropriate in demonstrating achievement of strategic objectives.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of Zetland Transport Partnership (ZetTrans). The scope of the audit was set out in an Annual Audit Plan presented to the 23 May 2024 meeting of the ZetTrans' Partnership Board. This Annual Audit Report comprises:

- significant matters arising from an audit of ZetTrans' annual accounts
- conclusions on wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability and Best Value.

2. This report is addressed to ZetTrans and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

3. We would like to thank committee members, senior management, and other staff, particularly those in finance, for their cooperation and assistance during the course of the audit.

Responsibilities and reporting

4. ZetTrans has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. ZetTrans is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

5. The responsibilities of an independent auditor are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2021](#) and supplementary guidance, and International Standards on Auditing in the UK.

6. Weaknesses or risks identified are only those which have come to our attention during our audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues raised and to maintain adequate systems of control.

7. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

8. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £12,560 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

9. The annual audit seeks to add value to ZetTrans by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice identified.

1. Audit of 2023/24 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual accounts are unmodified.

We have no significant findings to report from the audit. There were no material adjustments arising from the audit of the annual accounts.

The documentation of policy and processes for the indexation of bus contracts is still to be completed.

Audit opinions on the annual accounts are unmodified

10. The Partnership approved the annual accounts for the year ended 31 March 2024 on 27 September 2024. The independent auditor's report included the following opinions on the annual accounts:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

The unaudited annual accounts were received in line with the agreed audit timetable, however they did not fully comply with regulations

11. Regulation 8(6) of the Local Authority Accounts (Scotland) Regulations states the proper officer must certify and date the statement of responsibilities and balance sheet of the unaudited accounts and submit to the appointed external auditor no later than 30 June.

12. The accounts were received on 28 June 2024, however the signature on the statement of responsibilities had been omitted. We did not identify any issues during our audit with the narrative on the statement of responsibilities.

Overall materiality was assessed on receipt of the unaudited annual accounts as £116,000

13. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. Our initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£116,000
Performance materiality	£87,000
Reporting threshold	£6,000

Source: Audit Scotland

15. The overall materiality threshold for the audit of the annual accounts of ZetTrans was set with reference to gross expenditure, which was judged as the figure most relevant to the users of the financial statements.

16. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting the scale of previous year's adjustments, the extent of estimation in the accounts and the planned testing in proportion to the scale of the organisation.

17. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

18. Under ISA (UK) 260, we communicate significant findings from the audit to the ZetTrans Partnership, including our view about the qualitative aspects of the body's accounting practices.

19. The Code of Audit Practice also requires auditors to highlight key audit matters, which are defined in ISA (UK) 701 as those matters judged to be of most significance. We have no issues to report from the audit.

Audit work responded to the risks of material misstatement we identified in the annual accounts

20. We obtained audit assurances over the identified significant and non-significant risks of material misstatement in the annual accounts. [Exhibit 2](#) sets out the risks of material misstatement to the financial statements identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries, focusing on significant risk areas. Consider the need to test journal entries throughout the year. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Test accounting accruals and prepayments focusing on significant risk areas 	<p>We received satisfactory assurances from the external auditor of Shetland Islands Council around journal processing controls.</p> <p>No issues were identified relating to unusual journal activity, or significant transactions outwith the course of normal business.</p> <p>Journal testing of a sample of higher risk transactions at year-end and other transactions did not identify any issues.</p> <p>No changes were made to methodologies or assumptions used to prepare depreciation estimates.</p> <p>Our sample testing of accruals did not identify any issues.</p> <p>Conclusion: We did not identify any instances of management override of controls during our audit.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>2. Indexation of bus contracts</p> <p>The terms of bus contracts state indexation should be applied to contract prices annually from 1st April on a forward basis. The conditions of contract do not specify the method to be used, beyond reference to an appropriate index. There is a risk that the lack of clarity and consistency on the indexation review methodology could lead to expenditure being misstated.</p>	<ul style="list-style-type: none"> • Review the newly developed indexation policy and procedure note. • Confirm the policy and process, and any subsequent variations, is approved at an appropriate level. • Detailed testing of indexation transactions with a focus on applied index in year and at year-end. 	<p>The documentation of the indexation policy and process note has still to be completed (see paragraph 22.)</p> <p>We reviewed the indexation working paper and confirmed it was in line with our understanding of the policy.</p> <p>We agreed the indexation in the accounts to the underlying working paper.</p> <p>We reviewed a sample of indexation calculations across the year and agreed to underlying bus contracts.</p> <p>Conclusion: Indexation expenditure included in the accounts is not materially misstated.</p>

There were no identified misstatements

21. We did not identify any errors through our audit work that required adjustment in the financial statements.

Limited progress has been made on implementing prior year recommendations

22. Last year's annual audit report included 4 recommendations, two of which were brought forward from earlier audit years. Some actions have now been superseded in part, however key actions around documentation of indexation policy and procedures, along with review of performance indicators, were not actioned within planned timescales. Revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to long term and the arrangements for securing best value.

Conclusions

ZetTrans has effective and appropriate arrangements in place to continue to deliver services.

Limited progress has been made on demonstrating how reported KPIs support the achievement of ZetTrans' strategic objectives.

ZetTrans has appropriate short-term financial planning arrangements

23. ZetTrans approved a budget of £5.195 million on 16 March 2023. The budget was updated through the year to include in-year movements. Actual gross expenditure for the financial year was £5.804 million, matched to grant funding and other income sources. Management accounts are routinely considered at partnership meetings.

24. Future partnership funding is heavily dependent on the medium-term financial plan of its main partner, Shetland Islands Council. The Partnership considered and noted the Council's medium term financial plan on 28th June 2024 and is part of its cyclical financial monitoring and reporting.

Limited progress has been made on demonstrating how reported KPIs support the achievement of ZetTrans' strategic objectives

25. The Partnership is required to report annually to Scottish Ministers on the performance of its functions. ZetTrans' annual report for 2022/23 was approved by the Partnership in November 2023. The previous annual report covered the period 2017 to 2019.

26. The annual report sets out the strategic framework for ZetTrans and provides an operational update and key achievements for the period. The report includes an appendix of operational data relating to different aspects of the transport network and infrastructure. However, trend information is limited to the reported year and there are no defined targets or milestones set out. It is also

unclear how the operational data supports the achievement of the Partnership's strategic objectives.

27. A revised Regional Transport Strategy (RTS) through to 2040 was approved by ZetTrans on 19 February 2024. As part of this strategy, a new set of indicators reflecting the 2040 RTS is under development. A report on the selected indicators was due to be taken to the Board in June 2024 however this was delayed.

28. The routine monitoring and reporting of key performance indicators assists and demonstrates achievement of strategic objectives and enables the Partnership to demonstrate Best Value.

Recommendation 1

A revised set of performance indicators and targets, aligned to updated regional transport strategy, should be developed and progress against these routinely monitored and reported.

Appendix 1: Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Performance information and reporting</p> <p>The annual performance report does not set out clear targets or historic trend information for reported indicators. It is unclear how these indicators support achievement of strategic objectives.</p> <p>A revised set of indicators to support the updated regional transport strategy has still to be developed.</p> <p>Risk – Progress in achievement of strategic objectives cannot be adequately demonstrated.</p>	<p>A revised set of performance indicators and targets, aligned to updated regional transport strategy, should be developed and progress against these routinely monitored and reported.</p> <p>See paragraph 25.</p>	<p>Agreed Action</p> <p>We will look to develop meaningful performance indicators which focus on key priority areas and are in alignment with the Strategic objectives of the Partnership.</p> <p>Responsible officer</p> <p>Lead Officer</p> <p>Agreed date</p> <p>March 2025</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Update
<p>b/f1 - The methodology for calculating indexation of bus contract expenditure is inconsistent with that applied in the prior year</p> <p>There is a lack of documentation on the process</p>	<p>Recommendation - The policy and process for calculating and applying indexation should be clearly documented by the finance team. The policy and process, and any subsequent variations, should</p>	<p>Work in progress</p> <p>Indexation policy and process note has still to be formalised.</p> <p>We were presented with the indexation</p>

Issue/risk	Recommendation and Agreed Action	Update
<p>for reviewing indexation of contracts.</p> <p>The terms of bus contracts state indexation should be applied to contract prices annually from 1st April on a forward basis. The conditions of contract do not specify the method to be used, beyond reference to an appropriate index.</p> <p>Risk - there is a risk that the lack of clarity and consistency on the indexation review methodology could lead to expenditure being misstated in future years.</p>	<p>be approved at an appropriate level within the organisation.</p> <p>Agreed action - an internal indexation policy and procedure note will be developed</p> <p>Responsible officer Proper Officer of Finance/Lead Officer</p> <p>Agreed date March 2024</p>	<p>methodology used for 2023-24</p> <p>Management comment</p> <p>Revised action A process note has been prepared and an associated element reflecting a formal indexation policy will be added.</p> <p>Responsible officer Proper Officer of Finance / Lead Officer</p> <p>Revised date March 2025</p>
<p>b/f2 - Arrangements for securing Best Value</p> <p>ZetTrans has not produced a medium-term financial plan for several years. Going forward it intends to use the funding streams identified in the council's medium-term financial plan to demonstrate financial stability. Further work will be required to demonstrate identified funding will support achievement of current strategic objectives, and to ensure performance monitoring and reporting arrangements are properly aligned.</p> <p>Risk – ZetTrans cannot demonstrate that it is meeting its objectives and using resources effectively.</p>	<p>Recommendation - ZetTrans should review the council's medium-term financial plan to ensure it supports the achievement of ZetTrans' strategic objectives. Key performance indicators and targets should be reviewed to ensure they remain appropriate in demonstrating achievement of strategic objectives, and routinely reported to the partnership.</p> <p>Agreed action - The Council's MTFP and appropriate ZetTrans KPI's will be reported at least annually to allow the Partnership to note the financial context and achievement of its strategic objectives.</p> <p>Responsible officer Proper Officer of Finance/Lead Officer</p> <p>Agreed date March 2024</p>	<p>Implemented/ Superseded</p> <p>Medium Term Financial Plan – Council MTFP reported to Partnership in June 2024.</p> <p>KPI development – see Recommendation 1 above</p>

Issue/risk	Recommendation and Agreed Action	Update
<p>b/f 3 – Performance reporting</p> <p>The lack of any performance reporting since 2018/19 is a significant issue as the Partnership is unable to demonstrate that it is meeting its objectives and using resources effectively.</p>	<p>We recommend that this be addressed as a matter of urgency.</p>	<p>Superseded</p> <p>2022/23 annual performance report approved November 2023 (see paragraph 25.) and Recommendation 1 re KPI development</p>
<p>b/f4 – Financial sustainability – workforce planning</p> <p>Workforce planning is an ongoing process and should be considered for appropriateness by the partnership on an annual basis</p>	<p>We recommend ZetTrans ensure workforce plans are subject to ongoing review by the partnership, to ensure they are appropriate to the business and support succession planning.</p>	<p>Superseded</p> <p>Zetrans staff resources are provided through a minute of agreement with Shetland Islands Council, will be addressed through council service level workforce planning arrangements.</p>

Zetland Transport Partnership

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