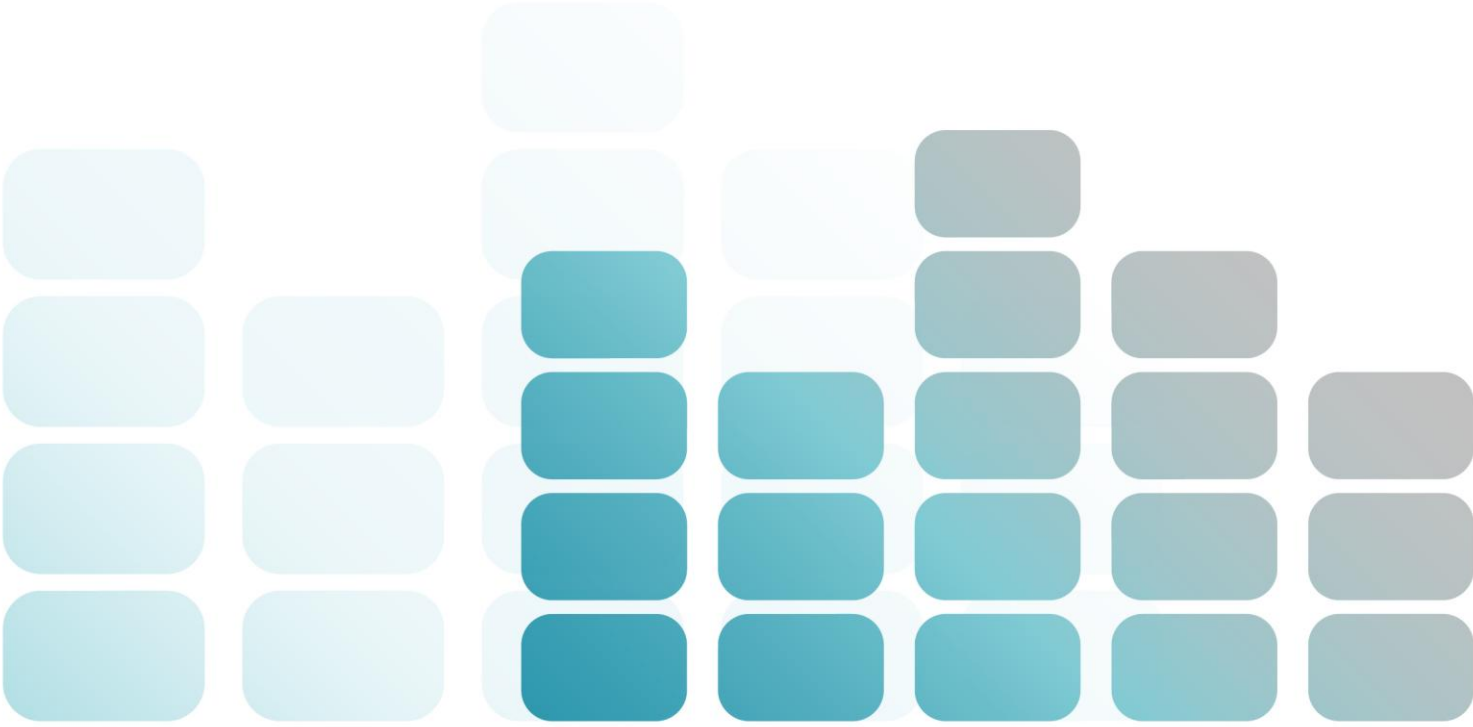


# Zetland Transport Partnership

Annual Audit Plan 2025/26



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# Introduction

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## Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2025/26 audit of Zetland Transport Partnership's annual accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

## Appointed auditor and independence

2. Stephen O'Hagan, of Audit Scotland, has been appointed by the Accounts Commission as external auditor of Zetland Transport Partnership, hereafter referred to as ZetTrans, for the period from 2022/23 until 2026/27. The 2025/26 financial year is therefore the fourth of the five-year audit appointment.

3. Stephen O'Hagan and the audit team are independent of ZetTrans in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of ZetTrans to communicate.

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# Audit scope and responsibilities

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## Scope of the audit

**5.** The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- An opinion on statutory other information published with the financial statements in the annual accounts, namely the Management Commentary and the Annual Governance Statement
- Concluding on the financial sustainability of ZetTrans and a review of the Annual Governance Statement
- Reporting on ZetTrans' arrangements for securing Best Value
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual accounts and the wider scope areas specified in the Code of Audit Practice.

## Responsibilities

**6.** The Code of Audit Practice sets out the respective responsibilities of ZetTrans and the auditor. A summary of the key responsibilities is outlined below.

### Auditor's responsibilities

**7.** The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual accounts, and concluding on ZetTrans' arrangements in place for the wider scope areas and to secure Best Value.

## ZetTrans' responsibilities

8. ZetTrans has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs
- Preparation of annual accounts, comprising financial statements that give a true and fair view and other information
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption
- Implementing arrangements to ensure its financial position is soundly based
- Making arrangements to secure Best Value
- Establishing an internal audit function.

## Communication of fraud or suspected fraud

9. In line with ISA (UK) 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements), in presenting this plan to the Partnership we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. Should members of the committee or board have any such knowledge or concerns relating to the risk of fraud within ZetTrans, we invite them to communicate this to the appointed auditor for consideration. Similar assurances will be sought as part of the audit completion process.

# Audit of the annual accounts

## Introduction

**10.** The audit of the annual accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

## Materiality

**11.** The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

**12.** Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

**13.** The materiality levels determined for the audit of ZetTrans are outlined in [Exhibit 1](#).

## Exhibit 1

### 2025/26 Materiality levels for ZetTrans

Materiality	ZetTrans
<b>Materiality</b> – based on an assessment of the needs of users of the financial statements and the nature of ZetTrans operations, the benchmark used to determine materiality is gross expenditure based on the audited 2024/25 financial statements. Materiality has been set at 2% of the benchmark.	£117,000

Materiality	ZetTrans
<p><b>Performance materiality</b> – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 75% of planning materiality.</p>	£88,000
<p><b>Reporting threshold</b> – all misstatements greater than the reporting threshold will be reported.</p>	£6,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**14.** The risk assessment process draws on the audit team’s cumulative knowledge of ZetTrans, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

**15.** Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2, page 8](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in [Exhibit 2](#).

**16.** The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan and [Exhibit 2](#) may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to ZetTrans and those charged with governance, where relevant.

## Exhibit 2

### Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response
<p><b>Fraud caused by management override of controls</b></p> <p>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>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries.</li> <li>• Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</li> <li>• Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.</li> </ul>

Source: Audit Scotland

## Key audit matters

**17.** The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

**18.** In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

**19.** The matters determined to be key audit matters will be communicated in the Annual Audit Report. [Exhibit 2](#) outlines the significant risks of material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

**20.** In addition to the significant risk highlighted in [Exhibit 2](#), the following area of specific audit focus has been identified as part of our planning process and will be reported on in our Annual Audit Report:

- Indexation of bus contracts – The terms of bus contracts state indexation should be applied to contract prices annually from 1<sup>st</sup> April on a forward basis. The conditions of contract do not specify the method to be used, beyond reference to an appropriate index. A formal policy is now in place, however, there remains a risk that a lack of consistent application of indexation against policy could lead to expenditure being misstated.

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# Wider scope and Best Value

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## Introduction

**21.** Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual accounts to include consideration of additional aspects or risks in four wider scope areas.

**22.** Due to the nature and size of ZetTrans and its limited financial activity, it is considered a less complex body for the wider scope audit. Therefore, the wider scope audit does not consider all four wider scope areas and is instead limited to concluding on the financial sustainability of ZetTrans.

**23.** Financial sustainability means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering ZetTrans' medium to longer-term planning for service delivery. A conclusion on the financial sustainability of ZetTrans will be reported in the Annual Audit Report.

## Best Value

**24.** Under the Code of Audit Practice, the duty on auditors to consider the arrangements an audited body has in place to secure Best Value applies to audited bodies that fall within section 106 of the Local Government (Scotland) Act 1973, which ZetTrans does.

**25.** Consideration of the arrangements ZetTrans has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements ZetTrans has in place will be reported in the Annual Audit Report.

## Significant wider scope and Best Value risks

**26.** The risk assessment process has identified significant risks in the wider scope areas as outlined in [Exhibit 3](#), and this includes the planned audit procedures in response to the risks.

### Exhibit 3

#### Significant wider scope and Best Value risks

Description of risk	Planned audit response
<p><b>Performance information and reporting</b></p> <p>We reported in our prior year audit report that the Partnership's annual performance report did not set out clear targets or historic trend information for reported indicators. This meant it was unclear how these indicators supported achievement of strategic objectives.</p> <p>An annual performance report has recently been considered by the Partnership, and work is ongoing to develop a delivery plan and performance framework which will demonstrate the link between the Regional Transport Strategy priorities, delivery activity, performance indicators and reporting.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Review ZetTrans' delivery plan and performance framework update.</li> <li>• Consider the extent to which the framework supports the reporting of strategic objectives and their achievement.</li> <li>• Assess whether the performance framework and indicators support annual reporting expectations and requirements.</li> </ul>

Source: Audit Scotland

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# Reporting arrangements, timetable and audit fee

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## Audit outputs

**27.** The outputs from the 2025/26 audit include:

- This Annual Audit Plan
- An Independent Auditor's Report to ZetTrans and the Accounts Commission setting out opinions on the annual accounts
- An Annual Audit Report to ZetTrans and the Accounts Commission setting out significant matters identified from the audit of the annual accounts, conclusions from the wider scope and Best Value audit, recommendations, where required, and any good practice identified.

**28.** The matters to be reported in the outputs will be discussed with ZetTrans for factual accuracy before they are issued. All outputs from the audit will be published on [Audit Scotland's website](#), apart from the Independent Auditor's Report, which is included in the audited annual accounts.

**29.** Target dates for the audit outputs are set by the Accounts Commission. In setting the target dates for the audit outputs, consideration is given to the statutory date for approving the annual accounts, which is 30 September 2026 for local government bodies.

**30.** We plan to issue the Independent Auditor's Report and Annual Audit Report by the target date of 30 September 2026.

## Audit timetable

**31.** Achieving the timetable for production of the annual accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 4](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with ZetTrans and reported to those charged with governance, where required.

## Exhibit 4

### 2025/26 audit timetable

Audit activity	ZetTrans target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan		31 March 2026	15 April 2026
<b>Annual Accounts:</b>			
• Consideration of unaudited annual accounts by those charged with governance	25 June 2026		25 June 2026
• Submission of unaudited annual accounts and all working papers to audit team	30 June 2026		
• Latest date for audit clearance meeting	28 August 2026	28 August 2026	
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report		16 September 2026	30 September 2026
• Agreement of audited and unsigned annual accounts	16 September 2026	16 September 2026	
• Approval by those charged with governance and signing of audited annual accounts	30 September 2026		30 September 2026
• Signing of Independent Auditor's Report and issue of Annual Audit Report		30 September 2026	

Source: Audit Scotland

## Audit fee

**32.** ZetTrans' audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2025/26 audit is £13,360 (2024/25 - £12,800).

**33.** In setting the audit fee, it is assumed that ZetTrans has effective governance arrangements in place and the complete annual accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

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# Other matters

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## Internal audit

**34.** ZetTrans is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit arrangements which are provided through Shetland Islands Council, including its nature, responsibilities, and activities.

**35.** While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2025/26 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

## Audit quality

**36.** Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

**37.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant

judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

**38.** To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

**39.** Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

**40.** Audit Scotland may periodically seek the views of ZetTrans on the quality of audit services provided. The audit team would also welcome feedback at any time.

# Zetland Transport Partnership

Annual Audit Plan 2025/26



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