



Zetland Transport Partnership

Report to the Members of the Board and the Controller of
Audit on the 2019/20 audit

Issued on 9 September for the meeting on 24 September 2020

Contents

01 Our report

Introduction 3

Financial statements audit

Quality indicators 7

Our audit explained 8

Significant risks 9

Our audit report 12

COVID-19 outbreak 13

Your annual accounts 14

Audit dimensions

Overview 16

Governance statement 17

Financial sustainability 18

Fraud considerations 20

02 Sector developments

Responding to COVID-19 22

03 Appendices

Purpose of our report and responsibility statement 25

Action plan 26

Fraud responsibilities and representations 29

Independence and fees 30

Quality of public audit in Scotland 31

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.

I have pleasure in presenting our final report to the Board of Zetland Transport Partnership ('ZetTrans') for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the Board in February 2020.

This audit was carried out under unusual circumstances, being a remote audit conducted during the national lockdown in response to COVID-19. We recognise the extra pressure faced by the Board's staff in preparing the annual accounts and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for the preparation of the annual accounts as well as the audit, and management communicated in a timely manner the need to push back the original timetable by a few weeks. While the shift to remote working placed pressure on the timetable for preparation of the annual accounts and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the wider scope requirements of public sector audit. As set out in our plan, in line with previous years, we have concluded that the full application of the wider scope is not appropriate and applied the "small body" clause set out in the Code which allows narrower scope work to be carried out. We have updated our risk assessment during the audit and confirm that the judgement made in our audit plan has not changed. 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 Board and the services that it delivers over the medium to longer term.

Introduction (continued)

The key messages in this report (continued)

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

Conclusions from our testing

Based on the completion of our audit work we have issued an unmodified audit opinion.

The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Board.

The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 9.

No misstatements in excess of our reporting threshold of £3k or disclosure deficiencies have been identified up to the date of this report.

Status of the financial statements audit

Our audit is complete.

Conclusions on audit dimensions

Governance statement - The disclosures are appropriate and address the minimum requirements of the Scottish Public Finance Manual (SPFM).

Financial sustainability – ZetTrans achieved financial balance in 2019/20. ZetTrans is aware that it faces a difficult financial position over the medium term, noting that the Council (the main funder of ZetTrans) faces a cumulative funding gap of £41m by 2023/24, which has implications for the sustainability of ZetTrans. Actions to address this gap have been slow to progress, with the Medium-Term Financial Plan ('MTFP') not progressed in 2019/20 due to delays in the Scottish and UK Government budget setting process and the subsequent redirection of resources to managing the global COVID-19 pandemic.

Our detailed findings and conclusions are included on pages 16 to 18 of this report.

Introduction (continued)

The key messages in this report (continued)

Next steps

An agreed Action Plan is included as an Appendix on pages 26 to 28 of this report. We will consider progress with the agreed actions as part of our 2020/21 audit.

Added value

Our aim is to add value to the Board by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Board promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report. In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which are open to anyone to join.

Pat Kenny
Audit Director







Financial statements audit



Quality indicators

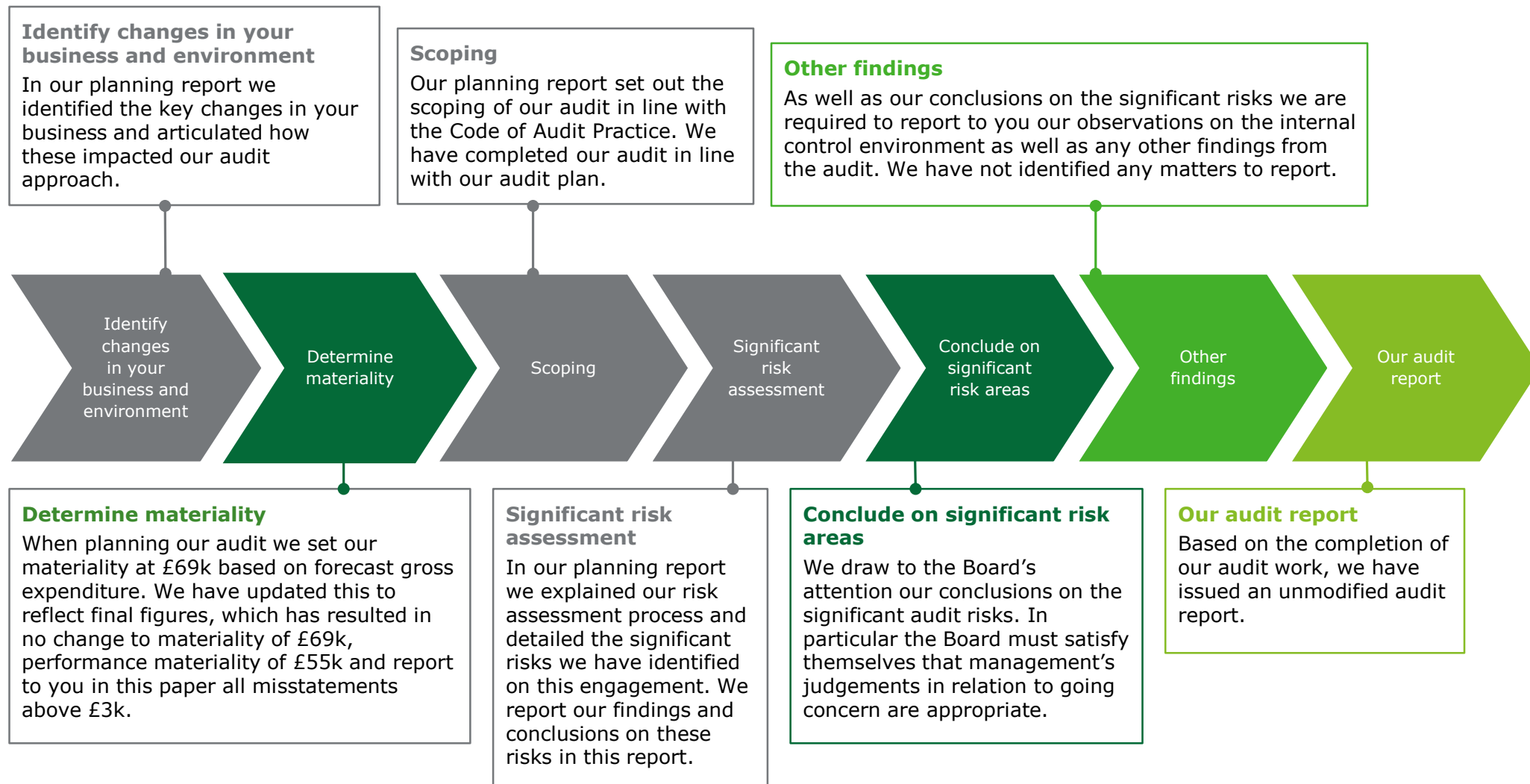
Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Adherence to deliverables timetable		While the timescales were revised, this was communicated promptly and in advance of the final fieldwork, and the audit of the annual accounts progressed in line with the revised timescale.
Access to finance team		Deloitte and ZetTrans have worked together to facilitate remote communication during the audit which has been successful.
Quality and accuracy of management accounting papers		On the whole documentation provided has been of a good standard.
Quality of draft financial statements		A full draft of the annual accounts was received for audit on 6 July 2020, on the first day of our audit fieldwork. These were of a good standard for a first draft with only minor amendments required.
Response to control deficiencies identified		No control deficiencies were identified.
Volume and magnitude of identified errors		We have not identified any significant financial adjustments to date.







Our audit explained

We tailor our audit to your business and your strategy



Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Operating within the approved budget			D+I	Satisfactory		Satisfactory	10
Management override of controls			D+I	Satisfactory		Satisfactory	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)

Risk 1 - Operating within the approved budget

Risk identified

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We do not consider this to be a significant risk for ZetTrans as there is little incentive to manipulate revenue recognition with the majority of revenue being from Shetland Islands Council, which can be agreed to confirmations supplied. Furthermore, from previous years' audits, we have established that there are robust processes and controls in place to reconcile bus fare income, and we have not identified any errors relating to income in the course of our audit engagement.

We therefore consider the fraud risk to be focused on how management operate within the approved budget set at the beginning of the year and the agreed contributions from Shetland Islands Council, being £3,545k for 2019/20. There is a risk that the Board could materially misstate expenditure in relation to year end transactions, in an attempt to align with its tolerance target or achieve a breakeven position. The significant risk is therefore pinpointed to the completeness of accruals and existence of prepayments made by management at the year end and invoices processed around the year end as this is the area where there is scope to manipulate the final results. Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.



Key judgements

Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.



Deloitte response

We have evaluated the results of our audit testing in the context of the achievement of the budget set at the beginning of the year. Our work in this area included the following:

- evaluating the design and implementation of controls around monthly monitoring of financial performance;
- obtaining independent confirmation of the agreed contributions from Shetland Islands Council for the £3.545m;
- performing focused testing of accruals and prepayments made at the year end; and
- performing focused cut-off testing of invoices received and paid around the year end.

Deloitte view

We have concluded that expenditure, accruals and prepayments been recorded in the correct period, and have agreed contributions from Shetland Islands Council to the Council-approved budget.

Significant risks (continued)

Risk 2 - Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions.



Deloitte response

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

- the Board's results throughout the year were projecting slight overspends in the year. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; 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.

Significant and unusual transactions

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

Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Accounting estimates and judgements

We reviewed the financial statements for accounting estimates which could include biases that could result in material misstatements due to fraud.

No issues have been identified from our testing.

There are no critical judgements applicable to ZetTrans.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the financial statements

We have issued an unmodified audit opinion.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

While the Board is faced with financial sustainability issues (as discussed on page 16), it achieved a balanced budget in 2019/20 and has agreed a balance budget for 2020/21. There is also a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) public bodies will continue in operation, therefore it is appropriate to continue as a going concern.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The annual accounts are reviewed in their entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 14.

Coronavirus (COVID-19) outbreak

Impact on the annual accounts and audit

The current crisis is unprecedented in recent times. The uncertainties and changes to ways of working impact upon the reporting and audit processes, and present new issues and judgements that management and the ZetTrans Board need to consider. CIPFA has issued guidance relating to the impacts on the annual accounts to assist in making relevant disclosures. We summarise below the key impacts on reporting and audit:

Impact on ZetTrans' annual accounts

ZetTrans needs to consider the impact of the outbreak on the annual accounts including:

- Principal risk disclosures;
- Potential changes in funding for 20/21;
- Fair value measurements based on unobservable inputs;
- Onerous contracts and any potential provisions;
- Going concern; and
- Events after the end of the reporting period.

Impact on our audit

COVID-19 has fundamentally changed the way we have conducted our audit this year including:

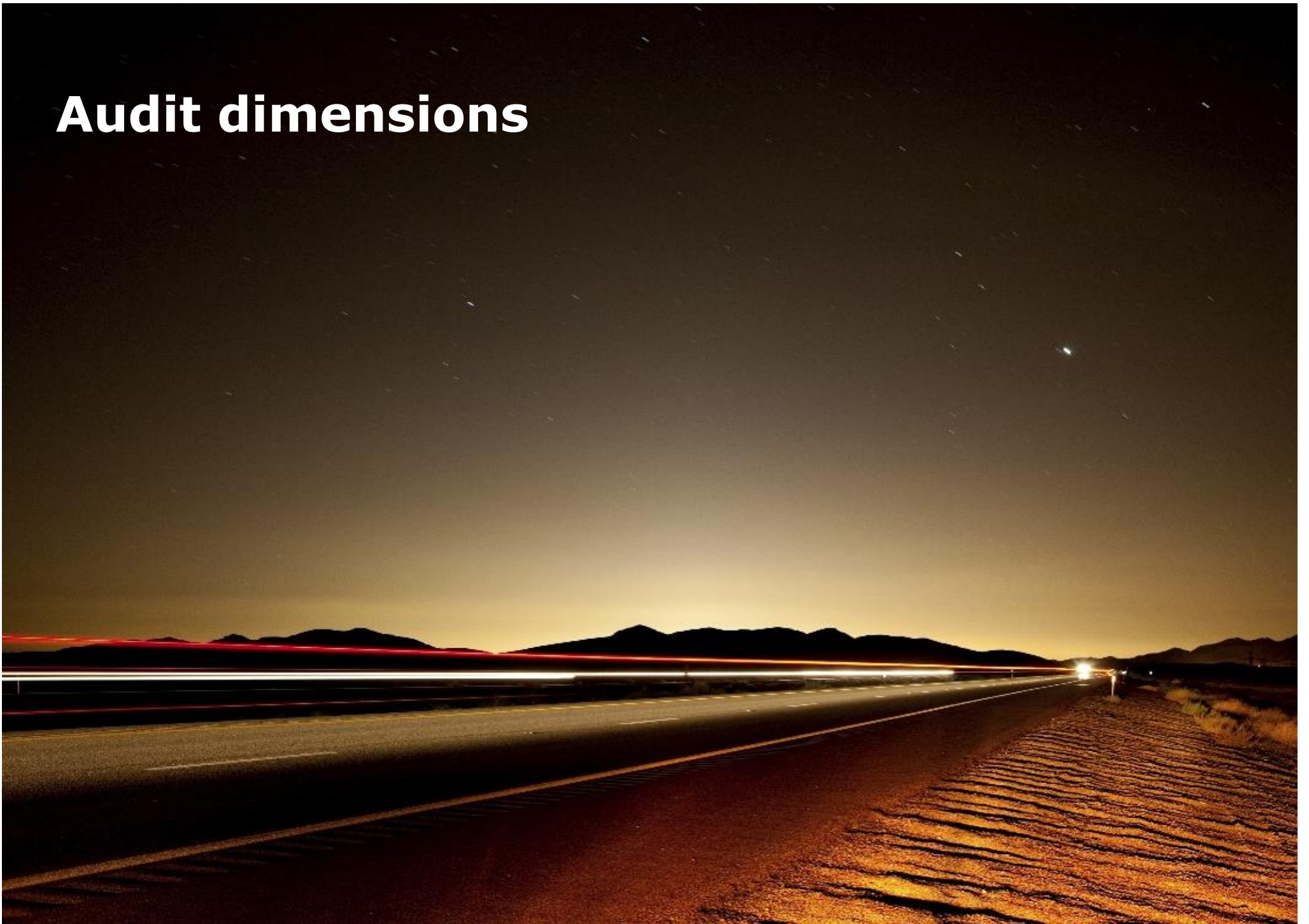
- Teams are primarily working remotely with some challenges in accessing 'physical' documentation and with availability of some Council staff;
- The teams have had regular status updates to discuss progress and facilitate the flow of information;
- Consideration of impacts on the areas of the accounts listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report; and
- In conjunction with the Council staff, we will continue to consider any developments for potential impact up to the finalisation of our work in September 2020.

Your annual accounts

We are required to provide an opinion on the auditable parts of the remuneration report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
Management Commentary	The management commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Board also focusses on the strategic planning context.	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance.</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> <p>Following amendments made during the course of the audit – in relation to including KPIs, links to outcomes and updating narrative to ensure that it is fair, balanced and understandable – we are satisfied that the management commentary has been prepared in accordance with guidance, is consistent with our knowledge 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 ZetTrans is disclosed in the annual accounts of Shetland Islands Council. No additional remuneration is paid to officers or members for acting on behalf of ZetTrans.	We have confirmed that this is in accordance with the statutory guidance and our understanding of ZetTrans. We have also confirmed that these facts have been disclosed in the management commentary.
Annual Governance Statement	The annual governance statement reports that the Board's 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 regulations. We are satisfied that the annual governance statement is consistent with the financial statements, our knowledge and the accounts regulations.

Audit dimensions



Audit dimensions

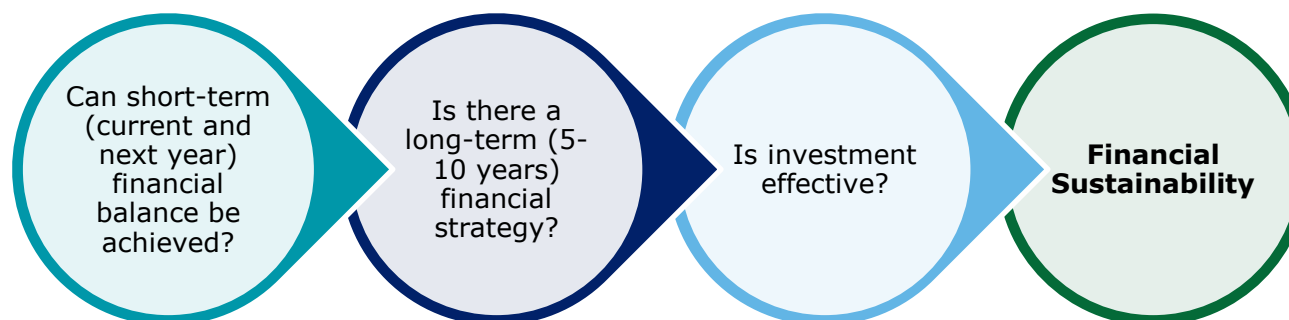
Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following areas. As set out in our plan, in line with previous years, we have concluded that the full application of the wider scope is not appropriate and applied the “small body” clause set out in the Code which allows narrower scope work to be carried out. We have updated our risk assessment during the audit and confirm that the judgement made in our audit plan has not changed. Our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the **governance statement** (which is discussed on page 17); and
- The **financial sustainability** of the Board and the services that it delivers over the medium to longer term.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.



Audit dimensions (continued)

Governance statement

Regulation 5 of the accounts regulations requires local government bodies to report the results of their annual review of their system of internal control in an **annual governance statement** published as part of the annual accounts. The annual governance statement requires to be prepared in accordance with Delivering good governance in local government: framework 2016 published by CIPFA and SOLACE.

As set out in our audit plan, there is a risk that the governance statement is inconsistent with the financial statements and is not in accordance with the good governance framework. There is also a risk that the statement is inconsistent with our knowledge as auditors of ZetTrans or is potentially misleading.

Deloitte View

We have reviewed the draft governance statement for consistency with the financial statements and our knowledge gained during the audit. Following a number of amendments identified through our work, we are pleased to note that the annual governance statement is consistent with our knowledge of ZetTrans and is in line with requirements.

Audit dimensions (continued)

Financial sustainability

Areas considered

Our approach to the audit dimensions is risk focussed. Within our audit plan we set out the following risk:

"There is a risk that the Board cannot effectively plan for the medium to longer term if they do not know how to prioritise resources based on their corporate plan and outcomes, and how any potential funding gaps are to be met."

Short term financial balance

2018/19 Conclusion: ZetTrans achieved financial balance in 2018/19. However, it must be noted that this was only after receiving additional funding of £484k from Shetland Islands Council.

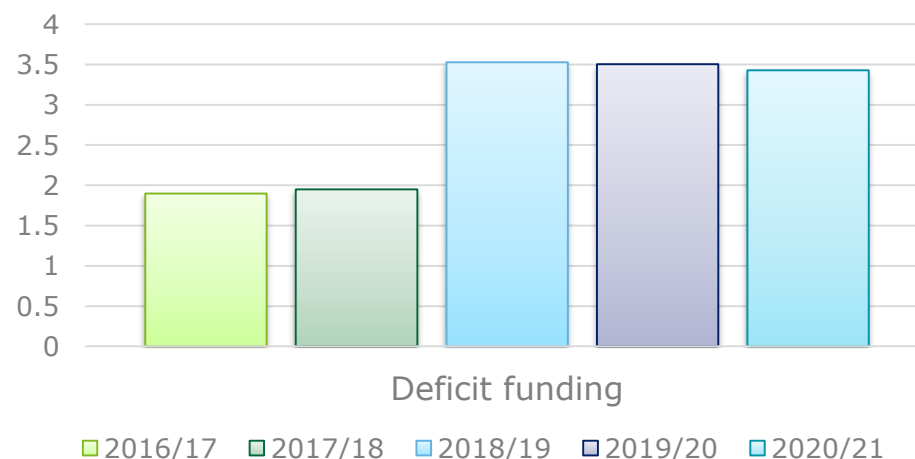
2019/20 Update: The Board agreed a balanced budget for 2020/21 of £4.229m at the Board meeting on 16 March 2020, which included £3.429m contributions from SIC, budgeted bus fare income of £0.668m, and Regional Transport Funding from the Scottish Government (SG) of £0.132m. However, this budget was set and agreed before COVID-19, so does not take into consideration the impact of COVID-19. In addition, there are no savings built into this budget. Although the budget is balanced, this is only because Shetland Islands Council will provide additional funding to offset the projected decline in bus fare income.

ZetTrans achieved financial balance in 2019/20, which was in part helped by bus fare income of £0.671m, which is £0.044m (6.8%) higher than what was originally budgeted at the beginning of the year. While this is a positive result, we anticipate that it will be challenging to achieve similar results in 2020/21 due to the impacts of COVID-19. This is acknowledged by ZetTrans in the annual accounts, which state:

"Attempting to predict the likely short and medium-term impact of COVID-19 on ZetTrans' finances is difficult, especially as the world is at a relatively early stage of understanding of the pandemic. There is no historical precedent to use as the basis of any forecasting models. In the absence of any observed data, ZetTrans works with the Council to make assumptions to establish the likely financial impacts."

2019/20 Conclusion: Following receipt of deficit funding from Shetland Islands Council, ZetTrans achieved financial balance in 2019/20. Given that the Council will provide deficit funding for ZetTrans in 2020/21 also, it is anticipated that ZetTrans will achieve financial balance in the coming year. The financial challenges facing ZetTrans, likely to be exacerbated by the impact of COVID-19, need to be considered in the preparation of the Board's MTFP (discussed on page 19.)

Deficit funding: 2016/17 – 2020/21 (£m)



Audit dimensions (continued)

Financial sustainability (continued)

Medium term financial planning

2018/19 Conclusion: We concluded that ZetTrans did not have an MTFP in place, although we acknowledge that a plan was being developed and was expected to be in place by the end of 2019/20.

2019/20 Update: We noted in the planning paper issued to the Board in February 2020 that there have been delays in developing a MTFP as a result of the delays in publication of UK and SG budgets which impacted on the ability to complete the MTFP. As at the time of our final fieldwork, there has been no further progress in developing the MTFP due to the fact that the MTFP ties in with the Council's MTFP and given that the Council revision is on hold due to prioritising the management of the COVID-19 pandemic.

2019/20 Conclusion: We reiterate that ZetTrans need to prioritise finalising the MTFP to include quantification of the funding gaps and actions to address these over the medium term. It also needs to link the MTFP to the Scottish Government Medium-Term Financial Strategy ('MTFS') and the key themes of public service reform, as well as ensuring there are links to outcomes, ZetTrans' transport strategy and the Council's MTFP.

Deloitte View – Financial sustainability

ZetTrans achieved short term financial balance in 2019/20, assisted by greater than budgeted bus fare income. A balanced budget has been set for 2020/21. While this does not take into account consideration of COVID-19, ZetTrans have noted that it is working with the Council to try to establish the likely financial impact of the pandemic. We recommend that the financial impact be quantified for the short and medium term.

ZetTrans has not put an MTFP in place due to the fact that the MTFP ties in with the Council's MTFP and given that the Council one is on hold due to prioritising the management of the COVID-19 pandemic. ZetTrans needs to progress the development of the MTFP to accurately quantify the medium-term funding gap, to link the MTFP with the Scottish Government's MTFS and the key themes of public service reform, as well as ensuring there are links to outcomes, ZetTrans' transport strategy and the Council's MTFP.

Audit dimensions (continued)

Other requirements

Standards of conduct for prevention and detection of fraud and error

We have reviewed the Board's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Board's arrangements to be operating effectively.

Internal audit

The Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. No direct reliance has been placed on the internal controls work performed by internal audit.

Deloitte view

The Board has appropriate arrangements in place for the prevention and detection of fraud and other irregularities.

Sector developments



Sector developments

Responding to COVID-19

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

An emerging legacy

How COVID-19 could change the public sector

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been uncharted territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic’s likely legacy on governments, public services and the debates that shape them.

Seven emerging legacies:

1. Our view of resilience has been recast.
2. Governments could be left with higher debt after a shock to the public finances
3. Debates around inequality and globalisation are renewed
4. Lines have blurred between organisations and sectors
5. The lockdown has accelerated collaborative technologies
6. Civil society has been rebooted and citizen behaviour may change
7. The legacy that still needs to be captured

Read the full article at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html>

Sector developments (continued)

Responding to COVID-19 (continued)

COVID-19: Preparing for the 'next normal'

As the COVID-19 pandemic continues to unfold there is unlikely to be a rapid or decisive transition from crisis to recovery. Organisations are more likely to face a sequence of operational environments that oscillate between restriction and relaxation, before a final end-state of relative normality.

The first phase of COVID-19 response has been characterised by significant and rapid changes in the way people live their lives and how organisations operate. Many of these changes have been government-mandated. The next phase will be an opportunity for organisations to reflect and plan for a period of uncertainty and disruption. During this period businesses will need to maintain their responsibilities to their customers and staff while modifying operations to meet changes in demand and supply as government restrictions change. They will need to ensure that their recovery is sustainable in terms of resource use and flexible enough to meet change.

Copies of this report can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/risk/articles/preparing-for-the-next-normal.html>

COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover, and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recover to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

<https://www2.deloitte.com/uk/en/pages/human-capital/articles/COVID-19-impact-on-the-workforce-insight-for-hr-teams.html>

Appendices



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 Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 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 accounts.
- Our internal control observations
- Other insights we have identified from our audit.

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.

Use of this report

This report has been prepared for the Board, 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.

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 Board.

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 the procedures performed in fulfilling our audit plan.

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



Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 9 September 2020

Action plan

Follow-up 2018/19 action plan

We have followed up the recommendations made in our 2018/19 annual report in relation to the wider scope areas and note that 0 of the total 2 recommendations made have been fully implemented. The following recommendations have not been implemented. We will continue to monitor these as part of our 2020/21 audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial Sustainability	<p>When developing it's MTFP, ZetTrans should make reference to the key principles of public service reform - prevention, performance, partnership and people - and how these key principles are reflected in ZetTrans' financial planning. There should be clear links to the Scottish Government MTFS, ZetTrans' strategy and outcomes.</p> <p>(See page 18 for details.)</p>	<p>ZetTrans will update its medium-term financial planning assumptions over the summer of 2019 and will present a refreshed MTFP in the autumn. The refreshed MTFP will reflect the principles and assumptions contained in both the National Performance Framework and the Scottish Government's own Medium-Term Financial Strategy.</p>	Proper Officer for Finance	31/3/20	High	<p><i>Not implemented:</i> An MTFP has not yet been developed. When the Council MTFP is revised, ZetTrans should ensure that it prioritises the development of an MTFP, including quantification of anticipated COVID-19 financial impacts.</p> <p>Updated management response: The Council will be refreshing its MTFP in November 2020. ZetTrans will develop its own shortly after, which will seek to consider the likely impact of recent developments and potential for longer-term societal changes on ZetTrans' future plans</p> <p>Updated target date: 31/3/21</p>

Action plan (continued)

Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
General	ZetTrans should consider the recommendations of the external audit report to Shetland Islands Council in June 2019, identifying and adopting those applicable to ZetTrans.	ZetTrans will consider the audit recommendations made to SIC from a ZetTrans' perspective, but would expect the majority of recommendations to be implemented or progressed as a matter of course due to the close working relationship between ZetTrans and the Council, and its reliance on Council systems, processes and policies.	Proper Officer for Finance	31/3/20	Medium	<p><i>Partially implemented:</i> A number of recommendations made to Shetland Islands Council have been applied to ZetTrans, whilst a number have not been applied by the Council and therefore also remain outstanding for ZetTrans.</p> <p>Updated management response: As the sole member of the Partnership, and due to the reliance on Council systems, processes, policies and governance arrangements, ZetTrans expects to benefit from the Council's implementation of audit recommendations as a matter of course. The Council is committed to progressing and addressing audit recommendations outstanding from its 2018/19 audit over the course of the next 12 months. The implementation of audit recommendations will apply equally to ZetTrans.</p> <p>Updated target date: 30/6/21</p>

Action plan (continued)

Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	ZetTrans should carry out a review of how open and transparent it is, influenced by the views of the Board, staff and the wider community. Through this review, ZetTrans should identify improvements which can be made in the coming year	This recommendation will be incorporated into the review of Corporate Governance for ZetTrans. The review will proceed by way of a self-evaluation process in which openness and transparency will be addressed.	Secretary & Proper Officer for Legal Proceedings	31/3/2020	Medium	<p><i>Not implemented:</i> The planned governance review for Zetland Transport Partnership has been delayed.</p> <p>Updated management response: This is to recommence with a self-evaluation process, which will also address the issues raised through the audit of the Annual Accounts 18/19. This will progress alongside the Council's own governance review with a view to addressing the improvements identified with regard to roles and responsibilities.</p> <p>Updated target date: 28/2/21</p>

Our other responsibilities explained

Fraud responsibilities and representations



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 Board 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 or group.

We have also asked the Board 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 operating within the approved budget 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.

Concerns:

No concerns have been identified regarding fraud.



Independence and fees



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

Independence confirmation We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Board and will reconfirm our independence and objectivity to the Board for the year ending 31 March 2020 in our final report to the Board.

Fees The audit fee for 2019/20, in line with the fee range provided by Audit Scotland, is £9,578 as analysed below:

Auditor remuneration	£ 8,208
Audit Scotland fixed charges:	
Pooled costs	850
Performance Audit and Best Value	0
Audit support costs	520
Total proposed fee	9,578

There are no non-audit services fees proposed for the period.

Non-audit services In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Board'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 We have no other relationships with the Board, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Quality of public audit in Scotland

Annual report 2018/19

Audit Scotland published its annual assessment of audit quality carried out on the audit work delivered by Audit Scotland and appointed firms. A copy of the full report is available: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201819>

Public audit in Scotland

Recent high-profile corporate collapses in the private sector have led to considerable scrutiny of the audit profession. The Brydon review is looking into the quality and effectiveness of the UK audit market. The Kingman review, the Competition and Markets Authority market study of the audit services market and the Business, Energy and Industrial Strategy Committee's report on the Future of Audit have all reported on structural weaknesses in the private sector audit regime. The reviews are placing a strong focus on the need for independence of auditors from the bodies they audit.

The public audit model in Scotland is fundamentally different to the private sector audit regime and is well placed to meet the challenges arising from the reviews of the auditing profession. Public audit in Scotland already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

The Audit Scotland Audit Quality and Appointments (AQA) team will continue to develop its activities to provide the Auditor General for Scotland and Accounts Commission with assurance about audit quality. The Audit Quality Framework will be refreshed to take account of the findings from the first two years of its application and to reflect on the developments in the wider audit environment. Further development is planned over the following year to include:

- enhancing stakeholder feedback
- reviewing the structure and transparency of audit quality reporting.

Key messages

The programme of work carried out under the Audit Quality Framework provides evidence of compliance with auditing standards and the Code of audit practice (the Code), together with good levels of qualitative performance and some scope for improvements in audit work delivered in the period 1 April 2018 to 31 March 2019.

Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards:

- ICAS did not identify any concerns with audit opinions
- 55 per cent of financial audit files reviewed by ICAS over the last two years were graded as limited improvement required, the remaining reviews were graded as improvement required (*100% of Deloitte files – limited improvement*)
- ICAS noted considerable improvements in the documentation of performance audits and Best Value assurance reports.

Other performance measures showing good performance include:

- 78 per cent of internal reviews of financial audits in the last two years required only limited improvements (*100% of Deloitte internal reviews graded as no improvement required*)
- all audit providers have a strong culture of support for performing high-quality audit
- stakeholder feedback shows audit work has had impact
- non-audit services (NAS) are declining in number and value and requests made complied with the Auditor General for Scotland and Accounts Commission's NAS policy.

AQA monitors progress against areas for improvement. A common area for improvement in the last two years has been the need for better documentation of audit evidence. In 2018/19 further areas for improvement were identified in:

- the use of analytical procedures
- the application of sampling.



This document is confidential and it is not to be copied or made available to any other party. Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.