

# Zetland Transport Partnership

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Zetland Transport Partnership  
April 2024

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2023/24 external audit of Zetland Transport Partnership (ZetTrans). The main elements of the audit include:

- 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 audit opinion on other statutory information published with the financial statements in the annual accounts, including the Management Commentary and the Annual Governance Statement
- consideration of arrangements in relation to wider scope areas including financial sustainability
- consideration of Best Value arrangements
- provision of an Independent Auditor's Report expressing opinions on the different elements of the annual accounts and an Annual Audit Report setting out conclusions on the wider scope areas.

## Respective responsibilities of the auditor and ZetTrans

2. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and ZetTrans. Key responsibilities are summarised below.

### Auditor responsibilities

3. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

4. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the wider scope arrangements in place at ZetTrans. In doing this, we aim to support improvement and accountability.

### ZetTrans' responsibilities

5. ZetTrans is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual accounts in accordance with statutory requirements.

**6.** ZetTrans also has responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance and propriety that enable it to deliver its objectives.

**7.** The audit of the annual accounts does not relieve management or the Partnership, as those charged with governance, of their responsibilities.

### **Communication of fraud or suspected fraud**

**8.** In line with the ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan to the Zetland Transport 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. During our audit, should members have any such knowledge or concerns relating to the risk of fraud within ZetTrans, we invite them to communicate this to us for our consideration. Similar assurances will also be sought as part of the audit completion process.

### **Adding Value**

**9.** We aim to add value by tailoring audit work to the circumstances of ZetTrans and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending partnership meetings and by recommending and encouraging good practice. In so doing, we will help ZetTrans promote improved standards of governance, better management and decision making, and more effective use of resources.

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# Annual accounts

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## Introduction

**10.** The annual accounts are an essential part of demonstrating ZetTrans' stewardship of resources and its performance in the use of those resources.

**11.** As part of our audit, we will perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

**12.** We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**13.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We plan our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2023/24 audit

**14.** The materiality values for ZetTrans are set out in [Exhibit 1](#) on page 6.

## Exhibit 1

### 2023/24 Materiality levels for ZetTrans

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of ZetTrans' operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	£101,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£76,000
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£5,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**15.** Our risk assessment draws on our cumulative knowledge of ZetTrans, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at partnership meetings, and a review of supporting information.

**16.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

**17.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. We also identify any other non-significant risks of material misstatement that require a specific audit response over and above our standard audit procedures. [Exhibit 2](#) on page 7 summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

**Exhibit 2****2023/24 Significant and non-significant risks of material misstatement to the financial statements**

Nature of risk	Sources of assurance	Planned audit response
<b>Significant risk of material misstatement</b>		
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></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>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>• Assess 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 and other adjustments.</li> <li>• Test journals at the year-end and post-closing entries, focusing on significant risk areas.</li> <li>• Consider the need to test journal entries throughout the year.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Test accounting accruals and prepayments focusing on significant risk areas.</li> </ul>
<b>Other non-significant risk of material misstatement</b>		
<p><b>2. Indexation of bus contracts</b></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>	<p>Updated indexation policy and procedure note developed by management for application in 2023/24.</p>	<ul style="list-style-type: none"> <li>• Review the newly developed indexation policy and procedure note.</li> <li>• Confirm the policy and process, and any subsequent variations, is approved at an appropriate level.</li> <li>• Detailed testing of indexation transactions with a focus on applied index in year and at year-end.</li> </ul>

**18.** As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk as the majority of ZetTrans' income comes from contributions from Shetland Islands Council which can be readily agreed to third party correspondence and confirmations. Internal controls are in place around bus fare income and this income stream will be tested as part of our standard audit procedures.

**19.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk as ZetTrans' core costs (support costs, rent and management costs) are routine in nature and individual transactions are relatively small in scale, with an established control framework in place. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

**20.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.



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# Wider Scope and Best Value

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## Introduction

**21.** The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies. Auditors are required to consider the adequacy of the audited body's arrangements for these areas unless the auditor judges it is not appropriate due to the body's size, nature and audit risks (less complex body).

**22.** Based on ZetTrans' gross expenditure and assets, the lack of wider scope risks and low level of public scrutiny we have concluded that it is appropriate to apply the less complex body approach to the 2023/24 audit. Consequently, our wider scope audit work will focus on the appropriateness of the disclosures in the Annual Governance Statement and ZetTrans' arrangements for ensuring financial sustainability.

## Wider scope risks

**23.** Our planned work on our wider scope responsibilities is risk based and proportionate. We have not identified any local wider scope audit risks for the 2023/24 audit of ZetTrans. Progress on the outstanding recommendations identified in prior years will be followed-up with management during the 2023/24 audit.

## Best Value

**24.** Auditors have a duty to be satisfied that bodies that fall within section 106 of the 1973 Act have made proper arrangements to secure Best Value. We will consider how ZetTrans demonstrates that it is meeting its Best Value responsibilities and report our findings in our Annual Audit Report.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**25.** Audit reporting is the visible output for the annual audit. This Annual Audit Plan, the other outputs detailed in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**26.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officers to confirm factual accuracy, prior to the issue and publication of final reports.

**27.** We will provide an Independent Auditor's Report (audit certificate) to ZetTrans and the Accounts Commission setting out our opinions on the annual accounts. We will also provide ZetTrans and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**28.** [Exhibit 3](#) outlines the target dates for our audit outputs.

## Exhibit 3 2023/24 Audit outputs



Audit Output	Target date	Partnership Board Date
Annual Audit Plan	31 March 2024	23 May 2024
Independent Auditor's Report	30 September 2024	27 Sept 2024
Annual Audit Report	30 September 2024	27 September 2024

Source: Audit Scotland

## Timetable

**29.** To support an efficient audit, it is critical that a timetable for producing and auditing the annual accounts is agreed. We have included a proposed timetable for the audit at [Exhibit 4](#) on page 11.

**Exhibit 4****Proposed annual accounts timetable**

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	28 June 2024
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2024
Latest date for final clearance meeting with the Executive Manager - Finance	6 September 2024
Agreement of audited 2023/24 annual accounts for consideration by the Partnership	13 September 2024
Issue of Annual Audit Report to those charged with governance (along with letter of representation and proposed Independent Auditor's Report).	13 September 2024
Partnership meeting to approve the audited annual accounts	27 September 2024
Independent Auditor's Report certified by appointed auditor and Annual Report finalised and issued	27 September 2024

Source: Audit Scotland

**Audit fee**

**30.** In determining the audit fee, we have taken account of the risk exposure of ZetTrans and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The agreed audit fee for 2023/24 is £12,560 (2022/23: £11,850).

**31.** In setting the fee for 2023/24 we have assumed that ZetTrans has effective governance arrangements and will prepare a comprehensive and accurate set of annual accounts for audit in line with the agreed timetable. The audit fee also assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**32.** It is the responsibility of ZetTrans to establish adequate internal audit arrangements. ZetTrans does not have its own internal audit function but takes assurance from internal audit work completed for Shetland Islands Council. We will consider the findings from relevant internal audit reviews within Shetland Islands Council and assess their impact of the findings on our financial statements and wider scope responsibilities.

## External Audit

**33.** The engagement lead is Stephen O'Hagan, Senior Audit Manager. Stephen joined Audit Scotland's predecessor organisation as a senior auditor over 25 years ago and has been a senior audit manager for over 17 years. He has extensive experience in the delivery of local and central government sectors.

**34.** Rosemarie Khan (Senior Auditor) will continue to manage the external audit team on a day-to-day basis.

## Independence and objectivity

**35.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

**36.** Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**37.** The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of ZetTrans.

## Audit Quality

**38.** Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

**39.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 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. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.
- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

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

**41.** 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 regularly monitored by Audit Scotland's Quality and Ethics Committee.

**42.** Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

# Zetland Transport Partnership

## Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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