

Zetland Transport Partnership

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Zetland Transport Partnership and the Controller of Audit
November 2023

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Key messages

2022/23 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** Key risks arising from the audit of Zetland Transport Partnership's (ZetTrans) accounts in our Annual Audit Plan were presented to the Partnership on 19th May 2023. There are no significant matters from that work to draw to the attention of the Board.
- 3** The policy and processes for annual indexation of bus contracts should be fully documented, with a clear approval process for variations.

Wider scope

- 4** ZetTrans has effective and appropriate arrangements in place to continue to deliver services.
- 5** ZetTrans should review the council's medium-term financial plan to ensure it supports the achievement of the Partnership's 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 to support demonstration of Best Value.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of ZetTrans. The scope of the audit was set out in our Annual Audit Plan presented to the 19 May 2023 meeting of the ZetTrans' Partnership. 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.

Responsibilities and reporting

3. 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 putting arrangements in place for governance and propriety.

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

5. The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

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

Auditor Independence

7. 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 2022/23 audit fee of £11,850 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

8. We add value to ZetTrans by:

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

Part 1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual report and 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.

No material adjustments were required to the annual accounts as a result of the audit process.

The policy and processes for annual indexation of bus contracts should be fully documented, with a clear approval process for variations

Audit opinions on the annual accounts are unmodified

9. The Partnership approved the annual accounts for the year ended 31 March 2023 on 1 November 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

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

Overall materiality was assessed as £102 thousand

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

11. Materiality has increased by 15.9% from planning. Overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements. This does not have an impact on the audit approach.

12. 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 per cent 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.

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£102,000
Performance materiality	£76,000
Reporting threshold	£5,000

Source : Audit Scotland

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

Significant findings and key audit matters

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

15. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

16. The significant findings and key audit matters are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p>1. The methodology for calculating indexation of bus contract expenditure is inconsistent with that applied in the prior year. There is as lack of documentation on the process 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</p>	<p>Recommendation 1</p> <p>The policy and process for calculating and applying indexation should be clearly documented. This should include any allowable payment variations such as early uplifts and treatment of returned contracts. The policy and process,</p>

Issue	Resolution
<p>not specify the method to be used, beyond reference to an appropriate index. We have reviewed the indexation methodology and confirmed that an uprating of 3.8% was applied to monthly contract payments from 1 April 2022, reflecting the change in the relevant Office of National Statistics Q1 index between 2021 and 2022. In addition, a retrospective indexation payment was applied in 2022/23, reflecting the index movement during 2022 to 2023.</p> <p>When reviewing the prior year indexation calculation for consistency we noted that a 2-stage process was applied in 2021/22, with a 9 month indexation payment made prior to financial year end and final quarter payment accrued. Officers have stated this approach was used due to unprecedented contractor costs requiring ZetTrans to make a partial payment during the year.</p> <p>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>and any subsequent variations, should be approved at an appropriate level within the organisation.</p> <p>(refer Appendix 1, action plan)</p>

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

17. We have obtained audit assurances over the identified significant risks of material misstatement to the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

18. No further significant risks of material misstatement were identified during the process of conducting the audit.

Exhibit 3

Identified 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 International Standard on Auditing (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>We assessed the design and implementation of controls over journal entry processing through:</p> <ul style="list-style-type: none"> • consideration of assurances from the external auditor of Shetland Islands Council on their review of journal controls; • detailed testing of transactions and journals with a focus on significant risk areas, including year-end and post close-down entries. • testing accounting accruals and prepayments focusing on significant risk areas. • making inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • 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. 	<p>Conclusion: Satisfactory</p> <p>The completion of the assurance procedures did not identify any evidence of management override of controls.</p>

There were no identified misstatements

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

The unaudited annual accounts were received in line with the agreed timetable

20. The unaudited annual accounts were received in line with our agreed audit timetable on 30 June 2023.

Limited progress was made on prior year recommendations

21. ZetTrans has made limited progress in implementing the audit recommendations identified by Deloitte, ZetTrans' previous external auditor. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 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 longer term, and the arrangements for securing Best Value

Conclusion

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

ZetTrans should review the council's medium-term financial plan to ensure it supports the achievement of ZetTrans' strategic objectives of the organisation. 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 to support demonstration of Best Value

ZetTrans has appropriate short-term financial planning arrangements

22. ZetTrans approved a Gross Expenditure budget of £4.398 million on 17 February 2022. The budget was updated through the year to include in-year movements. Actual gross expenditure for the financial year was £5.074 million, matched to grant funding and other income sources. Management accounts are routinely considered at partnership meetings.

ZetTrans do not have a separate medium-term financial plan

23. The previous external auditors, Deloitte, highlighted the lack of a medium-term financial plan and workforce plan in their 2018/19 annual audit report. Their most recent annual audit report recognised ZetTrans planned to publish a medium-term financial plan following a review of future public transport fares. This review is still ongoing, with a report expected to be presented to the Partnership in November to update them on progress.

24. Shetland Islands Council is nearing completion of its medium-term financial plan. As the council provides the core funding, ZetTrans intend to use it as the basis for their medium-term financial planning and allow it to demonstrate financial sustainability. Once the council plan has been approved, further work will be required to demonstrate this medium-term financial position supports achievement of the strategic objectives of ZetTrans and whether any aspirations or performance targets require remeasurement.

The lack of performance reporting limits ZetTrans' ability to demonstrate Best Value

25. As reported in prior years by Deloitte, the previous external auditor, the current lack of performance reporting remains a significant issue in demonstrating the achievement of ZetTrans' strategic objectives.

26. Management agreed to resume production of the reports, with the 2022/23 performance report scheduled for publication by December 2023, based on current indicators. Officers have engaged with Transport Scotland to clarify the historical reporting requirements for the prior 3 years.

Recommendation 2

ZetTrans should review the council's medium-term financial plan to ensure it supports the achievement of ZetTrans' strategic objectives of the organisation. 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 to support demonstration of Best Value.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. The methodology for calculating indexation of bus contract expenditure is inconsistent with that applied in the prior year</p> <p>There is as lack of documentation on the process 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. We established through audit work that this is a 2-stage process, with forward contract pricing updated for indexation, along with a retrospective payment at financial year end.</p> <p>When reviewing the prior year indexation calculation for consistency we noted that a - stage process was applied in 2021/22, with a 9 month indexation payment made prior to financial year end and final quarter payment accrued. Officers have stated this approach was used due to unprecedented contractor costs requiring ZetTrans to make a partial payment during the year.</p>	<p>The policy and process for calculating and applying indexation should be clearly documented by the finance team. This should include any allowable payment variations such as early uplifts and treatment of returned contracts. The policy and process, and any subsequent variations, should be approved at an appropriate level within the organisation.</p> <p>Paragraph 16.</p>	<p>In line with the recommendation develop an internal indexation policy and procedure note.</p> <p>Responsible officer Proper Officer of Finance/Lead Officer</p> <p>Agreed date March 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<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>2. 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>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>Paragraph 16.</p>	<p>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>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>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>In progress</p> <p>The 2022/23 Annual Report will be reported to the Partnership in November 2023.</p> <p>Responsible officer: Lead Officer</p> <p>Revised date November 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>4. Financial sustainability- Workforce planning</p> <p>The workforce plan currently being developed should consider the needs of the organisation and those of its workforce, ensuring it is sufficient to meet the objectives of the organisation.</p> <p>Workforce planning is an ongoing process and should be considered for appropriateness by the partnership on an annual basis.</p> <p>Succession planning needs to be included in the Workforce Plan. This needs to include clear promotion opportunities within the organisation, effective delegation to staff and tailored training plans to enable staff to carry out more senior roles.</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>In progress</p> <p>The report on the Council's MTFP, see recommendation 2, will also describe the current staffing support provided by the Council and its appropriateness to demonstrate Council workforce planning developments have been reviewed.</p> <p>Responsible officer: Proper Officer of Finance</p> <p>Revised date: March 2024</p>
<p>5. Financial sustainability- Medium term financial plan</p> <p>When developing its planning 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>The partnership should ensure planning reflects key principles of public service reform.</p>	<p>See recommendation 2</p>

Zetland Transport Partnership

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