

Zetland Transport Partnership (ZetTrans)

2024/25 Annual Audit Report



Prepared for the Zetland Transport Partnership and the Controller of Audit
September 2025

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Key messages

Audit of the annual accounts

- 1 All audit opinions stated that the annual accounts were free from material misstatement.
- 2 The Partnership has made appropriate entries in the annual accounts to reflect the adoption of lease accounting requirements as set out International Financial Reporting Standard (IFRS) 16.
- 3 There was no audit adjustments required to correct the financial statements.

Financial Sustainability and Best Value audit

- 4 ZetTrans has effective and appropriate arrangements in place for securing financial sustainability.
 - 5 The Partnership has yet to produce performance reports for the last 2 financial years, limiting its ability to demonstrate achievement of Best Value.
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Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of The Zetland Transport Partnership (ZetTrans) annual accounts and the wider scope areas specified in the [Code of Audit Practice \(2021\)](#).
2. The Annual Audit Report is addressed to ZetTrans, hereafter referred to as 'the body', and the Controller of Audit and will be published on [Audit Scotland's website](#) in due course.

Appointed auditor and independence

3. Stephen O'Hagan, of Audit Scotland, has been appointed as external auditor of the body for the period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, Stephen O'Hagan and the audit team are independent of the body in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the body, including no provision of non-audit services.

Acknowledgements

4. We would like to thank the body and its staff, particularly those involved in preparation of the annual accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (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 Governance Statement.
- Concluding on the financial sustainability of the body and a review of the Governance Statement.
- Reporting on the body's arrangements for securing Best Value.
- Provision of this Annual Audit Report.

Responsibilities and reporting

6. The Code of Audit Practice sets out the respective responsibilities of the body 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 the body's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the body from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at [Appendix 1](#) setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

The body's responsibilities

10. The body 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 gives a true and fair view and other specified 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.

National and performance audit reporting

11. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to the body and committee members. Details of national and performance audit reports published over the last year can be seen in [Appendix 2](#).

Audit of the annual accounts

Main judgements

All audit opinions stated that the annual accounts were free from material misstatement.

The Partnership has made appropriate entries in the annual accounts to reflect the adoption of lease accounting requirements as set out International Financial Reporting Standard (IFRS) 16.

There was no audit adjustments required to correct the financial statements.

Audit opinions on the annual accounts

12. The body's annual accounts were approved by the Partnership on 25 September 2025 and certified by the appointed auditor on 26 September 2025. The Independent Auditor's Report is included in the body's annual accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



Audit timetable

13. The unaudited annual accounts and all working papers were received on 26 June 2025 in accordance with the agreed audit timetable.

Audit Fee

14. The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £12,800. Some additional audit consideration was required on the adoption IFRS16 lease arrangements at ZetTrans, however this was completed as part of a wider review of council arrangements, so the audit fee reported in the Annual Audit Plan remains unchanged.

Materiality

15. 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.

16. Broadly, the concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. 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.

17. Materiality levels for the body were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual accounts. Materiality levels were updated, and these can be seen in [Exhibit 1](#).

Exhibit 1

2024/25 Materiality levels for ZetTrans

Materiality	Amount
Materiality – set at 2% of gross expenditure	£117,000
Performance materiality – set at 75% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£88,000
Reporting threshold – set at 5% of materiality.	£6,000

Source: Audit Scotland

Significant findings and key audit matters

18. ISA (UK) requires auditors to communicate significant findings from the audit to those charged as governance, which for the body is Committee members.

19. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the 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.

20. 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.

21. The significant findings and key audit matters to report are outlined in [Exhibit 2](#).

Exhibit 2
Significant findings and key audit matters

Significant findings and key audit matters	Outcome
<p>Adoption of IFRS 16 – Lease Recognition</p> <p>In 2024/25, ZetTrans implemented the requirements of IFRS 16 Leases. As part of this adoption, right-of-use assets have been recognised within long-term assets, with a corresponding adjustment made to unusable reserves.</p>	<p>We reviewed ZetTrans’ assessment of the lease arrangements and confirmed that the methodology and supporting evidence were consistent with the requirements of IFRS 16. The lease contract in question relates to two Britten-Norman BN2 Islander aircraft, which are integral to the delivery of the inter-island air service.</p> <p>Our audit procedures included agreement of the 2024/25 draft financial statement disclosures to the underlying working papers and supporting documentation. No issues were identified, and we are satisfied that the accounting treatment is appropriate and in line with the applicable financial reporting framework.</p>

Source: Audit Scotland

Qualitative aspects of accounting practices

22. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the body’s accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

23. The appropriateness of accounting policies adopted by the body was assessed as part of the audit. These were considered to be appropriate to the circumstances of the body, and there were no significant departures from the accounting policies set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Accounting estimates

24. Accounting estimates are used in a number of areas in the body’s financial statements, including the valuation of right-of-use (ROU) leases and accruals. Audit work considered the process management the body

has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

Disclosures in the financial statements

25. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as IFRS 16 leases.

Significant matters discussed with management

26. All significant matters identified during the audit and discussed with the body's management have been reported in the Annual Audit Report.

There were no audit adjustments

27. With the exception of minor typographical changes we did not identify any errors through our audit work that required adjustment in the financial statements. As a result, there are no corrected misstatements to report.

Significant risks of material misstatement identified in the Annual Audit Plan

28. Audit work has been performed in response to the significant risks of material misstatement and areas of audit focus identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 3](#).

Exhibit 3**Significant risks of material misstatement and areas of audit focus**

Risk of material misstatement	Planned audit response	Outcome of audit work
<p>Fraud caused by management override of controls</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"> • Confirm ZetTrans has developed an indexation policy and procedure note • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. 	<p>Audit work performed found:</p> <ul style="list-style-type: none"> • The design of controls over journal processing were appropriate and these were implemented as intended. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • No significant issues were identified from transactions outside the normal course of business. • The controls in place for identifying and disclosing related party relationships and transactions were adequate. • No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias. <p>Conclusion: no evidence of fraud caused by management override of controls.</p>

Area of audit focus	Planned audit response	Outcome of audit work
<p>Indexation of bus contracts</p> <p>The terms of bus contracts state indexation should be applied to contract prices annually from 1st April on a forward basis. The conditions of contract do not specify the method to be used, beyond reference to an appropriate index. There is a risk that the lack of clarity and consistency on the indexation review methodology could lead to expenditure being misstated.</p>	<p>The audit team will:</p> <ul style="list-style-type: none">• Evaluate the design and implementation of controls over the valuation process.• Confirm detailed testing of indexation transactions with a focus on applied indexes in year and at year end.	<p>Audit work performed found:</p> <ul style="list-style-type: none">• A final draft of the ZetTrans Indexation policy has been prepared and considered by key officers. The policy will be reviewed and approved annually.• No significant issues were identified from our review of the indexes applied to contract expenditure for 2024/25. <p>Conclusion: An indexation policy in place, and our testing on indexation applied during 2024/25 did not identify any issues.</p>

Source: Audit Scotland

Prior year recommendations

29. The body has made some progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with the body and are outlined in [Appendix 1](#).

Financial Sustainability and Best Value audit

Conclusion

The body has effective and appropriate arrangements in place for securing financial sustainability.

The Partnership has yet to produce performance reports for the last 2 financial years, limiting its ability to demonstrate achievement of Best Value.

Audit approach to wider scope and Best Value

Wider scope

30. The Annual Audit Plan reported the body was considered to be a less complex body for the wider scope audit. Therefore, the wider scope audit does not cover all four wider scope areas and is instead limited to concluding on the financial sustainability of the body.

Best Value

31. 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 the body does.

32. Consideration of the arrangements the body has in place to secure Best Value have been carried out alongside the wider scope audit.

Conclusions on Financial Sustainability

33. Future partnership funding levels are heavily dependent on the medium-term financial plan of Shetland Islands Council, the main funding partner. The Partnership does not produce its own medium-term financial plan but considers the council medium-term financial plan alongside its own annual budget.

34. The 2025/26 budget was presented to the Partnership on 27 February 2025 alongside the council medium-term financial plan. The 2025/26 budget shows a balanced year end position, with income and expenditure rising by £0.762 million (13.7 per cent increase from 2024/25). Key drivers to the increased costs are the predicted increase in bus indexation costs

(£0.451 million) and increases in grants to promote active travel behaviour (£0.224 million). These increases are met through additional funding from Scottish Government and Shetland Islands Council.

35. Due to the reliance of the Partnership on Shetland Islands Council for funding, the financial sustainability of both bodies is directly interrelated. In the short term, the Partnership is continuing to present a balanced budget.

36. We consider that current arrangements sufficient to demonstrate the ongoing financial sustainability of the organisation.

Conclusions on Best Value

37. The Partnership is required to report annually to Scottish Ministers on the performance of its functions. This forms a key part of the Partnership's demonstration of delivery of Best Value. The annual report should set out the strategic framework for ZetTrans and provide an operational update and key achievements for the period, including key performance indicators and climate change objectives.

38. In our 2023/24 Annual Audit Report we recommended that a revised set of performance indicators, aligned to the updated regional transport strategy, be developed and progress routinely monitored and reported. Timescales for completion of this work have slipped, although the Partnership has stated that an annual report covering the 2023/24 and 2024/25 financial years is at an advanced stage of drafting. However, it was not available for audit review at the time of this report preparation.

39. The review of governance for the Partnership, which was originally planned for February 2021, remains outstanding. This has been caused due to a lack of available resources and competing priorities.

40. The delay in these reports means that the Partnership has insufficient information available to determine whether they have delivered Best Value in 2024/25. Work is underway to complete the annual report and governance review, and we will assess progress on this in the upcoming year.

Appendix 1

Action plan 2024/25

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<p>23/24 b/f 1 - Performance information and reporting</p> <p>The annual performance report does not set out clear targets or historic trend information for reported indicators. It is unclear how these indicators support achievement of strategic objectives.</p> <p>A revised set of indicators to support the updated regional transport strategy has still to be developed.</p> <p>Risk – Progress in achievement of strategic objectives cannot be adequately demonstrated.</p>	<p>A revised set of performance indicators and targets, aligned to updated regional transport strategy, should be developed and progress against these routinely monitored and reported.</p> <p>Agreed Action We will look to develop meaningful performance indicators which focus on key priority areas and are in alignment with the Strategic objectives of the Partnership.</p> <p>Responsible officer Lead Officer</p> <p>Agreed date March 2025</p>	<p>Work in progress</p> <p>As a result of resourcing issues, the performance indicators have been delayed until September 2025. ZetTrans is planning to present to the board on the 25/09/2025 meeting. We have been provided with a KPI planning document as evidence of progress towards reporting the new KPI for tracking progress against RTS objectives.</p> <p>Management Response</p> <p>A draft Delivery plan and Monitoring Framework with supporting performance indicators will be presented for approval by the ZetTrans Board by November 2025.</p> <p>Responsible officer: Lead officer</p> <p>Agreed date November 2025</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<p>22/23 b/f 1 - The methodology for calculating indexation of bus contract expenditure is inconsistent with that applied in the prior year</p> <p>There is a lack of documentation on the process for reviewing indexation of contracts.</p> <p>The terms of bus contracts state indexation should be applied to contract prices annually from 1st April on a forward basis. The conditions of contract do not specify the method to be used, beyond reference to an appropriate index.</p> <p>Risk - there is a risk that the lack of clarity and consistency on the indexation review methodology could lead to expenditure being misstated in future years</p>	<p>Recommendation - The policy and process for calculating and applying indexation should be clearly documented by the finance team. The policy and process, and any subsequent variations, should be approved at an appropriate level within the organisation.</p> <p>Agreed action - internal indexation policy and procedure note will be developed</p> <p>Agreed date</p> <p>March 2024</p> <p>A process note has been prepared and an associated element reflecting a formal indexation policy will be added.</p> <p>Responsible officer</p> <p>Proper Officer of Finance / Lead Officer</p> <p>Revised date</p> <p>March 2025</p>	<p>Implemented</p> <p>We have been provided with the final draft of the ZetTrans Indexation policy. This policy has been approved by Lead Officer, Proper Officer of Finance and Management Accountant. The Policy will be reviewed and approved annually.</p>

Appendix 2

Supporting national and performance audit reports

Report name	Date published
Local government budgets 2024/25	15 May 2024
Scotland's colleges 2024	19 September 2024
Integration Joint Boards: Finance and performance 2024	25 July 2024
The National Fraud Initiative in Scotland 2024	15 August 2024
Transformation in councils	1 October 2024
Alcohol and drug services	31 October 2024
Fiscal sustainability and reform in Scotland	21 November 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024
NHS in Scotland 2024: Finance and performance	3 December 2024
Auditing climate change	7 January 2025
Local government in Scotland: Financial bulletin 2023/24	28 January 2025
Transparency, transformation and the sustainability of council services	28 January 2025
Sustainable transport	30 January 2025
A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study	20 February 2025
Additional support for learning	27 February 2025
Integration Joint Boards: Finance bulletin 2023/24	6 March 2025
Integration Joint Boards finances continue to be precarious	6 March 2025
General practise: Progress since the 2018 General Medical Services contract	27 March 2025
Council Tax rises in Scotland	28 March 2025

Zetland Transport Partnership

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 **Email: info@audit.scot**
www.audit.scot