

Zetland Transport Partnership

2025/26 Annual Audit Report



Prepared for Zetland Transport Partnership and the Controller of Audit
September 2026

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Summary of audit opinions and conclusions

Audit of the annual accounts

- 1** All audit opinions stated that the annual accounts were free from material misstatement.
- 2** The unaudited annual report and accounts and working papers were received in line with the agreed timetable and were of a good standard.

Financial Sustainability and Best Value audit

- 3** ZetTrans has effective and appropriate arrangements in place for securing financial sustainability.
 - 4** ZetTrans has yet to produce a performance report for 2025/26, 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 2025/26 audit of the Zetland Transport Partnership's annual accounts and the wider scope areas specified in the [Code of Audit Practice \(2021\)](#).
2. The Annual Audit Report is addressed to the Zetland Transport Partnership, hereafter referred to as 'ZetTrans', and the Controller of Audit and will be published on [Audit Scotland's website](#) in due course.

Appointed auditor and independence

3. Sanya Ahmed, of Audit Scotland, has been appointed as external auditor of ZetTrans for the period from 2025/26 until 2026/27, following Stephen O'Hagan's retirement from Audit Scotland in June 2026. As reported in the Annual Audit Plan, the audit team are independent of ZetTrans 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 ZetTrans, including no provision of non-audit services.

Acknowledgements

4. We would like to thank ZetTrans 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, responsibilities, and fee

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 ZetTrans and a review of the Governance Statement.
- Reporting on ZetTrans' 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 ZetTrans and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

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

ZetTrans' responsibilities

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

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements that 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.

Audit Fee

11. The audit fee for the 2025/26 audit was reported in the Annual Audit Plan and was set at £13,360. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

National and performance audit reporting

12. 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 ZetTrans 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 unaudited annual report and accounts and working papers were received in line with the agreed timetable and were of a good standard.

Audit opinions on the annual accounts

13. ZetTrans' annual accounts were approved by the Partnership on 30 September 2026 and certified by the appointed auditor on 30 September 2026. The Independent Auditor's Report is included in ZetTrans' annual accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



Audit timetable

14. The unaudited annual accounts and all working papers were received on 30 June 2026 in accordance with the agreed audit timetable.

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 ZetTrans 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 the revised figures can be seen in [Exhibit 1](#).

Exhibit 1

2025/26 Materiality levels for ZetTrans

Materiality	Amount
Materiality – set at 2% of gross expenditure	£125,000
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.	£94,000
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 with governance, which for ZetTrans 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
Performance information and reporting Our review of the Management Commentary identified the performance reporting for 2025/26 was not completed due to capacity restraints. ZetTrans’ Annual Performance Report has not been prepared yet for 2025/26 and therefore there has been no reporting on key performance indicators (KPIs) or historic trend information for previously reported indicators during the year. This was identified as a recommendation in 2023/24 and work has been ongoing to develop a delivery framework and regular performance monitoring and reporting.	Our review of the Regional Transport Strategy Delivery Plan and Performance Framework illustrated progress has been made to develop relevant delivery activity monitoring. Further refinement of the Performance Framework and KPIs is required. There should be clear performance reporting on KPIs within the Management Commentary to allow for effective performance monitoring, including historic trend information. Our findings are outlined in paragraph 29. See also Recommendation 1 in Appendix 1.

Source: Audit Scotland

Qualitative aspects of accounting practices

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

Accounting policies

23. The appropriateness of accounting policies adopted by ZetTrans was assessed as part of the audit. These were considered to be appropriate to the circumstances of ZetTrans, 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 number of areas in ZetTrans’ financial statements, including depreciation and judgements involved in accruals. Audit work considered the process management of ZetTrans 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.

Significant matters discussed with management

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

Audit adjustments

27. No audit adjustments were required to the financial statements greater than the reporting threshold of £6,000.

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 identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 3, \(page 11\)](#). In addition to the significant risks of material misstatement identified in the Annual Audit Plan, a further area of audit focus was subsequently reclassified to a financial statement disclosure risk from wider scope, and this is detailed in [paragraph 29.](#)

Exhibit 3**Significant risks of material misstatement to the financial statements**

Risk of material misstatement	Planned audit response	Outcome of audit work
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • 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.	Audit work performed found: • The design and implementation of controls over journal processing were appropriate. • 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. Conclusion: no evidence of fraud caused by management override of controls has been identified.

Other areas of audit focus

29. In addition to the significant risk of material misstatement in [Exhibit 3](#), our 2025/26 Annual Audit Plan also identified one area that required additional audit focus this year. A further subsequent area of audit focus was also reclassified as a risk in relation to performance reporting. The conclusions from our work in these areas is outlined below:

- **Indexation of bus contracts** – 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. A formal policy is now in place, however, there remains a risk that a lack of consistent application of indexation against the policy could lead to expenditure being misstated. Our review confirmed the indexation policy has been implemented and our testing did not identify any significant issues with indexation applied to contract expenditure for 2025/26.
- **Performance information and reporting** – We reported in 2023/24 that the ZetTrans' annual performance report did not set out clear targets or historic trend information for reported indicators. This meant it was unclear how these indicators supported achievement of strategic objectives. There should be clear performance reporting on KPIs within the Management Commentary to allow for effective performance monitoring. There is a risk that without regular performance reporting against detailed KPIs there is not sufficient assessment against its strategic objectives and there is non-compliance with statutory guidance. As detailed in [Exhibit 2](#), the 2025/26 performance reporting was not available. Some progress has been made in this area with the development of the Regional Transport Strategy Delivery Plan and Performance Framework. Further refinement of this Performance Framework and KPIs is required, along with the inclusion of comprehensive performance reporting in the Management Commentary going forward, as detailed in [Recommendation 1](#) in [Appendix 1](#).

Prior year recommendations

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

Financial Sustainability and Best Value audit

Conclusion

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

ZetTrans has yet to produce a performance report for 2025/26, limiting its ability to demonstrate achievement of Best Value.

Audit approach to wider scope and Best Value

Wider scope

31. The Annual Audit Plan reported ZetTrans 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 ZetTrans.

Best Value

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

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

Conclusions on Financial Sustainability

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

35. The 2026/27 budget was presented to the Partnership on 26 February 2026 alongside the council medium-term financial plan. The 2026/27 budget shows a balanced year end position, with income and expenditure rising by £0.137 million (2 per cent increase from 2025/26). Key drivers to the increased costs are the costs of re-tendering Public Bus Transport

services (£0.255 million) offset by decreased support services recharge from Shetland Islands Council due to lower salary costs (£0.066 million).

36. ZetTrans were also successful in securing participation in the Scottish Government's £2 Bus Fare Cap Pilot. The pilot commenced on 30 January 2026 for 12 months and capped eligible single bus journeys at £2, with reimbursement from Transport Scotland based on the difference between the capped fare and the underlying standard fare. In March 2026, ZetTrans approved an interim adjustment to underlying public bus fares, averaging a 25 per cent increase, with effect from 1 April 2026.

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

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

Conclusion on Best Value

39. ZetTrans is required to report annually to Scottish Ministers on the performance of its functions. This forms a key part of the ZetTrans' 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.

40. 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. The Regional Transport Strategy Delivery Plan published June 2026 represents good progress, however, an Annual Report for 2025/26 was not prepared at the time the unaudited accounts were submitted and is not available for audit review at the time of this report preparation. Further work is therefore required during 2026/27 to refine the performance framework as detailed in [Recommendation 1](#).

41. The review of key governance documents in the administering authority (Shetland Islands Council) for ZetTrans, which was originally planned for February 2021, remains outstanding. This has been caused due to a lack of available resources and competing priorities. This governance review will be monitored through the Shetland Island's Council audit.

42. The delay in the Annual Report means that ZetTrans has insufficient information available to determine whether they have delivered Best Value in 2025/26. 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 2025/26

2025/26 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. Performance monitoring and reporting ZetTrans Regional Transport Strategy and Delivery Plan published in June 2026 details an initial delivery framework for 2026-28 which is undergoing further refinements to key performance indicators (KPIs). Due to capacity constraints, there was no reporting on the 2025/26 performance and KPIs. Risk - Insufficient KPI reporting reduces transparency and limits effective monitoring of ZetTrans' performance.	As further refinement of the Delivery Plan and Performance Framework is underway, this should include a review of KPIs against strategic objectives, defining targets, baselines, data sources and reporting frequency. The Annual Performance Report should include regular reporting on these KPIs with historic trend information, alongside high level reporting within the Management Commentary in the annual accounts in a timely basis. This will allow for effective assessment and transparency of ZetTrans' performance against its strategic objectives through monitoring of key aspects of performance.	Accepted During 2026/27, ZetTrans will refine KPIs, confirm baselines, data sources and reporting arrangements, introduce quarterly performance reporting to the Partnership against the Regional Transport Strategy Delivery Plan themes, and use the resulting information to inform future Annual Performance Reports and Management Commentary reporting within the annual accounts. Responsible officer – Lead Officer Agreed date – 31 March 2027

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
23/24 b/f 1 – Performance information and reporting 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. A revised set of indicators to support the updated regional transport strategy has still to be developed. Risk – Progress in achievement of strategic objectives cannot be adequately demonstrated.	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. Details of revised action A draft Delivery plan and Monitoring Framework with supporting performance indicators will be presented for approval by the ZetTrans Board by November 2025. Responsible officer: Lead Officer Revised date November 2025	Superseded In June 2026 ZetTrans published their Regional Transport Strategy Delivery Plan which provides an initial 2026–28 delivery framework, with further review and extension to be undertaken during 2026/27 as part of the annual performance and delivery planning cycle.

Appendix 2

Supporting national and performance audit reports

Report name	Date published
Local government budgets 2025/26	22 May 2025
NHS in Scotland: Spotlight on governance	28 May 2025
Delivering for the future: Responding to the workforce challenge	7 August 2025
Flooding in communities: Moving towards flood resilience	28 August 2025
Adult Disability Payment	18 September 2025
Scotland's colleges 2025	2 October 2025
Improving care experience: Delivering The Promise	8 October 2025
Local government performance: Spotlight on culture and leisure services	23 October 2025
Financial sustainability and taxes	13 November 2025
NHS in Scotland 2025: Finance and performance	4 December 2025
Delayed discharges: A symptom of the challenges facing health and social care	8 January 2026
Community health and social care: Performance 2025	8 January 2026
Administration of Scottish income tax 2024/25	16 January 2026
Local Government in Scotland: Financial bulletin 2024/25	29 January 2026
The Scottish Budget 2026/27: Supplement to the Financial bulletin 2024/25	12 February 2026
Integration Joint Boards: Finance bulletin 2024/25	26 February 2026
Annual Assurance and Risks Report: A review of 2024/25 local government audits in Scotland	12 March 2026

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