

**Zetland Transport Partnership**

Report to the Members of the Board and the Controller of  
Audit on the 2018/19 audit

Issued 16 August 2019 for the meeting on 26 September 2019

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# 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 audit. The scope of our audit was set out within our planning report presented to the Board in March 2019.

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. This includes our consideration of ZetTrans' duty to secure best value. As set out in our plan, due to the relative size and scale of the functions delivered by ZetTrans, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, 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 our audit work completed to date we expect to issue an unmodified audit opinion.

Following amendments identified through our audit work, we confirm that 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 ZetTrans.

A summary of our work on the significant risks is provided in the dashboard on page 8.

No misstatements or disclosure deficiencies have been identified up to the date of this report.

### **Status of the financial statements audit**

Outstanding matters to conclude the audit include:

- Finalisation of internal quality control procedures;
- Receipt of final financial statements;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2019.

### **Conclusions on audit dimensions**

As set out on page 3, our audit work was restricted to concluding on the appropriateness of the disclosures in the governance statement and the financial sustainability of the Partnership. We have, however, considered the specific risks highlighted by Audit Scotland, in particular, the impact of EU withdrawal, the changing landscape for public financial management, dependency on key suppliers and increased focus on openness and transparency.

Our overall conclusion on the audit dimensions is summarised on page 5.

# Introduction (continued)

## The key messages in this report (continued)

### Conclusions on audit dimensions (continued)

**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 2018/19 following an injection of further funding from Shetland Islands Council ('the Council') in the year. 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, although we acknowledge that ZetTrans is now working with the Council to develop a standalone Medium-Term Financial Plan ('MFTP') in 2019/20 and progressing transformational change at pace, with the appointment of a project team to drive change in air, bus and ferry services.

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

### Next steps

An agreed Action Plan is included at page 22 of this report. We will consider progress with the agreed actions as part of our 2019/20 audit.

### Added value

Our aim is to add value to ZetTrans 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 ZetTrans promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report, and in particular we have worked closely with management to ensure that transformational change is progressed in line with good practice and that medium-term financial planning is established for ZetTrans as a standalone entity.

**Pat Kenny**  
**Audit Director**

# Our audit explained

## Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the reduced audit dimensions:

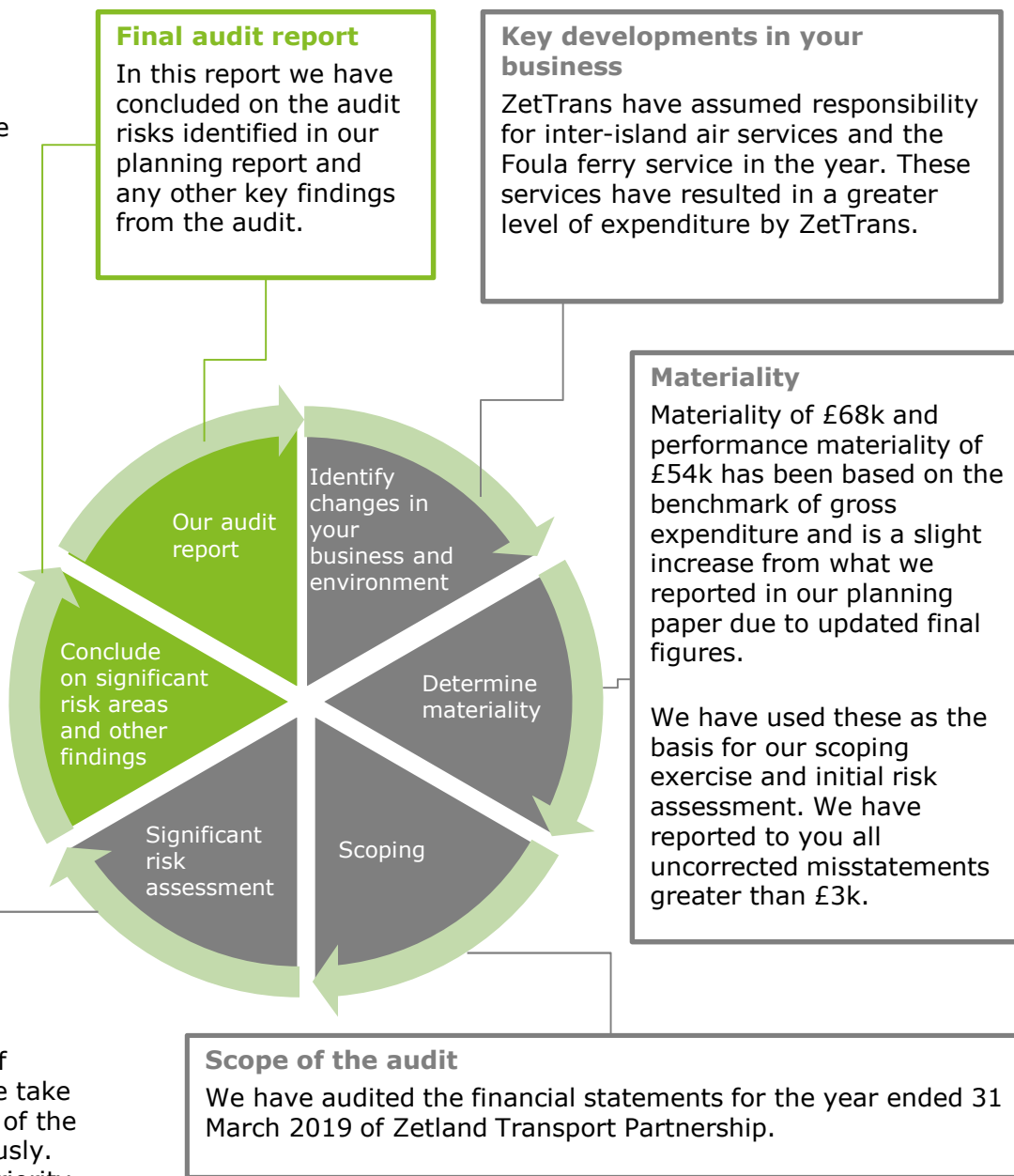
- Financial sustainability
- Governance statement

## Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 8 provides a summary of our risk assessment of your significant risks.

## Quality and Independence

We confirm we are independent of Zetland Transport Partnership. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



## Timeline 2018/19











# Financial statements audit



# 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. |
|-------------------------------------|---|---|--------------------------------------|-----------------------------|---|--------------|----------|
| Completeness and accuracy of income |  |  | D+I                                  | Satisfactory                |  | Satisfactory | 9        |
| Management override of controls     |  |  | D+I                                  | Satisfactory                |  | Satisfactory | 10       |

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 – Completeness and accuracy of income

### Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in income recognition, evaluate which types of income, income transactions or assertions give rise to such risks.

The main components of income for ZetTrans are contributions from Shetland Islands Council and bus fare income. As the funding received from the Council is a year end accounting adjustment to offset the expenditure incurred by the Council on behalf of ZetTrans in the year, and was tested in full by confirmation, this is not considered to be a significant risk area. The significant risk is pinpointed to the recognition of bus fare income, being completeness and accuracy of income received from passengers, given the high level of transactions and the volume of cash.



### Key judgements and our challenge of them

Given the large volume of cash transactions involved in recording bus fare income, there is a risk that amounts received may not be recorded or that they may be recorded inaccurately.



### Deloitte response

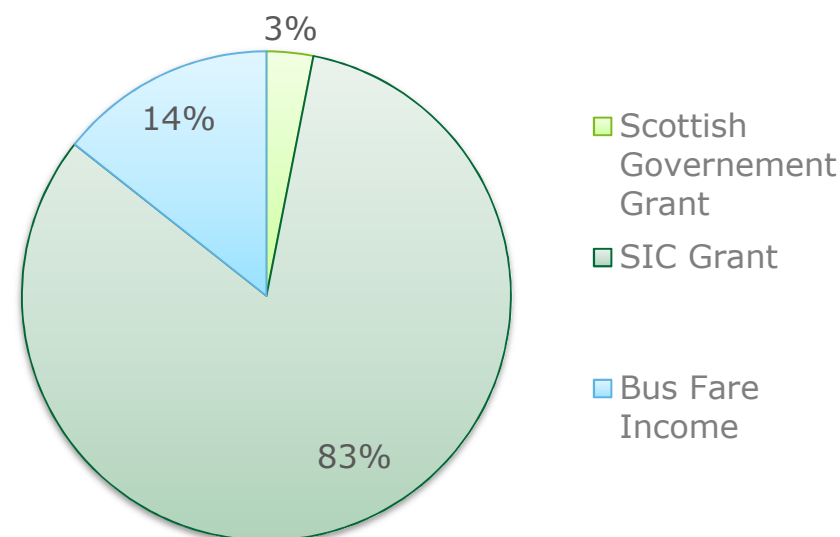
We have performed the following:

- tested the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process and that any reductions have been appropriately applied;
- tested the reconciliations performed by ZetTrans as at 31 March 2019 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2018/19 have been reviewed on a regular basis; and
- assessed management's controls around recognition of income.

### Deloitte view

We have concluded that income has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting.

### 2018/19 Income



# 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.



### Key judgements

The key judgment in the financial statements is that which we have selected to be the significant audit risk around the completeness and accuracy of income (page 9). This is inherently the area in which management has the potential to use their judgment to influence the financial statements.



### Deloitte response

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

- ZetTrans' results throughout the year were projecting overspends in operational areas. 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 the review of management accounts.

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

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

We considered any adjustments required for the transition to the new standards (IFRS 15 Revenues from contracts with customers and IFRS 9 Financial Instruments ), focusing on the areas of greatest judgement and value.

No issues have been identified from our testing.

### 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.

# Other matters

## Implementation of IFRS 9 and IFRS 15

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|                          |  |
|--------------------------|--|
| <b>Matter identified</b> | ZetTrans is required to adopt the new accounting standards IFRS 9 <i>Financial Instruments</i> and IFRS 15 <i>Revenues from contracts with customers</i> in the year ended 31 March 2019. In both cases, ZetTrans is using a modified retrospective approach to implementation where effectively the cumulative impact of transition to 1 April 2018 is posted as an adjustment to reserves. ZetTrans has posted no retrospective adjustments with regard to IFRS 9 or IFRS 15 as there is no material impact on the financial statements.   |
| <b>Response</b>          | <p>Management held discussions with the audit team regarding the accounting impact of the new standards on ZetTrans for the period and determined that the impact is immaterial.</p> <p>The key element impacted by IFRS 9 is the accounting for bad debt provisions, which must move to a methodology of expected credit losses. A practical expedient available for portfolios of debt is to use a matrix based on past experience, and modified in specific cases where more information is available, in order to provide at a suitable percentage.</p> <p>With regard to IFRS 9, ZetTrans has no debtors at year end and therefore, we agree with management's assessment that there is no material impact from transition to IFRS 9.</p> <p>Regarding IFRS 15, a central analysis was prepared for ZetTrans' main contracts, for which no significant changes are required under IFRS 15. We have reviewed and challenged management's assumptions with no issues noted. From this, we agree with management's assessment that there is no material impact from transition to IFRS 15.</p> |

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### **Deloitte view**

We agree with management's position that the new accounting standards do not have a material impact for ZetTrans.

# 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**

Our opinion on the financial statements is unmodified.



### **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 ZetTrans is faced with financial sustainability issues (as discussed on page 18), there is a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) that 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 Report is reviewed in its 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 13.

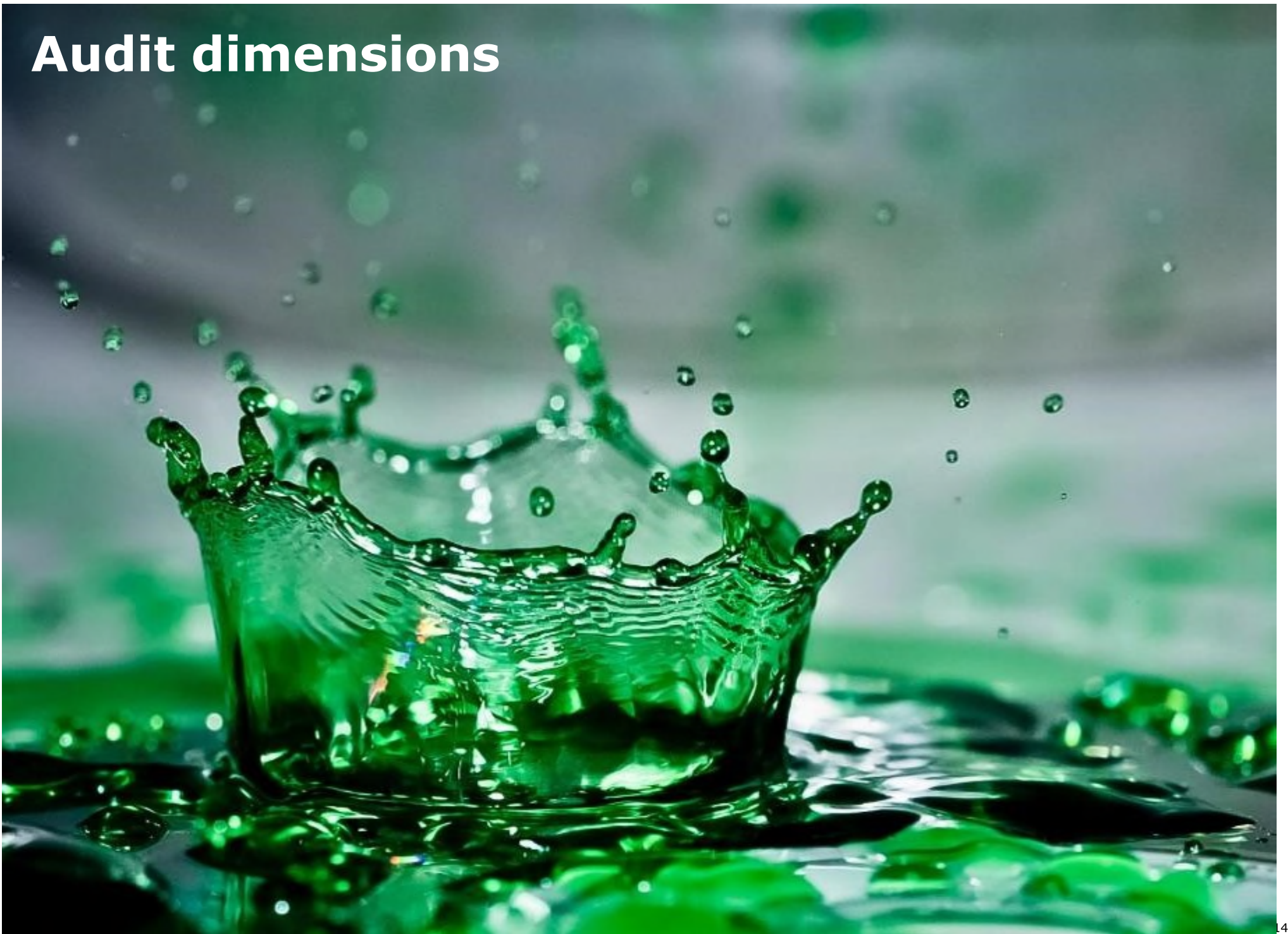


# Your annual report

We are required to provide an opinion on the auditable parts of the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance..

|                             | 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 focuses 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>Our review identified a number of areas where the annual accounts needed revising in order to comply with statutory guidance and to ensure that they were fair, balanced and understandable. We are pleased to note that these changes have been made.</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 ZetTrans' governance arrangements provide assurance, are adequate and are operating effectively.   | <p>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 direction.</p> <p>Our review identified a number of areas where the annual accounts needed revising in order to comply with statutory guidance and to ensure that they were fair, balanced and understandable. We are pleased to note that these changes have been made.</p>  |

# 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, due to the relative size and scale of the functions delivered by ZetTrans, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, 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.

Our report is structured in accordance with these two specific areas, but also covers our specific audit requirements on best value and specific risks.

### **Best Value (BV)**

It is the duty of ZetTrans to secure BV as prescribed in Part 1 of the Local Government in Scotland Act 2003.

We have considered the Board's duty to secure BV as part of the governance arrangements considered as part of the audit dimensions work.

### **Specific risks (SR)**

As set out in our Annual Audit Plan, Audit Scotland had identified a number of specific risks faced by the public sector which we have considered as part of our work on the four audit dimensions.

**SR 1** – EU Withdrawal

**SR 2** – Changing landscape for public financial management

**SR 3** – Dependency on key suppliers

**SR 4** – Openness and transparency

# 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 auditor of ZetTrans or is potentially misleading.

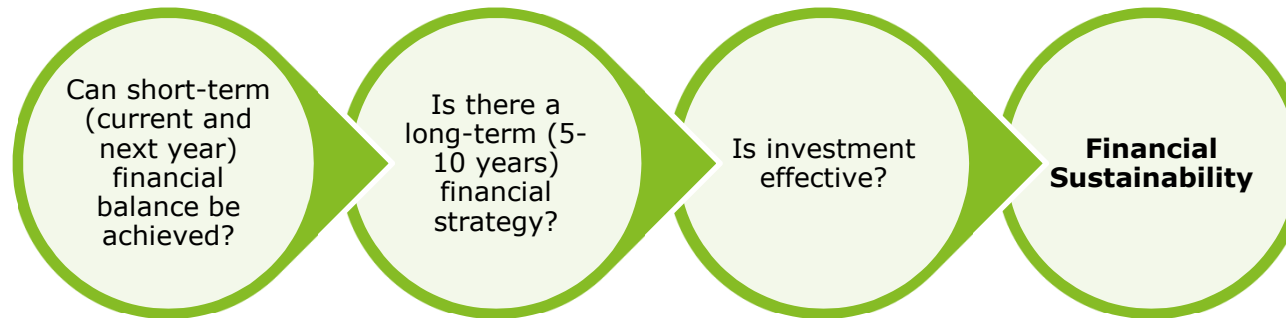
### **Deloitte View**

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

**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 risks**

Within our audit plan we identified a number of risk as follows:

- The Partnership does not properly plan to deliver services into the future and address any financial risks arising in a timely manner; and
- The Partnership's financial planning is inconsistent with the Scottish Governments five-year plan.

# Audit dimensions (continued)

## Financial sustainability (continued)

### Short-term financial balance

The Board approved a balanced budget of £4.3m for 2019/20 on 28 February 2019. 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 2018/19. However, it must be noted that this was only after receiving additional funding of £484k from Shetland Islands Council.

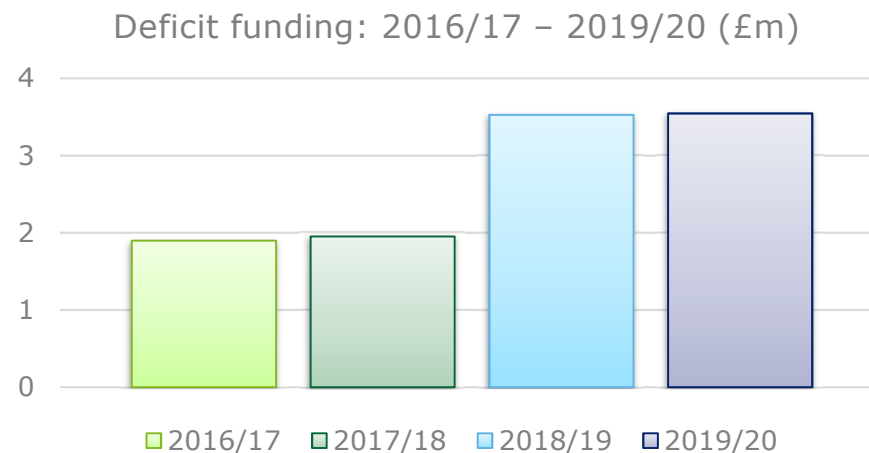
### Medium term financial planning

ZetTrans has identified the reduction in anticipated bus fare income as a key risk for the organisation. This results in an increased demand on Council resources. In the 2018/19 annual accounts, ZetTrans has noted that the Council anticipates a cumulative funding gap of £41m to 2023/24, which may impact on the ability of the Council to continue to deficit fund ZetTrans.

There have been delays to the transport service review, and progress has been slow in this area. We are pleased to note that the review now involves a wider team, outwith the transport function in the Council, and the review is moving forward at a quicker pace. The Board needs to ensure that it holds officers to account for the timely and quality completion of the review given its importance to the sustainability - both short and long term - of ZetTrans.

ZetTrans does not have an MTFP in place at present. We are pleased to note that following audit recommendations in the prior year, a plan is now being developed and is expected to be in place by the end of 2019/20. We will review the MTFP as part of our 2019/20 audit.

ZetTrans need to ensure that the MTFP quantifies funding gaps and actions to address these over the medium term. It 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 2018/19, following further funding being provided by Shetland Islands Council. A balanced budget has been set for 2019/20 based again on further Council funding. ZetTrans does not currently have an MTFP in place (and it therefore does not reflect the Scottish Government MTFS) but we are pleased to note progress in this area.

While progress on transformational change has been slow, we are pleased to note recent progress in this area with the appointment of specific project teams and strategic outline and business cases being prepared and presented to the Board. ZetTrans needs to progress the development of the MTFP to accurately quantify the medium-term funding gap and link this gap with the projects underway to ensure that sufficient action is being taken to address the significant gap projected to 2023/24.

# Audit dimensions (continued)

## Other specific risks

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

| Risk   | Areas considered   | Conclusion   |
|--|--|--|
| EU Withdrawal                                      | We have assessed what work ZetTrans has done to prepare for the impact of EU Withdrawal, specifically considering people and skills; finance; and rules and regulations.   | <p>ZetTrans does not anticipate being impacted directly by EU Withdrawal to any significant degree. ZetTrans is reliant on the planning carried out by Shetland Islands Council for EU Withdrawal.</p> <p>Given the low direct impact anticipated and the level of uncertainty, we are satisfied that ZetTrans has appropriately prepared for EU Withdrawal and has appropriate arrangements in place to maintain a watching brief of developments as they occur in order to work with its partners to mitigate any risks across the wider community.</p>  |
| Changing landscape for public financial management | As part of our audit work on financial sustainability (see page 18) we have considered how ZetTrans have reviewed the potential implications of the Scottish Government's MTFS for its own finances, including long-term planning. | <p>ZetTrans has not, as a body, considered the Scottish Government's MTFS. The MTFS has not been an agenda item at management or Board level. Going forward, revisions to the MTFS should be considered by management and if considered appropriate, the Board - with the potential implications on ZetTrans discussed, with any actions arising from revisions to the MTFS (e.g. changes to ZetTrans' to be developed MTFP) being noted and progressed.</p> <p>It is not clear from reviewing ZetTrans' plans how they are consistent with the MTFS and such a link needs to be made clearer. ZetTrans' planning does not make reference to the key principles of public service reform - prevention, performance, partnership and people - and how these key principles contained within the MTFS are reflected in ZetTrans' planning, and how ZetTrans intends to align its resources to these key principles or monitor progress against them.</p> |
| Dependency on key suppliers                        | We obtained a detailed breakdown of expenditure by supplier and performed an analysis to identify if there were any risks of dependency on key suppliers.  | No specific risks of key supplier failure have been identified. While ZetTrans has a number of key suppliers, these are either public bodies or bus providers who provide services which could be provided by alternative suppliers in the event of supplier failure.  |
| Openness and transparency                          | We have considered ZetTrans' approach to openness and transparency as part of our audit work on governance and transparency.   | <p>ZetTrans has a generally positive attitude towards openness and transparency and is positively disposed to improving in this area. However, no improvements or changes to processes which would benefit openness and transparency have been noted in the year.</p> <p>On an annual basis, 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, demonstrating a commitment to continuous improvement, ensuring it is always striving for more and keeping up with public expectations.</p>  |



# 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 260 (UK) 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 Report.
- Our internal control observations.
- Other insights we have identified from our audit.

### 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 procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### 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 and again in 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.

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



**Pat Kenny**

for and on behalf of Deloitte LLP  
Glasgow

16 August 2019

# Action plan

## Recommendations for improvement

| Area                      | Recommendation   | Management Response   | Responsible person                               | Target Date | Priority |
|---------------------------|--|---|--|-------------|----------|
| Financial Sustainability  | <p>When developing its 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                       | 31/3/2020   | High     |
| Governance & Transparency | <p>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</p> <p>(See page 19 for details.)</p>  | <p>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.</p>   | Secretary & Proper Officer for Legal Proceedings | 31/3/2020   | Medium   |
| General                   | <p>ZetTrans should consider the recommendations of the external audit report to Shetland Islands Council in June 2019, identifying and adopting those applicable to ZetTrans.</p>  | <p>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.</p> | Proper Officer for Finance                       | 31/3/2020   | Medium   |

# Action plan (continued)

## Follow-up 2017/18 action plan

We have followed up the recommendations made in our 2017/18 annual audit report and we are pleased to note that 1 of the 2 recommendations have been implemented. One recommendation was not implemented in the year. We will continue to monitor these as part of our 2019/20 audit work.

| Area                     | Recommendation  | Management Response   | Responsible person         | Target Date | Priority | 2018/19 Update  |
|--------------------------|---|---|----------------------------|-------------|----------|---|
| Accounting Best Practice | We recommend that ZetTrans review the best practice guidelines and update their accounts moving forward to ensure they reflect these. | <p>Changes in accounting policies have been made as required.</p> <p>Comments surrounding best practice with regards to presentation of the annual accounts has been considered in the current year and will be considered further going forward.</p>   | Proper Officer for Finance | 31/12/2018  | High     | <i>Fully implemented:</i> The annual accounts were updated in line with best practice for 2018/19.  |
| Financial Sustainability | We recommend that ZetTrans develop and implement a medium-term financial plan, specifically tailored to their needs.                  | <p>Due to the size and nature of ZetTrans and its operations, there is currently no requirement for a medium-/long-term financial strategy.</p> <p>However, it is possible that certain events such as failure to review bus contracts, or an inability of local bus operators to fulfil routes due to bankruptcy, could raise challenges to ZetTrans.</p> <p>Given this, there are current discussions around creating a MTFP specifically for ZetTrans.</p> | Proper Officer for Finance | 31/12/2018  | Medium   | <p><i>Not implemented:</i> An MTFP has not yet been developed. We will monitor progress on this recommendation against our updated recommendation on page 22.</p> <p><b>Updated management response:</b> An MTFP is in the process of being developed and it is anticipated that this will be developed in 2019/20. The MTFP will include each of the recommendations made in this report with regards to consistency and links with other planning documents.</p> <p><b>Updated target date:</b> 31/3/2020</p> |

# Fraud responsibilities and representations

## Responsibilities explained



### 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.

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 completeness and accuracy of income and management override of controls as key audit risks 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.

We have reviewed the paper prepared by management for the Audit Committee on the process for identifying, evaluating and managing the system of internal financial control.

### 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:

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| <b>Independence confirmation</b> | We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.   |  |   |                      |       |                               |  |              |     |                     |     |                         |              |
|----------------------------------|---|--|---|----------------------|-------|-------------------------------|--|--------------|-----|---------------------|-----|-------------------------|--------------|
| <b>Fees</b>                      | <p>The audit fee for 2018/19, in line with the fee range provided by Audit Scotland, is £9,790 as broken down below:</p> <table><thead><tr><th></th><th>£</th></tr></thead><tbody><tr><td>Auditor remuneration</td><td>8,440</td></tr><tr><td>Audit Scotland fixed charges:</td><td></td></tr><tr><td>    Pooled costs</td><td>820</td></tr><tr><td>    Audit support costs</td><td>530</td></tr><tr><td><b>Total agreed fee</b></td><td><b>9,790</b></td></tr></tbody></table> <p>No non-audit fees have been charged by Deloitte in the period.</p>                                   |  | £ | Auditor remuneration | 8,440 | Audit Scotland fixed charges: |  | Pooled costs | 820 | Audit support costs | 530 | <b>Total agreed fee</b> | <b>9,790</b> |
|                                  | £   |  |   |                      |       |                               |  |              |     |                     |     |                         |              |
| Auditor remuneration             | 8,440   |  |   |                      |       |                               |  |              |     |                     |     |                         |              |
| Audit Scotland fixed charges:    |   |  |   |                      |       |                               |  |              |     |                     |     |                         |              |
| Pooled costs                     | 820   |  |   |                      |       |                               |  |              |     |                     |     |                         |              |
| Audit support costs              | 530   |  |   |                      |       |                               |  |              |     |                     |     |                         |              |
| <b>Total agreed fee</b>          | <b>9,790</b>  |  |   |                      |       |                               |  |              |     |                     |     |                         |              |
| <b>Non-audit services</b>        | In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company'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.   |  |   |                      |       |                               |  |              |     |                     |     |                         |              |
| <b>Relationships</b>             | <p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p> |  |   |                      |       |                               |  |              |     |                     |     |                         |              |

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