

Zetland Transport Partnership

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Zetland Transport Partnership

May 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Zetland Transport Partnership (ZetTrans). The main elements of our work include:

- assessing the risk of material misstatement in the financial statements
- evaluation of the key controls within the main accounting systems
- an audit of the 2022/23 annual accounts and provision of an Independent Auditor's Report
- an audit opinion on the other statutory information published within the annual accounts including the Management Commentary and the Annual Governance Statement
- consideration of arrangements in relation to wider scope areas including Best Value. As a less complex body, wider scope requirements are restricted to conclusions on financial sustainability, and the adequacy of the disclosures in the Annual Governance Statement.

Audit appointment

2. We are pleased to be appointed as the external auditor of ZetTrans for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of senior members of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to ZetTrans through our external audit work by being constructive and forward looking, by attending meetings of the Partnership Board and by recommending and encouraging good practice. In so doing, we will help

ZetTrans promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and ZetTrans

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and ZetTrans. Key responsibilities are summarised below.

Auditor responsibilities

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

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

ZetTrans' responsibilities

9. ZetTrans is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. ZetTrans has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

11. The audit of the annual report and accounts does not relieve management or the Partnership Board, as those charge with governance, of their responsibilities.

Communication of fraud or suspected fraud

12. In line with ISA 240, in presenting this audit plan to the Partnership Board we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the Partnership Board have any such knowledge or concerns relating to the risk of fraud within ZetTrans, we invite them to communicate this to the appointed auditor for consideration.

Financial statements audit planning

Introduction

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

14. Our approach to the audit of the 2022/23 financial statements has been designed to support the appointed auditor's opinion as to whether the annual accounts give a true and fair view of ZetTrans' finances for the year ended 31 March 2023 and have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code 2022/23).

Materiality

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

Materiality levels for the 2022/23 audit

16. We assess materiality at different levels. The materiality values for ZetTrans are set out in [Exhibit 1](#).

Exhibit 1 2022/23 Materiality levels for ZetTrans

| Materiality | Amount |
|---|---------|
| Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the ZetTrans operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22. | £88,000 |
| Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our | £66,000 |

professional judgement, we have assessed performance materiality at 75% of planning materiality.

| | |
|--|--------|
| Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. | £4,000 |
|--|--------|

Source: Audit Scotland

Significant risks of material misstatement and other risk of material misstatement for the 2022-23 financial statements

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

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

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

Exhibit 2

2022/23 risks of material misstatement to the financial statements

| Significant risk of material misstatement | Sources of assurance | Planned audit response |
|---|---|---|
| <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>Owing to the nature of this risk, assurances from management are not applicable in this instance</p> | <ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. 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. Make inquiries of individuals involved in the financial reporting process about inappropriate or |

| Significant risk of material misstatement | Sources of assurance | Planned audit response |
|---|----------------------|--|
| | | <p>unusual activity relating to the processing of journal entries and other adjustments.</p> <ul style="list-style-type: none"> • 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. |

Source: Audit Scotland

20. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. We have considered the risk of fraud over income recognition and the risk of fraud over expenditure (in accordance with *Practice Note 10 (Audit of Financial Statements and Regularity of Public Sector Bodies in the UK)*).

21. We have rebutted the presumption that a risk of material misstatement exists, except for management override of controls, as detailed in [Exhibit 2](#) above. Our assessment is on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting
- the majority of ZetTrans' income comes from contributions from Shetland Islands Council which can be readily agreed to third party correspondence and confirmations. Internal controls are in place around bus fare income, and this income stream will be tested as part of our standard audit procedures
- ZetTrans' core costs (support costs, rent and management costs) are routine in nature and individual transactions are relatively small in scale, with an established control framework in place
- experience in the sector, including a review of past misstatements as reported by the predecessor auditor, does not indicate a significant risk.

22. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Revisions to ISA (UK) 315 on auditors' responsibility to identify and assess the risks of material misstatement

23. The revised International Standard on Auditing (UK) 315 includes a revised requirement for auditors to understand a body's use of IT, as part of our understanding of the wider control environment, and to consider the related risks.

24. As part of our 2022/23 audit planning work, we will undertake an assessment of ZetTrans' IT systems to obtain an understanding of the use of IT in financial reporting. This will consider the nature and characteristics of the IT applications and IT infrastructure.

25. Any risks of material misstatement identified from the assessment of IT systems and infrastructure will be communicated to management and reflected in our approach to the audit of the 2022/23 financial statements.

Audit of Management Commentary, and Governance Statement.

26. In addition to the appointed auditor's opinion of the financial statements, the Accounts Commission prescribes that the appointed auditor should provide opinions as to whether the Management Commentary, and Governance Statement, have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.

27. To inform these opinions we will consider whether the disclosures within each statement comply with the requirements of the applicable guidance and confirm that relevant information reflects the contents of the financial statements and other supporting documentation

28. Based on our knowledge of the audit, and the established procedures in place to produce these statements, we have not identified any specific risks to be communicated to those charged with governance.

Wider Scope and Best Value

Introduction

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

30. Based on ZetTrans' gross expenditure and assets, the lack of wider scope risks and low level of public scrutiny we have concluded that it is appropriate to apply the less complex body approach to the 2022/23 audit. Consequently, our wider scope audit work will focus on the appropriateness of the disclosures in the Annual Governance Statement and ZetTrans' arrangements for ensuring financial sustainability.

Wider scope risks

31. Our planned work on our wider scope responsibilities is risk based and proportionate. We have not identified any local wider scope audit risks for the 2022/23 audit of ZetTrans. Progress on the outstanding recommendations identified in prior years will be followed-up with management during the 2022/23 audit.

Best Value

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

Reporting arrangements, timetable, and audit fee

Reporting arrangements

33. Audit reporting is the visible output for the annual audit. This Audit Plan, the outputs as detailed in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

34. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

35. We will provide an independent auditor's report to the Partnership Board and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Partnership Board and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

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

Exhibit 3

2022/23 Audit outputs

| Audit Output | Partnership Board Date |
|------------------------------|------------------------|
| Annual Audit Plan | 19 May 2023 |
| Independent Auditor's Report | 1 November 2023 |
| Annual Audit Report | 1 November 2023 |

Source: Audit Scotland

37. The Local Authority Accounts (Scotland) Regulations 2014 require local authorities to 'aim to approve the audited accounts for signature no later than 30 September immediately following the financial year to which the accounts relate' and that the signed accounts 'must be published no later than 31 October'. Due to the legacy of the late completion of prior year audits due to Covid-19 and ongoing resourcing challenges within Audit Scotland, we are unable to complete the ZetTrans audit by the 30 September or in time to allow ZetTrans to publish the audited accounts by 31 October. We acknowledge that the planned board date for consideration of the audited accounts is determined by the availability of the audit



process and not by ZetTrans, which proposes to present unaudited accounts for audit by 30 June 2023.

Timetable

38. [Exhibit 4](#) sets out the timetable that has been discussed and agreed with management.

Exhibit 4

Proposed annual report and accounts timetable

|  Key stage |  Provisional Date |
|---|--|
| Consideration of the unaudited annual report and accounts by those charged with governance | 29 June 2023 |
| Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package. | 30 June 2023 |
| Latest date for final clearance meeting with the Proper Officer of Finance | 9 October 2023 |
| Agreement of audited and unsigned annual accounts | 12 October 2023 |
| Issue of proposed Annual Audit Report to those charged with governance (along with template Letter of Representation and proposed Independent Auditor's Report) | 12 October 2023 |
| Signed Independent Auditor's Report | 1 November 2023 |

Source: Audit Scotland

39. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

40. We intend to undertake the 2022/23 audit remotely. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Audit fee

41. In determining the audit fee, we have taken account of ZetTrans' risk exposure and the planned management assurances in place. The proposed audit fee for 2022/23 is £11,850 (2021/22: £10,530).

42. Our fees have increased in 2022/23 and this reflects the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

43. In setting the fee for 2022/23 we have assumed that ZetTrans has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee also assumes there will be no major change in respect of the scope of the audit during the year. Where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

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

Independence and objectivity

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

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

47. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. The appointed auditor for ZetTrans is Stephen O'Hagan, Senior Audit Manager. We are not aware of any such relationships pertaining to the audit of ZetTrans.

Audit Quality

48. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value, and can support public bodies to achieve their objectives. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

49. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

50. Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit](#)

[Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

51. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Appendix 1 - Your audit team

52. The audit team involved in the audit of ZetTrans have significant experience in public sector audit.

Stephen O'Hagan
Senior Audit Manager
sohagan@audit-scotland.gov.uk

Stephen joined Audit Scotland's predecessor organisation as a senior auditor over 25 years ago and has been a senior audit manager for over 17 years. He has extensive experience in the delivery of local and central government sectors, most recently leading on a portfolio of audits including Glasgow City Council and Strathclyde Pension Fund.

Rosemarie Khan
Senior Auditor
rkhan@audit-scotland.gov.uk

Rosemarie is a member of the Association of Chartered Certificate Accountants. She has 20 years' experience working for Audit Wales and has worked for Audit Scotland for 3 years delivering audits. She has worked on several Central Government bodies, Local Authorities and NHS bodies. Rosemarie will manage the team and work alongside the Senior Audit Manager to deliver the audit.

53. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Zetland Transport Partnership

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

www.audit-scotland.gov.uk/accessibility

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