

Shetland Islands Integration Joint Board

Annual Audit Plan 2023/24



Prepared for Shetland Islands Integration Joint Board
March 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 external audit of Shetland Islands Integration Joint Board (the IJB). The main elements of our work include:

- 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 audit opinion on other statutory information published with the 2023/24 annual accounts, including the Management Commentary, the Annual Governance Statement, and the audited part of the Remuneration Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership, and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements
- provision of an Independent Auditor's Report expressing opinions on the different elements of the annual accounts and an Annual Audit Report setting out conclusions on the wider scope areas.

Respective responsibilities of the auditor and the IJB

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

Auditor responsibilities

3. 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.

4. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the wider scope arrangements in place at the IJB to manage its performance and used of resources. In doing this, we aim to support improvement and accountability.

Shetland Islands IJB's responsibilities

5. The IJB is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view.

The IJB is also required to produce other reports in the annual accounts in accordance with statutory requirements.

6. The IJB has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance and propriety that enable it to deliver its objectives.

7. The audit of the annual accounts does not relieve management or the IJB Audit Committee, as those charged with governance, of their responsibilities.

Communication of fraud or suspected fraud

8. In line with the ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan to the IJB Audit Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. During our audit, should members of the Committee have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration. Similar assurances will also be sought as part of the audit completion process.

Adding Value

9. We aim to add value to the IJB through tailoring audit work to the circumstances of the IJB and the audit risks identified; by being constructive and forward looking; providing independent conclusions; attending meetings of the Audit Committee; and by recommending and encouraging good practice. In so doing, we will help the IJB promote improved standards of governance, better management and decision making and more effective use of resources.

Annual accounts

Introduction

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

11. We are required to perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

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

Materiality

13. 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 about whether 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 2023/24 audit

14. We assess materiality at different levels as described in [Exhibit 1](#) on page 6.

Exhibit 1**2023/24 materiality levels for the IJB**

Materiality	Amount
<p>Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It is set based on our assessment of the needs of the users of the financial statements and the nature of the Shetland Islands IJB’s operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.</p>	£1.3 million
<p>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 are required. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.</p>	£0.975 million
<p>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.</p>	£65 thousand

Source: Audit Scotland

Significant risk of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of the IJB, 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 review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. This risk has the greatest impact on our planned 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 risk.

Exhibit 2**2023/24 Significant risk of material misstatement to the financial statements**

Significant risk of material misstatement	Management's 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 ISA (UK) 240 (<i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>), management is in a unique position to perpetrate fraud because of their 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"> • Agreement of balances and income to Shetland Islands Council and NHS Shetland financial reports/ledger/correspondence. • Auditor Assurances will be obtained from the auditors of Shetland Islands Council and NHS Shetland which ensure completeness, accuracy and allocation of income and expenditure. • Review of financial monitoring reports during the year • Review of year-end consolidation of expenditure reports from Shetland Islands Council and NHS Shetland including examining any significant consolidation adjustments.

Source: Audit Scotland

18. As set out in ISA (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. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk for the IJB as it is wholly funded by contributions from NHS Shetland and Shetland Islands Council which are clearly communicated and can be readily agreed to third party confirmations. We have concluded there is limited opportunity and incentive to manipulate the recognition of income in the financial statements.

19. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for the IJB as it does not incur expenditure or employ staff (other than appointing the Chief Officer and Chief Finance Officer). All expenditure is incurred and processed through the financial systems of the partner bodies and there is limited scope for the IJB to manipulate expenditure.

20. Assurances over the accuracy and completeness of the IJB transactions will be obtained from the auditors of Shetland Islands Council and NHS Shetland. We have not, therefore, included any specific work in our audit plan in these areas in addition to our standard audit procedures.

Wider Scope and Best Value

21. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

22. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the IJB is planning effectively to continue to deliver services and comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the IJB. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – We will consider how the IJB demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

23. Our planned work on our wider scope responsibilities is risk based and proportionate. We have not identified any wider scope audit risks for the 2023/24 audit of the IJB. Progress on the outstanding recommendations identified in prior years will be followed-up with management during the course of the 2023/24 audit.

Best Value

24. Auditors have a duty to be satisfied that bodies that fall within section 106 of the Local Government (Scotland) Act 1973 have made proper arrangements to secure Best Value. We will consider how the IJB demonstrates that it is meeting its Best Value responsibilities, and we will report our findings in our Annual Audit Report.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

25. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with relevant officers to confirm factual accuracy.

26. We will provide an independent auditor's report (audit certificate) to Shetland Islands IJB and the Accounts Commission setting out our opinions on the annual accounts. We will also provide the IJB and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

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

Exhibit 3

2023/24 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	31 March 2024	22 May 2024
Independent Auditor's Report	30 September 2024	13 November 2024
Annual Audit Report	30 September 2024	13 November 2024

Source: Audit Scotland



28. The Local Authority Accounts (Scotland) Regulations 2014 require local authorities and associated bodies 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 the Covid-19 pandemic and ongoing resourcing challenges within Audit Scotland, we are unable to complete the IJB's audit by 30 September or in time to publish the audited accounts by 31 October. We acknowledge that this planned timetable is determined by the availability of the audit process and not by the IJB which proposes to present its 2023/24 annual accounts for audit by 30 June 2024. We will work towards delivering the audit and audit outputs by the target date over the period of the appointment.

29. This Annual Audit Plan, and the other outputs detailed in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Timetable

30. To support an efficient audit, it is critical that a timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed and agreed with management.

Exhibit 4 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	27 June 2024 (Audit Cttee)
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2024
Latest date for final clearance meeting with Chief Finance Officer	18 October 2024
Agreement of audited and unsigned annual accounts	25 October 2024
Issue of proposed Annual Audit Report to those charged with governance (along with letter of representation and proposed Independent Auditor's Report)	
Committee meetings to consider the Annual Audit Report and recommend/ approve the audited annual accounts for signature	13 Nov 2024 (Audit Cttee) 20 Nov 2024 (Board)
Signed Independent Auditor's Report	20 November 2024

Source: Audit Scotland

Audit fee

31. In determining the audit fee, we have taken account of the risk exposure of the IJB and the planned management assurances in place. The agreed audit fee for 2023/24 is £33,360 (£31,470 in 2022/23), an increase of 6 per cent. Separate from the 2023/24 fee, the IJB will receive a fee rebate of £595 in respect of unspent 2022/23 travel budgets.

32. In setting the fee for 2023/24, we have assumed that the IJB has effective governance arrangements and will prepare a comprehensive and accurate set of annual accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit

during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

33. It is the responsibility of the IJB to establish adequate internal audit arrangements. The internal audit function is provided by Glasgow City Council with Duncan Black as the Chief Internal Auditor. We have reviewed internal audit's plan as part of our planning process. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

External audit team

34. There is a change in the engagement lead for the Shetland Islands IJB audit this year as Brian Howarth, Audit Director, is retiring. The engagement lead (i.e. the appointed auditor) from the 2023/24 audit will be Rachel Browne, Audit Director. Rachel has over 25 years of public sector audit experience in local government, NHS and central government audits. The incoming and outgoing engagement leads have held handover discussions to ensure a smooth transition.

35. Stephen O'Hagan, Senior Audit Manager, and Rosemarie Khan, Senior Auditor, will continue to lead and manage the external audit team on a day-to-day basis.

Independence and objectivity

36. We are independent of the IJB in accordance with the relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposed stringent rules to ensure the independence and objectivity of auditors.

37. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard 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.

38. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of the IJB.

Audit Quality

39. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for

providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

40. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.
- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

41. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

42. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

43. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Shetland Islands Integration Joint Board

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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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