

Shetland Islands Council

Annual Audit Plan



 AUDIT SCOTLAND

Prepared for Shetland Islands Council
April 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 Council (the Council). The main elements of the audit include:

- evaluation of the key controls within the main accounting systems
- 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 the other statutory information published within the 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
- review of Shetland Island Council's arrangements for preparing and publishing statutory performance information
- 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 wide scope areas
- providing assurance on the Housing Benefit Subsidy Claim and Non-Domestic Rates Return.

Respective responsibilities of the auditor and the Council

2. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and the Council. 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 within the Council. In doing this, we aim to support improvement and accountability.

Shetland Islands Council's responsibilities

5. The Council is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. It is also required to produce other reports in the annual accounts in accordance with statutory requirements.

6. The Council also has 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 of the 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 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. Should members of the committee have any such knowledge or concerns relating to the risk of fraud within Shetland Islands Council, we invite them to communicate this to the appointed auditor for consideration. Similar assurances will be sought as part of the audit completion process.

Adding Value

9. We aim to add value by tailoring audit work to the circumstances of Shetland Islands Council and the audit risks identified; 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 Council 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 Council'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 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 Shetland Islands Council

Materiality	Amount
<p>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 Council'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>	£6.25 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 60% of planning materiality.</p>	£3.75 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>	£0.31 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

- 15.** Our risk assessment draws on our cumulative knowledge of the Council, 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.
- 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 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](#) on page 7 summarises the nature of the risks, the sources of assurance from management arrangements, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2**2023/24 Significant and non-significant risks of material misstatement for the financial statements**

Nature of risk	Sources of assurance	Planned audit response
Significant risks of material misstatement		
<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. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries, focusing on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • 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. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Test accounting accruals and prepayments focusing on significant risk areas.
<p>2. Estimation in the valuation of council dwellings</p> <p>The valuations of council dwellings are significant estimates. Valuations are based on a beacon approach and specialist assumptions including discount factors, changes in which can result in</p>	<ul style="list-style-type: none"> • Use of clearly defined methodologies and procedures including experts, as appropriate, when making significant estimations and judgements. • Valuations undertaken by RICS registered valuer • Process considered as part of management 	<ul style="list-style-type: none"> • Review the information provided to the valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the reconciliation between the accounts, asset register and valuer's reports.

Nature of risk	Sources of assurance	Planned audit response
<p>material changes to valuations.</p> <p>A desktop review of council dwellings was undertaken last year to support the carrying value in the accounts. A full valuation of dwellings is being undertaken during 2023/24 as part of the council's 5 year rolling programme and the results of the valuation exercise will be reflected in the annual accounts.</p>	<p>review of complex balances at year-end.</p>	<ul style="list-style-type: none"> • Test the asset register records against the annual valuation report to ensure asset valuations and useful lives are accurately reflected. • Sample testing of calculations and lives of assets revalued during 2023/24, and agreement of related accounting entries.
<p>3. Estimation in the valuation of other land and buildings (OLB).</p> <p>There is a significant degree of subjectivity in the valuation of other land and buildings. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to valuations.</p> <p>Other land and buildings are revalued on a five-year rolling basis. Values may change year-on-year and it is important that the council ensures the financial statements accurately reflect the value of OLB.</p>	<ul style="list-style-type: none"> • Valuations undertaken by Royal Institute of Chartered Surveyors (RICS) registered valuers, in accordance with the RICS Valuation Global Standards. • Use of clearly defined methodologies and procedures when making significant estimations and judgements. • Annual review of fair value and impairment. • Process considered as part of management review of complex balances at year-end. 	<ul style="list-style-type: none"> • Review the information provided to the valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review reports from the valuer to confirm overall asset valuation. • Review the reconciliation between the accounts, asset register and valuer's reports • Test the asset register records against the annual valuation report to ensure asset valuations are accurately reflected. • Examine management's assessment of fair value of OLB assets not subject to revaluation in 2023/24. We will critically assess if this is based on expert valuer's opinion and assess the appropriateness of any assumptions.
<p>Other non-significant risks of material misstatement</p>		
<p>4. Estimation in the valuation of pension assets and liabilities</p>	<ul style="list-style-type: none"> • Use of professional actuaries appointed by the Pension Fund to value pension 	<ul style="list-style-type: none"> • Assess the scope, independence and competence of the professionals engaged in providing estimates for pensions.

Nature of risk	Sources of assurance	Planned audit response
<p>Actuarial estimates are a complex combination of liabilities over significant future periods based on life expectancy and CPI growth and discounting (based on corporate bond rates). Assets are based on an individual employer body's share of assets at the last triennial valuation. Roll forward adjustments are provided to members data and to asset valuations.</p> <p>There is a risk that small changes in the assumptions used can lead to large changes in the resulting valuations resulting in material misstatement in the annual accounts.</p>	<p>adjustments required by IAS19</p> <ul style="list-style-type: none"> Actuarial valuations are reviewed by qualified finance staff for reasonableness including confirmation of the accuracy of the source data used to produce them. Process considered as part of management review of complex balances at year-end. 	<ul style="list-style-type: none"> Review the appropriateness of actuarial assumptions and results including comparison with other councils and the pension fund as a whole. Establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by the Council.
<p>5. Valuation of long-term investments</p> <p>The 2022/23 accounts include long term investments of £377 million. Most of these are Level 2 and Level 3 investments, which are not based on observable data, but rely on investment manager valuations involving significant application of judgement.</p> <p>This subjectivity increases the risk of material misstatement in the financial statements.</p>	<ul style="list-style-type: none"> Regular fund manager valuation reports from the three external investment managers Treasury management team review of fund manager valuation reports Investment Strategy supported by a Treasury Management and Annual Investment Strategy. Process considered as part of management review of complex balances at year-end. 	<ul style="list-style-type: none"> Evaluate the competence, capabilities, and objectivity of the investment managers in line with ISA500. Critically assess the Council's arrangements for arriving at the valuation of level 3 investments, including the use of experts in undertaking the valuation. Confirmation of year end valuations to valuation reports and/or other supporting documentation, including third party confirmation. Review the relevant investment managers' controls reports for qualifications or exceptions that may affect the audit risk. Review the arrangements in place at the Council to assess investment managers' governance arrangements. Review the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to areas with significant judgement and estimation uncertainty.

Nature of risk	Sources of assurance	Planned audit response
<p>6. Estimation in PFI models</p> <p>The council has a PFI contract for Anderson High School with a fair value of £52 million at 31 March 2023. The accounts also include amounts due to contractors under this contract totalling £79 million.</p> <p>The PFI model uses several assumptions and estimation techniques to analyse the unitary charge payments to contractors between service and construction elements.</p> <p>There is a risk of misstatement in the associated liability if inappropriate assumptions have been made, particularly given recent changes to RPI/CPI and associated indices.</p>	<ul style="list-style-type: none"> • PFI model prepared by Baker Tilly. • Review and update of model by management to inform accounts. 	<ul style="list-style-type: none"> • Determine management's processes for updating the model to reflect the future impact of recent changes in RPI/CPI, based on the requirements of the original contract indexation terms. • Review PFI model and assess for reasonableness, including whether assumptions have been appropriately updated.
<p>7. Estimation in the valuation of fishing quotas</p> <p>The 2022/23 accounts include fishing quotas valued at £47 million.</p> <p>This investment is specialist by nature and requires annual assessment of its value and is affected by the quantity of Fixed Quota Allocation Units (FQAs) available in the market.</p>	<ul style="list-style-type: none"> • Fishing quotas are valued by an independent broker. • Process considered as part of management review of complex balances at year-end. 	<ul style="list-style-type: none"> • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of management's involvement in the process, including the methodologies and assumptions applied. • Review reports from the valuer to confirm overall asset valuation.

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. A significant portion of the Council's income comes from government grants and contributions that can be readily agreed to funding letters and other correspondence.

19. The Council's other income streams mainly comprise of a high volume of low value transactions including council tax, non-domestic rates and housing rents which are verifiable in total terms. We have rebutted this risk because while the possibility of fraud exists, there are limited opportunities and incentives for management to manipulate the way income is recognised in the financial statements due to the nature of the above income streams.

20. 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 also rebutted this risk as there are limited opportunities and incentives for management to manipulate the way expenditure is recognised. A significant level of expenditure is verifiable in total terms by third party confirmation. Although there is a material residual balance, most expenditure is in low-risk areas where individual transactions are well controlled (for example salaried staff costs) and individual transactions are relatively small in scale. Consequently they are unlikely to result in a material misstatement in the financial statements.

21. 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.

Group Consideration

22. As group auditors, we are required under ISA (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

23. The Council has a group which comprises component entities including subsidiaries, associates, and joint ventures. However, group accounts are not prepared based on immateriality. We will obtain sufficient appropriate audit evidence to confirm that group accounts are not required.

Audit of Management Commentary, Annual Governance Statement, and audited part of the Remuneration Report

24. 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, Annual Governance Statement, and audited part of the Remuneration Report, have been compiled

in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.

25. 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.

26. 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.

Audit of Zetland Educational Trust

27. The Charities Accounts (Scotland) Regulations 2006 require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and Independent Auditor's Report is required for each registered charity where members of the council are sole trustees, irrespective of the size of the charity.

28. Members of Shetland Islands Council are sole trustees for one trust registered as a Scottish charity, the Zetland Educational Trust, with total assets of £0.599 million. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

29. Other than a significant risk of management override of controls, which has also been identified as a significant risk in respect of the Council's annual accounts, no specific planning risks were identified in respect of the charity's accounts.

Materiality levels for the 2023/24 audit of Zetland Educational Trust

30. Materiality levels for the trust are set out in [Exhibit 3](#).

Exhibit 3 2023/24 Materiality levels for the charitable trust

Charitable trust	Planning Materiality	Performance Materiality	Reporting Threshold
Zetland Educational Trust	£12,000 (Based on 2% of audited 2022/23 net asset value)	£9,000 (Based on 75% of planning materiality)	£600

Source: Audit Scotland

Wider Scope and Best Value

Introduction

31. 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.

32. 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 Council 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 will conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the Council. We will also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes:** we will consider how the Council demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

33. We have identified the following significant risks in the wider scope areas set out in [Exhibit 4](#) on page 14. This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 4**2023/24 wider scope risks**

Description of risk	Sources of assurance	Planned audit response
<p>1. Unsustainable use of reserves to balance the budget</p> <p>The Council continues to use reserves to balance its annual budget. The agreed budget for 2024/25 includes an “unsustainable” draw on reserves of £25 million to achieve balance. This represents over 13% of the net general fund expenditure for the year.</p>	<ul style="list-style-type: none"> • The Medium Term Financial Plan is refreshed annually • Clear Reserves Strategy 	<ul style="list-style-type: none"> • Assess the sustainability of using reserves to balance the budget. • Monitoring trends and projections for movements in reserves. • Review of medium to long-term financial planning. • Monitoring of the estimated future funding gap.
<p>2. Workforce challenges affecting service delivery</p> <p>The Council continues to face ongoing challenges in recruiting and retaining staff. The approved budget for 2024/25 includes the transfer of budget for 74.4 (net) full time equivalent posts currently vacant to a central contingency budget. This budget will be available to fund existing or amended posts; however there is a risk that the continuing level of vacancies impacts on the delivery of services.</p>	<ul style="list-style-type: none"> • Local workforce planning guidance 	<ul style="list-style-type: none"> • Review of workforce plan updates and Council actions to address workforce challenges. • Best Value thematic review of workforce innovation.

Source: Audit Scotland

34. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Accounts Commission to consider specific risk areas which affect the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Best Value

35. Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within our annual audit work. Auditors are required to evaluate and report on the performance of councils in meeting their Best Value duties.

36. The arrangements to secure Best Value at the Council will be assessed over the period of the audit appointment and will include an annual evaluation of risks and improvement areas and public performance reporting. We will also follow up findings reported previously on Best Value to assess the pace and depth of improvement. This work will be integrated with the wider scope audit areas discussed above.

37. As part of our annual work on Best Value, we conduct thematic reviews as directed by the Accounts Commission. In 2023/24, the thematic review across the sector will be on workforce innovation and will consider how councils are responding to the current workforce challenge through building capacity, increasing productivity, and innovation. Our conclusions and judgements will be reported in a separate report to management and summarised in our Annual Audit Report.

38. At least once every five years, the Controller of Audit will report to the Accounts Commission on Shetland Islands Council's performance in meeting its Best Value duties. Shetland Islands Council is currently scheduled for year 3 of the programme (October 2025 to August 2026).

Reporting arrangements, timetable, and audit fee

Reporting arrangements

39. Audit reporting is the visible output for the annual audit. This Annual Audit Plan, the other outputs detailed in [Exhibit 5](#), and any other outputs on matters of public interest, will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

40. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officers to confirm factual accuracy, prior to the issue and publication of the final reports.

41. We will provide an Independent Auditor's Report (audit certificate) to the Council and the Accounts Commission setting out our opinions on the annual accounts. We will also provide the Council and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

42. [Exhibit 5](#) outlines the target dates for our audit outputs set by the Accounts Commission.

Exhibit 5 2023/24 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	31 March 2024	13 May 2024
Best Value Management Report	31 July 2024	26 August 2024
Independent Auditor's Report	31 October 2024	12 November 2024 (Council 11 December 2024)
Annual Audit Report	31 October 2024	12 November 2024 (Council 11 December 2024)

Source: Audit Scotland

43. We are unable to achieve the target date of 30 September 2024 for completion of the audit to the legacy of the late completion of prior year audits because of the Covid-19 pandemic, ongoing resource challenges within Audit



Scotland, and the requirement to prioritise the delivery of high-quality audits over meeting target dates. This is consistent with the messaging from the Financial Reporting Council which makes clear that audit quality should take precedence.

44. We plan to certify the annual accounts following consideration of our Annual Audit Report and approval of the annual accounts for signature by the Council on 11 December 2024. This has been agreed with council officers. We will work towards delivering the audit and audit outputs by target dates over the period of the audit appointment.

Timetable

45. To support an efficient audit, it is critical that a timetable for producing and auditing the annual accounts is agreed. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

Exhibit 6 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	26 June 2024
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 the Executive Manager - Finance	16 October 2024
Agreement of audited 2023/24 annual accounts for consideration by the Audit Committee	31 October 2024
Issue of Annual Audit Report to those charged with governance (along with letter of representation and proposed Independent Auditor's Report)	31 October 2024
Audit Committee meeting to consider the Annual Audit Report and recommend the audited annual accounts for approval	12 November 2024
Council meeting to approve the audited annual accounts for signing	11 December 2024
Independent Auditor's Report certified by appointed auditor and Annual Report finalised and issued	11 December 2024

Source: Audit Scotland

Audit fee

46. In determining the audit fee, we have taken account of the risk exposure of Shetland Islands Council and the planned management assurances in place. The agreed audit fee for 2023/24 is £267,730 (2022/23: £252,590), an increase of 6%. We have agreed a separate fee of £3,180 (2022/23: £3,000) for the audit of Zetland Educational Trust.

47. In setting the fee we have assumed that the Council has sound governance arrangements in place and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable. The audit fee also assumes there will be no major changes 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

48. It is the responsibility of the Council to establish adequate internal audit arrangements. The internal audit function at the Council is provided by Audit Glasgow, Glasgow City Council's internal audit department. We have reviewed Audit Glasgow's plan as part of our planning process.

49. 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

50. There is a change in the engagement lead for the Shetland Islands Council audit this year as Brian Howarth, Audit Director, has retired. The engagement lead (i.e. the appointed auditor) for the 2023/24 audit is 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 held handover discussions to ensure a smooth transition.

Independence and objectivity

51. Auditors appointed by the 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.

52. 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.

53. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the council or the charitable trust.

Audit Quality

54. 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](#).

55. 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.

56. 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.

57. 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.

58. 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 appointed auditor.

Shetland Islands Council

Annual Audit Plan 2023/24

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