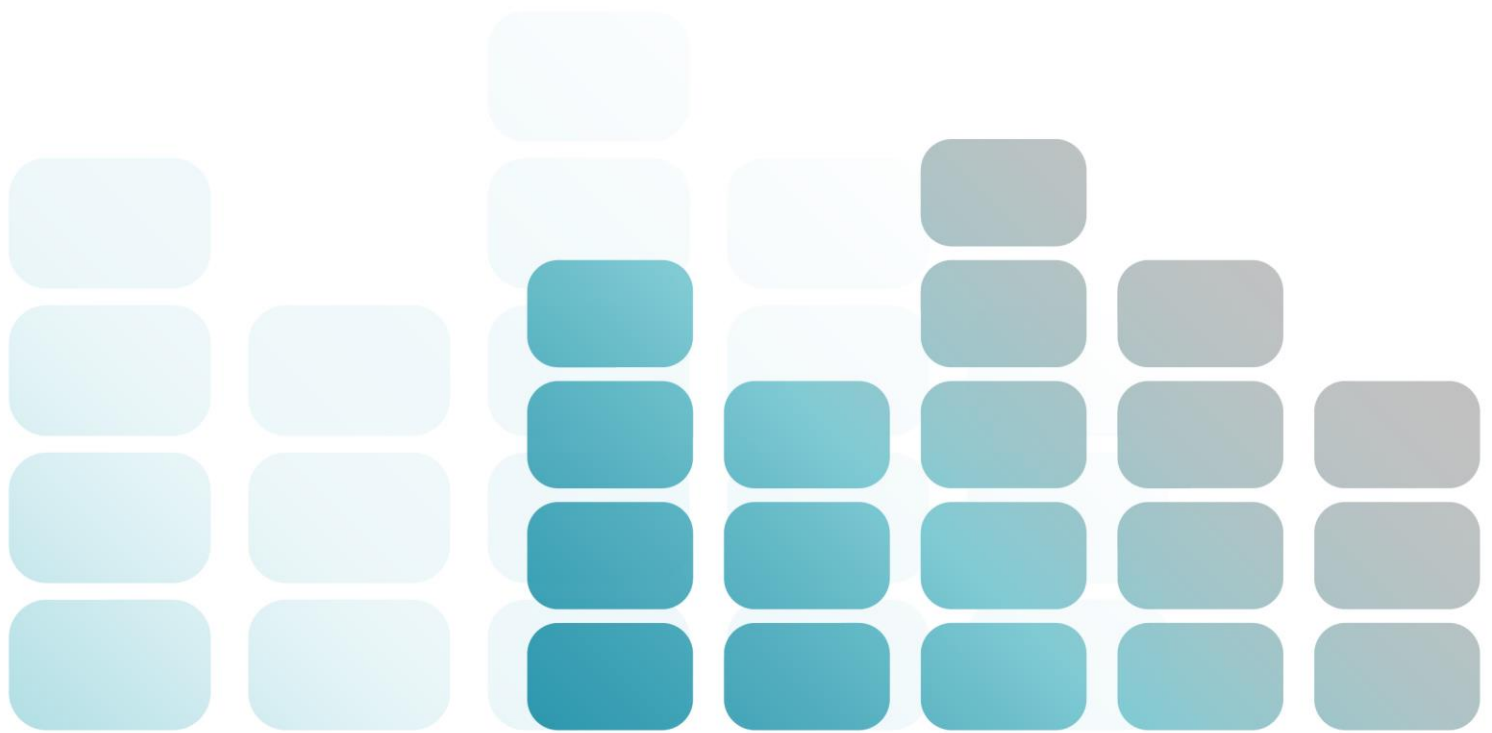


# Shetland Islands Integration Joint Board

Annual Audit Plan 2024/25



Prepared for Shetland Islands Integration Joint Board  
April 2025

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# Introduction

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## Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2024/25 audit of Shetland Islands Integration Joint Board's (the IJB) annual accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

## Appointed auditor and independence

2. Rachel Browne, of Audit Scotland, has been appointed by the Accounts Commission as external auditor of the IJB for the period from 2023/24 until 2026/27. The 2024/25 financial year is the second year of her appointment and the third of Audit Scotland's five-year audit appointment.

3. Rachel Browne and the audit team are independent of the IJB in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of the IJB to communicate.

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# Audit scope and responsibilities

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## Scope of the audit

**5.** The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, the Management Commentary, and the Annual Governance Statement, and an opinion on the audited part of the Remuneration Report.
- Conclusions on the IJB's arrangements in relation to the wider scope areas: Financial Management, Financial Sustainability, Vision, Leadership, and Governance, and Use of Resources to Improve Outcomes.
- Reporting on the IJB's arrangements for securing Best Value.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual accounts and the wider scope areas specified in the Code of Audit Practice.

## Responsibilities

**6.** The Code of Audit Practice sets out the respective responsibilities of the IJB and the auditor. A summary of the key responsibilities is outlined below.

### Auditor's responsibilities

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

### Shetland Islands Integration Joint Board's responsibilities

**8.** The IJB has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and

regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements and other information that gives a true and fair view.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

## **Communication of fraud or suspected fraud**

**9.** In line with 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 or board have any such knowledge or concerns relating to the risk of fraud within the IJB, we invite them to communicate this to the appointed auditor for consideration. Similar assurances will be sought as part of the audit completion process.

# Audit of the annual accounts

## Introduction

**10.** The audit of the annual accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

## Materiality

**11.** The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

**12.** Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor’s professional judgement.

**13.** The materiality levels determined for the audit of the IJB are outlined in [Exhibit 1](#).

### Exhibit 1 2024/25 Materiality levels for Shetland Islands Integration Joint Board

Materiality	Audited body
<b>Materiality</b> – based on an assessment of the needs of users of the financial statements and the nature of the IJB’s operations, the benchmark used to determine materiality is gross expenditure based on the audited 2023/24 financial statements. Materiality has been set at 2% of the benchmark.	£1.48 million

Materiality	Audited body
<b>Performance materiality</b> – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 65% of planning materiality.	£0.960 million
<b>Reporting threshold</b> – all misstatements greater than the reporting threshold will be reported.	£75 thousand

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**14.** The risk assessment process draws on the audit team’s cumulative knowledge of the IJB, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

**15.** Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2, page 8](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in [Exhibit 2](#).

**16.** The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan and [Exhibit 2](#) may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to the IJB and those charged with governance, where relevant.

## Exhibit 2

### Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response
<p><b>Fraud caused by management override of controls</b></p> <p>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>The audit team will:</p> <ul style="list-style-type: none"> <li>• Agree balances and income and expenditure to Shetland Islands Council and NHS Shetland's financial reports, ledgers and correspondence.</li> <li>• Obtain assurances from the auditors of Shetland Islands Council and NHS Shetland to ensure completeness, accuracy and allocation of income and expenditure.</li> <li>• Review financial monitoring reports during the year.</li> <li>• Review year end consolidation of expenditure reports from Shetland Islands Council and NHS Shetland and examine any significant consolidation adjustments.</li> </ul>

Source: Audit Scotland

## Key audit matters

**17.** The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

**18.** In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

**19.** The matters determined to be key audit matters will be communicated in the Annual Audit Report. [Exhibit 2](#) outlines the significant risks of material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.



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# Wider scope and Best Value

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## Introduction

**20.** Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on the IJB being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering the IJB's medium- to longer-term planning for service delivery.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering the IJB's arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

**21.** A conclusion on the effectiveness and appropriateness of arrangements the IJB has in place for each of the wider scope areas will be reported in the Annual Audit Report.

## Best Value

**22.** Under the Code of Audit Practice, the duty on auditors to consider the arrangements an audited body has in place to secure Best Value

applies to audited bodies that fall within section 106 of the Local Government (Scotland) Act 1973, which the IJB does.

**23.** Consideration of the arrangements the IJB has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements the IJB has in place will be reported in the Annual Audit Report.

**Significant wider scope and Best Value risks**

**24.** The risk assessment process has identified a significant risk in the wider scope areas and Best Value as outlined in [Exhibit 3](#), and this includes the planned audit procedures in response to the risk.

**Exhibit 3**  
**Significant wider scope and Best Value risks**

Description of risk	Planned audit response
<p><b>Financial planning and sustainability</b></p> <p>The IJB has been struggling to provide services within agreed budget limits in recent years. Based on the medium-term financial plan this is a trend which is set to continue.</p> <p>There is a risk that without sufficient action to deliver savings and transform services, the IJB will not be financially sustainable.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"><li>• Review the IJB’s financial plan and assess the appropriateness of assumptions made.</li><li>• Assess whether the financial plan is aligned to the Strategic Plan and the IJB’s priorities.</li><li>• Assess the IJB’s identification and delivery of recurrent savings.</li><li>• Review wider organisational plans and assess whether there is sufficient identification and implementation of service re-design.</li></ul>

Source: Audit Scotland

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# Reporting arrangements, timetable and audit fee

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## Audit outputs

**25.** The outputs from the 2024/25 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to the IJB and the Accounts Commission setting out opinions on the annual accounts.
- An Annual Audit Report to the IJB and the Accounts Commission setting out significant matters identified from the audit of the annual accounts, conclusions from the wider scope and Best Value audit, and recommendations, where required.

**26.** The matters to be reported in the outputs will be discussed with the IJB for factual accuracy before they are issued. All outputs from the audit will be published on Audit Scotland's website, apart from the Independent Auditor's Report, which is included in the audited annual accounts.

**27.** Target dates for the audit outputs are set by the Accounts Commission. In setting the target dates for the audit outputs, consideration is given to the target date for approving the annual accounts, which is 30 September 2025 for local government bodies.

**28.** The audit team will be unable to achieve the target date of 30 September 2025 for issuing the Independent Auditor's Report and Annual Audit Report. This is due to the late completion of prior year audits, ongoing resourcing challenges within Audit Scotland and the need to prioritise the quality of our audit work over meeting target dates, as required by the Accounts Commission, and consistent with messaging from the Financial Reporting Council which has made clear that audit quality takes precedence. The audit team are working towards completion of the audit by the later date of 12 November 2025 and are working towards delivering the audit by target dates over the course of the five-year audit appointment.

## Audit timetable

**29.** Achieving the timetable for production of the annual accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 4](#) includes a timetable for the

audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with the IJB and reported to those charged with governance, where required.

#### Exhibit 4

##### 2024/25 audit timetable

Audit activity	Shetland Islands IJB target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan	N/A	28 April 2025	14 May 2025
<b>Annual accounts:</b>			
• Consideration of unaudited annual accounts by those charged with governance	27 June 2025	N/A	27 June 2025
• Submission of unaudited annual accounts and all working papers to audit team	30 June 2025	N/A	N/A
• Latest date for audit clearance meeting	9 October 2025	9 October 2025	N/A
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	N/A	23 October 2025	6 November 2025
• Agreement of audited and unsigned annual accounts	23 October 2025	23 October 2025	N/A
• Approval by those charged with governance	6 November 2025 – Audit Committee	N/A	6 November 2025 – Audit Committee
• Signing of audited annual accounts	12 November 2025- IJB	N/A	12 November 2025 - IJB
• Signing of Independent Auditor's Report and issue of Annual Audit Report	N/A	12 November 2025	N/A

Source: Audit Scotland

## Audit fee

**30.** The IJB's audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2024/25 audit is £34,000.

**31.** In setting the audit fee, it is assumed that the IJB has effective governance arrangements in place and the complete annual accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

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# Other matters

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## Internal audit

**32.** The IJB is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

**33.** While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2024/25 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

## Audit quality

**34.** Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

**35.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2024/25 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. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

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

**37.** 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 monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

**38.** Audit Scotland may periodically seek the views of the IJB on the quality of audit services provided. The audit team would also welcome feedback at any time.

# Shetland Islands Council Integration Joint Board

Annual Audit Plan 2024/25



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