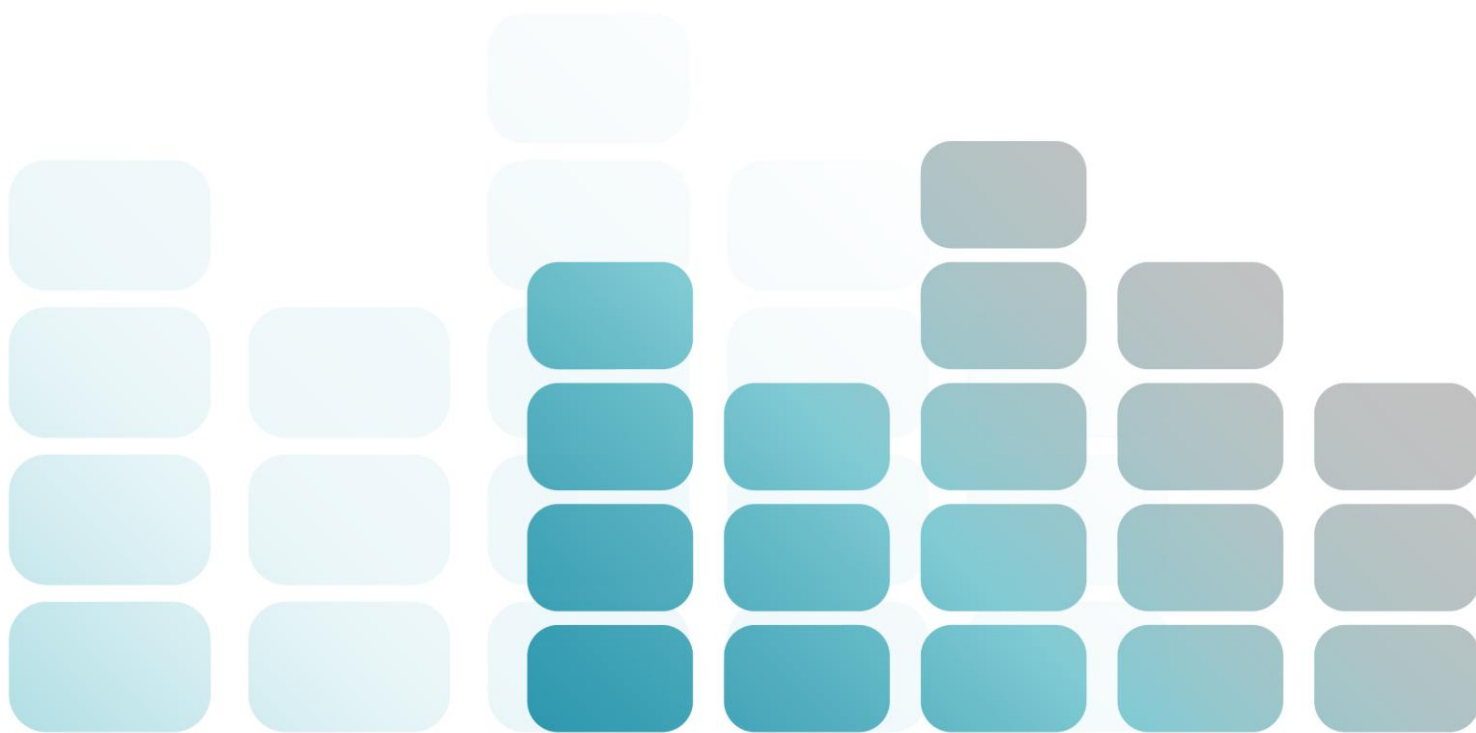


Shetland Islands Integration Joint Board

Annual Audit Plan 2025/26



Prepared for Shetland Islands Integration Joint Board

March 2026

Contents

Introduction	3
Audit scope and responsibilities	4
Audit of the annual accounts	6
Wider scope and Best Value	9
Reporting arrangements, timetable and audit fee	11
Other matters	14

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Introduction

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 2025/26 audit of Shetland Islands Integration Joint Board's 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 Shetland Islands Integration Joint Board, hereafter referred to as 'Shetland Islands IJB', for the period from 2023/24 until 2026/27. The 2025/26 financial year is Rachel's third year of appointment and the fourth year of Audit Scotland's five-year audit appointment.

3. Rachel Browne and the audit team are independent of Shetland Islands 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 Shetland Islands IJB to communicate.

Audit scope and responsibilities

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, namely the Management Commentary and the Governance Statement
- an opinion on the audited part of the Remuneration Report
- conclusions on Shetland Islands 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 Shetland Islands 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 Shetland Islands 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 Shetland Islands IJB's arrangements in place for the wider scope areas.

Shetland Islands IJB's responsibilities

8. Shetland Islands 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 that give a true and fair view and other information
- 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 have any such knowledge or concerns relating to the risk of fraud within Shetland Islands 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. 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 Shetland Islands IJB are outlined in [Exhibit 1](#).

Exhibit 1

2025/26 Materiality levels for Shetland Islands IJB

Materiality	Shetland Islands IJB
Materiality – based on an assessment of the needs of users of the financial statements and the nature of the IJB operations, the benchmark used to determine materiality is gross expenditure based on the audited 2024/25 financial statements. Materiality has been set at 2% of the benchmark.	£1.5 million

Materiality	Shetland Islands IJB
<p>Performance materiality – 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.</p>	£0.975 million
<p>Reporting threshold – all misstatements greater than the reporting threshold will be reported.</p>	£75,000

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 Shetland Islands 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>Fraud caused by management override of controls</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"> • Agree balances and income and expenditure to Shetland Islands Council and NHS Shetland's financial reports, ledgers and correspondence. • Obtain assurances from the auditors of Shetland Islands Council and NHS Shetland to ensure completeness, accuracy and allocation of income and expenditure. • Review financial monitoring reports during the year. • Review year end consolidation of expenditure reports from Shetland Islands Council and NHS Shetland and examine any significant consolidation adjustments.

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. 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.

Wider scope and Best Value

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

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

24. There is an expectation that equalities will be advanced through the audit process. We will carry out a high-level review of the fairness and equalities arrangements in place at the IJB, assess these arrangements, and report our conclusions in our 2025/26 Annual Audit Report.

Significant wider scope and Best Value risks

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

Exhibit 3

Significant wider scope and Best Value risks

Description of risk	Planned audit response
<p>Financial Sustainability</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"> • Review progress against the recovery and sustainability plan in 2025/26, as reported in Financial Monitoring Reports to the IJB. • Review the medium-term financial plan covering 2026-29 and assess saving proposals. • Review evidence of engagement between the IJB, its partners and key stakeholders, to address issues of financial sustainability.

Source: Audit Scotland

Reporting arrangements, timetable and audit fee

Audit outputs

26. The outputs from the 2025/26 audit include:

- this Annual Audit Plan
- an Independent Auditor's Report to Shetland Islands IJB and the Accounts Commission setting out opinions on the annual accounts
- an Annual Audit Report to Shetland Islands 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, recommendations, where required, and any good practice identified.

27. 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.

28. 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 2026 for local government bodies.

29. The audit team will be unable to achieve the target date of 30 September 2026 for issuing the Independent Auditor's Report and Annual Audit Report. This is due to prioritising 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 is working towards completion of the audit to meet the Audit Committee meeting date of 12 November 2026, prior to Board consideration on 26 November. We are working towards delivering the audit by target dates over the course of the five-year audit appointment.

Audit timetable

30. 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 Shetland Islands IJB and reported to those charged with governance, where required.

Exhibit 4

2025/26 audit timetable

Audit activity	IJB target date	Audit team target date	Audit Committee / Board date
Issue of Annual Audit Plan		31 March 2026	20 May 2026
Annual accounts:			
• Consideration of unaudited annual accounts by those charged with governance	26 June 2026		26 June 2026
• Submission of unaudited annual accounts and all working papers to audit team	30 June 2026		
• Latest date for audit clearance meeting	14 October 2026	14 October 2026	
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report		29 October 2026	12 November 2026
• Agreement of audited and unsigned annual accounts	29 October 2026	29 October 2026	
• Approval by those charged with governance and signing of audited annual accounts	12 November 2026 - Audit Committee 26 November 2026 - IJB		12 November 2026 - Audit Committee 26 November 2026 - IJB
• Signing of Independent Auditor's Report and issue of Annual Audit Report		26 November 2026	

Source: Audit Scotland

Audit fee

31. Shetland Islands IJB's audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2025/26 audit is £35,480 (2024/25 £34,000).

32. In setting the audit fee, it is assumed that Shetland Islands 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.

Other matters

Internal audit

33. Shetland Islands 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.

34. 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 2025/26 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

35. 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](#).

36. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 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.

37. 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.

38. 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.

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

Shetland Islands Integration Joint Board

Annual Audit Plan 2025/26



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