

# Shetland Islands IJB

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Shetland Islands Integration Joint Board

March 2023

---

# Contents

---

Shetland Islands IJB	1
Annual Audit Plan 2022/23	1
Introduction	3
Financial statements audit planning	5
Wider Scope and Best Value	9
Reporting arrangements, timetable, and audit fee	10
Other matters	13
Appendix 1. Your audit team	15

---

# Introduction

---

## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Shetland Islands Integration Joint Board. (Shetland IJB). The main elements of our work include:

- an audit of the financial statements, and provision of an Independent Auditor's Report
- an audit opinion on other statutory information published within the annual report and accounts including the Management Commentary, the Governance Statement, and aspects of the Remuneration Report
- consideration of arrangements in relation to wider scope areas.
- consideration of Best Value arrangements

## Audit Appointment

2. We are pleased to be appointed as the external auditor of Shetland Islands Integration Joint Board for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at Appendix 1.

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

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

## Adding value

5. We aim to add value to Shetland IJB through our external audit work by being constructive and forward looking, by attending meetings of the Shetland IJB Audit Committee and by recommending and encouraging good practice. In so doing, we will help Shetland IJB promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and Audited Body

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

## Auditor responsibilities

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

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

## Shetland Islands Integration Joint Board responsibilities

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

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

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

## Communication of fraud or suspected fraud

**12.** In line with auditing standards, 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. Should members of the committee or board have any such knowledge or concerns relating to the risk of fraud within Shetland 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.

# Financial statements audit planning

## Introduction

**13.** The Financial statements are an essential part of demonstrating Shetland IJB stewardship of resources and its performance in the use of those resources.

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

## Materiality

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

### Materiality levels for the 2022/23 audit

**16.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Shetland IJB are set out in [Exhibit 1](#).

## Exhibit 1

### 2022/23 Materiality levels for Audited Body

Materiality	Amount
<b>Planning materiality</b> – 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 Shetland Integration Joint Board operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.	£1.2 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be	£0.900 million

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

<b>Reporting threshold (ie clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£60 thousand
--	--------------

[Source: Audit Scotland](#)

## Significant risks of material misstatement and other risks of material misstatement for the 2022/23 financial statements

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

**18.** Our risk assessment draws on our cumulative knowledge of Shetland 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 a review of supporting information.

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

### Exhibit 2

#### 2022/23 Significant and non-significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because</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"> <li>• Agreement of balances and transactions to Shetland Islands Council and NHS Shetland financial reports/ ledger /correspondence.</li> <li>• Auditor assurances will be obtained from the auditors of Shetland Islands Council and NHS Shetland over controls which ensure completeness, accuracy and allocation of income and expenditure.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
of management's ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> <li>Review of year-end consolidation of expenditure reports from Shetland Islands Council and NHS Shetland, including examining any significant adjustments.</li> </ul>
<b>Other non-significant risks of material misstatement</b>		
<p><b>Yearend Reserves position and Covid 19 Clawback</b></p> <p>Shetland IJB holds an earmarked reserve balance for Covid-19 funding carried-forward from 2021/22 totalling £2.284 million. Scottish Government have outlined arrangements to enable Covid reserve balances to be returned through NHS Board allocations back to the Scottish Government. Shetland IJB has indicated that all the funding will be spent in 2022/23 and the clawback amount will be £nil</p> <p>The clawback amount was determined based on period 8 expenditure and may be further adjusted because of actual Covid-19 expenditure in 2023.</p>	<p>The clawback arrangements have been communicated by the Scottish Government.</p>	<p>Verify clawback values to Shetland IJB working papers, NHS Shetland audited accounts, budget monitoring reports or schedules.</p> <p>Review accounting treatment against accounting requirements agreed with Scottish Government and confirm this is adequately disclosed in Shetland IJB's 2022/23 Annual Accounts.</p>

Source: Audit Scotland

**20.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk as Shetland IJB is wholly funded by NHS Shetland and Shetland Islands Council. There is a lack of incentive and opportunity to manipulate transactions of this nature.

**21.** 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 Shetland IJB as it does not directly 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.

**22.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

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

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

**24.** As part of our 2022/23 audit planning work, we will request assurances of the partners' IT systems, on which the IJB relies, to obtain an understanding of the use of IT in financial reporting. This will consider the nature and characteristics of the IT applications and IT infrastructure. It will also include consideration of any risks related to national IT systems, and assurances over the operation and reliability of these systems during the year.

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

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

**26.** In addition to the appointed auditor's opinion of the financial statements, the Accounts Commission prescribes that the appointed auditor should provide opinions as to whether the Management Commentary, 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.

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

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



---

# Wider Scope and Best Value

---

## Introduction

**29.** The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

**30.** In summary, the four wider scope areas cover the following:

- **Financial management** means having sound financial control processes. We will consider these arrangements and comment on financial management in our Annual Audit Report.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit and comment on the 2022/23 financial position and sustainability in our Annual Audit Report.
- **Vision, leadership and governance** – we will conclude on the arrangements in place to deliver the vision, strategy and priorities of the IJB. We also consider the effectiveness of the governance arrangements.
- **Use of resources to improve outcomes Best Value**– Auditors have a duty to be satisfied that bodies that fall within section 106 of the 1973 Act have made proper arrangements to secure Best Value. We will consider how SIJB demonstrates that it is meeting its Best Value responsibilities and we will report our findings as part of our Annual Audit Report.

## Wider scope risks

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

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

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

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

**34.** We will provide an independent auditor's report to Shetland Islands Integration Joint Board, and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide the IJB and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

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

## Exhibit 3

### 2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2023	4 May 2023
Independent Auditor's Report	30 November 2023	To be arranged
Annual Audit Report	30 November 2023	To be arranged

Source: Audit Scotland



**36.** The Local Authority Accounts (Scotland) Regulations 2014 require local authorities to 'aim to approve the audited accounts for signature no later than 30 September immediately following the financial year to which the accounts relate' and that the signed accounts 'must be published no later than 31 October'. Due to the legacy of the late completion of prior year audits due to Covid-19 and ongoing resourcing challenges within Audit Scotland, we are unable to complete the IJB's

audit by the 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 unaudited accounts for audit by the 30 June 2023.

## Timetable

**37.** To support an efficient audit, it is critical that a timetable is agreed with management for the production and audit of the accounts. A proposed timetable for the 2022/23 annual accounts is shown in [Exhibit 4](#)

### Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	29 June 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Director of Finance (or equivalent)	To be arranged
Issue of draft Letter of Representation and proposed Independent Auditor's Report	To be arranged
Agreement of audited and unsigned annual report and accounts	To be arranged
Issue of Annual Audit Report to those charged with governance.	To be arranged
Signed Independent Auditor's Report	30 November 2023

Source: Audit Scotland

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

**39.** We intend to undertake the 2022/23 audit remotely. We will work closely with management to identify the most efficient audit approach and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with officers over the course of the audit. Audit fee

**40.** In determining the audit fee, we have taken account of the risk exposure of the Shetland Integration Joint Board and the planned management assurances in place. The proposed audit fee for 2022/23 is £31,470 (£27,960 in 2021/22).

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

**42.** In setting the fee for 2022/23 we have assumed that Shetland Islands IJB has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee 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

**43.** It is the responsibility of the Shetland Integration Joint Board to establish adequate internal audit arrangements. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities

## Independence and objectivity

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

**45.** 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.

**46.** Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. The appointed auditor for Shetland Islands IJB is Brian Howarth, Audit Director. We are not aware of any such relationships pertaining to the audit of Shetland Integration Joint Board.

## Audit Quality

**47.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

**48.** Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of

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

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

---

# Appendix 1. Your audit team

---

**50.** The audit team involved in the audit of Shetland Integrated Joint Board have significant experience in public sector audit.



**Brian Howarth**  
Audit Director

**bhowarth@audit-scotland.gov.uk**

Brian is the appointed auditor for a portfolio of health, local government and central government bodies, including NHS Shetland, Shetland Islands Council, Shetland IJB, and Shetland Pension Fund. He has 30 years' experience of public sector audit with Audit Scotland and is a member of the Chartered Institute of Management Accountants. Most recently Brian was the appointed auditor for NHS Fife and NHS Western Isles, as well as Fife Council, Inverclyde Council, North Lanarkshire Council, Moray Council and Comhairle nan Eilean Siar and the five IJBs in these areas.

**Stephen O'Hagan**  
Senior Audit Manager

**sohagan@audit-scotland.gov.uk**

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

**Rosemarie Khan**  
Senior Auditor

**rkhan@audit-scotland.gov.uk**

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

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

# Shetland Islands IJB

## Annual Audit Plan 2022/23

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](http://www.audit-scotland.gov.uk/accessibility)

For the latest news follow us on social media or [subscribe to our email alerts.](#)



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
Phone: 0131 625 1500 Email: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

---