

Shetland Islands Council

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Shetland Islands Council

March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Shetland Islands Council. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the 2022/23 annual accounts, and provision of an Independent Auditor's Report
- 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:
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return
- review Shetland Islands Council's arrangements for preparing and publishing statutory performance information.

Audit Appointment

2. We are pleased to be appointed as the external auditor of Shetland Islands Council 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 in our planned audit work.

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 Islands Council through our external audit work by being constructive and forward looking, by attending meetings of the Audit

Committee and by recommending and encouraging good practice. In so doing, we will help Shetland Islands Council promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Audited Body

Auditor responsibilities

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

Auditor responsibilities

7. 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.

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

Shetland Islands Council responsibilities

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

10. Shetland Islands Council 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.

Communication of fraud or suspected fraud

11. In line with ISA 240, 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 Audit Committee or the Council have any such knowledge or concerns relating to the risk of fraud within the council, we invite them to communicate this to the appointed auditor for consideration.

Financial statements audit planning

Introduction

12. The annual accounts are an essential part of demonstrating Shetland Islands Council's stewardship of resources and its performance in the use of those resources.

13. 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.

Materiality

14. 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

15. We assess materiality at different levels. The materiality values for Shetland Islands Council are set out in [Exhibit 1](#).

Exhibit 1

2022/23 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 Shetland Islands Council's 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.</p>	£5.8 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 should be considered. Using our professional judgement, we have assessed performance materiality at 50% of planning materiality.</p>	£2.9 million

Reporting threshold (ie clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £250,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of Shetland Islands 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.

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](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

Significant and non-significant risks of material misstatement for the 2022-23 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</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 and focus on significant risk areas. Consider the need to test journal entries and other adjustments during the period.

Nature of risk	Sources of assurance	Planned audit response
<p>otherwise appear to be operating effectively.</p>		<ul style="list-style-type: none"> • 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. • Substantively test 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 council's housing stock was last revalued in 2019/20. Valuations are based on specialist assumptions including the discount factor to apply for social housing. Changes in these assumptions can result in material changes to valuations. There has been limited adjustment to the valuation of council dwellings since the 2019/20 valuation exercise. There is a risk that the carrying amount in the accounts at 31 March 2023 does not appropriately reflect movements and changes in assumptions since the last revaluation.</p>	<ul style="list-style-type: none"> • Management reliance on valuation expert • Annual review of fair value and impairment • Management review of valuation changes 	<ul style="list-style-type: none"> • Examine management's assessment of fair value of council dwellings not subject to full revaluation in 2022/23. We will critically assess if this is based on expert valuer's opinion and assess the appropriateness of any assumptions • If undertaken, we will review the information provided to the valuer and complete a walkthrough of the valuation process for council dwellings to obtain an understanding of the process, including the methodologies and assumptions applied. • Test the reconciliation between the financial ledger and the property asset register and any valuation report to check asset valuations and useful lives.

Nature of risk	Sources of assurance	Planned audit response
<p>3. Estimation in the valuation of land and buildings.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist 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 with a valuation date of 31 March. There is a risk of material movement between the date of valuation and the balance sheet date.</p>	<ul style="list-style-type: none"> • Management reliance on valuation expert • Annual review of fair value and impairment • Management review of valuation changes 	<ul style="list-style-type: none"> • Review the information provided to the external valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Complete a walkthrough of the valuation process for OLB to obtain an understanding of the process, including the methodologies and assumptions applied. • Review reports from the valuer to confirm overall asset valuation. • Obtain an understanding of management's involvement in the valuation process for OLB to assess if appropriate oversight has occurred. • Examine management's assessment of fair value of OLB assets not revalued at 31 March 2023.- We will critically assess if this is based on expert valuer's opinion and assess the appropriateness of any assumptions. • Test the reconciliation between the financial ledger and the property asset register and any valuation report. • Check asset valuations and useful lives.
<p>4. Presumed risk of fraud over harbour income recognition.</p> <p>Harbour income in 2021/22 amounted to £36 million.</p> <p>There is a rebuttable risk that fraud over income could lead to material misstatement of income</p>	<ul style="list-style-type: none"> • Well established Income Management system 	<ul style="list-style-type: none"> • Analytical review procedures • Reviewing the controls in place around recognition and accounting of harbour income • Examination of monthly/year-end reconciliations • Sample testing of harbour income transactions • Review of any unusual transactions
<p>Non-significant risks of material misstatement</p>		

Nature of risk	Sources of assurance	Planned audit response
<p>5. Estimation in the valuation of pension assets and liabilities</p> <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).</p> <p>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>	<ul style="list-style-type: none"> • Use of professional actuaries appointed by the Pension Fund to value pension adjustments required by IAS19 • Actuarial valuations are reviewed by qualified finance staff for reasonableness including confirmation of the accuracy of the source data used to produce them. 	<ul style="list-style-type: none"> • Assess the scope, independence and competence of the professionals engaged in providing estimates for pensions. • 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>6. Valuation of long-term investments</p> <p>The 2021/22 Accounts include long term investments of £411 million.</p> <p>Markets have been volatile over recent years and there is a risk that valuations are materially misstated</p>	<ul style="list-style-type: none"> • Funds are invested with three external investment managers. • Regular fund manager valuation reports • Investment Strategy supported by a Treasury Management and Annual Investment Strategy. 	<ul style="list-style-type: none"> • Evaluate the competence, capabilities, and objectivity of the fund managers. • Review reports from the fund managers to confirm overall asset valuation. • Sample testing of investment valuations.
<p>7. Estimation in PFI models</p>	<ul style="list-style-type: none"> • PFI model prepared by Baker Tilly. 	<ul style="list-style-type: none"> • Obtain the PFI model and assess for reasonableness, based on whether it

Nature of risk	Sources of assurance	Planned audit response
<p>The council has a PFI contract for Anderson High School with a fair value of £40 million at 31 March 2022. The accounts also include amounts due to contractors under this contract totalling £83 million.</p> <p>Unitary charge payments to contractors require to be divided into the service and construction elements using estimation techniques.</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>		<p>has been updated to reflect current unitary charges.</p> <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.
<p>8. Estimation in the valuation of fishing quotas</p> <p>The 2021/22 Accounts include fishing quotas valued at £43 million</p> <p>This investment requires annual assessment of its value and is affected by the quantity of Fixed Quota Allocation Units (FQAs) in the market.</p>	<ul style="list-style-type: none"> Fishing quotas are valued by an independent broker. 	<ul style="list-style-type: none"> Evaluate the competence, capabilities, and objectivity of the professional valuer. Complete a walkthrough of the valuation process for fishing quotas to obtain an understanding of 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 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. We have considered the risk over income recognition and the risk of fraud over expenditure (in accordance with *Practice Note 10 (Audit of Financial Statements and Regularity of Public Sector Bodies in the UK)*).

19. With the exception of harbour income and management override of controls, we have rebutted the presumption that a risk of material misstatement exists, over the recognition of revenue, as detailed in [Exhibit 2](#) above. Our assessment is on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting
- a significant portion of the council's income comes from government grants and contributions that can be readily agreed to funding letters
- most expenditure is in low-risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale
- evidence of external fraud from counter fraud services and the National Fraud Initiative does not indicate material risks
- experience in the sector, including a review of past misstatements as reported by the predecessor auditor, does not indicate a significant risk.

20. 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.

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

21. 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.

22. As part of our 2022/23 audit planning work, we will undertake an assessment of Shetland Islands Council's IT systems to obtain an understanding of the use of IT in financial reporting. This will consider the nature and characteristics of the audited body's IT applications and IT infrastructure.

23. Any risks of material misstatement identified from our assessment of Shetland Islands Council's IT systems and infrastructure will be communicated to management and reflected in our approach to the audit of the 2022/23 financial statements.

Group Consideration

24. As group auditors, we are required under International Standard on Auditing (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.

Shetland Islands 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 the trusts registered as Scottish charities

25. The 2006 Regulations 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.

26. Members of Shetland Islands Council are sole trustees for one trust registered as a Scottish charity, with total assets of £0.681 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.

27. Other than a risk of management override of controls which has also been identified as a 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 2022/23 audit of trusts registered as Scottish charities

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

Exhibit 3

2022/23 Materiality levels for charitable trusts

Charitable trust	Planning Materiality	Performance Materiality	Reporting Threshold
Zetland Educational Trust	£13,630 (Based on 2% of audited 2021/22 net asset value)	£10,220 (Based on 75% of planning materiality)	£510

Source: Audit Scotland

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. We will also comment on financial sustainability over the medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by Shetland Islands Council. We also consider the effectiveness of the governance arrangements.
- **Use of resources to improve outcomes** – we will consider how Shetland Islands Council demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risks

31. Our planned work on our wider scope responsibilities is risk based and proportionate. We have identified one additional local wider scope risk for the 2022/23 audit of Shetland Islands Council.

Exhibit 2

Wider Code risks

Nature of risk	Sources of assurance	Planned audit response
9. Unsustainable use of reserves to balance the budget	<ul style="list-style-type: none"> • Long Term Financial Plan covering the period 2015-2050 	<ul style="list-style-type: none"> • Assess the sustainability of using reserves to balance the budget. • Monitoring trends and projections for movements in reserves.

Nature of risk	Sources of assurance	Planned audit response
<p>The Council continues to use reserves to balance its annual budget.</p> <p>There is a risk that this becomes unsustainable at the current levels</p>	<ul style="list-style-type: none"> • The Medium Term Financial Outlook is refreshed annually • Clear Reserves Strategy 	<ul style="list-style-type: none"> • Review of medium to long-term financial planning. • Monitoring of the estimated future funding gap.

Source: Audit Scotland

Climate Change

32. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on Shetland Islands Council's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

33. As noted in paragraph 22 we are undertaking a wider review of ICT systems and in 2022/23, we will consider Shetland Islands Council's arrangements for managing and mitigating cyber security risks.

Best Value

34. Under the 2021 [Code of Audit Practice](#), the audit of Best Value in councils is fully integrated within our annual audit work.

35. Best Value at Shetland Islands Council will be assessed comprehensively over the period of the audit appointment and will include an annual evaluation of Shetland Islands Council's approach to demonstrating improvement in its services 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 our thematic reporting below.

36. In addition to our annual work on Best Value we will conduct thematic reviews as directed by the Accounts Commission. In 2022/23 the thematic review across the sector will be on the effectiveness of council leadership in developing new local strategic priorities following the elections in May 2022. Our conclusions and judgements will be reported in a separate report to management and summarised in our Annual Audit Report.

37. 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. The first year of the programme will be from October 2023 to August 2024 and will cover the councils listed in [Exhibit 4](#). However, following the Accounts Commission findings in the Best Value Report in September 2022, we

will be expected to provide a follow up report to the Accounts Commission on progress with Best Value in February 2024.

Exhibit 4
Controller of Audit reports

Falkirk	South Ayrshire
Moray	Dumfries and Galloway
Clackmannanshire	West Dunbartonshire
Orkney Islands	City of Dundee

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

38. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 6](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

39. 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.

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

41. [Exhibit 5](#) outlines the target dates for our audit outputs.

Exhibit 5 2022/23 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	31 March 2023	15 May 2023
Best Value Management Report	31 July 2023	28 August 2023
Independent Auditor's Report	31 October 2023	14 November 2023 (Council 13 December 2023)
Annual Audit Report	31 October 2023	14 November 2023 (Council 13 December 2023)

Source: Audit Scotland

42. 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 council’s audit by the 30 September but aim to have it completed in time to publish the audited accounts by 31 October, but the absence of suitable committee and council dates may delay this further. We acknowledge that the planned timetable of end of October is determined by the availability of the audit process and not by the council.

Timetable



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

44. 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.

45. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 6

Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	28 June 2023
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Head of Finance	16 October 2023
Agreement of audited unsigned annual accounts	31 October 2023
Issue of Annual Audit Report including ISA260 report to those charged with governance	
Audit Committee meeting to consider the Annual Audit Report and approve the audited annual accounts for signature	14 November 2023

**Key stage****Provisional Date**

Signed Independent Auditor's Report

13 December 2023 (council meeting)

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 proposed audit fee for 2022/23 is £252,590 (2021/22: £216,916), an increase of 16.4%. We also agreed a fee of £3,000 (2021/22: £400) for the charitable trust, an increase of 650%.

47. 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.

48. In setting the fee for 2022/23 we have assumed that Shetland Islands Council 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

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

50. 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

51. 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.

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. The appointed auditor for Shetland Islands Council is Brian Howarth, Audit Director, and for the charitable trust is Stephen O'Hagan, Senior Audit Manager. We are not aware of any such relationships pertaining to the audit of Shetland Islands Council or the charitable trust.

Audit Quality

54. 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.

55. 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.

56. 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.

57. 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.

Appendix 1. Your audit team

58. The audit team involved in the audit of Shetland Islands Council 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 Shetland Islands Council, Dundee City Council, Perth and Kinross Council and the associated IJBs, as well as Shetland Islands Pension Fund and NHS Shetland. He has 30 years' experience of public sector audit with Audit Scotland and is a member of the Chartered Institute of Management Accountants.

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.

Russell Smith
Senior Auditor
rsmith@audit-scotland.gov.uk

Russell has over 20 years of public sector audit experience and is a member of the Institute of Chartered Accountants of Scotland. He has been involved in the audits of a range of bodies including local authorities, health boards and central government bodies.

Lewis McArdle
Trainee Auditor
lmcardle@audit-scotland.gov.uk

Lewis joined Audit Scotland in October 2020 and is training to be a Chartered Accountant.

59. 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.

60. Where possible and appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

Shetland Islands Council

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

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