

**Deloitte.**



**Shetland  
Islands  
Council**



Final report to the Members of the Shetland Islands IJB Audit  
Committee and the Controller of Audit on the 2016/17 audit

20 September 2017

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# Director introduction

## The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit Committee for the 2017 audit.

As detailed in our plan presented to the Audit Committee in March 2017, the new Code of Audit Practice, which came into force for the 2016/17 audits sets out our responsibilities under core audit and wider scope requirements. A reminder of the requirements is set out below.

- *Opinion on the financial statements and regularity*
- *National performance audits and Best Value audits*



- *Opinion on management commentaries, remuneration reports and governance statements*

- *Public reporting and audit findings*
- *Wider scope reporting*

# Director introduction (continued)

## The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

### Statutory audit

#### Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
  - Completeness and accuracy of income; and
  - Management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 11.
- We have identified no audit adjustments from our procedures to date.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion.

#### Insight

- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year to mitigate the risks of fraudulent activity. As the main transactions are processed through the ledger of either Shetland Islands Council (SIC) or NHS Shetland (NHSS), the actual number of journals posted to the Integration Joint Board (IJB) are minimal. Insights from our analytics have been noted for management as part of our reporting to the SIC and NHS.

#### Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
  - Update from Head of Legal and Governance on any legal issues;
  - Finalisation of our internal quality control procedures;
  - Receipt of signed management representation letter; and
  - Our review of events since 31 March 2017.

# Director introduction (continued)

## The key messages in this report (continued)

### Best Practice

#### Overall conclusion

- We have reviewed the management commentary with reference to the statutory guidance set out in Regulation 8(2) of The Local Authority Accounts (Scotland) Regulation 2014 and Finance circular 5/2015 The Local Authority Accounts (Scotland) Regulations 2014 – management commentary. We have confirmed that the management commentary complies with the statutory guidance requiring local authorities, including IJBs, to include in the management commentary those matters which companies are required to disclose in a strategic report, with some modification to interpret for local authorities.
- As a new requirement in 2016/17, we are required to provide an opinion on whether:
  - information given in the management commentary is consistent with the financial statements;
  - the management commentary has been prepared in accordance with the statutory guidance;
  - information given in the annual governance statement is consistent with the financial statement; and
  - the annual governance statement has been prepared in accordance with proper practice.
- Based on the current status of our audit work, we envisage issuing unmodified opinions on the above.
- In addition to the opinion, we have read the management commentary and confirmed that the information contained is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
- We have also audited the auditable parts of the remuneration report and confirmed that it has been prepared in accordance with the Regulation 8(2) of The Local Authority Accounts (Scotland) Regulation 2014.
- We have made some recommendations on pages 15 to align the management commentary with best practice. None of these recommendations impact on our opinion.

# Director introduction (continued)

## The key messages in this report (continued)

### Adds Value

#### **Financial Sustainability**

Total outturn net expenditure for 2016/17 was £44,389k, which was £939k over the approved budget, largely in relation to services commissioned from the NHS. NHS Shetland has agreed to fund the short term overspend on a non-recurring basis. This differs from the results reported in the Comprehensive Income and Expenditure Statement as a result of accounting adjustments required to comply with the Code and proper accounting practice.

Effective short- to medium-term budgeting is in place to assess ongoing risk of under/overspends. The biggest short-term risk currently facing the IJB is a projected overspend in 2017/18 of £2,529k. A report has recently been presented to the Board ('Bridging the Funding Gap 2017/18') to highlight the funding gap. This noted that SIC offer of funding matches their responsibility for the current service model and that NHSS are responsible for finding efficiencies in their services to close the gap. NHSS have committed to reducing this funding gap by £1,291k through redesigning services, leaving £1,238k of short-term spending currently unfunded.

The IJB has estimated that £5,368k of efficiencies are required in the next 3 years for the IJB to be sustainable. Historically recurring savings targets have not been met with savings targets being met through non-recurring savings. Similar to 2017/18, most of the pressure is on NHS Shetland to find such efficiencies and it has identified Mental Health, Pharmacy and Prescribing, and GP Employed Practices as areas where efficiencies could be made in the short- to medium-term

We believe that it is critical that the funding gap is addressed on a Board wide perspective with the IJB working closely with both NHSS and SIC to focus on implementing recurring saving schemes to ensure long term financial sustainability. Shetland IJB faces some unique challenges being a small island Board therefore finds it is difficult to make savings. The Board should complete an exercise to fully evaluate demand drivers and the impact on costs going forward. This will allow identification of mitigating actions. We have provided recent case studies on page 18 which the Board should consider.

A recent internal audit report highlighted that the IJBs recovery plan for 2016/17 was not robust and detailed and given the level of savings required for 2017/18 it vital that lessons are learned. The report does, however, stress that progress has been made, and there are now plans to align the Strategic Commissioning Plan (SCP) and service plans therein, with the Recovery Plan and budgeting process. In addition, a structured project management process is being embedded to deliver on 10 strategic priority projects identified in the SCP.

# Director introduction (continued)

## The key messages in this report (continued)

### Adds Value

#### **Financial Management**

We have reviewed internal audit reports issued in the year, both for the IJB itself and from the two partner bodies and from our testing throughout the audit we note that the IJB has adequate systems of internal controls in place.

Budget setting reflects the delivery of services by the two parent entities and takes into consideration a number of factors including: legislative requirements, additional funding from the Scottish Government and cost pressures such as living wage requirements.

Responsibility for maintaining an effective system of internal financial control rests with the Chief Financial Officer. The system of internal financial control is based on a framework of regular management information, financial regulations and standing financial Instructions, administrative procedures (including segregation of duties), management and supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the IJB.

The Finance Team is lead by Karl Williamson (Chief Finance Officer and Head of Finance at NHS Shetland) who has worked for NHS Shetland for 7 years. Karl is supported by the finance teams at both NHSS and SIC. We are satisfied that the team has a strong and in depth understanding of the Board.

Both partner bodies have appropriate fraud procedures, which details the steps to follow in the event of a fraud. They also participate in the NFI. The IJB has appropriate arrangements in place for the prevention and detection of fraud and corruption.

While the IJB reported an overall overspend for 2016/17, this was regularly reported to the board throughout the year in the management accounts that are produced quarterly. This supports the view that management can effectively forecast and has sound financial management procedures in place.

# Director introduction (continued)

## The key messages in this report (continued)

### Adds Value

#### **Governance and transparency**

The IJB has governance arrangements that are appropriate and operating effectively. It is transparent in its decision making with reports discussed at Board meetings being made available on-line along with the minutes of the meetings. The Board meets once every quarter to review the performance (both financial and non-financial) of the IJB. From review of the board meeting minutes we note there is scrutiny and challenge by both executive and non-executive members of the IJB.

Internal audit is provided by the Chief Internal Auditor of Shetland Islands Council. The internal audit plan for the year was agreed by the Audit Committee, and reviewed by the Board, with the aim of providing assurance over the adequacy, efficiency and effectiveness of the local governance, risk management and internal control framework. Internal Audit concluded that whilst there are significant challenges to delivering the 2017/18 Recovery Plan, and many other probable challenges to come, there are also a number of positives that should be acknowledged such as the revised Strategic Commissioning Plan and the performance against the 6 key Scottish Government Performance Indicators.

We note it can take a time period of months from the quarter end for the Management accounts to be reviewed by the Board. We have recommended that the timeline be reviewed to increase the quality and effectiveness of the scrutiny performed.

#### **Value for money**

The IJB self-evaluates through Performance Reports, which are prepared annually and are reviewed by the Audit Committee. The IJB also self reviews every quarter as part of the management accounts.

The 2016/17 Performance Report shows a number of projects have no cause for concern and are on track to be completed in time with targets even being exceeded. There are a few cases that have cause for concern and the IJB is making good progress against the national indicators along with the indicators it has set for itself. For example, the IJB was subject to an inspection from the Care Commission in the 16/17 year. One of the Scottish Government's suite of national indicators is that care services are given a "good" (4) rating or above in care inspectorate grades. As at March 2017, 100% of care services were given this or a higher rating.

From review of the 2016/17 annual performance report, the IJB can be seen to be improving overall.

Financial Monitoring reports review savings plans and details progress and any remedial actions which are to be taken.



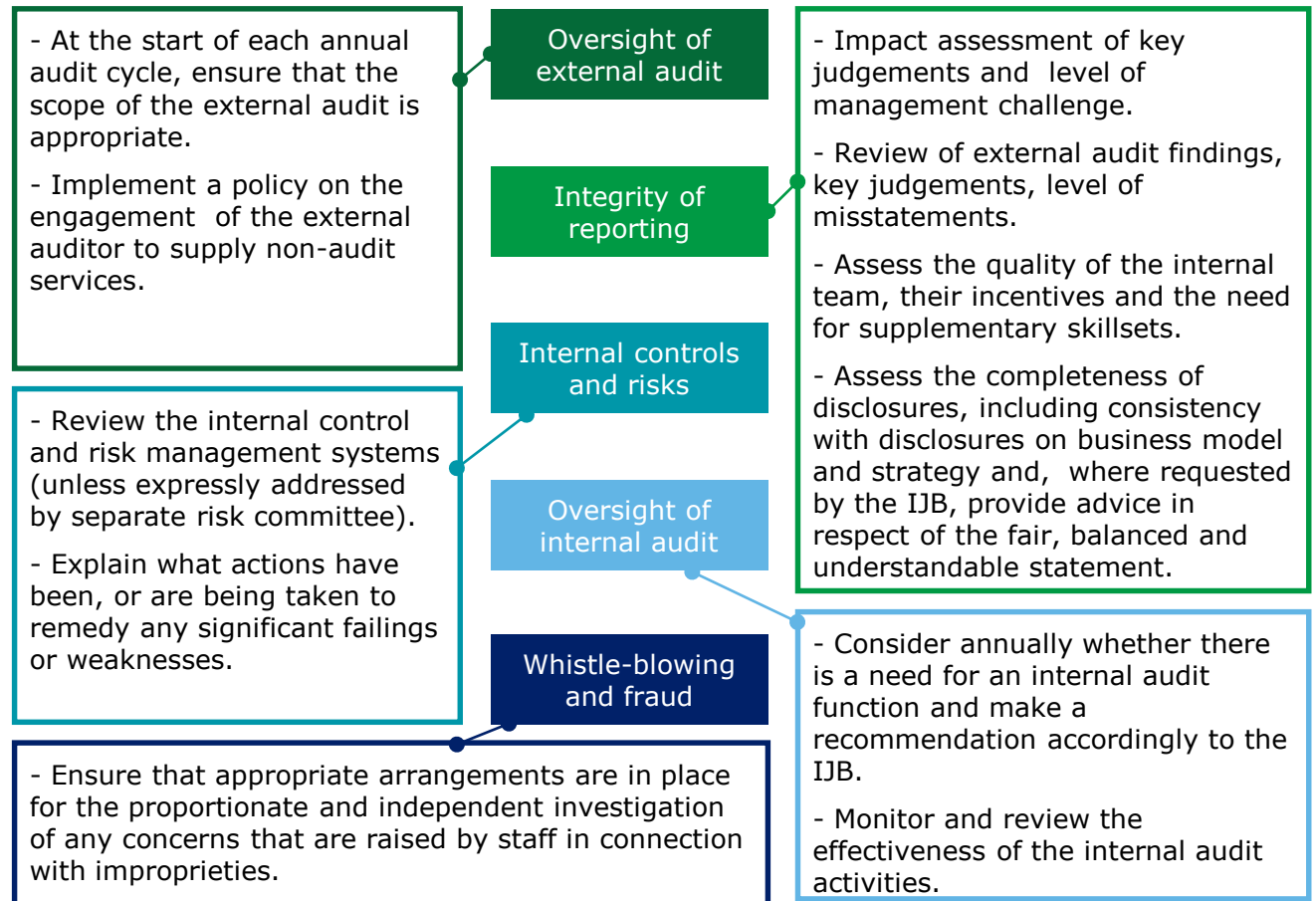
# Responsibilities of the Audit Committee

## Helping you fulfil your responsibilities

The primary purpose of the Auditor's interaction with the Audit Committee:

- Clearly communicate the planned scope of the financial statements audit
- Provide timely observations arising from the audit that are significant and relevant to the Audit Committee's responsibility to oversee the financial reporting process
- In addition, we seek to provide the Audit Committee with additional information to help them fulfil their broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



# Our audit explained

## Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the four audit dimensions, being:

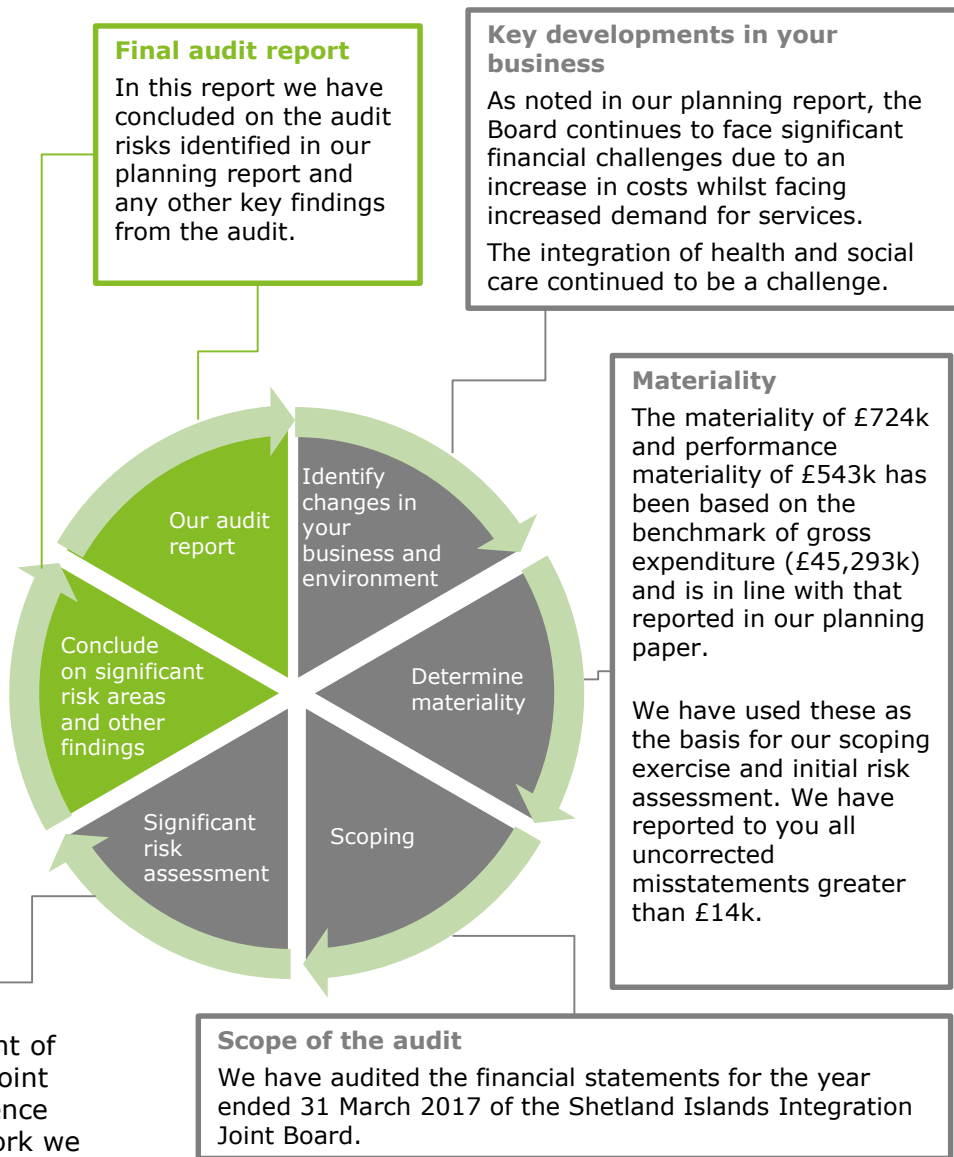
- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

## Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 11 provides a summary of our risk assessment of your significant risks.

## Quality and Independence

We confirm we are independent of Shetland Islands Integration Joint Board. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



## Timeline 2017

**November 2016 – February 2017**  
Meetings with management and other staff to understand the processes and controls.

**1 March 2017**  
Audit Plan presented to Audit Committee







**July – August 2017**  
Review of draft accounts, testing of significant risk and performance of substantive testing of results.

**March 2017**  
Year end

**20 September 2017**  
Audit committee meeting and accounts sign off

**21 August 2017**  
Audit close meeting

# Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Completeness and accuracy of income			D+I	Satisfactory		No issues identified	12
Management override of controls			D+I	Satisfactory		No issues identified	13



Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

**D+I:** Testing of the design and implementation of key controls

# Significant risks (continued)

## Completeness and Accuracy of Income

### Risk identified

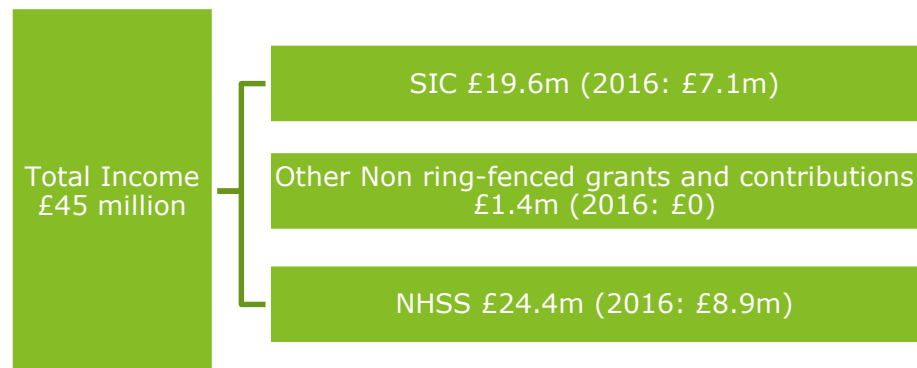
ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The main components of income for the IJB are contributions from its funding partners, namely Shetland Island Council and NHS Shetland. The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received from the NHS and the Council.

### Our Audit Approach

We have performed the following:

- Tested income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process and that any discounts or reductions have been appropriately applied;
- Compared income recorded with expectations, based on amounts agreed as part of budget process;
- Confirmed the managements accounts performed during 2016/17 have been reviewed on a regular basis to monitor the income due from the constituent authorities; and
- Assessed management's controls around recognition of income.



### Deloitte view

We have concluded that income has been recognised correctly in accordance of the requirements of the Local Authority Code of Audit Practice.

# Significant risks (continued)

## Management override of controls

### Risk identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

### Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- The control environment is appropriate for the size and complexity of the Board.



### Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- Budgeted against actual income and expenditure was monitored closely throughout the year; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest.

As the main transactions are processed through the ledger of either SIC or NHSS, the actual number of journals posted to the Integration Joint IJB are minimal. Insights from our analytics have been noted for management as part of our reporting to the SIC and NHSS.

### Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

# Other significant findings

## Internal control and risk management

ISA 315.12 (UK and Ireland) requires we obtain an understanding of internal control relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit. We do not test those controls we do not consider relevant to the audit. Below we provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to the audit risks that we have identified.

The Board has no medium or long term financial planning in place. In line with best practice advocated by Audit Scotland, we recommend that the Board should introduce longer term financial planning.

Requires significant improvement

Acceptable but could be improved

No issues noted

Recognising the relative early stage of of the Board we were pleased to note that many of the financial management disciplines and controls, operating in the Council and NHS are also operating for the Board. We also noted that there was evidence of the Board governance function and that the Board had been subjected to internal audit review.

### Deloitte view

In our view, financial management governance and general control in the Board is of a reasonable standard although we would recommend that a system of formal long term financial planning is introduced.

# Your annual report

We welcome this opportunity to set out for the Audit Committee our observations on the annual report. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance.

	Draft Annual Report	Deloitte response
Management Commentary	The Management Commentary comments on national health and wellbeing outcomes, operational review and financial performance line with issued guidance. The commentary included both financial and non financial KPIs.	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance. No exceptions noted. We would, however, highlight that greater use could be made of graphs and charts to make the report more user friendly.</p> <p>We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p>
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Chair and Vice Chair of the IJB and the Chief Officer.	We have audited the disclosures of remuneration and pension benefit and pay bands and confirmed that they have been properly prepared in accordance with the regulations. We have confirmed that the IJB does not directly employ any staff in its own right, however, specific post-holding officers are non-voting members of the Board and have been appropriately disclosed.
Annual Governance Statement	The Annual Governance Statement reports that the IJBs governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted. We have noted that appropriate disclosure has been made in relation to the significant governance issue raised by internal audit in relation to the 2017/18 Recovery Plan and the Chief Officer has provided assurance that the audit recommendations will be implemented.

# Wider scope requirements (continued)

## Financial sustainability

### Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Areas considered



- The financial planning systems in place across the shorter and longer terms
- The arrangements to address any identified funding gaps
- The affordability and effectiveness of funding and investment decisions made

### Deloitte response

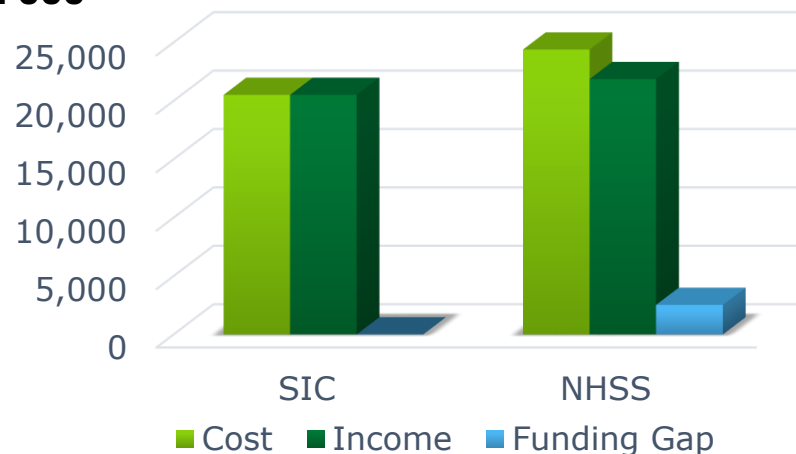
We have monitored the IJB's actions in respect of its short, medium and longer term financial plans to assess whether short term financial balance can be achieved, whether there is a long-term (5-10 years) financial strategy and if investment is effective.

We have also assessed the IJB's performance in undertaking transformational change and achievement of savings targets.



### 2017/18 Budget

£'000





# Wider scope requirements (continued)

## Financial sustainability (continued)

### Short-term

Approved funding budget of £44,865k has been obtained for 2017/18 which is a £1,120k (2.6%) increase on 2016/17. £20,494k in funding has been committed by SIC, and £24,371k committed by NHS Shetland.

The biggest short-term risk currently facing the IJB is a projected overspend in 2017/18 of £2,529k. A report has recently been presented to the Board ('Bridging the Funding Gap 2017/18') to highlight the funding gap. This noted that SIC offer of funding matches their responsibility for the current service model and that NHSS are responsible for finding efficiencies in their services to close the gap. NHSS have committed to reducing this funding gap by £1,291k through redesigning services, leaving £1,238k of short-term spending currently unfunded.

### Medium-term

The IJB has estimated that £5,368k of efficiencies are required in the next 3 years for the IJB to be sustainable. Similar to 2017/18, most of the pressure is on NHS Shetland to find such efficiencies and it has identified Mental Health, Pharmacy and Prescribing, and GP Employed Practices as areas where efficiencies could be made in the short- to medium-term

A recent internal audit report highlighted that the IJBs recovery plan for 2016/17 was not robust and detailed and given the level of savings required for 2017/18 it is vital that lessons are learned. The report does, however, stress that progress has been made, and there are now plans to align the Strategic Commissioning Plan (SCP), and service plans therein, with the Recovery Plan and budgeting process. In addition, a structured project management process is being embedded to deliver on 10 strategic priority projects identified in the SCP.

### Deloitte view

As with all IJBs, Shetland IJB has challenging savings targets to meet moving forward to continue to be financially sustainable. Shetland IJB faces some unique challenges being a small island Board therefore finds it is difficult to make savings.

It is critical the IJB working closely with NHSS and SIC to focus on implementing recurring saving schemes to ensure long term financial sustainability. The Board should complete an exercise to fully evaluate demand drivers and the impact on costs going forward. This will allow identification of mitigating actions.

We recommend that the IJB considers from a Board wide perspective the case studies on page 18, which highlights the lessons learned from our wider health transformation work in the sector including our work on increasing productivity, demand management and cost reduction.

# Wider scope requirements (continued)

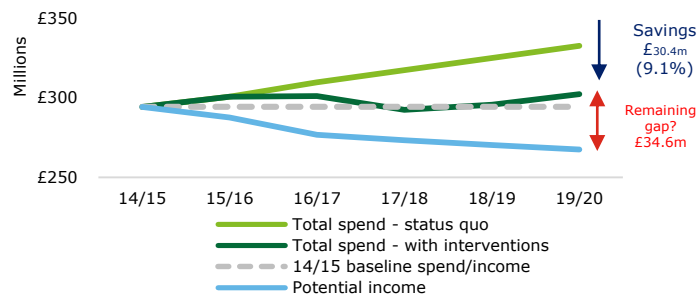
## Financial sustainability (continued)

### Best Practice Case Studies

Deloitte has been involved in cost reduction work with a number of NHS bodies. We recommend that the Board reviews these case studies and considers the opportunities for cost reduction going forward, in line with our recommendation on page 16. We would be happy to provide further details if required.

#### Early Intervention

A case study was carried out on an organisation which had an early intervention programme and assisted living service within local communities. We estimated the benefits that might be possible from the programme, looking forward at the financial position on a "do nothing" baseline and then applying assumptions around reductions in activity based on best practice evidence available. We were then able to advise on the make up of the programme and make recommendations on the best approach to delivering the projects and on the governance structures and resourcing required to enable the programme to achieve its ambitions.



From this work we estimated that the programme could deliver £30m in savings as illustrated in the following diagram, which should at the same time improve outcomes.

We recommend that the IJB consider applying a similar analysis to help identify how best to target its work on interventions and to deliver better outcomes from the new pooled budgets.

#### Cost Reduction

Working alongside an NHS client we used a range of internal data and external benchmarks to help the Board identify priority programmes for improvement, in particular looking at length of stay and theatres data which identified opportunities for improving value for money. We used tableau dashboards to identify down to an individual consultant, anaesthetist and surgeon level variation in performance which helped us identify opportunities for improvement and potential cost savings. The aim was to link concepts including data analytics, process variation and cost reduction to complement the establishment of its Quality Programme.

# Wider scope requirements (continued)

## Financial management

### Audit dimension

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### Areas considered



- Systems of internal control
- Budgetary control system
- Financial capacity and skills
- Arrangements for the prevention and detection of fraud

### Deloitte response



We have reviewed internal audit reports in relation to their work on the key financial controls, including reports for SIC and NHSS.

We have reviewed the budget and monitoring reporting to the IJB during the year to assess whether financial management and budget setting is effective.

Our fraud responsibilities and representations are detailed on pages 30.

### Deloitte view

While the IJB reported an overall overspend for 2016/17, this was regularly reported to the Board throughout the year in the management accounts that are produced quarterly. This supports the view that management can effectively forecast and has sound financial management procedures in place. We are comfortable with the arrangements in place for detecting fraud.

The final outturn for 2016/17 was an in-year overspend of £939k, compared to the budget. However, the IJB received additional funding from the NHS, leaving it with usable reserves of £125k. This has been carried forward as reserves by Shetland Island Council on behalf of the IJB.

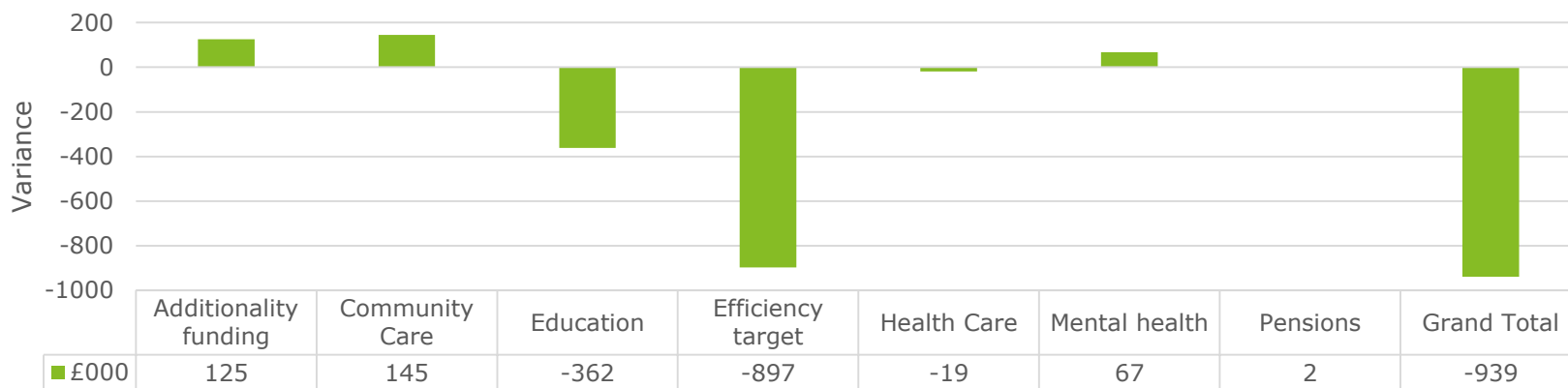
	SIC £'000	NHSS £'000	Total £'000
Budgets delegated to the parties from the IJB	20,845	22,605	43,450
Contribution from parties to the IJB (against delegated budgets)	20,431	23,958	44,389
<b>(Surplus)/Deficit</b>	<b>(414)</b>	<b>1,353</b>	<b>939</b>
Additional contributions from parties to meet IJB direct costs	13	12	25
IJB direct costs (Audit fee, Insurance & Members Expense)	(13)	(12)	(25)
Fortuitous underspend repaid to SIC	367	-	367
Additional contribution from NHS to IJB to meet overspend	-	(1,431)	(1,431)
<b>Final position of IJB</b>	<b>(47)</b>	<b>(78)</b>	<b>(125)</b>

# Wider scope requirements (continued)

## Financial management (continued)

Variations were reported to the Board throughout the year, with a final report being presented on 23 June 2017. The overall variance is a combination of under and overspends on expenditure. The expenditure variances can be analysed further as follows:

Budget vs Actual Expenditure



- **The IJB additionality funding** of £125k is made up of the usable reserves held by the Shetland Island Council for an on behalf of the Integration Joint Board. This is due to an underspend against Scottish Government funding due to less demand for Self Directed Support packages than anticipated.
- **Community Care, health care, and mental health care** reported an overspend of £193k. This is due to there being a greater demand for services from the NHS, which is not an issue specific to the IJB or NHSS – it can be seen across the UK with many other health services reporting a similar issue.
- **Primary Care** reported an underspend of £897k as there was a realignment of funding for Prescribing.
- **Pensions** for the year remained consistent and in line with our understanding of the board
- **The efficiency target** represents the amount the IJB had to improve by to ensure that there was no overspend in the year. This was a significant variance in the year and measures have been put in place to identify where additional work can be performed to ensure areas of operation are made more efficient. This is outlined in the bridging the funding gap report referred to on page 16.

# Wider scope requirements

## Governance and transparency

### Audit dimension

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

### Areas considered



- Governance arrangements
- Scrutiny, challenge and transparency on decision making and financial and performance reports
- Quality and timeliness of financial and performance reporting

### Deloitte response



We have reviewed the financial and performance reporting to the Board during the year as well as minutes of the Audit Committee to assess the effectiveness of the governance arrangements. Our attendance at the Audit Committee also inform our work in this area.

Evidence has been seen of the Audit Committee's review of key aspects of the Board's activities and performance.

The membership of the Board is split into; members nominated (i.e. counsellors), professional advisors (i.e. Nurses, Chief Officer, Chief Finance Officer, Public Health Consultants), stakeholder members which cover representatives of both sides and additional local members. As such, we would consider there to be sufficient diversity to provide effective balance and scrutiny in leadership.

Appropriate Governance arrangements exist and we have obtained evidence of Board and Management scrutiny and challenge relating to the Financial and performance management of the Partnership. Reporting in this regard has been on a timely basis, although we would recommend, where possible, for reporting to be earlier than the current two month timescale between reporting and actual performance to increase the effectiveness of the reporting.

# Wider scope requirements (continued)

## Governance and transparency (continued)

### Leadership

We note there were no significant changes in Leadership in the year. However, in May 2017 a new Chairman of the Board was elected and there were two new members were appointed to the Audit Committee of the IJB following the local government election.

### Internal Audit

Shetland Islands Council's Chief Internal Auditor provides the Internal Audit function for Shetland IJB. Internal Audit concluded that whilst there are significant challenges to delivering the 2017/18 Recovery Plan, and many other probable challenges to come, there are also a number of positives that should be acknowledged such as the revised Strategic Commissioning Plan and the performance against the 6 key Scottish Government Performance Indicators.

In the year we note there was one Internal Audit report issued which performed a review on Governance. From our review we note the main risk finding at the date of writing was that there was no plan in place to mitigate the risk of the £2.5m funding gap for the IJB, as referred to on page 16. A financial recovery plan to address this gap has been created and this has been disclosed in the governance statement.

### Deloitte view

We confirm that we have reviewed the governance arrangements, the level of scrutiny, challenge and transparency of decision making and the quality and timeliness of financial and performance reporting and have identified no issues in this regard. We have, however, recommended that the timeliness of financial monitoring to the Board could be improved.

We have no concerns around the arrangements with internal audit. We have reviewed the reports issued by internal audit and considered the impact of these on our audit approach.

# Wider scope requirements (continued)

## Value for money

### Audit dimension

Value for money is concerned with using resources effectively and continually improving services.

### Areas considered



- Value for money in the use of resources
- Link between money spent and outputs and the outcomes delivered
- Improvement of outcomes
- Focus on and pace of improvement

### Deloitte response



We have gained an understanding of the IJB's self-evaluation arrangements to assess how it demonstrates value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered. While some progress has been made in the first full year of the IJB being in operation, further work is required to ensure clear linkages are in place.

We have also considered the arrangements the IJB has in place to monitor how it is achieving its targets and addressing areas of poor performance.

### Best Value audit work

The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period.

The Best Value audit work carried out within this year focussed on Shetland Islands Council's arrangements, including the IJB, for demonstrating Best Value in financial and service planning, financial governance and resource management.

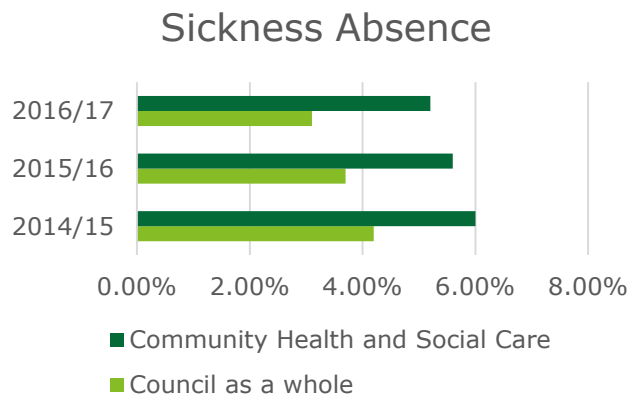
# Wider scope requirements (continued)

## Value for money

### Overview of performance targets in 2016/17

The board's performance against its targets and standards as at Q4 2016/17 was reported to the Board in June 2017. NHS Shetland and Shetland Islands Council have identified a core set of indicators that relate to health and social care services for delegated functions. Future reports will include more details on the performance of the services that are in the set aside budget. We have highlighted the key themes below.

- Projects and Actions for the Community Health and Social Care Directorate are reporting 5 likely to meet or exceed target and 1 where it is experiencing issues and there is a risk of failure to meet the target set. The area at risk is in relation to the development of a joint organisational development and workforce strategy. This is expected to go to the Joint Staff Forum in August 2017.
- As illustrated in the chart below, the key area of concern for Council specific indicators is in relation the sickness absence, where Community Health and Social Care is significantly higher than the Council wide equivalent. Managers in all areas are working with both HR teams to ensure consistent application of the Maximising Attendance Policies.
- Progress against Local Delivery Plan targets and Outcome measures are reported regularly. These show that Shetland IJB is continuing to promote reablement programmes to support care at home, effectiveness of care at home is reducing the demand for care centre beds and staff efficiencies has been gained by reconfiguring teams into north and south.



#### Deloitte view

The overall approach adopted is that performance management is integral to the delivery of quality and effective management, governance and accountability. The need for transparent and explicit links of performance management and reporting within the organisational structure at all levels is critical. There is a framework of measures at directorate and service level.

The Board had a performance management framework in place, with performance regularly considered by management, and the Board. This is currently based on existing frameworks in each partner body and further work is required to provide a fully integrated suite of indicators for the IJB.

We are satisfied that the performance is appropriately discussed within the Management Commentary in the Annual Accounts and management have introduced plans to address areas where progress has not been satisfactory.



# Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

## What we report

Our report is designed to help the Audit Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit

## What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

## The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated to you with the planning report.

This report has been prepared for the Audit Committee and Board, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

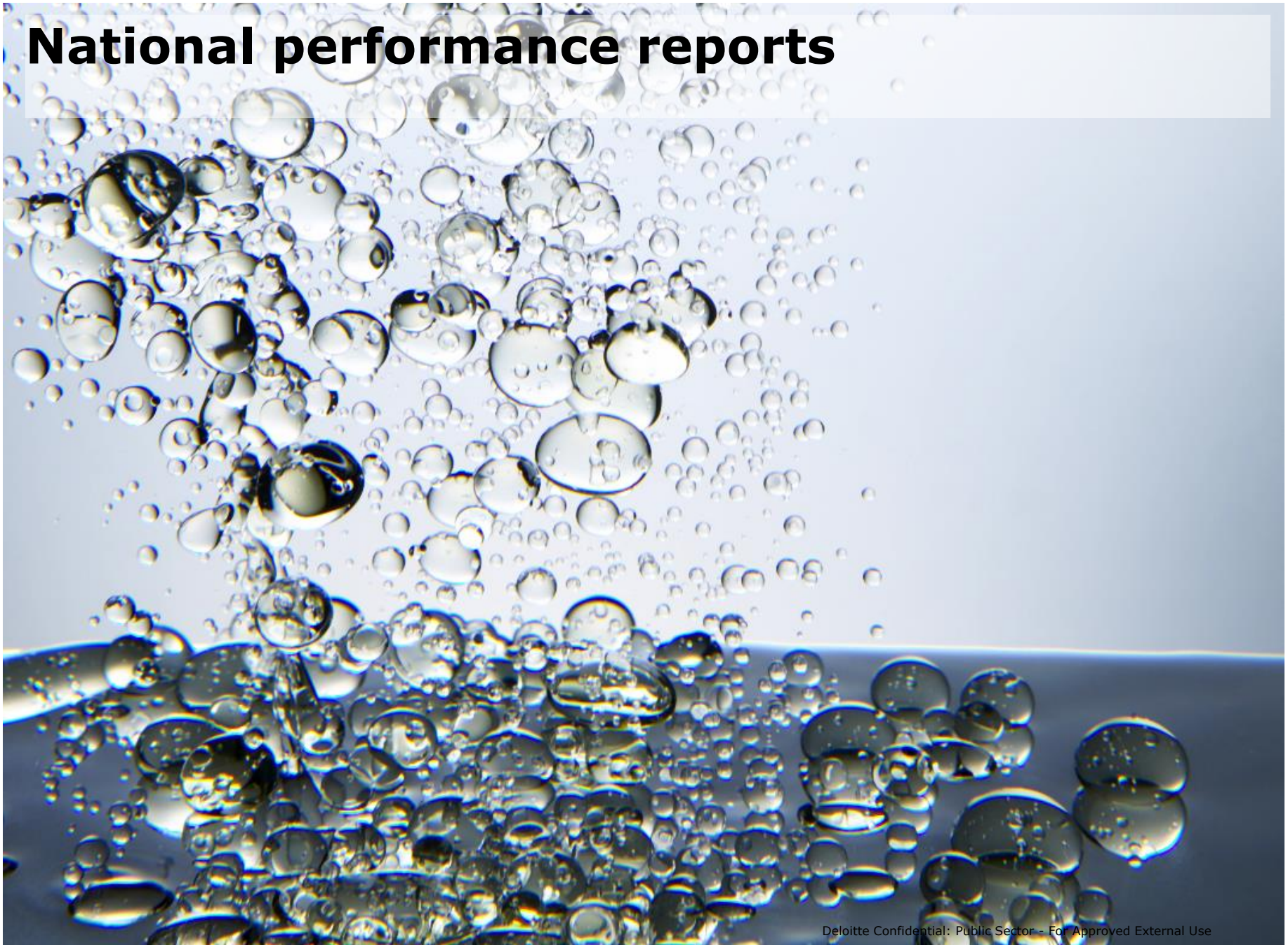


**Deloitte LLP**

Glasgow

6 September 2017

# National performance reports



# National performance reports

## Summary of reports issued over the past year

### **NHS Scotland 2016**

Published October 2016

#### **Headline messages**

A combination of increasing costs, staffing pressures and unprecedented savings targets mean that Scotland's NHS boards are finding it difficult to balance demand for hospital care with investing in community-based services to meet future need.

#### **Impact on NHS Shetland**

In partnership with NHS Shetland, the IJB should take ownership of changing and improving services in their local area, working with relevant partner organisations.

In addition, they should work with the public about the need for change in how they access, use and receive services and to take more responsibility for looking after their own health and managing their long-term conditions.

### **Local Government in Scotland: Financial Overview 2015/16**

Published November 2016

#### **Headline messages**

Councils have remained within their overall budgets, increased their reserves slightly and reduced their debt in 2015/16. Each Council has its own particular challenges but all Councils face financial shortfalls requiring further savings or using reserves. They need to change the way they work if they are to make the savings needed.

#### **Impact on Shetland Islands IJB**

Throughout the report, Audit Scotland identify questions that Councillors may wish to consider to help them better understand their Council's financial position and to scrutinise financial performance. These are available in the self assessment tool for Councillors. This is equally relevant for members of the Integration Joint Board to help them better understand the Board's position.

# National performance reports (continued)

## Summary of reports issued over the past year (continued)

### Local Government in Scotland: Performance and Challenges 2017

Published March 2017

#### Headline messages

Councils overall have maintained or improved their performance in the face of a long-term decline in Scottish Government real term funding and continued increasing pressures on services. However, public satisfaction is declining and complaints are increasing. Looking ahead, they need to better involve their communities in service design and delivery.

There are wide variations between Councils. Some have grasped the nettle in finding new ways to provide services more efficiently. Others have been slower off the mark. Councils have made savings by cutting jobs but half of them still don't have organisation-wide workforce plans.

#### Impact on Shetland Islands IJB

The IJB should consider the recommendations made in the report (copied here for reference), when setting priorities and budgets for future periods.

#### Recommendations

##### IJBs should:

- Set **clear priorities** supported by **long-term strategies** and **medium-term plans** covering finances, services, performance and workforce. These plans should inform all IJB decision-making, service redesign, savings and investment decisions.
- Ensure that **budgets are clearly linked** to their medium-term financial plans and long-term financial strategies. Budgets should be revised to reflect true spending levels and patterns. This requires good financial management and real-time information to ensure spending is accurately forecast and monitored within the year.
- Have an **organisation-wide workforce plan** to ensure the IJB has the people and skills to manage change and deliver services in the future.
- Ensure **workforce data** allows thorough analysis of changes to the workforce at an organisation-wide and departmental level. This will allow IJBs to better assess the opportunities and risks in staff changes.
- Thoroughly **evaluate all options for change and service redesign**, including options for investing to save, and monitor the impact of change on IJB priorities and desired outcomes
- **Support communities** to develop their ability to fully participate in setting IJB priorities and making decisions about service redesign and use of resources.
- Ensure **members** get support to develop the right **skills and knowledge** to fulfil their complex and evolving roles
- Ensure there is clear **public reporting of performance** linked to IJB priorities to help communities gauge improvements and understand reduced performance in lower priority areas.
- Continue to work to understand the **reasons for variations in unit costs and performance**, and **collaborate** to identify and adopt good practice for each other.

# Appendices



# Audit adjustments

## Corrected misstatements

- No corrected misstatements have been identified from our audit work performed.

## Uncorrected misstatements

- No uncorrected misstatements have been identified from our audit work performed.

## Disclosure misstatements

- Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.

A verbal update will be provided to the Audit Committee if anything arises from any outstanding work before financial statements are signed.

# Fraud responsibilities and representations

## Responsibilities explained



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



### Audit work performed:

In our planning we identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the audit committee on the process for identifying, evaluating and managing the system of internal financial control.

### Deloitte view:

From our year-end audit procedures and discussions with management we have noted no cause for concern around the fraud arrangements in place



# Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland) we are required to report to you on the matters listed below:

<b>Independence confirmation</b>	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
<b>Fees</b>	<p>The audit fee for 2016/17 is £20,540 as detailed in our Audit Plan.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p>
<b>Non-audit services</b>	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
<b>Relationships</b>	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>





# Events and publications

## Our events and publications to support the IJB

### Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

### Perspectives: Health & Social Care - The great integration challenge

Bringing health and social care closer together has been a policy ambition for decades, yet it continues to be a challenge. This new piece discusses some of the key factors that affect integration and what can realistically be achieved. Read the full blog post here:

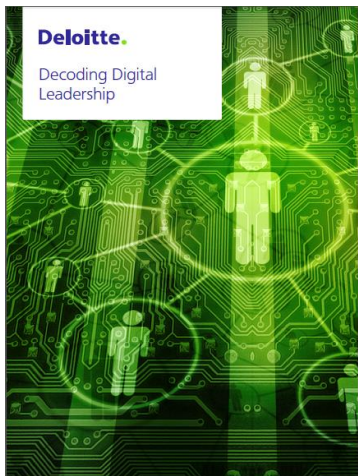
<http://www2.deloitte.com/uk/en/pages/public-sector/articles/the-great-integration-challenge.html>

### Perspectives: The public sector's talent retention challenge – How can a talent drain be avoided?

Although global governments are increasingly conscious of the value of skills, the UK's public sector workforce has been hit hard by austerity. Job losses, low morale and pay freezes have all fuelled concerns of a potential drain. Read the full blog here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sectors-talent-retention-challenge.html>

### Publications



### Decoding Digital Leadership Surviving Digital Transformation

Digital transformation is a hot topic in government. The 2010 Spending Review mentioned the word 'digital' only four times in its reform plans, while the 2015 Review mentioned it 58 times. With that context, are senior leaders across government setting their organisations up for digital success?

Digital transformation requires top to bottom organisational transformation, which requires leaders who are willing and able to leverage digital to innovate, fail fast and drive value in an ambiguous context. Are your leaders equipped to drive digital transformation?

Download a copy of our publication here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/decoding-digital-leadership.html>



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