

Shetland Islands Health and Social Care Partnership

Agenda Item

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| Meeting(s): | IJB Audit Committee | 1 March 2017 |
| Report Title: | External Audit Planning report to the IJB Audit Committee on the 2016/17 Audit | |
| Reference Number: | CC-11-17-F | |
| Author / Job Title: | Karl Williamson / IJB Chief Financial Officer | |

| | |
|------------|--|
| 1.0 | Decisions / Action required: |
| 1.0 | The IJB Audit Committee is asked to consider the Deloitte Planning Report on the 2016/17 audit of the Integration Joint Board (IJB), and provide any feedback on the Plan. |
| 2.0 | High Level Summary: |
| 2.1 | The legislation requires that the IJB is subject to the audit and accounts regulations and legislation of a body under Section 106 of the Local Government (Scotland) Act 1973. This determines that the Integration Joint Board will produce audited accounts, that the external audit will be undertaken by auditors appointed by the Accounts Commission and that the financial statements will be prepared according the Code of Practice in Local Authority Accounting in the UK. |
| 2.2 | The Accounts Commission has appointed Deloitte LLP as the external auditors for a five year term from 2016/17 to 2020/21. |
| 3.0 | Corporate Priorities and Joint Working: |
| 3.1 | The audit process plays a key role in helping the IJB to maintain good governance, accountability and provides assurance around financial stewardship. |
| 4.0 | Key Issues: |
| 4.1 | As with other public sector bodies, the Shetland Health and Social Care Partnership IJB continues to face financial challenges, due to uncertainty around future funding and increase in demand for services. The achievement of in-year balance and future financial sustainability will be a key focus of the audit. |
| 4.2 | Two significant risks have been identified regarding 'income recognition' and 'management override of controls'. Further details are shown on pages 11 and 12 of the report. |

| | |
|--|--|
| 4.3 | The 2016 Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. The audit work will consider how the IJB is addressing these and will report the conclusions in the annual report to the Audit Committee in September 2017. In particular, the work will focus on Financial Sustainability, Financial Management, Governance & Transparency and Value for Money. |
| 5.0 | Exempt and/or confidential information: |
| | None |
| 6.0 | Implications : <i>Identify any issues or aspects of the report that have implications under the following headings</i> |
| 6.1 Service Users, Patients and Communities: | None |
| 6.2 Human Resources and Organisational Development: | None |
| 6.3 Equality, Diversity and Human Rights: | None |
| 6.4 Legal: | The IJB accounts are required to be prepared in accordance with the Local Government (Scotland) Act 1973 and the 2015 Code of Practice on Local Authority Accounting. |
| 6.5 Finance: | The audit fee for the 2016/17 audit, as stated in the audit plan, amounts to £20,540. The cost will be shared equally between Shetland Islands Council and NHS Shetland. |
| 6.6 Assets and Property: | None |
| 6.7 ICT and new technologies: | None |
| 6.8 Environmental: | None |
| 6.9 Risk Management: | The annual audit plans are prepared from Deloitte's analysis of risks facing the IJB. Their audit work is focussed on identifying and assessing the key challenges and risks to the IJB and reporting these so that action can be taken to minimise future risk. |
| 6.10 Policy and Delegated Authority: | The Audit Committee is responsible for considering external audit plans and reports as appropriate; and any matters arising from these and management actions identified in response. |

| | | |
|---------------------------------------|------|--|
| 6.11 Previously considered by: | None | |
|---------------------------------------|------|--|

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Appendices:

Appendix 1 - Deloitte's planning report to the Audit Committee on the 2016/17 audit



**Shetland
Islands
Council**



Shetland Health and Social Care Partnership

Planning report to the Audit Committee
on the 2016/17 audit

3 March 2017

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Our planning report

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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 planning report to the Audit Committee for the 2017 audit. I would like to draw your attention to the key messages of this paper:

Financial challenges

- As with other public sector bodies, the Shetland Health and Social Care Partnership (Integration Joint Board) ('IJB') continues to face financial challenges, due to uncertainty around future funding and increase in demand for services. The overall 2016/17 forecast position as at 30 September 2016 is projecting an overspend of £1,665k against budget. The Board agreed at its meeting in December 2016 to request that NHS Shetland provide the IJB with an additional one-off payment to cover the forecast over spend on the NHS Shetland arm of the budget as it is highly unlikely that the Recovery Plan for 2016/17 will be successful. The achievement of in-year balance and future financial sustainability will be a key focus of our audit.

Significant risks

- We have identified the following financial statement significant risks:
 - income recognition; and
 - management override of controls.

Audit Dimensions

- The 2016 Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. Our audit work will consider how the IJB is addressing these and report our conclusions in our annual report to the Audit Committee in September 2017. In particular, our work will focus on:
 - **Financial sustainability** – we will monitor the Board's actions in respect of its short, medium and longer term financial plan to assess whether short term financial balance can be achieved, whether there is a long-term financial strategy and if investment is effective. We will also monitor the work being done in relation to service redesign.
 - **Financial management** – we will review the budget and monitoring reports to the Board during the year and liaise with internal audit in relation to their work on the key financial controls to assess whether financial management and budget setting is effective.
 - **Governance and transparency** – from our review of Board papers and attendance at Audit Committees we will assess the effectiveness of governance arrangements. We will also share best practice from elsewhere from our dedicated governance team, particularly on integration as the Board's relationship with the NHS and Council develops.
 - **Value for money** – we will gain an understanding of the Board's self-evaluation arrangements to assess how it demonstrated value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered.

Director introduction (continued)

The key messages in this report

Other wider scope work

- In accordance with Audit Scotland guidance, we will be requested to provide information to support national performance audits and to inform wider analysis on the following subjects:
 - Health and Social Care Integration
 - Follow-up of Role of Boards report

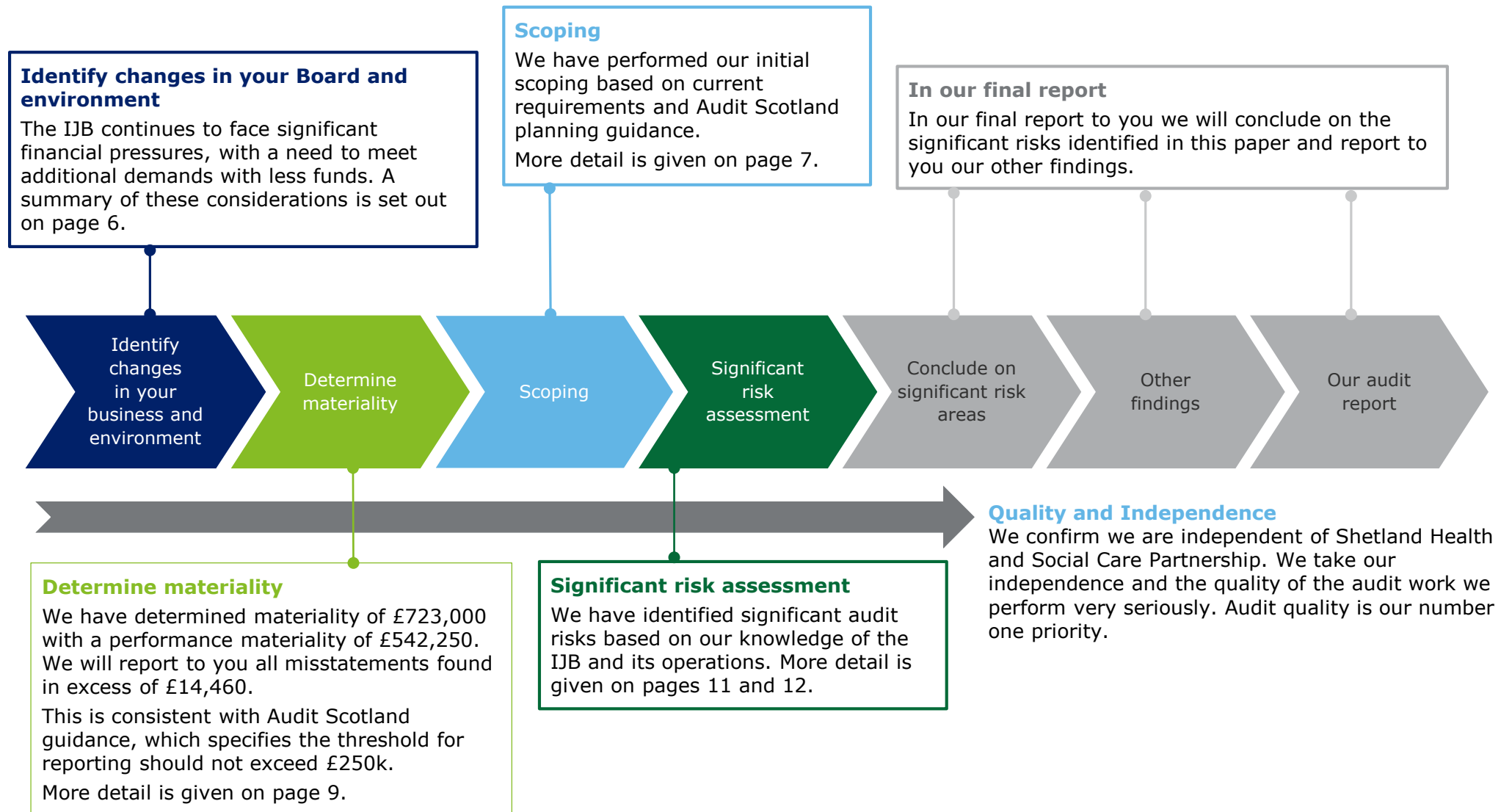
Our commitment to quality

- We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience. Further information is presented on page 15.

Pat Kenny
Audit Director

Our audit explained

We tailor our audit to your business and your strategy



An audit tailored to you

Focusing on your business and strategy

Impact on our audit

Future financial sustainability



The IJB continues to face significant financial challenges. The overall 2016/17 forecast position as at 30 September 2016 is projecting an overspend of £1,665k against budget. The Board agreed at its meeting in December 2016 to request that NHS Shetland provide the IJB with an additional one-off payment to cover the forecast over spend on the NHS Shetland arm of the budget as it is highly unlikely that the Recovery Plan for 2016/17 will be successful.

The IJB must continue to look at how it can reduce costs to meet the challenge of making savings per year or secure additional longer term funding. We will consider the IJB's financial sustainability in the medium to longer term and consider whether it is planning effectively to continue to deliver its services on a sustainable basis.

Health and Social Care Integration



2015/16 saw the first year of Health and Social Care Integration between NHS Shetland and the Shetland Islands Council. The IJB is now responsible for the distribution of resources to partner bodies to achieve what it set out in its strategic plan. The risk remains, however, that the Board and its partners encounter problems in working together in these new arrangements. As noted above, a medium to long term recovery plan needs to be developed to ensure that the Board is financially sustainable. It is also important that Strategic Plans provide details of the level of resources required in each key area and how they will shift resources towards preventative and community based care.

We will share examples of best practice and lessons learned from other IJBs and work completed in England around cost reduction and demand management.



Significant risk



Normal risk



Considered as part of wider scope audit requirements

Scoping

Our key areas of responsibility under the Code of Audit Practice



Core audit

Our core audit work as defined by Audit Scotland comprises:

- providing the **Independent Auditor's Report** on the annual accounts (and any assurance statement on whole of government accounts);
- providing the **annual report** on the audit addressed to the Board and the Controller of Audit;
- communicating **audit plans** to those charged with governance;
- providing **reports to management**, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code;
- preparing and submitting **fraud returns**, including nil returns, to Audit Scotland where appropriate;
- identifying significant matters arising from the audit, alert the Controller of Audit and support Audit Scotland in producing statutory reports as required; and
- undertaking work requested by Audit Scotland or local performance audit work.

Wider scope requirements

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland:

- **Financial sustainability** – looking forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.
- **Financial management** – financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Governance and transparency** – the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.
- **Value for money** – using resources effectively and continually improving services.

Scoping (continued)

Our approach



Liaison with internal audit

The Auditing Standards Board's version of ISA (UK and Ireland) 610 "Using the work of internal auditors" prohibits use of Internal Audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

The IJB uses the corporate financial systems of Shetland Island Council as well as the Council's internal audit function. We will review reports prepared by Internal Audit and meet with them to discuss their work. We will also discuss the work where they have identified specific material deficiencies in the control environment and we will consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we will work together with Internal Audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the IJB and Council's staff.

Obtain an understanding of the Board and its environment including the identification of relevant controls.

Identify risks and controls that address those risks.

Carry out "design and implementation" work on relevant controls.

If considered necessary, test the operating effectiveness of selected controls

Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements. We seek to provide advice on evolving good practice to promote high quality reporting.

We will utilise the Code of Practice on Local Authority Accounting in the UK Disclosure Checklist to support the Board in preparing high quality drafts of the Annual Report and financial statements, which we would recommend the Board complete during drafting.

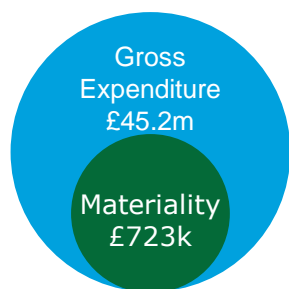
The Disclosure Checklist reflects the cutting clutter agenda and includes a "not material" column. We would encourage the Board to exclude disclosure if the information is not material.

Materiality

Approach to materiality



Basis of materiality – benchmark



- The audit director has determined materiality as £723,000 and performance materiality of £542,250, based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 1.6% of forecast gross expenditure as the benchmark for determining materiality.
- Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance which states that the clearly trivial threshold above which we should accumulate misstatements for reporting and correction to Audit Committees must not exceed £250,000.

Reporting to those charged with governance

Under the current materiality level based on gross expenditure, we will report to you all misstatements found in excess of £14,460.

We will report to you misstatements below this threshold if we consider them to be material by nature.

Our audit report

We will:

- Report the materiality benchmark applied in the audit of the IJB;
- Provide comparative data and explain any changes in materiality, compared to prior year, if appropriate; and
- Explain any normalised or adjusted benchmarks we use, if appropriate.

Although materiality is the judgement of the audit director, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Significant risks

Income Recognition

Completeness and accuracy of income

Nature of risk

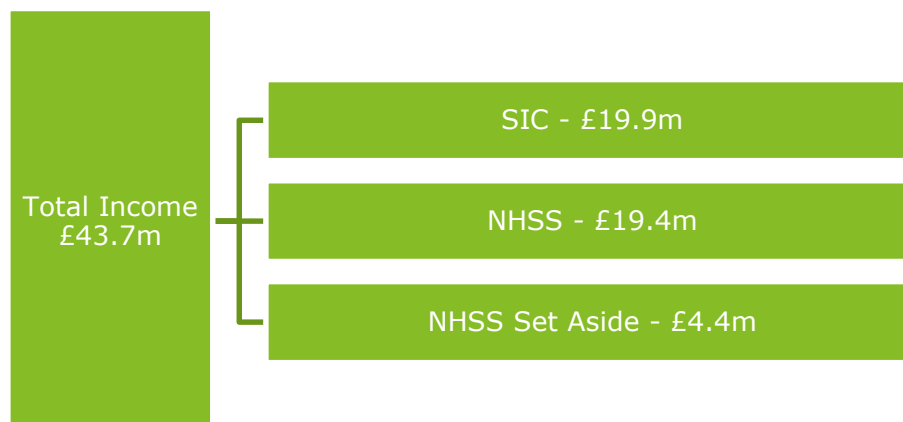
ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The main components of income for the IJB are contributions from its funding partners, namely Shetland Islands 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.

The key judgement areas, its potential impact on the financial statements and our planned audit challenge

We will perform the following:

- test the 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;
- test the reconciliations performed by the IJB at 31 March 2017 to confirm all income is correctly recorded in the ledger;
- compare income recorded with expectations, based on amounts agreed as part of budget process;
- confirm that the reconciliations performed during 2016/17 have been reviewed on a regular basis; and
- assess management's controls around recognition of income.



Deloitte comment

No testing has been performed to date as we will complete the above as part of our year-end visit.

Management override of controls

We will use computer assisted audit techniques, including Spotlight, to support our work on the risk of management override

Nature of risk

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 within Shetland Islands Council acting on behalf of the Board may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

The key judgement areas, its potential impact on the financial statements and our planned audit challenge

Our work will focus on:

- the testing of journals, using data analytics to focus our testing on higher risk journals;
- significant accounting estimates;
- any unusual transactions or one-off transactions, including those with related parties.

Our wider response to the risk of fraud is set out in the Appendix of this report.

In considering the risk of management override, we will:

- assess the overall position taken in respect of key judgements and estimates;
- consider the sensitivity of the financial statements with respect to achieving the financial objectives;
- consider remuneration plans and linkage with key management judgements; and
- consider our view on the overall control environment and 'tone at the top'.

Deloitte comment

We have not identified to date in our planning work any transactions which appear unusual or outside the normal course of business.

Wider scope requirements

Audit dimensions

The Code of Audit Practice sets our four audit dimensions which set a common framework for all public sector audits in Scotland. We will consider how the IJB is addressing these areas, including any risks to their achievement, as part of our audit work as follows:

| Audit dimension | Areas to be considered | Impact on the 2017 Audit |
|---|--|--|
| Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered. | <ul style="list-style-type: none"> 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 | <p>We will monitor 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 budgeting is effective.</p> <p>We will also monitor the work done in relation to the development of a sustainability plan, focusing on how this relates to the longer term financial planning. Finally, we will consider the lessons learned from our wider health transformation work in the sector including our work on increasing productivity, demand management and financial turnaround.</p> |
| Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively | <ul style="list-style-type: none"> Systems of internal control Budgetary control system Financial capacity and skills Arrangements for the prevention and detection of fraud | <p>We will review the budget and monitoring reporting to the IJB during the year to assess whether financial management and budget setting is effective.</p> <p>Our fraud responsibilities and representations are detailed on pages 18 and 19.</p> |
| 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. | <ul style="list-style-type: none"> Governance arrangements Scrutiny, challenge and transparency on decision making and financial and performance reports Quality and timeliness of financial and performance reporting | <p>We will review the financial and performance reporting to the IJB during the year as well as minutes of all IJB meetings to assess the effectiveness of the governance arrangements. Our attending at Audit Committees will also inform our work in this area.</p> |
| Value for money is concerned with using resources effectively and continually improving services. | <ul style="list-style-type: none"> 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. | <p>We will gain 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.</p> |

Wider scope requirements (continued)

Performance audits



Performance audits

In accordance with Audit Scotland planning guidance, we will be requested to provide information to support performance audits and to inform wider analysis on the following subjects during the year:

Purpose

Contribute to report on Health and Social care integration: part 2
Contribute to follow up Role of Boards

Date

Spring 2017
30 June 2017

Audit quality

Our commitment to audit quality

Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

- We will apply professional scepticism on the material issues and significant judgements identified, by using our expertise in the public sector and elsewhere to provide robust challenge to management;
- We will obtain a deep understanding of the IJB, its environment and of your processes in key areas – such as income recognition and expenditure - enabling us to develop a risk-focused approach tailored to the IJB;
- Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge;
- In order to deliver a quality audit to you, each member of the core audit team has received tailored training to develop their expertise in audit skills which includes local Engagement Team Based Learning. This is a director led programme encouraging teams from across our practice to engage and discuss current sector and audit issues, sharing best practice and expertise. This is in addition to a practice wide health training day held prior to the end of the financial year to share key issues from across the country, to update on regulatory changes and provide early warning of issues other teams may have faced at the interim testing phase.

Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

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 establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope;
- Key regulatory and corporate governance updates, relevant to you.

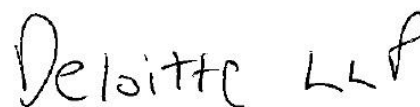
What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Audit Committee.
- 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, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" circulated separately on 3 February 2017.
- We will update you if there are any significant changes to the audit plan.

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



Deloitte LLP

Chartered Accountants

Glasgow

3 February 2017

This report has been prepared for the Audit Committee, 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.

Appendices

Fraud responsibilities and representations

Responsibilities explained



| Your responsibilities | Our responsibilities | Fraud characteristics |
|---|---|--|
| <ul style="list-style-type: none"> 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. | <ul style="list-style-type: none"> We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement. 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. As set out in the significant risks section of this document, we have identified the risk of fraud in income recognition and management override of controls as a key audit risk for your organisation. | <ul style="list-style-type: none"> Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. |

We will request the following to be stated in the representation letter signed on behalf of the IJB:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (i) management; (ii) employees who have significant roles in internal control; or (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations (continued)



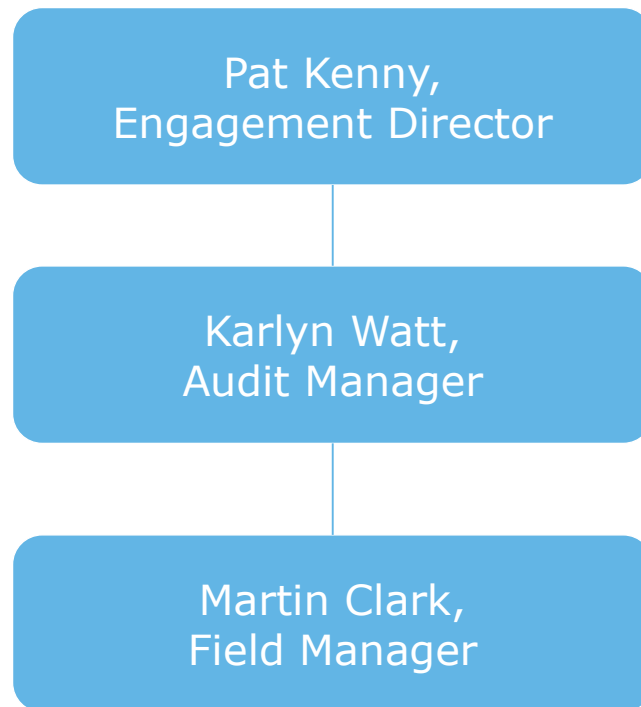
We will make the following inquiries regarding fraud:

| Management | Internal Audit & Local Counter Fraud Specialist | Those charged with governance |
|--|--|---|
| <p>Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.</p> <p>Management's process for identifying and responding to the risks of fraud in the entity.</p> <p>Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.</p> <p>Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.</p> <p>Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.</p> <p>We plan to involve management from outside the finance function in our inquiries.</p> | <p>Whether internal audit and the Local Counter Fraud Specialist has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.</p> | <p>How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.</p> <p>Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.</p> <p>The views of those charged with governance on the most significant fraud risk factors affecting the entity.</p> |

Your audit team and timetable

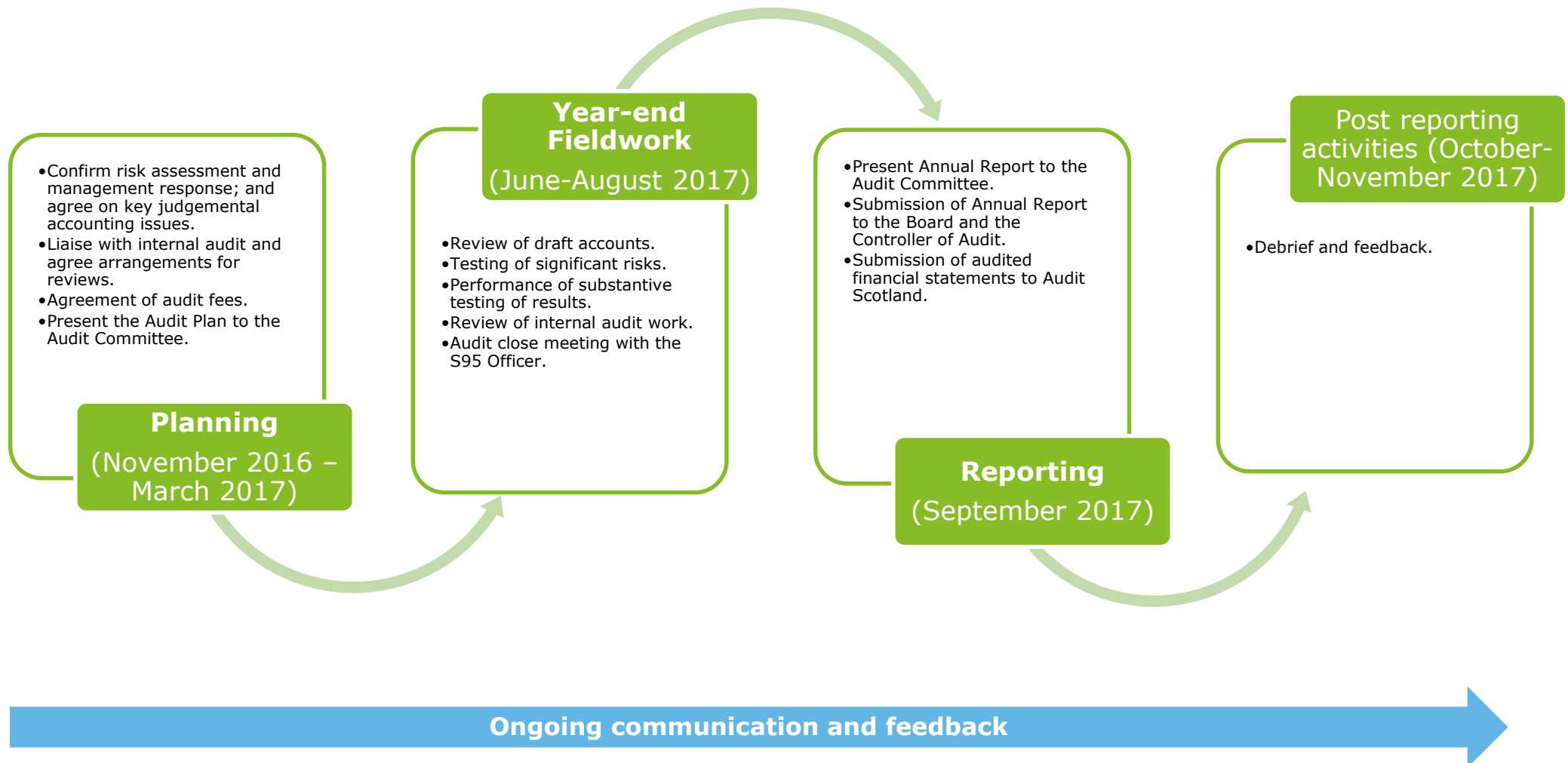
We have a highly experienced audit team

We set out below our audit engagement team. We manage our audit on a basis that it draws on the expertise of our public sector group.



Your audit team and timetable (continued)

Set out below is the approximate expected timing of our reporting and communication with Shetland Integration Joint Board and Audit Scotland.



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:

Independence confirmation

We confirm we are independent of the IJB and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2017 in our final report to the Audit Committee.

Fees

The audit fee for 2016/17, in line with the fee letter from Audit Scotland dated 12 December 2016, is £20,540 as analysed below:

| | £ |
|----------------------------------|---------------|
| Auditor remuneration | 15,000 |
| Audit Scotland fixed charges: | |
| Pooled costs | 1,040 |
| Performance audit and Best Value | 3,790 |
| Audit support costs | 710 |
| Total proposed fee | 20,540 |

Details of all non-audit services fees for the period will be presented in our final report.

Non-audit services

In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Board'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.

Technical developments

Sector developments



Code of practice on local authority accounting in the UK 2016/17

The main changes in this edition of the Code are as follows:

- The new requirement for an expenditure and funding analysis.
- Revised formats and reporting requirements for the comprehensive income and expenditure statement and movement in reserves statement. Authorities are now required to present service analysis based on the organisation structure under which they operate.
- Amendments in respect of accounting and reporting by pension funds.
- Other changes relate to amendments to IFRS, the annual governance statement, and the new conceptual framework for public bodies.

2016/17 SeRCOP

Changes have been made to the social work Service Expenditure Analysis (SEA) in respect of the integration of health and social care. There is a new division of service for the contribution to integration joint boards that should be separately presented on the face of the comprehensive income and expenditure statement. As noted above, the accounting code has been amended to instead require the income and expenditure analysis to be based on the authority's organisation structure

Revised good governance framework

CIPFA and Solace have issued a revised framework for good governance in local government from 2016/17. *Delivering Good Governance in Local Government Framework 2016* defines the principles that should underpin the governance of each local government organisation. It provides a structure to help individual authorities with their approach to governance. Local authorities are required to prepare an annual governance statement in order to report publicly on the extent to which they comply with their own code of governance, which in turn is consistent with the good governance principles in the framework.

Revised statement on CFO role in local government

CIPFA has issued a revised statement on The role of the chief financial officer in local government which aims to give detailed advice on how to apply within local government the overarching statement on the role of the public service chief finance officer (CFO). The *Delivering Good Governance in Local Government Framework* requires authorities to ensure that their financial management arrangements conform with this statement, or explain why they do not and how they deliver the same impact.

Our approach to quality

AQR team report and findings

Audit quality and regulation

We pride ourselves on our commitment to quality and our quality control procedures. We have an unyielding pursuit of quality in order to deliver consistent, objective and insightful assurance.

In May 2016 the Financial Reporting Council ("FRC") issued individual reports on each of the six largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the year ended 31 March 2016. We adopt an open and communicative approach with the regulator and their report is an accurate reflection of our efforts to improve audit quality across our practice over a number of years.

The review performed by the AQR forms an important part of our overall inspection process. We perform causal factor analysis on each significant finding arising from both our own internal quality review and those of our regulators to identify the underlying cause. This then drives our careful consideration of each of the FRC's comments and recommendations, as well as findings arising from our own reviews to provide further impetus to our quality agenda.

18 of the audits reviewed by the AQR were performed to a good standard with limited improvements required and four audits required improvements. No audits were assessed as requiring significant improvements. We have already taken action to respond to the key themes of the report and will continue to undertake further inputs to our audit quality improvement programmes to embed the changes into our practice.

The AQR's conclusion on Deloitte

"We reviewed selected aspects of 22 individual audits in 2015/16. In selecting which aspects of an audit to inspect, we take account of those areas identified to be of higher risk by the auditors and Audit Committees, our knowledge and experience of audits of similar entities and the significance of an area in the context of the audited financial statements.

In response to our last inspection report, the firm has made a number of improvements to its policies and procedures:

- The firm's guidance regarding the testing of journals has been enhanced.
- Additional sector-specific training was provided for individuals involved in financial services audits, together with additional training on internal controls for all audit staff.
- The firm has made a number of improvements to its internal monitoring process, including the development of a moderation process in order to increase consistency.

Our key findings in the current year requiring action by the firm are that the firm should:

- Improve the extent of challenge of management in relation to areas of judgment, in particular for impairment reviews and judgmental valuations.
- Improve aspects of its audit approach in the areas of revenue and inventory.
- Ensure high quality reporting to Audit Committees is achieved on a consistent basis.
- Strengthen its audit approach in relation to defined benefit pension scheme balances and disclosures.
- Strengthen its policies and procedures regarding the engagement quality control review process."

2015/16 Audit Quality Inspection Report on Deloitte LLP

Our approach to quality (continued)

AQR team report and findings (continued)

Review of individual audits

The following chart provides a summary of the AQR's assessment of the quality of our individual audits inspected in 2015/16, with comparatives for the previous 4 years. The chart also shows the 5 year average of Deloitte and the 5 year average of the 6 largest firms inspected by the AQR (which comprises Deloitte LLP, Ernst & Young LLP, KPMG LLP, PricewaterhouseCoopers LLP, BDO LLP and Grant Thornton UK LLP).

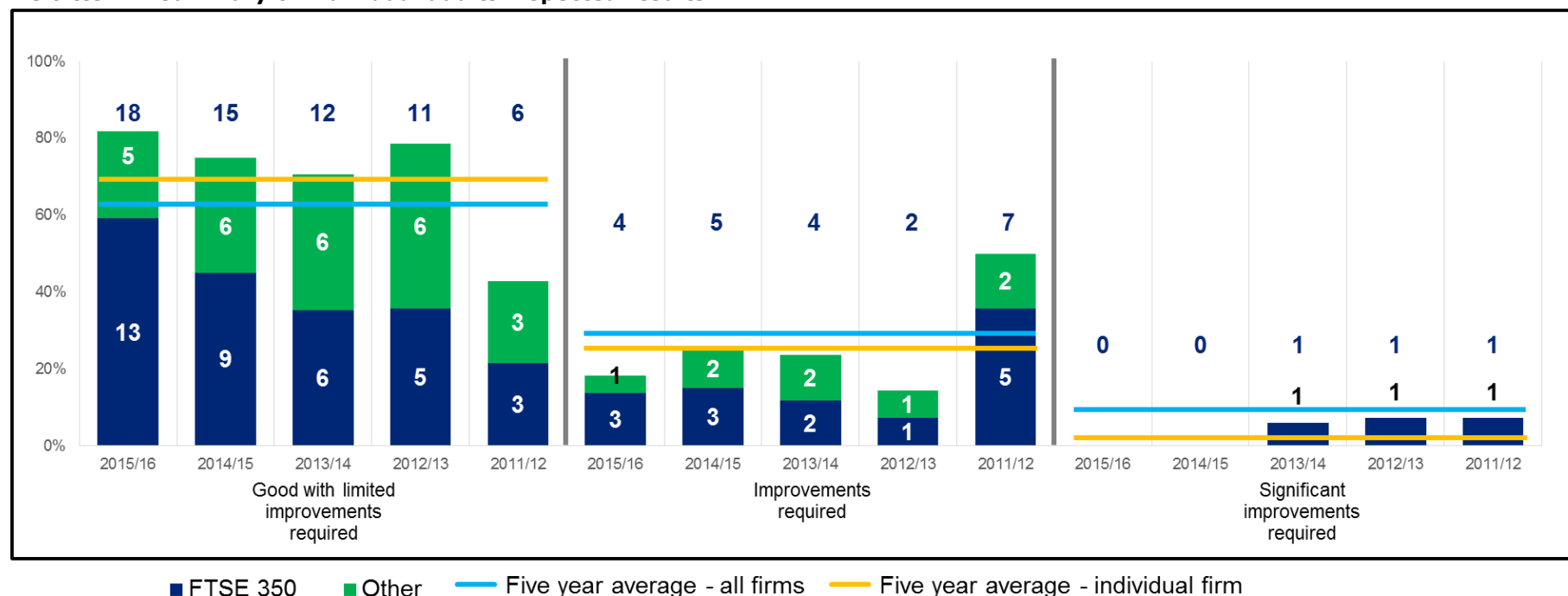
The AQR categorises audits as either:

- Good with limited improvements required
- Improvements required
- Significant improvements required

Changes to the proportion of audits reviewed falling within each grade from year to year reflect a wide range of factors, which may include the size, complexity and risk of the individual audits selected for review and the scope of the individual reviews. For this reason, and given the sample sizes involved, changes in gradings from one year to the next are not necessarily indicative of any overall change in audit quality at the firm.

All the AQR public reports on individual firms are available on its website <https://www.frc.org.uk/Our-Work/Conduct/Audit-Quality-Review/Audit-firm-specific-reports.aspx>

Deloitte LLP summary of individual audits inspected results





Other than as stated below, this document is confidential and prepared solely for your information and that of other beneficiaries of our advice listed in our engagement letter. Therefore you should not, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities). In any event, no other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

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Briefing on audit matters

Published for those charged with governance



This document is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

Approach and scope of the audit

Primary audit objectives

We conduct our audit in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Financial Reporting Council (FRC). Our statutory audit objectives are:

- to express an opinion in true and fair view terms to the members on the financial statements;
- to express an opinion as to whether the accounts have been properly prepared in accordance with the IFRSs as adopted by the European Union, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom;
- to express an opinion as to whether the accounts have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003;
- for certain disclosures in the Remuneration Report, to form an opinion as to whether they are made in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- to express an opinion as to whether the management commentary is consistent with the financial statements.

Other reporting objectives

Our reporting objectives are to:

- present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and
- provide timely and constructive recommendations to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standards Board's "Conceptual Framework for Financial Reporting" in the following terms:

"Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report."

We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as shareholder expectations, industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but also the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)) we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and those charged with governance will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit.

We will consider identified misstatements in qualitative as well as quantitative terms.

Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to members and create value for management and the Council whilst minimising a “box ticking” approach.

Our audit methodology is designed to give members the confidence that they deserve.

For controls considered to be ‘relevant to the audit’ we evaluate the design of the controls and determine whether they have been implemented. The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted and the risk of management override of controls);
- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures.

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

| ISA (UK and Ireland) | Matter |
|-----------------------------|--|
| ISQC 1 | Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements |
| 240 | The auditor’s responsibilities to consider fraud in an audit of financial statements |
| 250 | Consideration of laws and regulations in an audit of financial statements |
| 265 | Communicating deficiencies in internal control to those charged with governance and management |
| 450 | Evaluation of misstatements identified during the audit |
| 505 | External confirmations |
| 510 | Initial audit engagements – opening balances |
| 550 | Related parties |
| 560 | Subsequent events |
| 570 | Going concern |
| 600 | Special considerations – audits of group financial statements (including the work of component auditors) |
| 705 | Modifications to the opinion in the independent auditor’s report |
| 706 | Emphasis of matter paragraphs and other matter paragraphs in the independent auditor’s report |
| 710 | Comparative information – corresponding figures and comparative financial statements |
| 720 | Section A: The auditor’s responsibilities related to other information in documents containing audited financial statements |

Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to an engagement quality control review by an independent member of our Professional Standards Review team.
- Where appropriate, review and challenge takes place of key decisions by the Engagement Quality Control Review Partner and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the Engagement Quality Control Review Partner and other key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Ethical Standards issued by the Auditing Practices Board (APB), there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This includes particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.
- In the UK, statutory oversight and regulation of auditors is carried out by the FRC. The Firm's policies and procedures are subject to external monitoring by both the Audit Quality Review Team (AQRT), which is part of the FRC's Conduct Division, and the ICAEW's Quality Assurance Department (QAD). The AQRT is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee.

Independence policies

Our detailed ethical standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner (or any closely-related person) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any closely-related person) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- state that no person in a position to influence the conduct and outcome of the audit (or any closely related persons) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB Ethical Standards

The APB issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.

Shetland Islands Health and Social Care Partnership

Agenda Item

2



| | | |
|----------------------------|---|-------------------------------|
| Meeting(s): | IJB Audit Committee IJB | 1 March 2017 10 March 2017 |
| Report Title: | NHS Internal Audit Report: Strategic Planning - September 2016 | |
| Reference Number: | CC-09-17 | |
| Author / Job Title: | Hazel Sutherland / Head of Planning and Modernisation, NHS Shetland | |

1.0 Decisions / Action required:

1.1 The IJB Audit Committee is asked to:

- a) CONSIDER and COMMENT on the findings of the Internal Audit Report on Strategic Planning; and
- b) AGREE the Management Responses included in the Action Plan; and
- c) RECOMMEND to the IJB that the Action Plan is accepted.

1.2 The IJB is asked to:

- a) AGREE the Management Responses included in the Action Plan; and
- b) DIRECT the parties to implement the actions required to improve the process of strategic planning with regard to the preparation of the Strategic Plan for the IJB.

2.0 High Level Summary:

2.1 The purpose of this paper is to present the Committee with the findings of a recent NHS Internal Audit study carried out on the topic of Strategic Planning, which focussed on the production of the Strategic Plan for the IJB referred to in the report attached at Appendix 1 as the Joint Strategic Commissioning Plan. The NHS Internal Audit Report is broadly positive in its findings with no significant areas of risk highlighted. The NHS Internal Audit Report highlighted four recommendations for improvement, all which are supported for implementation and an Action Plan has been drawn up to address the issues. Some recommendations have already been addressed with the update of the Strategic Commissioning Plan for 2017-20 and it is the intention that all outstanding actions will be complete by April 2017.

2.2 From an IJB perspective, it would have been more appropriate for the scope of the audit to have included all the strategic planning arrangements, rather than focus

only on NHS Shetland activity. In order to provide a complete overview of its strategic planning arrangements, the IJB's internal audit service is currently undertaking a holistic review and will draw on the Scott Moncrieff report in reaching their conclusions. Their findings and recommendations will be the subject of a separate report to a future meeting of the IJB Audit Committee.

- 2.3 The Integration Scheme states that, "*The Parties (Shetland Islands Council and NHS Shetland) will provide support for strategic planning through their respective strategic planning and corporate support systems*". By local arrangement, the strategic planning process is led by the NHS through the Head of Planning and Modernisation. Overall responsibility for strategic planning for the IJB rests with the IJB itself.

3.0 Corporate Priorities and Joint Working:

- 3.1 The Strategic Commissioning Plan is a significant part of public sector delivery in Shetland and supports the Shetland Community Partnership's Local Outcome Improvement Plan, Shetland Islands Council's Corporate Plan and NHS Shetland's 2020 Vision and Local Delivery Plan.
- 3.2 Delivery of the Strategic Commissioning Plan relies on partnership working between Shetland Islands Council, NHS Shetland, other regional and national organisations (such as the Scottish Ambulance Service, NHS Grampian and other Health Boards) and voluntary sector providers.
- 3.3 There is a need to ensure that the integrated planning function focuses on the needs of individual service users, their families and unpaid carers within each local community and works across organisational boundaries.

4.0 Key Issues:

- 4.1 The NHS Internal Audit report acknowledges that the strategic planning process is evolving in response to the integration arrangements. The study is limited in its scope in that it only addresses the arrangements in place within NHS Shetland. The recommendations include three priority three actions (moderate risk exposure) and one priority two action (limited risk exposure). The Action Plan has been drawn up to address all the recommendations by April 2017. The Table below provides a summary of the progress made towards implementing the recommended actions.

| Recommendation | Management Response | Progress Report |
|--|---|--|
| <p>NHS Shetland should ensure the Joint Strategic Commissioning Plan identifies the strategic direction and objectives of the health board and the IJB, in line with their established vision. NHS Shetland should consider the use of supporting strategies (e.g. Clinical Strategy) in the strategic planning process and ensure that the service plans sit at the correct level within the framework.</p> | <p>Note that the recommendation is limited to NHS Shetland arrangements. Recommendation agreed. The arrangements for carrying out an annual refresh of the Strategic Commissioning Plan include: - establishing a clear strategic direction; - setting short and medium term objectives; and - mapping the overall policy framework. By April 2017</p> | <p>Complete.</p> <p>The recommendations have been accommodated in the updated Strategic Commissioning Plan for 2017-20.</p> |
| <p>NHS Shetland should ensure that action plans are clearly aligned to strategic objectives. Arrangements for monitoring and reporting on progress should be clearly established and aligned to the reporting of other key information, such as financial data and performance measures.</p> | <p>Note that the recommendation is limited to NHS Shetland arrangements. Recommendation Agreed. The overall objective of the refresh of the Strategic Commissioning Plan for 2017-18 is to ensure that: - the strategic objectives; - the financial plan and budget; and - the projects and action plans are aligned. By April 2017</p> | <p>Partially complete.</p> <p>The updated Plan includes key strategic objectives.</p> <p>The outstanding work relates to aligning the Strategic Commissioning Plan with the Financial Plan and this is in hand.</p> |
| <p>NHS Shetland should ensure sufficient financial information is available during the development and monitoring of the Joint Strategic Commissioning Plan. The Plan should provide context on the financial position of NHS Shetland and the impact of objectives and planned activity.</p> | <p>Note that the recommendation is limited to NHS Shetland arrangements. Recommendation Agreed. At the Integration Joint Board (IJB) meeting ... the process and strategic drivers for updating the Strategic Commissioning Plan were approved. This process recognises the need to align strategic planning with financial planning. While the processes are two separate systems, there will be key points at which the two systems reconnect for reporting to the IJB and its supporting committees, to make sure the planning process is well aligned and decision makers have all the information they need. By April 2017</p> | <p>Partially Complete.</p> <p>The outstanding work relates to aligning the Strategic Commissioning Plan with the Financial Plan and this is in hand.</p> |
| <p>NHS Shetland should ensure the Joint Strategic Commissioning Plan identifies SMART performance measures, which are aligned to strategic objectives. Arrangements for reporting progress and performance to management and the Board should be clearly established.</p> | <p>Note that the recommendation is limited to NHS Shetland arrangements. Recommendation Agreed. The refresh of the Strategic Commissioning Plan for 2017-18 and beyond will include reference to the agreed indicators which measure progress against the national Health and Wellbeing Outcomes and set specific performance improvement targets, where necessary. The reporting arrangements are being updated as part of the internal audit Performance Management Report from July 2016. By April 2017</p> | <p>Partially complete.</p> <p>Performance against the National Health and Wellbeing Outcomes and Key Performance Indicators for each service are identified and included in the updated Plan. The outstanding task is to consider specific targets and this work is in hand.</p> |

| | |
|--|---|
| 5.0 Exempt and/or confidential information: | |
| 5.1 | None. |
| 6.0 Implications : | |
| 6.1 Service Users, Patients and Communities: | The overall objective of the strategic planning process is to align the health and social care needs of the population with the resources which the partners have made available. Decisions are made, through the planning process, on the level, quality and location of services. The process of internal audit provides the IJB Audit Committee with an opportunity to reflect on Shetland's Health and Social Care Partnership performance with regard to the effectiveness of strategic planning with reference to relevant legislation, national guidance and best practice arrangements from elsewhere. The IJB Audit Committee is, in essence, checking performance on behalf of all current and potential future users of health and care services in Shetland to make sure that the strategic planning process confirms that the resources will be used wisely and effectively. |
| 6.2 Human Resources and Organisational Development: | There are no specific human resources and organisational development issues arising directly from the Report. |
| 6.3 Equality, Diversity and Human Rights: | There are no specific equality, diversity or human rights issues arising directly from the Report. |
| 6.4 Legal: | The Public Bodies (Joint Working) (Scotland) Act 2014 placed a duty on NHS Shetland and Shetland Islands Council to work together to integrate services around the needs of individuals, their unpaid carers and their families to get the right care, in the right place and at the right time. There is a requirement to produce a Strategic Commissioning Plan, based on at least two localities and updated on at least an annual basis. There is Scottish Government Guidance to follow on the production of the Strategic Commissioning Plans. NHS Shetland must also produce a Local Delivery Plan each year, guidance for which is submitted separately to the Health and Social Care Integration guidance. |
| 6.5 Finance: | There are no financial implications arising directly from this Report. One of the key recommendations is to make sure that the Strategic Commissioning Plan and the Financial Plan are well aligned and this work is in progress. |
| 6.6 Assets and Property: | There are no issues associated with Assets, Property or Equipment arising from this Report. |
| 6.7 ICT and new technologies: | There are no new issues associated with ICT and new technologies arising from this Report. Aspects of the recommendations on performance monitoring will be addressed through a separate, but connected, project which will utilise existing systems in an integrated way. |

| | | |
|---|--|------------------|
| 6.8 Environmental: | There are no environmental implications to address. | |
| 6.9 Risk Management: | The risk of not implementing the agreed NHS Internal Audit Action Plan is low. | |
| 6.10 Policy and Delegated Authority: | <p>The IJB Audit Committee has a key role in ensuring the efficient and effective performance of Shetland's Health and Social Care Partnership in order to deliver the outcomes set out in the Integration Scheme.</p> <p>The IJB is responsible on behalf of the parties for the planning of the Integrated Services. This is achieved through the Strategic Plan and supported by the Strategic Planning Group.</p> <p>The Integration Scheme states that, "the Parties will provide support for strategic planning through their respective strategic planning and corporate services support systems".</p> | |
| 6.11 Previously considered by: | NHS Audit Committee | 29 November 2016 |

Contact Details:

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Title: Head of Planning and Modernisation, NHS Shetland
Email: hazelsutherland1@nhs.net
24 January 2017

Appendices:

Appendix 1 - NHS Internal Audit Report: Strategic Planning - September 2016

Background Documents:

Health and Social Care Integration, Public Bodies (Joint Working) (Scotland) Act 2014,
Strategic Commissioning Plans Guidance
<http://www.gov.scot/Resource/0046/00466819.pdf>



NHS Shetland

Internal Audit Report

Strategic Planning

September 2016



Scott-Moncrieff
business advisers and accountants

NHS Shetland

Internal Audit Report

Strategic Planning

| | |
|------------------------|---|
| Introduction | 1 |
| Summary of findings | 2 |
| Conclusion | 3 |
| Management Action Plan | 5 |

Introduction

Background

NHS Shetland is working to deliver sustainable, high quality local health and care services that are suited to the needs of the population. The board aims to deliver this by providing person-centred care whilst at the same time eliminating waste, reducing harm and managing variation.

Effective planning and reporting is particularly important in the current financial climate, where service redesign, cost pressures and funding constraints are some of the key pressures the board has to deal with.

Scope

We have reviewed strategic planning arrangements at NHS Shetland, focusing on the process used to prepare and monitor the Joint Strategic Commissioning Plan. We have also reviewed how progress is reported and scrutinised by management and non-executives.

The control objectives for this audit, along with our assessment of the controls in place to meet each objective, are set out in the Summary of Findings.

Acknowledgements

We would like to thank all staff consulted during this review for their assistance and co-operation.

Summary of findings

The table below summarises our assessment of the adequacy and effectiveness of the controls in place to meet each of the objectives agreed for this audit. Further details, along with any improvement actions, are set out in the Management Action Plan.

| No | Control Objective | Control objective assessment | Action rating | | | | |
|----|--|------------------------------|---------------|---|---|---|---|
| | | | 5 | 4 | 3 | 2 | 1 |
| 1 | Strategic planning forms part of a formal, robust framework, with clearly documented protocols and explicit linkage to the vision and objectives | YELLOW | | | 1 | | |
| 2 | Strategic planning is informed via input from a range of appropriate stakeholders and partners, and subject to periodic review and update | GREEN | | | | | |
| 3 | NHS Shetland's strategic planning arrangements and accountabilities are appropriately integrated with the IJB framework | GREEN | | | | | |
| 4 | Actions to achieve strategic objectives are documented and agreed, taking cognisance of the internal resources available and the external environment in which NHS Shetland operates | YELLOW | | | | 1 | |
| 5 | There is clear and direct linkage between the narrative and financial aspects of strategic planning and reporting | YELLOW | | | 1 | | |
| 6 | Sufficient and appropriate arrangements are in place to track progress with delivering the strategy, including management and Board reporting | YELLOW | | | 1 | | |

| Assessment | Definition |
|------------|---|
| BLACK | Fundamental absence or failure of key control procedures - immediate action required. |
| RED | The control procedures in place are not effective - inadequate management of key risks. |
| YELLOW | No major weaknesses in control but scope for improvement. |
| GREEN | Adequate and effective controls which are operating satisfactorily. |

Conclusion

NHS Shetland has responsibility for strategic planning for integrated and non-integrated activity and planning arrangements are still developing within the IJB framework. As integrated strategic planning is a new process there are opportunities for improving the content of strategic planning and the arrangements for monitoring progress.

Main Findings

NHS Shetland's strategic plan is documented within the Local Delivery Plan (LDP) and, following the introduction of the IJB, the Joint Strategic Commissioning Plan (SCP). NHS Shetland has responsibility for preparing the SCP on behalf of the IJB. The SCP includes non-integrated NHS services as well as all integrated activity, and is the key strategic document for both NHS Shetland and the IJB.

Strategic planning arrangements appear to be well integrated with the IJB framework, responsibilities have been identified and agreed, timeframes and sufficient opportunities for scrutiny and review by key stakeholders and partners, such as the Joint Staff Forum and the Clinical, Care and Professional Governance Forum have been established.

Areas for improvement

The development of the SCP is a new process and NHS Shetland has acknowledged that there is room for improvement. A Head of Planning has recently been appointed and is responsible for reviewing the current process and making any required improvements. The current SCP is based on the outputs from 39 service plans. Minimal guidance was provided by senior management on the strategic direction and, as a result, the service plans have been developed at an operational level. NHS Shetland plans to streamline the number of service plans and as a result planning will be completed by senior managers who will be able to provide more of a strategic insight.

Whilst NHS Shetland has identified a number of actions to improve the SCP, further work is required to ensure that it is fully compliant with Scottish Government guidance, including the following areas:

- The SCP does not set out clear objectives that cover the aims of both NHS Shetland and the IJB;
- There are a number of strategies in place, such as the Clinical Strategy, that cover the same activity as the service plans, but at a more strategic level, these strategies are not considered during the strategic planning process;
- NHS Shetland has not identified where they will document the actions required to achieve the strategic objectives and how these will be monitored by management and the Board;
- No financial context has been provided for NHS Shetland or the IJB, and limited financial information was available during planning; and
- No performance measures were identified within the SCP, which has resulted in there being no mechanism in place for NHS Shetland to measure and demonstrate achievement against the strategic objectives.

Further details of the points noted above are included in the Management Action Plan.

Management Action Plan

| Risk rating | Definition |
|-------------|--|
| 5 | Very high risk exposure - Major concerns requiring immediate Board attention. |
| 4 | High risk exposure - Absence / failure of significant key controls. |
| 3 | Moderate risk exposure - Not all key control procedures are working effectively. |
| 2 | Limited risk exposure - Minor control procedures are not in place / not working effectively. |
| 1 | Efficiency / housekeeping point. |

1. Control objective: Strategic planning forms part of a formal, robust framework, with clearly documented protocols and explicit linkage to the vision and objectives

| Observation and Risk | Recommendation | Management Response | | |
|---|---|--|-----------------|----------|
| <p>1.1 Strategic objectives and direction</p> <p>NHS Shetland has identified objectives and strategic priorities within the Local Delivery Plan (LDP). However, the SCP does not refer to these objectives/priorities, nor does it establish a strategic direction for the IJB.</p> <p>The SCP is structured around 39 service plans which are at an operational level. In addition, each service was considered in isolation, as there was insufficient time allocated to identifying key priorities and drivers across all services.</p> <p>NHS Shetland is aware of these weaknesses and intends to address them; however, further work is still required to ensure the SCP is compliant with Scottish Government guidance:</p> <ul style="list-style-type: none">• Strategic direction and objectives have not been set within the SCP. Subsequently, services will still be required to plan activity without an understanding of the IJB’s objectives.• NHS Shetland has a number of supporting strategies, for example, the Mental Health and the Clinical Strategy, which identify the services’ strategic priorities and are more strategic than the service plans, however, | <p>NHS Shetland should ensure the Joint Strategic Commissioning Plan identifies the strategic direction and objectives of the health board and the IJB, in line with their established vision.</p> <p>NHS Shetland should consider the use of supporting strategies (e.g. Clinical Strategy) in the strategic planning process and ensure that the service plans sit at the correct level within the framework.</p> | <p>Agreed.</p> <p>The arrangements for carrying out an annual refresh of the Strategic Commissioning Plan include:</p> <ul style="list-style-type: none">- establishing a clear strategic direction;- setting short and medium term objectives; and- mapping the overall policy framework. <p>To be actioned by: Head of Planning and Modernisation</p> <p>No later than: April 2017</p> <table><tr><td>Priority</td><td>3</td></tr></table> | Priority | 3 |
| Priority | 3 | | | |

1. Control objective: Strategic planning forms part of a formal, robust framework, with clearly documented protocols and explicit linkage to the vision and objectives

they are not considered during the strategic planning process.

There is a risk that the SCP is ineffective due to its lack of strategic direction. With no clear objectives or priorities, it is difficult for services to plan appropriately and there is a risk that NHS Shetland are duplicating aspects of their planning process.

2. Control objective: Strategic planning is informed via input from a range of appropriate stakeholders and partners, and subject to periodic review and update

No significant weaknesses identified.

Stakeholder engagement is well established within the planning and budgeting cycle for the health board and the IJB. Draft plans and budgets will be presented to the following groups for consultation and review; the Strategic Planning Group; the Joint Staff Forum; the Local Partnership Finance Team; the Clinical, Care & Professional Governance Committee.

The Joint Strategic Commissioning Plan and the Local Delivery Plan are subject to annual review and update. NHS Shetland will present all iterations of these documents to key stakeholder groups for scrutiny, to ensure they remain relevant and up to date.

3. Control objective: NHS Shetland's strategic planning arrangements and accountabilities are appropriately integrated with the IJB framework

No significant weaknesses identified.

NHS Shetland has taken responsibility for the IJB's planning function and the production of the initial draft Joint Strategic Commissioning Plan. There are still some discussions required to ensure that the health board, local authority and IJB's expectations are fully aligned, however the arrangement is deemed to be well established. NHS Shetland has clearly identified how the planning process is integrated with the IJB framework and the level at which the IJB will be involved. Whilst the arrangements are deemed appropriate, it should be noted that we have raised a number of recommendations specifically regarding the Joint Strategic Commissioning Plan.

4. Control objective: Actions to achieve strategic objectives are documented and agreed, taking cognisance of the internal resources available and the external environment in which NHS Shetland operates

| Observation and Risk | Recommendation | Management Response |
|---|---|--|
| <p>4.1 Action plans not clearly aligned to strategic objectives</p> <p>NHS Shetland has documented actions within the Corporate Action Plan (CAP), the individual service plans and the newly established strategic plans. However, the actions are not clearly aligned to the strategic objectives and NHS Shetland has not yet identified how progress will be monitored.</p> <p>Without documenting clear action plans that are aligned to the Joint Strategic Commissioning Plan, there is a risk that NHS Shetland will not be able to achieve its strategic objectives, or be able to demonstrate progress. As a result, the strategic planning process becomes ineffective.</p> | <p>NHS Shetland should ensure that action plans are clearly aligned to strategic objectives.</p> <p>Arrangements for monitoring and reporting on progress should be clearly established and aligned to the reporting of other key information, such as financial data and performance measures.</p> | <p>Agreed.</p> <p>The overall objective of the refresh of the Strategic Commissioning Plan for 2017-18 is to ensure that:</p> <ul style="list-style-type: none"> - the strategic objectives; - the financial plan and budget; and - the projects and action plans <p>are aligned.</p> <p>To be actioned by: Head of Planning and Modernisation</p> <p>No later than: April 2017</p> |
| | | <p>Priority 2</p> |

5. Control objective: There is clear and direct linkage between the narrative and financial aspects of strategic planning and reporting

| Observation and Risk | Recommendation | Management Response | | |
|---|--|--|----------|---|
| <p>5.1 Lack of financial context</p> <p>Financial planning is completed in parallel with strategic planning. However, no financial context has been provided for NHS Shetland or the IJB in the Joint Strategic Commissioning Plan.</p> <p>The SCP is based on 39 services plans. Currently service managers receive minimal financial information to inform the planning process. As a result, there is a risk that they are planning activity which could be outwith their budget.</p> <p>NHS Shetland has acknowledged that this is an issue and members of finance have been included within a support team for service managers during the planning process. However, their involvement in the planning cycle is not compulsory and they will only provide guidance if requested.</p> <p>There is a risk that planned activity is not achievable and is beyond the financial limit of the health board.</p> | <p>NHS Shetland should ensure sufficient financial information is available during the development and monitoring of the Joint Strategic Commissioning Plan.</p> <p>The Plan should provide context on the financial position of NHS Shetland and the impact of objectives and planned activity.</p> | <p>Agreed.</p> <p>At the Integration Joint Board (IJB) meeting on 26 September 2016, the process and strategic drivers for updating the Strategic Commissioning Plan were approved.</p> <p>This process recognises the need to align strategic planning with financial planning. While the processes are two separate systems, there will be key points at which the two systems reconnect for reporting to the IJB and its supporting committees, to make sure the planning process is well aligned and decision makers have all the information they need.</p> <p>To be actioned by: Head of Planning and Modernisation</p> <p>No later than: April 2017</p> | | |
| | | <table><tr><td>Priority</td><td>3</td></tr></table> | Priority | 3 |
| Priority | 3 | | | |

6. Control objective: Sufficient and appropriate arrangements are in place to track progress with delivering the strategy, including management and Board reporting

| Observation and Risk | Recommendation | Management Response |
|---|--|---|
| <p>6.1 Insufficient arrangements for monitoring delivery</p> <p>As raised under MAP 1.1 and MAP 4.1, the Joint Strategic Commissioning Plan (SCP) does not clearly identify objectives, nor the actions required to achieve them, nor any SMART performance measures. The Scottish Government's Strategic Commissioning Plan guidance provides a list of suggested indicators, however these have not been utilised.</p> <p>As a result, it is not possible for NHS Shetland, or the IJB, to objectively measure or demonstrate progress in delivering the SCP or to identify and address risks and issues that may affect the achievement of its aims and vision in a timely and effective manner.</p> <p>It should be noted that our Performance Management report (July 2016) raised issues and recommendations regarding performance management across NHS Shetland.</p> | <p>NHS Shetland should ensure the Joint Strategic Commissioning Plan identifies SMART performance measures, which are aligned to strategic objectives.</p> <p>Arrangements for reporting progress and performance to management and the Board should be clearly established.</p> | <p>Agreed.</p> <p>The refresh of the Strategic Commissioning Plan for 2017-18 and beyond will include reference to the agreed indicators which measure progress against the national Health and Wellbeing Outcomes and set specific performance improvement targets, where necessary.</p> <p>The reporting arrangements are being updated as part of the internal audit Performance Management Report from July 2016.</p> <p>To be actioned by: Head of Planning and Modernisation</p> <p>No later than: April 2017</p> |
| | | <div>Priority</div> <div>3</div> |

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