

Shetland Islands Integration Joint Board

Report to the Audit Committee, Members of the Integrated Joint Board and the
Controller of Audit on the 2019/20 audit

Issued on 14 September for the meeting on 24 September 2020

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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 (“the Committee”) of Shetland Islands Integration Joint Board (“the IJB” “the Board”) for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the Audit Committee in February 2020.

This audit was carried out under unusual circumstances, being a remote audit conducted during the national lockdown in response to COVID-19. We recognise the extra pressure faced by the IJB in preparing the annual report and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for the preparation of the annual report as well as the audit, and management confirmed their desire to stick to the original reporting timetable. While the shift to remote working placed pressure on the original timetable for preparation of the annual report and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Accountable Officers’ duty to secure best value.



Introduction (continued)

The key messages in this report (continued)

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

Conclusions from our testing

Based on our audit work completed to date we expect to issue an unmodified audit opinion.

Following amendments made as a result of the audit, the management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Board.

The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 10.

No misstatements in excess of our reporting threshold of £41k have been identified up to the date of this report. We have identified one disclosure deficiency in relation to the remuneration report, set out on page 39.

Status of the financial statements audit

Outstanding matters to conclude the audit include:

- Receipt of the legal confirmation;
- Finalisation of our internal quality control procedures;
- Receipt of the final version of the annual accounts;
- Receipt of the signed representation letter; and
- Our review of events since 31 March 2020.

Conclusions on audit dimensions

As set out on page 3, our audit work covered the four audit dimensions. Our audit work was risk based and proportionate, covering each of the four dimensions.

Due to the impact of the COVID-19 pandemic and cancellation of Committee meetings up to the end of May, we did not prepare a separate interim report as planned and have instead reported our detailed findings and conclusions within this report.

The outbreak of COVID-19 has brought unprecedented challenges to organisations around the country. It is not yet known what long term impacts these will have on populations and on the delivery of public services, but they will be significant and could continue for some time. While this report makes reference to COVID-19 where relevant in each of the dimensions, we have not considered the full impact of COVID-19 on the IJB at this stage.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial Management

The IJB has a strong and consistent finance team, and the Audit Committee now takes a more active role in scrutinising the IJB's performance and financial position. We noted improvements in performance against the budget since 2018/19, although the IJB continues to face challenges in achieving its planned savings.

Further work is needed to improve the budget setting process (with a focus on outcomes) and the transparency of financial monitoring during the year. Work to ensure compliance with the IJB's obligations under the Community Empowerment Act remained outstanding during 2019/20, although we are aware of progress and planned actions in this area.

Financial sustainability

The IJB achieved short term financial balance in 2019/20 and has set a balanced budget for 2020/21. However, while progress is evident from the original Medium Term Financial Plan (MTFP), it is still faced with financial challenges in the medium to longer term, with the impact of COVID-19 increasing this risk. It is critical that this is reflected in the comprehensive review of the MTFP planned for 2020/21.

Given the risks identified in 2018/19 regarding medium-term financial planning, the Strategic Commissioning Plan, transformation work and workforce planning, and the importance of each of these areas to the IJB's sustainability, it is concerning that no progress was made in addressing the issues identified in 2018/19 during the year. The IJB should ensure progress on these areas is prioritised in 2020/21.

Governance and Transparency

The IJB has a clear vision. There has been a high level of turnover in Chief Officer and Board Member positions in the year, although transition arrangements have been in place. Appropriate governance arrangements have been put in place in response to the COVID-19 pandemic.

As the IJB has not carried out a review of its Integration Scheme within the legal timeframe, it is now in a non-compliant position with its governing legislation. This needs to be addressed as a priority.

We have not seen any improvements in the IJB's approach to development, self assessment, openness and transparency, or to enhancing the quality of its information. It is likely that significant turnover in the Chief Officer role has impacted on progress in these areas.

Value for money

The IJB has improved its performance management culture by approving a revised framework in the year. We welcome the IJB's commitment to community engagement as it progresses programmes of demand management and changes to service delivery.

Performance data has shown some areas of improved performance with other areas still representing a challenge. There are particular difficulties in relation to psychological therapies and we have serious concerns about the ability of the IJB and its partners to provide appropriate levels of service in this area. We will monitor changes in performance in this area closely in 2020/21. While addressing declines in performance is important, we do recognise that resources are currently focussed on managing the impact of COVID-19.

Our detailed findings are included on pages 18 to 33 of this report. We will consider progress with the agreed actions as part of the 2020/21 audit.

Introduction (continued)

The key messages in this report (continued)

Emerging issues

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focusing on the impact of COVID-19. We have provided a summary of those most relevant to the IJB as an Appendix on pages 35 and 36 of this report.

Next steps

An agreed Action Plan is included as an Appendix on pages 40 to 47 of this report which includes a follow up of progress on previous years agreed actions. We will consider progress with the agreed actions as part of our 2020/21 audit.

In a number of cases, due to staff focusing on the COVID-19 response, we have not been provided with requested evidence to provide an update to our conclusions on the audit dimensions. We understand this and are satisfied that our report remains sufficiently comprehensive. We have made this clear where relevant throughout the report and will follow up these areas again in 2020/21.

Added value

Our aim is to add value to the Board by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Board promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report. In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which are open to anyone to join.

We have also included conclusions on the IJB's Best Value arrangements, which are discussed on page 33.

Pat Kenny
Audit Director







Financial statements audit



Quality indicators

Impact on the execution of our audit

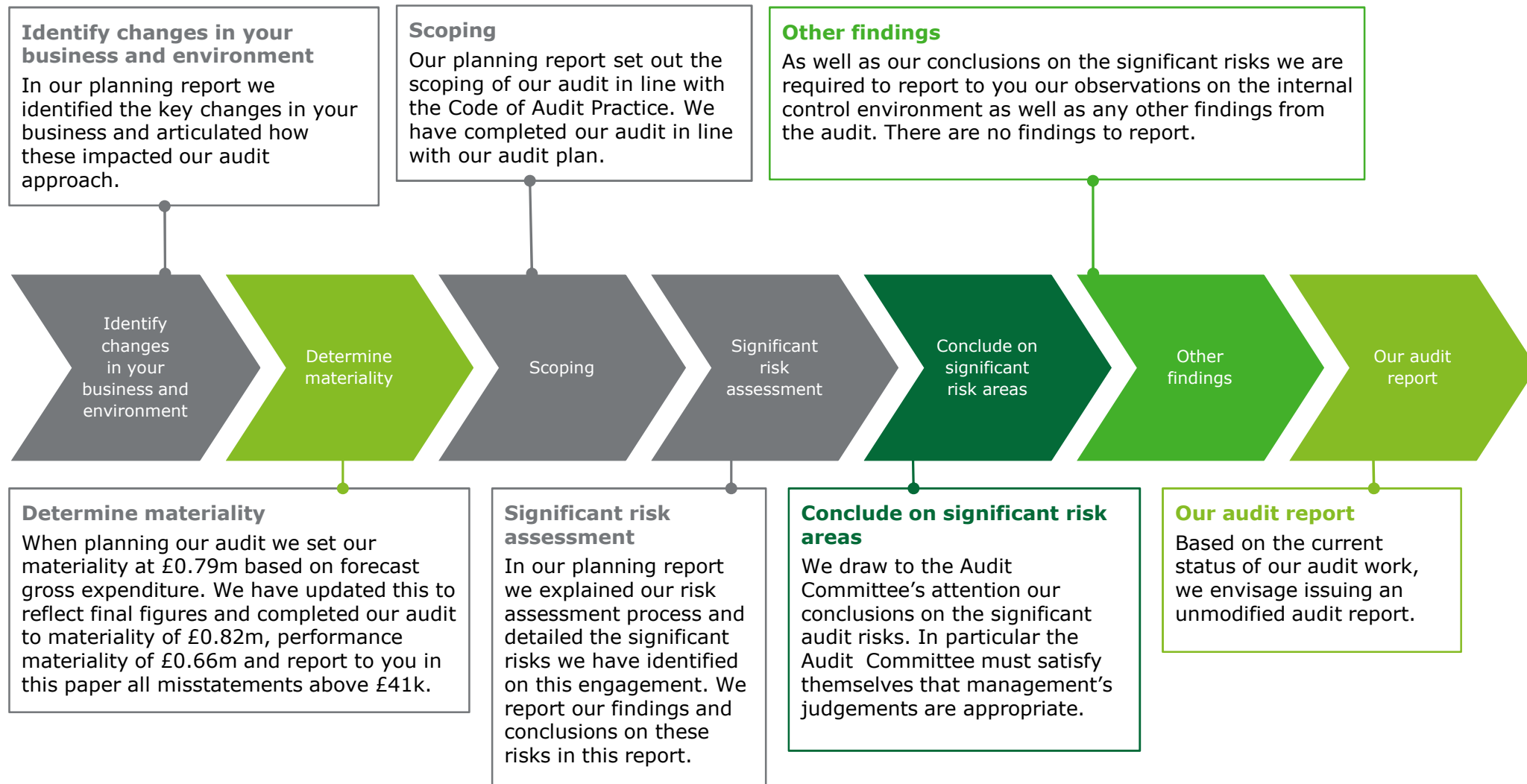
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements		There are no significant accounting judgements included in the IJB accounts, which is in line with our expectations and understanding of the IJB.
Adherence to deliverables timetable		There were significant delays in receiving information to support our work on the wider audit dimensions, due to staff focusing on COVID-19. In a number of cases, information has not been provided and we have been unable to fully update our work on the prior year. With regards to the financial statements, we were informed about and accepted a delay to production of the annual accounts and supporting evidence, which did not have a significant impact on our ability to meet the reporting timetable.
Access to finance team and other key personnel		Deloitte and the IJB have worked together to facilitate effective remote communication during the audit.
Quality and accuracy of management accounting papers		On the whole documentation provided has been a good standard. This included documentation that easily reconciled to the draft financial statements.
Quality of draft financial statements		A full draft of the annual accounts was received for audit on the 24 June 2020. The draft was of a high standard with limited changes required, although we have made recommendations for improvement which management should note for 2020/21.
Response to control deficiencies identified		No control deficiencies were identified.
Volume and magnitude of identified errors		We have not identified any financial adjustments above our reporting threshold to date. We identified only one disclosure deficiency, relating to the remuneration report, set out on page 39.







 Lagging  Developing  Mature

Our audit explained

We tailor our audit to your business and your strategy



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Completeness and accuracy of income			D+I	Satisfactory		Satisfactory	11
Management override of controls			D+I	Satisfactory		Satisfactory	12

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)

Risk 1 – 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 income recognition, evaluate which types of income, income 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 ('SIC') and NHS Shetland ('NHSS'). The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received from SIC and NHSS.



Key judgements and our challenge of them

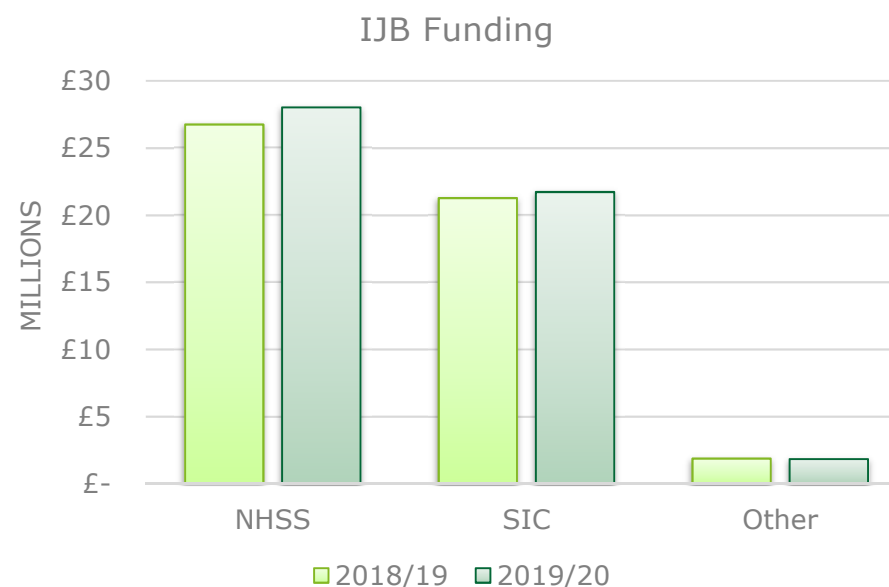
Given the year-end deficit projected by the IJB, there is a risk that overspends could be funded by funding partners in the year following their approval, and therefore contributions could differ from the approved budget.



Deloitte response

We have performed the following:

- tested 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 amendments have been appropriately applied;
- tested the reconciliations performed by the IJB at 31 March 2020 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2019/20 have been reviewed on a regular basis; and
- assessed the design and implementation of management's controls around recognition of income.



Deloitte view

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

Significant risks (continued)

Risk 2 - Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions.



Key judgements

The key judgement in the financial statements is that which we have selected to be the significant audit risk around the completeness and accuracy of income (page 11). This is inherently the area in which management has the potential to use their judgement to influence the financial statements.



Deloitte response

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

- The Board's results throughout the year were projecting underspends in operational areas. This was closely monitored and whilst projecting underspends, the underlying reasons were well understood; 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.

Significant and unusual transactions

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

Journals

We have performed design and implementation testing of the controls in place for the review of management accounts.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Accounting estimates and judgements

We reviewed the financial statements for accounting estimates and judgements which could include biases that could result in material misstatements due to fraud.

We have not identified any significant accounting estimates and judgements from our testing.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

The IJB accounts have been prepared in accordance with the Local Authority Code of Practice (the Code). The accounting policies adopted are in line with the Code.

Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation, the need to review medium to long term plans and the need to review the Integration Scheme to ensure compliance with the IJB's governing legislation.

We will obtain written representations from the Board on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

Coronavirus (COVID-19) outbreak

Impact on the annual accounts and audit

The current crisis is unprecedented in recent times. The NHS and social care sectors are most directly exposed to the practical challenges and tragedies of the pandemic, and is undergoing major, rapid operational changes in response.

The uncertainties and changes to ways of working also impact upon the reporting and audit processes, and present new issues and judgements that management and Audit Committees need to consider. We summarise below the key impacts on reporting and audit:

Impact on the IJB's annual accounts	Impact on our audit
<p>The Board need to consider the impact of the outbreak on the annual report and financial statements including:</p> <ul style="list-style-type: none">• Principal risk disclosures;• Change in the funding regime for 20/21;• Onerous contracts and any potential provisions;• Going concern; and• Events after the end of the reporting period.	<p>COVID-19 has fundamentally changed the way we have conducted our audit this year including:</p> <ul style="list-style-type: none">• Teams are primarily working remotely with some challenges in accessing 'physical' documentation and with availability of some staff;• The teams have had regular status updates to discuss progress and facilitate the flow of information;• Timetable of the audit has been shorter given the initial accounts delay whilst working towards the same reporting timetable;• Consideration of impacts on the areas of the financial statements and annual report listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report; and• In conjunction with the Board, we will continue to consider any developments for potential impact up to the finalisation of our work on 24 September 2020.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the financial statements

Based on our audit work completed to date we expect to issue an unmodified audit opinion.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

While the Board has been faced with financial sustainability issues (as discussed on page 24), it achieved a balanced budget in 2019/20 and has agreed a balanced budget for 2020/21. There is also a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) that public bodies will continue in operation, therefore it is appropriate to continue as a going concern.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 16.

Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
Management Commentary	The management commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Board also focuses on the strategic planning context.	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance. Minor amendments were required as a result of our audit work.</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> <p>We have noted in our review of the annual accounts that there is significant budget variance analysis which is not required. Similarly, the IJB has utilised the reduced disclosure requirements in 2019/20 in relation to matters such as KPIs and other information. We would recommend that management reconsider the areas of recommended improvement we communicated with them in the preparation of the 2020/21 annual accounts.</p>
Remuneration Report	The remuneration report must be prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of the Chief Officer.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages, and we can confirm that following amendment for the disclosure deficiency set out on page 39, they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the Board 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 regulations. We have required management to make changes to significant governance issues in the year, relating specifically to the IJB's non-compliance with the Public Bodies (Joint Working) (Scotland) Act 2014, which required the Integration Scheme to be reviewed by the end of June 2020.

Audit dimensions and best value



Audit dimensions

Overview

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audits. This section of our report sets out our conclusions on our audit work covering the following areas. Our report is structured in accordance with the four **audit dimensions**, but also covers relevant risks identified by Audit Scotland.

Financial management



Financial sustainability

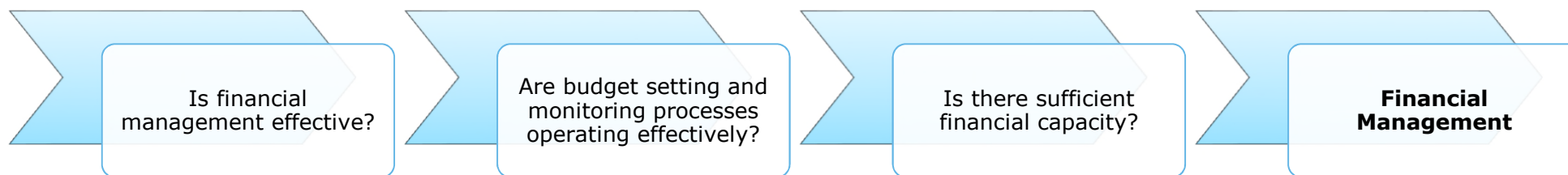
Value for money

Governance and transparency

The Islands (Scotland) Act 2018 received royal assent in July 2018. The Islands (Scotland) Act 2018 places a duty on 'relevant authorities' to have regard to island communities in exercising their functions. Relevant authorities must prepare an island communities impact assessment for any policy, strategy or service likely to have an effect on an island community which significantly differs from that on other communities. This is known as "island-proofing". The Act requires relevant authorities to publish information at least once annually detailing steps taken to comply with their duty of having regard to island communities. We have considered the implications of the Act as part of our consideration of Best Value arrangements (discussed further on page 33).

Financial management

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



Areas considered

Our approach to the audit dimensions is risk focused. We have provided an update for the Board on all areas considered in the prior year audit report. We identified the following risk in our audit plan:

“There remains a risk that the budget setting and monitoring arrangements are not sufficiently robust to ensure that the IJB operates within the delegated budgets.”

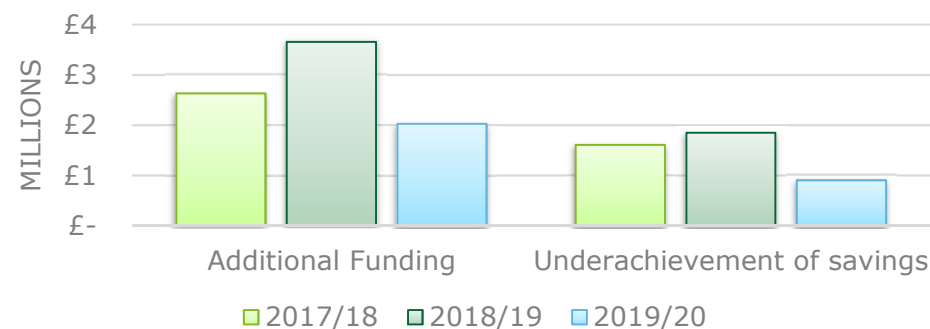
Budget monitoring

2018/19 Conclusion: The 2018/19 budget was noted, rather than approved, by the IJB. The IJB reported an overspend against budget, but recorded a surplus due to additional funding being received from NHS Shetland. Overspends were mainly driven by underachievement of savings in the recovery plan and locum costs in psychiatric, primary and unscheduled care. The IJB’s reporting makes it difficult to assess financial performance due to financial monitoring reports (‘FMRs’) only referring to forecast, rather than actual, spend.

2019/20 Update: The IJB approved, rather than noted, its 2019/20 budget. The IJB budgeted total income of £45.648m funded by £22.019m from SIC and £23.629m from NHSS. The expenditure was budgeted to be £48.181m, which consists of £22.019m of contributions to SIC and £26.162m to NHSS which resulted in a forecast funding shortfall of £2.533m (5.3%) for the year.

As with previous years, NHS Shetland provided ‘one off’ funding to the IJB (totaling £2.734m in 2019/20) which enabled the IJB to achieve a year-end surplus position of £73k. As shown in the graph across, an improvement in the IJB’s achievement of savings has resulted in a reduced additional funding requirement in 2019/20.

Savings and additional funding needs



The IJB’s savings target for the year was £2.331m, of which £1.427m was achieved, 93% of which related to non-recurring savings. As with 2018/19, the main areas of overspend continue to be psychiatric, primary and unscheduled care, which combined represent £1.912m (77%) of the IJB’s overspend against budget.

We have not noted any changes to the FMRs to better enable the IJB to monitor actual, as well as projected, performance throughout the year.

2019/20 Conclusion: While the achievement of a small surplus position at the end of March 2020 is positive, and there have been improvements since 2018/19, this masks the true position of the IJB, which reported an underachievement of its savings target, significant recurring variances against its budget and a reliance on additional funding from its funding partners. Our recommendation on improving monitoring of the actual financial position, in addition to the projected position, remains.

Financial management (continued)

Financial reporting

2018/19 Conclusion: Amendments to budget are made throughout the year, with these included in the FMRs. High-level narrative on the reasons for major reallocations and amendments to the budget should be included in the FMRs. We highlighted risks regarding the accuracy of budgeting and forecasting given the amount of amendments and savings being used as a 'balancing figure' in the budget. We noted that there is no committee in the IJB with responsibility for monitoring financial performance, with significant Board meeting time spent analysing the detail of IJB finances rather than focusing on strategic thinking and priority areas.

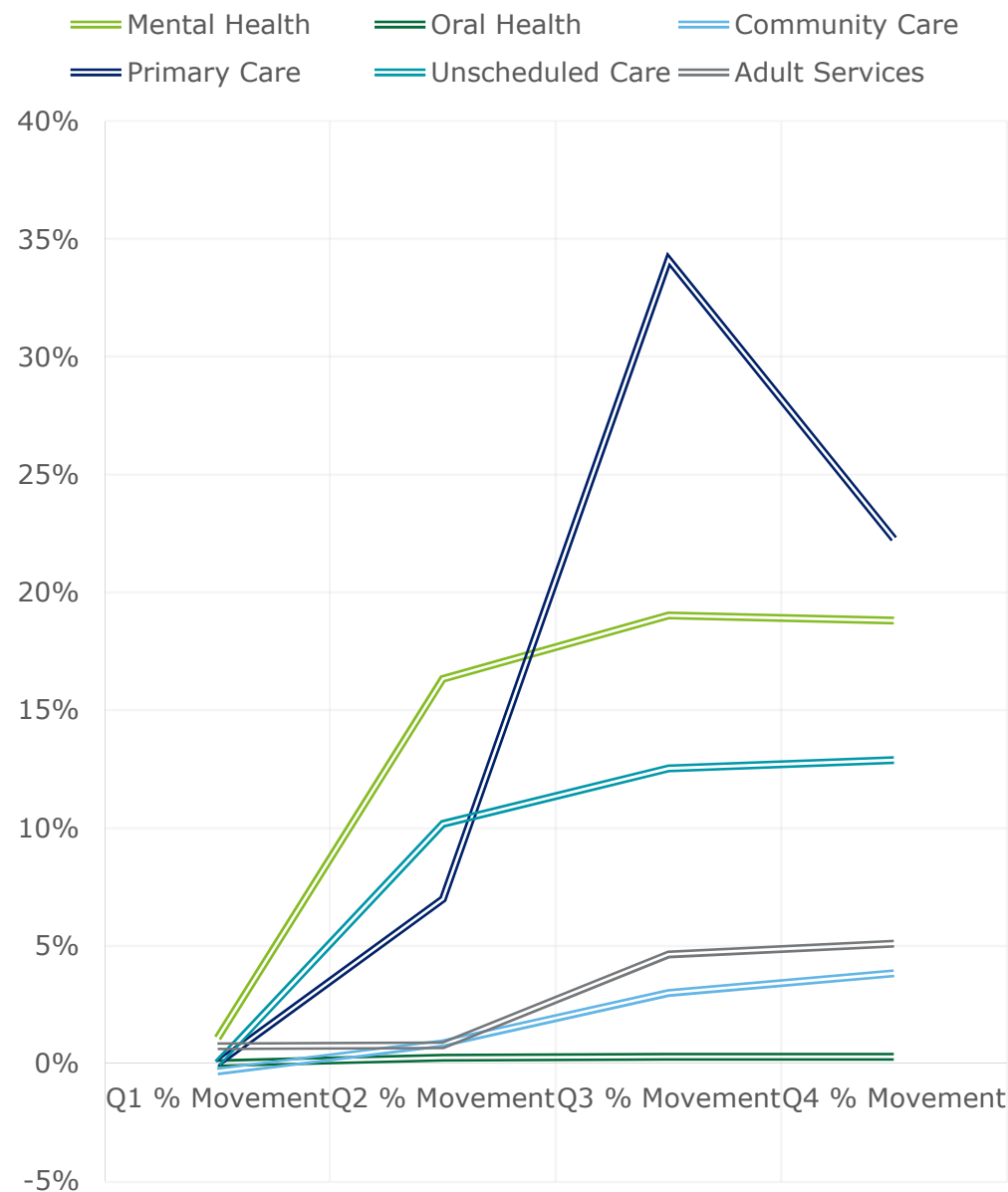
2019/20 Update: As set out on page 19, we have not noted any changes to the FMRs. This includes the lack of information being provided to the IJB on the reallocation or amendment of budgets.

As set out in the graph across, there continues to be significant revisions to the budget. Our findings in 2019/20 are similar to 2018/19, with the revisions to the budget being similar to those made in the prior year. This indicates that the revisions are foreseeable and should be accounted for in the original budget.

While we are not aware of any formal change to the terms of reference of the Audit Committee, we have noted that from November 2019, the Audit Committee has considered the IJB's performance and financial position at its meetings.

2019/20 Conclusion: We welcome the Audit Committee taking a more active role in monitoring of the IJB's performance and financial position. However, the IJB continues to make significant revisions to its budget, with these revisions being foreseeable. Amendments to the IJB's budget are not transparently presented. The IJB should make improvements to its financial reporting processes to address these concerns.

BUDGET AMENDMENTS BY SERVICE



Financial management (continued)

Budget setting

2018/19 Conclusion: Financial planning is not integrated, long-term or outcome focused. Improvements to the budget setting process, linking to the Strategic Commissioning Plan and outcomes, improving engagement and linking to locality plans. The Shetland Partnership (of which the IJB is a key member) is in breach of the Community Empowerment Act, as locality plans do not exist.

2019/20 Update: The IJB has worked with its partners to develop locality plans. However, these were not developed in the year and the Partnership remains non-compliant with the Community Empowerment Act. It is expected that these will be fully developed in 2020/21.

Given that the 2019/20 budget was prepared prior to the publication of our 2018/19 report, our recommendations were not addressed in that year. In the 2020/21 budget, we have not identified any explicit links to the Strategic Commissioning Plan, outcomes or locality plans.

The budget for 2020/21 is the first in the existence of the IJB to be a balanced budget, following an increase in funding from SIC and NHSS of £2.060m and £3.028m respectively.

2019/20 Conclusion: We are pleased that the IJB is in a position to set a balanced budget for 2020/21, suggesting improvements in the integration of financial planning and enabling the IJB to take a more long-term and outcome focused approach to budgeting. However, improvements to the IJB's budget setting process, as set out in 2018/19, remain outstanding. The IJB need to closely monitor the development of locality plans, in conjunction with their partners, to ensure the IJB addresses the non-compliance with its legal responsibilities as soon as possible.

Financial capacity

2018/19 Conclusion: The IJB has suitably qualified and experienced officers leading the finance function. The IJB needs to consider the capacity of the finance function given the dual role being completed by the Chief Financial Officer. The IJB needs to consider if its leadership is appropriately resourced and supported by enough personnel and support services to deliver the strategic change necessary.

2019/20 Update: There have been no changes in the finance function in the year. The quality of reporting, subject to the recommendations made on page 20, remains appropriate.

As with 2018/19, while we are aware that capacity remains an ongoing consideration, we are not aware of a specific review considering the capacity of the finance function, the case for an IJB-specific Chief Financial Officer, or of the resources and support services provided to leadership within the IJB. Given the significant turnover within leadership positions (the loss of the Head of Planning and Modernisation in October 2019 and with three Chief Officers being in post between March 2019 and September 2020) and the loss of continuity knowledge and experience, this takes on more importance. In order to mitigate the impact on continuity knowledge and experience, the IJB retained the Interim Chief Officer appointed in May 2019 in an Interim Chief Officer position until July 2020, and subsequently in an Interim Depute Chief Officer position.

While officers within the Council and NHS who perform IJB delegated services were involved in the development and updating of the Council and NHS workforce plans, the IJB itself was not involved. It is not clear from a review of the NHS and Council workforce plans that the IJB's needs have been appropriately considered and therefore that there are sufficient plans in place to ensure an appropriate workforce is available over the medium-term to deliver the IJB's objectives.

2019/20 Conclusion: There is insufficient information for us to express a view as to whether there is, or is not, a need for an IJB-specific Chief Financial Officer and as to whether the level of support provided to the IJB is appropriate. However, a significant number of actions have not been taken forward in the year, which suggests there is an issue with capacity within the IJB at a senior level (we accept the outstanding recommendations do not all sit with the Chief Financial Officer, however, the level of outstanding recommendations is indicative of a wider capacity issue within the IJB).

The IJB needs to work with its partners to carry out this review, as set out in 2018/19, to consider if it is satisfied that it has the resources and personnel it needs to achieve its objectives. The IJB should ensure it is involved in the annual reviews of the Council and NHS workforce plans, to assure itself as to the robustness of those plans for the IJB's needs, in line with the IJB's objectives.

Financial management (continued)

Internal audit

Shetland Islands Council's Chief Internal Auditor provides the internal audit function for the IJB.

In 2019/20, internal audit carried out one IJB-specific review on the set aside budget arrangements, with no significant issues noted. A review of SIC and NHSS internal audit reports was also carried out, with no issues arising in these internal audits being specific to the IJB.

The internal audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

Standards of conduct for prevention and detection of fraud and error

We have reviewed the IJB's arrangements for the prevention and detection of fraud and irregularities. Overall we found the IJB's arrangements to be designed effectively and implemented appropriately.

Deloitte view – Financial management

The IJB has achieved a surplus position in 2019/20, with improvements on performance against the budget noted since 2018/19. Improvements recommended in 2018/19 with regards to monitoring of the budget position were not actioned in the year.

We are pleased to note that the Audit Committee has taken a more active role in the scrutiny of the IJB's performance and financial position. However, we have not noted improvements to the transparency of financial reporting to the IJB in the year, despite recommendations being made in this area in 2018/19.

The IJB has a strong and consistent finance team. However, the IJB needs to consider the capacity of its finance function, the support provided to its leadership and the workforce plans developed by SIC and NHSS to ensure that these are all sufficient to support the delivery of the IJB's objectives.

While we have noted improvements in the year, the IJB continues to face challenges in achieving its planned savings. In order to ensure future financial sustainability, it is critical that the Board set realistic targets with clear plans in place, ensuring there is sufficient lead time to implement the changes required.

Financial sustainability

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.



Areas considered

Our approach to the audit dimensions is risk focused. We have provided an update for the Board on all areas considered in the prior year audit report. We identified the following risks in our audit plan:

"There is a risk that the plans for efficiency savings, achieving financial balance and service redesign are not robust enough to allow the benefits to be realised."

"There is an increased risk in achieving short term financial balance."

Short-term financial balance

2018/19 Conclusion: The IJB achieved financial balance in 2018/19, following the receipt of additional funding of £1.2m from the Scottish Government (provided through NHS Shetland) and additional funding of £3.6m provided by NHS Shetland directly. The IJB identified an 'efficiency target' of £2.28m, achieving £0.43m of these. The IJB needs to operate within the delegated budget and commission services from the Council and NHS on this basis. It is poor practice and not in line with the Integration Scheme to budget using non-existent resources where savings are not identified.

2019/20 Update: In 2019/20, the IJB again received additional funding of £1.2m from the Scottish Government, through NHS Shetland. As set out on page 19, NHS Shetland additionally provided a further £2.734m to the IJB. These actions, in conjunction with the achievement of £1.427m of savings achieved in the year, have enabled the IJB to achieve financial balance in 2019/20.

In May 2020, the IJB set its 2020/21 budget. As set out on page 21, the IJB has set a balanced budget for the first time since its inception, following significant uplifts in the funding provided by both SIC and NHSS. While there are no efficiency targets built into the IJB's budget, it has noted that it aims to deliver 3% recurring savings each year, and will need to deliver short-term savings during 2020/21 as and when the opportunities arise. These savings have not been identified in the budget and there is a risk that they will not be achieved.

In setting the budget, the IJB recognised that current developments in relation to COVID-19 are likely to incur significant additional costs, and noted that significant revisions to the budget are likely throughout the year. The IJB may need to consider emergency budget measures as the impact, financially and operationally, of mobilisation and response to COVID-19 are better understood.

The IJB developed a mobilisation plan detailing the additional activities undertaken to support its response to COVID-19, alongside the estimated financial impact. This is being monitored and updated on a regular basis, with the estimated costs associated with the IJB submitted to the Scottish Government. While the full funding allocation from the Scottish Government has not yet been confirmed, the interim allocation to address immediate social care pressures is not sufficient to fund all pressures.

2019/20 Conclusion: The IJB achieved financial balance in 2019/20. A balanced budget has been set for 2020/21, following significant uplifts in the funding provided by the Council and NHS. However, the impact of COVID-19 remains a significant risk which could impact on the IJB achieving short term financial balance.

Financial sustainability (continued)

Reserves

2018/19 Conclusion: The IJB has a clear Reserves Policy in place, which was approved in 2017/18. The IJB carried forward £0.431m of unearmarked reserves to 2019/20, providing some flexibility for the IJB to drive forward redesign, transformation and programmes of demand management.

2019/20 Update: The IJB reviewed its Reserves Policy in the year. The policy does not set out a reserves target, as management feel this would not be feasible when the IJB is looking to find efficiencies within budgets alongside managing increasing demographic pressures. In 2019/20, we noted that the IJB's unearmarked reserves have increased from £0.431m to £0.956m.

We note that the IJB has developed an IJB Reserve Application Form which is to be used for all future bids for funding from the reserve, which will enable the IJB to better monitor whether the use of reserves is appropriate.

2019/20 Conclusion: In line with good practice, the IJB continues to review its reserves strategy. We welcome the development of an application form for funding from reserves, which will enable improved monitoring. The IJB should give consideration to setting a budgeted contribution to reserves in future to allow the IJB greater flexibility to manage demand fluctuations and to support financial planning over the medium to longer term.

Medium term financial sustainability

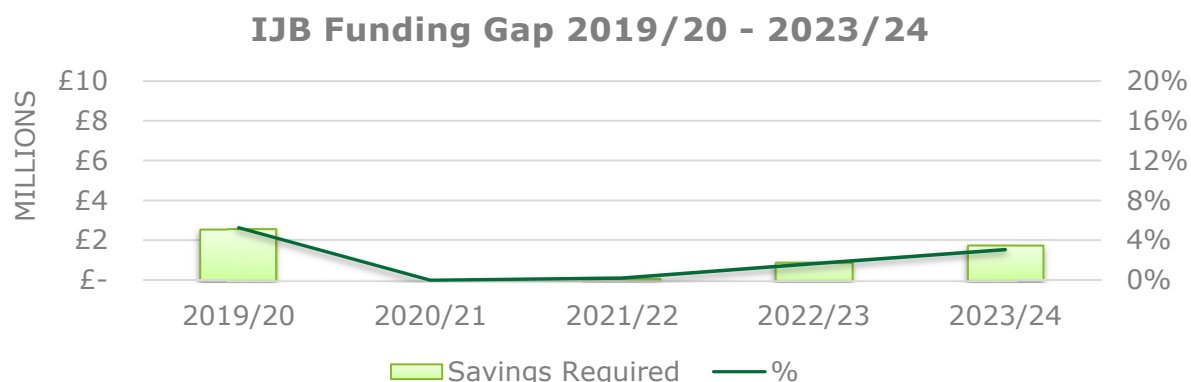
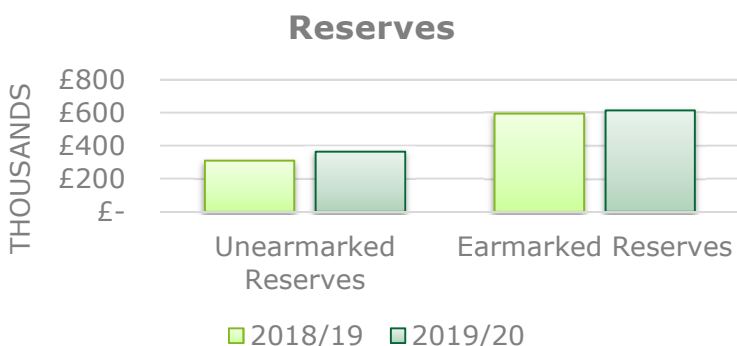
2018/19 Conclusion: The IJB developed an MTFP, forecasting a need to achieve £7.7m of recurring savings by 2023/24. The robustness of the MTFP needed substantial improvement, set out in the action plan on page 41. Work is ongoing on service redesign and business transformation, but savings are not being realised at the required levels. Overall, the IJB is not in a financially sustainable position.

2019/20 Update: The MTFP has not been reviewed in the year, with delays initially as a result of the 2020/21 budget settlement process and subsequently COVID-19.

In 2019/20, £2.53m of savings were required, with £1.43m of savings achieved (56%). This is a significant improvement on the prior year, although there is heavy reliance on non-recurrent savings. In its 2020/21 budget, the IJB noted a significant increase in funding from both SIC and NHSS, increasing its funding from £45.648m to £50.736m. This enables the IJB to set a balanced budget for 2020/21, and reduces the funding shortfall by 2023/24 from £7.66m (14%) to £1.73m (3%). This savings target is in line with the efficiency targets set by the Scottish Government.

We are aware of the ongoing work in in service redesign and business transformation, however, progress on these has not yet resulted in the release of savings.

2019/20 Conclusion: The IJB is now in a financially sustainable position. While the position of the IJB looking forward to 2020/21 has significantly improved on the same position in the prior year, this should be seen by the IJB as an opportunity to focus on appropriate changes to service delivery and demand management, managing change over the medium-term rather than needing to focus on short-term policies to achieve a breakeven position. It is important that the IJB does not perceive the improved position as evidence that change over the medium-term is not needed.



Financial sustainability (continued)

Medium term financial planning

2018/19 Conclusion: The IJB's MTFP should refer to the key principles of public service reform. The IJB should include the impact that decisions will have on the IJB's position against the in-year budget and the funding gap identified in the MTFP in the 'Finance Implications' section of reports. The implications of decisions on long-term outcomes and needs of the community should also be enhanced.

2019/20 Update: From our review of reports in the year – including directions issued to the Council and NHS – we have not noted any changes in the finance implications reported, with it remaining unclear what impact decisions will have on the position against the in year budget and the MTFP.

The MTFP was not revised in the year, as set out on page 24.

2019/20 Conclusion: In order to develop a culture of consideration of long-term financial sustainability, ensuring this is at the forefront of decision makers' minds, we remain of the view that the IJB should enhance the finance implications set out within its reporting where decisions will have an impact on the position agreed by the IJB in its budget or MTFP. When the MTFP is revised in 2020/21, the IJB should ensure to make reference to the principles of public service reform, setting out how the IJB intends to align its resources to these principles and monitor progress against them.

Strategic Commissioning Plan

2018/19 Conclusion: The IJB developed a Strategic Commissioning Plan covering 2019-22. The plan requires improvement in quantifying demand pressures and the resulting costs and identifying the level of transformation required, being linked to the Council and NHS programmes. The IJB needs to develop specific and detailed action plans to ensure the plan is achieved.

2019/20 Update: The Strategic Commissioning Plan was not revisited in the year. Despite the recommendations noted above, the Board took a decision in November 2019 to agree "that no separate process be undertaken to update the Strategic Commissioning Plan for 2020-23." The report underpinning this decision did not make reference to the fact that audit had identified a need to improve the plan. Further reporting was due in early 2020, although this did not occur due to the impact of COVID-19.

2019/20 Conclusion: We have not noted improvements in the year. Our conclusions from 2018/19 therefore remain relevant and appropriate in 2019/20.

Transformation work

2018/19 Conclusion: The IJB does not have a standalone transformation programme, instead relying on the Council and NHS programmes. The IJB needs to assess these programmes and consider whether they meet the IJB's needs, or consider developing its own programme. The IJB should receive reporting on progress against the programmes in relevant areas.

2019/20 Update: From review of Board and Audit Committee reports, we have not identified any reporting to the IJB on the Council and NHS transformation programmes. A number of areas of both the Council and NHS programmes are relevant to the IJB, but it is not clear that the IJB has considered whether they are sufficient.

2019/20 Conclusion: We have not noted improvements in the year. Our conclusions from 2018/19 therefore remain relevant and appropriate in 2019/20.

Workforce planning

2018/19 Conclusion: The IJB needs to work with the NHS and Council to ensure that the IJB's needs are met through their respective workforce plans. The IJB should receive reporting on how it has been involved in the development of the Council and NHS workforce plans, and how IJB needs have been built into the plan.

2019/20 Update: The IJB received no reporting on workforce planning in the year, relating either to the NHS or Council plans. While the Chief Officer was consulted in the development of both plans, the Board was not involved and has not received assurance on what the IJB's needs are, how these will be met and how any gaps will be addressed.

2019/20 Conclusion: We have not noted improvements in the year. Our conclusions from 2018/19 therefore remain relevant and appropriate in 2019/20.

Financial sustainability (continued)

Deloitte view – Financial sustainability

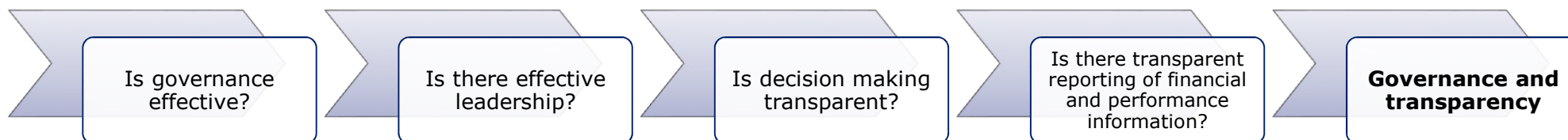
As noted on page 22, the IJB achieved short term financial balance in 2019/20 and has set a balanced budget for 2020/21. However, while progress is evident from the original MTFP, the IJB is still faced with financial challenges in the medium to longer term, with the impact of COVID-19 increasing this risk.

The current MTFP was not revisited as part of the annual budget process, although plans are in place for a comprehensive review in 2020/21. Given the risks associated with COVID-19, these will need to be taken into account in updated medium and long term plans. It is therefore critical that this comprehensive review takes place.

Given the risks identified in 2018/19 regarding medium-term financial planning, the Strategic Commissioning Plan, transformation work and workforce planning, and the importance of each of these areas to the IJB's sustainability, no progress was made in addressing the issues identified in 2018/19 during the year. The IJB should ensure progress on these areas is prioritised in 2020/21.

Governance and transparency

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

Our approach to the audit dimensions is risk focused. We have provided an update for the Board on all areas considered in the prior year audit report. We identified the following risk in our audit plan:

"There is a risk that the scrutiny and governance arrangements are not sufficiently robust to achieve the full benefits of integration."

Leadership and vision

2018/19 Conclusion: The IJB has a clear vision, set out in the Shetland Partnership Plan, which is clearly linked to its Strategic Commissioning Plan. The IJB has strong executive leadership.

2019/20 Update: There have been a number of changes in the IJB in the year. The Chief Officer took up the Interim Chief Executive position within NHS Shetland in April 2019, with an Interim Chief Officer appointed in May 2019. The Chief Officer returned to post in February 2020, but subsequently left on secondment in April 2020. The Interim Chief Officer appointed in May 2019 remained in that position until July 2020 when they took up the Interim Depute Chief Officer position, with a new Interim Chief Officer appointed from that date.

A new Chair was appointed in April 2019. Subsequently, a new Vice Chair was appointed in April 2020, with a new Chair appointed again in May 2020. There have also been numerous changes to the membership and Chair of the Audit Committee. These changes all occurred as a result of requirements included in the Integration Scheme to rotate the Chair and Vice Chair roles between members appointed by NHS Shetland and Shetland Islands Council.

2019/20 Conclusion: The IJB had transition arrangements in place to manage the changes in key positions, and provided training to new members of the Board. However, having such a high level of turnover risks delays to the IJB's work as new leadership and new Board members embed themselves in the work of the IJB and their new roles. The IJB and its partners should continue to monitor the high level of changes to understand if there is an underlying cause that needs to be addressed.

Development

2018/19 Conclusion: The IJB does not have a training plan at an individual officer, Member, Committee, or Board level. No skills gap analysis has been carried out, and appraisals are not carried out for Members. The effectiveness of training is not assessed. The IJB needs to fundamentally overhaul its approach to training and adopt a formal, ongoing approach to development.

2019/20 Update: While we are aware of some training provided to new members in December 2019, we were not provided with any evidence of a training plan being developed, appraisals being carried out, a skills gap analysis being performed or self-assessments of Committee or Board performance.

2019/20 Conclusion: The provision of training to new members in the year is welcome. However, we have not noted improvements in the year in relation to the development of a training plan. Our conclusions from 2018/19 therefore remain relevant and appropriate in 2019/20.

Governance and transparency (continued)

Effectiveness of governance

2018/19 Conclusion: The IJB does not have a structured approach to regular self-assessment and needs to develop a self-assessment and review programme. The IJB faces a risk from declining attendance at Board meetings.

2019/20 Update: The IJB completed a self-assessment on how it has progressed the proposals made by the Ministerial Strategic Group to improve integration. The IJB prepared a development plan, focussing on review of the Integration Scheme, the MTFP and Strategic Commissioning Plan. As set out elsewhere in this report, the IJB has not refreshed any of the above documents to date.

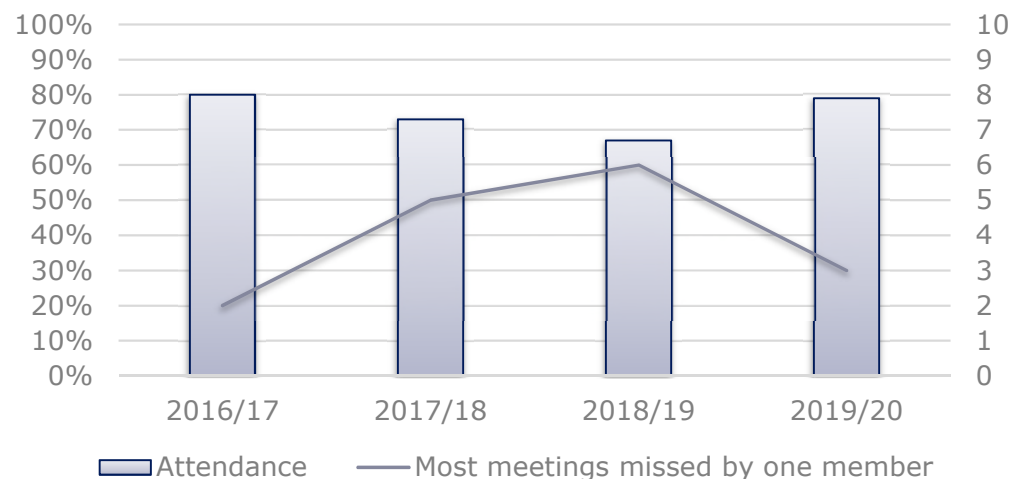
Other than this review, we have not been provided with any evidence of a self-assessment programme.

Attendance at IJB meetings has improved in the year, as shown in the graph across, from 67% in 2018/19 to 79% in 2019/20, reversing a previous trend of declining attendance. The most meetings missed by any one member has also declined from 6 (100%) to 3 (60%) in the year.

In response to the COVID-19 pandemic, all formal governance meetings were suspended and delegated authority to the Chief Officer to take operational decisions that would normally require Board approval. These arrangements have been kept under review and full Board meetings were held on 28 May 2020, 16 July 2020 and 10 September 2020.

2019/20 Conclusion: Appropriate arrangements have been put in place in response to the COVID-19 pandemic. We welcome improvements in attendance rates in the year and the preparation of a development plan in response to the Ministerial Strategic Group, although substantial work remains outstanding to progress the aims of this plan. Our view, as expressed in 2018/19, remains that the IJB needs to better establish a structured approach to self-assessment.

Attendance: 2016/17 – 2019/20



Quality of information

2018/19 Conclusion: The IJB provides extensive and timely information to Members to enable them to take decisions. The IJB should review whether the style of reporting is appropriate, and consider the detail provided in the meeting minutes. The IJB should consider webcasting of meetings.

2019/20 Update: We have not been provided with any evidence of a review of the style of reporting or documenting of the minutes of meetings being carried out in the year. While the Council has recently moved to webcasting of Council meetings, we have not noted the IJB following this route.

2019/20 Conclusion: We have not noted improvements in the year. Our conclusions from 2018/19 therefore remain relevant and appropriate in 2019/20.

Governance and transparency (continued)

Openness and transparency

2018/19 Conclusion: We concluded that in general, the IJB has a good attitude to openness and transparency and there is a supportive culture that underpins this. We noted that the IJB should review its approach to openness and transparency, involving stakeholder engagement, to identify how it can continue its journey of continuous improvement in this area.

2019/20 Update: We have not been provided with any evidence of stakeholder surveys or engagement in assessing the IJB's approach to openness and transparency, or of any review in this area being carried out in the year.

2019/20 Conclusion: We have not noted improvements in the year. Our conclusions from 2018/19 therefore remain relevant and appropriate in 2019/20.

Commitment to improvement

2018/19 Conclusion: The IJB is required by law to carry out a formal review of its Integration Scheme by the fifth anniversary of its adoption, identifying and assessing potential changes which could improve integration. The IJB should consider its approach to openness and transparency on an annual basis, and carry out annual self-assessments of its performance as a body and the effectiveness of its governance through committee and Member evaluations. These should be published through an annual self-evaluation report.

2019/20 Update: In line with the Public Bodies (Joint Working) (Scotland) Act 2014, the IJB is required to work together with the Council and NHS to formally review the Integration Scheme by the fifth anniversary of its approval, being May 2020. This review has not been completed and the IJB, along with its partner organisations, is non-compliant with the relevant legislation. The requirement for this review was communicated to all three organisations during our audits in summer 2019, and insufficient progress was made in early 2020, with planned work on this area then further delayed due to the COVID-19 pandemic.

As set out elsewhere in this report, the IJB has not carried out a review into its approach to openness and transparency and has not carried out a review of the effectiveness of its governance arrangements. A review of integration in response to the Ministerial Strategic Group was carried out. The IJB did not prepare a self-evaluation report in the year.

2019/20 Conclusion: The IJB is currently non-compliant with its responsibilities under its governing legislation and needs to address this as a priority. As set out throughout this report, there are a number of areas where we have not identified any improvement in the year, which highlights risks to the IJB's commitment to improvement.

Deloitte view – Governance and transparency

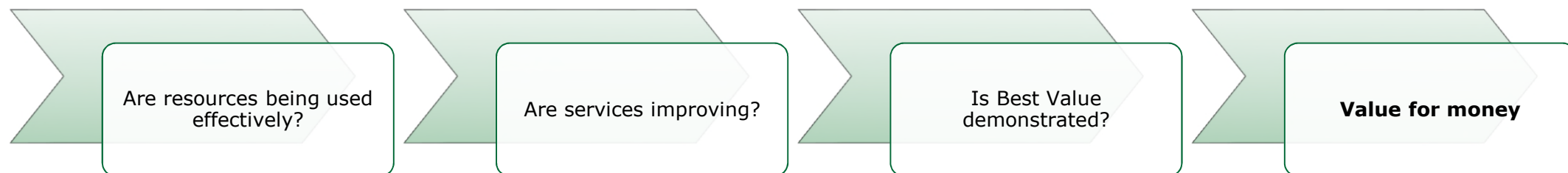
The IJB, with its partners, has a clear vision for what it wants to achieve for the people of Shetland. The transition of new Chief Officers and Board Members during the year went smoothly and appropriate governance arrangements have been put in place in response to the COVID-19 pandemic. Given the high level of turnover in these key positions in the year, we have insufficient evidence upon which to conclude whether the IJB continues to have strong executive leadership.

We have not identified any improvements in the IJB's approach to development, self assessment, openness and transparency, or to enhancing the quality of its information.

Despite highlighting the need for a review of the Integration Scheme in June 2019 – with the review required to be completed by June 2020 – progress on this through the year was slow, with further delays then caused by the impact of COVID-19 resulting in the IJB being in a non-compliant position. The IJB needs to address this as a matter of priority.

Value for money

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



Areas considered

Our approach to the audit dimensions is risk focused. We have provided an update for the Board on all areas considered in the prior year audit report. We identified the following risk in our audit plan:

"There is a risk that the scrutiny and governance arrangements are not sufficiently robust to achieve the full benefits of integration."

Performance management

2018/19 Conclusion: The IJB has a performance management framework in place, with performance regularly considered by management and the Board. While this is currently based on the existing frameworks within the Council and NHS, further work is required to provide a fully integrated suite of indicators for the IJB linked to its Strategic Commissioning Plan and the Scottish Government's National Performance Framework.

2019/20 Update: In June 2019, the IJB approved a new Performance Management Framework 2019-2024, which was jointly developed with the Council and NHS. Performance reporting to the IJB is set out against this revised framework, with reporting on Council wide indicators, health and wellbeing outcomes and national integration indicators.

2019/20 Conclusion: We welcome the preparation of a revised framework in the year, which is linked to the IJB's strategic plans, the Shetland Partnership Plan and the National Performance Framework.

Sickness absence

2018/19 Conclusion: We noted that the sickness absence information reported to the IJB differs to that reported to the Council, despite being for the same period and covering the same staff, undermining the ability of the Board to effectively monitor performance in this area.

2019/20 Update: In 2019/20, reporting to the IJB has been consistent with reporting to the Council and NHS.

Sickness absence within the IJB remains significantly higher than comparative figures for the Council and NHS. Within the IJB, sickness absence in 2019/20 was approximately 5.7%, compared to 3.7% for the Council and 3.8% for NHS Shetland. The IJB's absence rate is also higher than the Scottish Government's target rate of 4%.

2019/20 Conclusion: An increased sickness absence rate results in additional pressure on the IJB's financial position, due to the need to make greater use of locum and agency staff, and risks performance where roles cannot be filled. These impacts demonstrate why it is important that the IJB is involved in the development of the Council and NHS workforce plans, and to satisfy itself that the plans are appropriate for its needs, given that the staff performing IJB functions remain employees of the Council and NHS.

Value for money (continued)

Performance data

2018/19 Conclusion: The IJB has been performing consistently against its targets. The IJB should review its historical performance and its targets and challenge whether targets set are realistic and demonstrating a commitment to continuous improvement. While performance information is lengthy, it is highly numerical and difficult to follow with the accompanying report lacking detail and associated narrative being very high-level.

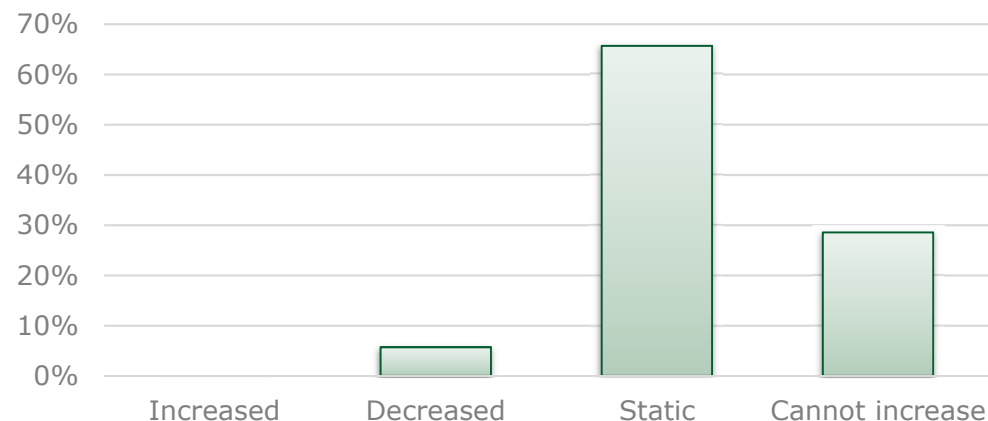
2019/20 Update: The IJB continues to perform consistently against its targets: In 2018/19, it achieved 21 targets and missed 15 and in 2019/20, it achieved 21 targets and missed 15. While the IJB has performed consistently, this is because it is meeting targets which have not changed, so while the IJB is meeting targets, this doesn't mean that performance is improving. From our review of indicators in 2019/20, we noted that performance has declined from 2018/19 in 54% of cases (improving in 29%).

In 2018/19, we noted significant declines in performance in the referral time for psychological therapies, which is a key national indicator. Performance declined from approximately 75% within 18 weeks in 2016/17 to approximately 55% in 2017/18, to 33% in Q3 2018/19. In 2018/19, management earmarked funding for an additional therapist, with alternatives being provided to some on the waiting list. The IJB noted that it had an improvement plan in place to achieve the 90% target by Q3 2019/20. Despite this, performance has continued to decline, to 16% in Q3 2019/20.

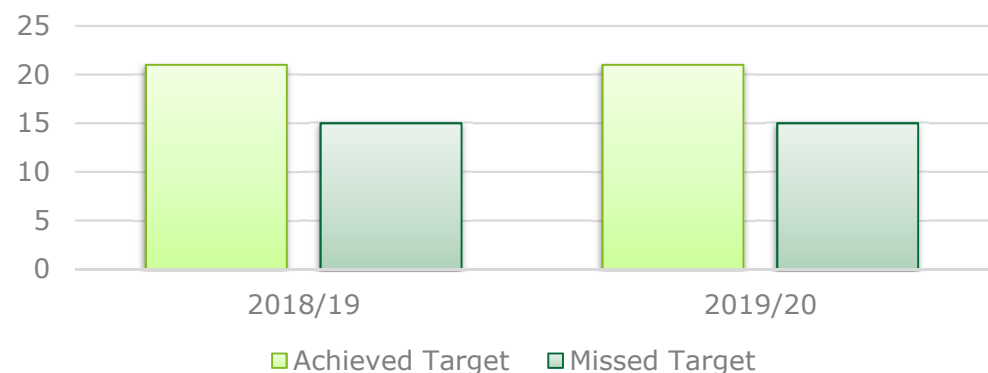
We have not been provided with any evidence of the IJB reviewing the targets set in the year. We have not identified any changes to performance reporting with the reports continuing to lack detail and being difficult to understand, undermining its usefulness.

2019/20 Conclusion: While the IJB continues to perform consistently against its targets, performance has declined in 54% of areas. While addressing this decline in performance is important, we do recognise that resources are currently focussed on managing the impact of COVID-19. We have not noted improvements in the year in relation to a review of targets or of performance information, and our conclusions from 2018/19 therefore remain relevant and appropriate in 2019/20.

Targets: 2017/18- 2019/20



Performance against target: 2018/19 - 2019/20



Performance Indicators: 2018/19 - 2019/20



Value for money (continued)

Demand management

2018/19 Conclusion: The IJB has been involved in several programmes of demand management, including in areas such as mental health, primary care, intermediate care and social care. The progress reports provided to the IJB do not enable it to effectively monitor and properly scrutinise performance in these areas.

2019/20 Update: The IJB continues to engage in programmes of demand management. We have been impressed by the level of community engagement demonstrated in the 'Caring for Bressay' project, and are highlighting this as an area of good practice. As a result of effective engagement with the community, the IJB was able to transform the healthcare delivery model for Bressay to better suit the needs of residents whilst also realising savings to be reinvested in the community.

We have not identified progress reports being presented to the IJB outlining progress in the areas set out in 2018/19 or on the 'Caring for Bressay' project (since the revised model was approved in September 2019).

2019/20 Conclusion: We welcome the IJB's commitment to community engagement as part of reviews of service delivery and commend the Board on work in this area, particularly in relation to the 'Caring for Bressay' project. As set out in 2018/19, it is important that the IJB improves how it monitors progress in these areas to identify if savings and benefits are being realised and to learn and apply any lessons learned to future programmes.

Deloitte view – Value for money

The IJB has improved its performance management culture by approving a revised framework in the year, which is linked to the IJB's strategic plans, the Shetland Partnership Plan and the National Performance Framework. We welcome the IJB's commitment to community engagement as it progresses programmes of demand management and changes to service delivery, although improvements in monitoring progress against these remains outstanding.

Performance data has shown some areas of improved performance with other areas still representing a challenge. Performance declined in 54% of cases, with improvement noted in 29% of cases. While addressing this decline in performance is important, we do recognise that resources are currently focussed on managing the impact of COVID-19.

It is important that as the Board moves to the next phase in responding to COVID-19 that it focuses on lessons learned and how some of the changes made can be sustained. It is positive to note that the IJB has already started collating this information.

Given the long-running nature of the performance issues in the area of psychological therapies and the trend of declining performance, we have serious concerns about the ability of the IJB and its partners to provide appropriate levels of service in this area. We will monitor changes in performance in this area closely in 2020/21.

Best Value

It is the duty of the IJB to secure **Best Value (BV)** as prescribed in Part 1 of the Local Government in Scotland Act 2003.

Duty to secure best value

1. It is the duty of the IJB to make arrangements which secure best value.
2. Best value is continuous improvement in the performance of the IJB's functions.
3. In securing best value, the IJB shall maintain an appropriate balance among:
 - a) The quality of its performance of its functions;
 - b) The cost to the IJB of that performance; and
 - c) The cost to persons of any service provided by the IJB for them on a wholly or partly rechargeable basis.
4. In maintaining that balance, the IJB shall have regard to:
 - a) Efficiency;
 - b) Effectiveness;
 - c) Economy; and
 - d) The need to make the equal opportunity requirements.
5. The IJB shall discharge its duties in a way that contributes to the achievement of sustainable development.
6. In measuring the improvement of the performance of an IJB's functions, regard shall be had to the extent to which the outcomes of that performance have improved.

BV arrangements

The IJB has a number of arrangements in place to secure Best Value. This is evidenced through the Strategic Commissioning Plan and performance reporting. In 2018/19, we noted a view held by management and the Board that the IJB struggles to achieve Best Value and does not have sufficient information or consider a wide enough range of areas to assure itself that Best Value is being achieved, noting in its local response to the national report on integration that "Best Value is an area that is less developed."

As noted elsewhere within this report, while there have been improvements in a number of areas, there continue to be a significant number of areas where there has been no improvement in the year and performance has dropped to unacceptable levels, or the IJB has failed to meet its legal responsibilities (for example, in relation to the Community Empowerment Act and the Public Bodies Act).

Across the 22 areas we considered in both 2018/19 and 2019/20, we identified improvements in 12 areas, with no improvement or disimprovement identified in 10 areas. As set out on page 41, we have noted that only 3 of the 16 recommendations made in our prior year audit were fully implemented in the year.

In relation to the new requirements in relation to the Islands Act, the IJB has not yet carried out islands community impact assessments and has not published information about the steps the IJB plans to take to ensure compliance with its responsibilities under the Act when they come into force.

Deloitte view – Best Value

The IJB has a clear understanding of areas which require further development. However, it is not clear that the IJB has sufficient arrangements in place to ensure continuous improvement and deliver Best Value.

Sector developments



Sector developments

Responding to COVID-19

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

An emerging legacy

How COVID-19 could change the public sector

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been uncharted territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic’s likely legacy on governments, public services and the debates that shape them.

Seven emerging legacies:

1. Our view of resilience has been recast;
2. Governments could be left with higher debt after a shock to the public finances;
3. Debates around inequality and globalisation are renewed;
4. Lines have blurred between organisations and sectors;
5. The lockdown has accelerated collaborative technologies;
6. Civil society has been rebooted and citizen behaviour may change; and
7. The legacy that still needs to be captured.

Read the full article at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html>

Sector developments (continued)

Responding to COVID-19 (continued)

COVID-19: Preparing for the 'next normal'

As the COVID-19 pandemic continues to unfold there is unlikely to be a rapid or decisive transition from crisis to recovery. Organisations are more likely to face a sequence of operational environments that oscillate between restriction and relaxation, before a final end-state of relative normality.

The first phase of COVID-19 response has been characterised by significant and rapid changes in the way people live their lives and how organisations operate. Many of these changes have been government-mandated. The next phase will be an opportunity for organisations to reflect and plan for a period of uncertainty and disruption. During this period businesses will need to maintain their responsibilities to their customers and staff while modifying operations to meet changes in demand and supply as government restrictions change. They will need to ensure that their recovery is sustainable in terms of resource use and flexible enough to meet change.

Copies of this report can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/risk/articles/preparing-for-the-next-normal.html>

COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover, and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recover to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

<https://www2.deloitte.com/uk/en/pages/human-capital/articles/COVID-19-impact-on-the-workforce-insight-for-hr-teams.html>

Appendices



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 (UK) 260 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; and
- Other insights we have identified from our audit.

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.

Use of this report

This report has been prepared for the 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.

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 procedures performed in fulfilling our audit plan.

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



Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 14 September 2020

Audit adjustments

Disclosures

Disclosure misstatements

The following disclosure misstatement has been identified up to the date of this report which management have corrected. We nonetheless communicate it to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<p><i>Remuneration Report</i></p> <p>The Remuneration Report is required to disclose the actual remuneration received by the Chief Officer. The disclosure should specifically relate to their period in post, and not include remuneration for other positions held.</p> <p>Due to changes in the Chief Officer role in the year, the disclosure in relation to the Interim Chief Officer was incorrectly apportioned. The remuneration disclosed has been revised from £63,171 to £71,396.</p> <p>The disclosure in relation to the Chief Officer was incorrect and revised following audit from £27,776 to £27,194.</p>	<p>Local Authority Accounts (Scotland) Regulations 2014 – Remuneration of Chief Officer</p>	<p>This disclosure is considered qualitatively material given that it relates to compliance with legislation and is a key regulatory focus area.</p>

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial Sustainability</i>	The IJB should ensure it is involved in the reviews of the Council and NHS workforce plans and receives reporting on how these workforce plans will meet the IJB's needs.	A report will be presented to the IJB on an annual basis, outlining the NHS and Council workforce planning arrangements and any points of note for or risks to the IJB.	Chief Officer	31/03/2021	High
<i>Financial sustainability</i>	The IJB should receive reporting on the Council and NHS transformation programmes and how these are specific to the IJB's needs. The IJB should specifically consider whether the Council and NHS transformation programmes are sufficient, or whether it should develop a standalone transformation programme.	NHS Shetland's Project Management Office (PMO) will report on all transformation programmes across the health & social care system. A standard quarterly report will be created by the PMO that can be presented to various Boards/Committees to avoid duplication of work. The report will clearly link these projects to the Strategic Commissioning Plan, Medium Term Financial Plan and Directions.	Public Health & Planning Principal (NHSS)	31/03/2021	High

Action plan (continued)

Follow up on 2018/19 Action Plan

We have followed up the recommendations made in our previous year reports and note that only 3 of the total 16 recommendations made have been fully implemented. We will continue to monitor the 13 that have not been fully implemented as part of our 2020/21 audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial Sustainability	<p>The MTFP should be made more robust, giving specific consideration to the following:</p> <ol style="list-style-type: none"> 1. Include scenario analysis and risk assessments of assumptions. 2. The MTFP needs to outline the options available to the IJB to address the funding gap. 3. The MTFP should outline how the IJB intends to use its resources to deliver the Strategic Commissioning Plan. 4. The MTFP should make reference to the key principles of public service reform - prevention, performance, partnership and people - and how these key principles are reflected in the IJB's financial planning, and how the IJB intends to align its resources to these key principles and monitor progress against them. 	<p>The Strategic Commissioning Plan (SCP), which is refreshed annually will be the primary mechanism for addressing these recommendations.</p> <p>However, the MTFP will be updated annually so that it is aligned to the SCP.</p> <p>This is an ongoing iterative process where the SCP and MTFP are interdependent.</p>	Chief Financial Officer	31/03/2020	High	<p>Not implemented: The IJB has not revised its MTFP in the year, with subsequent delays due to COVID-19. The IJB intends to update its MTFP in 2020/21, and we encourage management to implement these recommendations when doing so.</p> <p>Updated management response: The IJB MTFP has been delayed due to the COVID-19 Pandemic. The plan will be aligned to the SIC MTFP which is due to be finalised in November 2020.</p> <p>Updated target date: 31/03/21</p>
	<p>The IJB needs to have annual self-assessments of governance arrangements, committee and Board performance. The IJB should agree a structured self-assessment and review programme.</p>	<p>This recommendation will be addressed through the IJB Governance Review which features in the IJB Business Programme.</p>	Executive Manager, Governance & Law (SIC)	31/12/2019	High	<p>Not implemented: The IJB has not performed self-assessments or agreed a self-assessment programme as set out in this recommendation.</p> <p>Updated management response: This will be addressed during this year with the NHS Shetland who undertook the last assessment on behalf of the Board.</p> <p>Updated target date: 31/03/21</p>

Action plan (continued)

Follow up on 2018/19 Action Plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Value for Money	The IJB should review its historical performance and its targets and challenge whether targets set are realistic and demonstrating a commitment to continuous improvement.	As the IJB is a relatively small organisation with limited resources this recommendation will be addressed through existing mechanisms.	Chief Officer	30/03/2020	High	<p>Not implemented: The IJB has not reviewed the targets set in the year or developed an improvement plan.</p> <p>Updated management response: KPIs from the Strategic Commissioning Plan will be benchmarked and linked to Directions which are issued annually.</p> <p>Updated target date: 31/03/21</p>
	To demonstrate a focus on improving performance and outcomes, the IJB should develop an Improvement Plan. This Improvement Plan should be informed by service self-assessments, stakeholder surveys and national reports.	The annual refresh of the SCP, subsequent directions and the Performance Management Framework will represent a continuous improvement cycle.				
Value for Money	The IJB should review its historical performance and its targets and challenge whether targets set are realistic and demonstrating a commitment to continuous improvement.	As the IJB is a relatively small organisation with limited resources this recommendation will be addressed through existing mechanisms.	Chief Officer	30/03/2020	High	<p>Not implemented: The IJB has not reviewed the targets set in the year or developed an improvement plan.</p> <p>Updated management response: KPIs from the Strategic Commissioning Plan will be benchmarked and linked to Directions which are issued annually.</p> <p>Updated target date: 31/03/21</p>
	To demonstrate a focus on improving performance and outcomes, the IJB should develop an Improvement Plan. This Improvement Plan should be informed by service self-assessments, stakeholder surveys and national reports.	The annual refresh of the SCP, subsequent directions and the Performance Management Framework will represent a continuous improvement cycle.				

Action plan (continued)

Follow up on 2018/19 Action Plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Financial Management</i>	The IJB should delegate authority to a committee to review and report to the Board on financial performance to better spread workload, free up time in Board meetings, improve the scrutiny of financial performance and enhance the importance attached to committees by the IJB.	As the IJB is a relatively small organisation with limited resources this recommendation will be addressed through existing committee structures. IJB agendas and chairing technique will be reviewed to allow greater scrutiny of financial reports.	Chief Officer	31/03/2020	Medium	<p>Not implemented: There have been no changes in the year.</p> <p>Updated management response: Consideration will be given to delegating responsibility for scrutinising financial performance to the Audit Committee.</p> <p>Updated target date: 31/03/21</p>
<i>Financial Sustainability</i>	<p>The Strategic Commissioning Plan should be reviewed to include:</p> <ol style="list-style-type: none"> 1. Quantification of demand pressures and the resulting costs in a 'no change' environment, linked clearly to the MTFP. 2. Identification of the level of transformation required, linked to NHS Shetland's and Shetland Islands Council's transformation programmes. 3. Specific, detailed action plans need to be developed and linked to the plan to ensure it is achievable. 	<p>The SCP, which is refreshed annually, will address these recommendations.</p> <p>The MTFP will be updated annually so that it is aligned to the SCP.</p> <p>This is an ongoing iterative process where the SCP and MTFP are interdependent.</p>	Chief Officer	31/03/2020	Medium	<p>Not implemented: The Strategic Commissioning Plan was not reviewed in the year.</p> <p>Updated management response: The update of the SCP has been impacted by the COVID-19 pandemic. A light touch refresh will be completed during 2020/21.</p> <p>Updated target date: 31/12/20</p>

Action plan (continued)

Follow up on 2018/19 Action Plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial Management	<p>A number of improvements are required to the budget setting process:</p> <ol style="list-style-type: none"> 1. There needs to be a link between the budgeted spend and the IJB's priorities as set out in the Strategic Commissioning Plan. 2. There needs to be improved links between the budget and outcomes. 3. The IJB should work with the Board to identify what engagement is necessary as part of the budget setting process. 4. Funding allocations should be based on need, and the IJB should challenge allocations which are not. 5. The budget is required to be linked to locality plans. The IJB is not complying with this requirement as no locality plans exist. 6. The IJB should maintain a central record of all queries received on the budget and answers provided, with this being publicly available. 	<p>The SCP, which is refreshed annually, will be the primary mechanism for addressing these recommendations.</p> <p>The budget setting process will be reviewed during 2019/20 to ensure the budgets are aligned to need.</p> <p>There is an ambition to maintain core records within the new website which is currently under development.</p>	Chief Financial Officer	31/03/2020	Medium	<p>Partially implemented: IJB funding is now based on need and the IJB has set a balanced budget for 2020/21, with Directions clearly linking budgeted expenditure to expected priorities and outcomes. Further work is required in linking the budget to locality plans.</p> <p>Updated management response: No progress has been made in linking the budget to locality plans in 2019/20 and the IJB will look to address this in 2020/21.</p> <p>Updated target date: 31/03/21</p>
Governance & Transparency	<p>The IJB needs to adopt a formal, ongoing approach to development. The IJB needs to carry out a skills gap analysis as part of the annual self assessment of committees and the IJB, work in conjunction with the Board to develop training plans for them (specific to committees/Members' needs), assess the effectiveness of all training provided and track and report attendance at training by the Board. The IJB should specifically consider a joint development programme with the NHS and Council to improve understanding and integration.</p>	<p>This recommendation will be addressed through the IJB Governance Review which features in the IJB Business Programme.</p>	Executive Manager, Governance & Law (SIC)	31/12/2019	Medium	<p>Partially implemented: Seminars have been arranged, although a training plan has not been developed.</p> <p>Updated management response: A significant number of seminar and information sharing events have been undertaken in year. Development of a training plan going forward will be undertaken as part of the governance review.</p> <p>Updated target date: 31/03/21</p>

Action plan (continued)

Follow up on 2018/19 Action Plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	<p>The IJB should carry out annual reviews of how open and transparent it is, seeking the views of the wider community. The IJB should carry out regular stakeholder surveys to help inform its approach to openness and transparency.</p> <p>The results of these reviews should be made publicly available through the publication of an Annual Self-Evaluation Report.</p>	<p>This recommendation will be addressed through the IJB Governance Review which features in the IJB Business Programme.</p> <p>There is an ambition to maintain core records within the new website which is currently under development.</p>	Executive Manager, Governance & Law (SIC)	31/12/2019	Medium	<p>Not implemented: The IJB did not carry out a review into how open and transparent it is in 2019/20.</p> <p>Updated management response: Although a review was not carried out one improvement which should flow from a project being undertaken by SIC is the opening up of public meetings to greater attendance through virtual means and the capacity to record and publish meetings to the wider public. This has a project completion date in 2020/21 and implementation soon thereafter subject to an investment decision by SIC.</p> <p>Updated target date: 31/03/21</p>
Governance & Transparency	<p>The IJB should consider developing its own website, to improve the level and accessibility of publicly disclosed information and clearly demonstrate to stakeholders and the wider public what the IJB is responsible for and how it is driving improvement across the health and social care system.</p>	<p>SIC is currently refreshing its internet platform and the IJB will have its own website within this system.</p>	Chief Officer	31/03/2020	Medium	<p>Not implemented: The IJB does not have its own website and has not adopted webcasting of its meetings in the year.</p> <p>Updated management response: Test website in place with go live date of 31 October 2020.</p> <p>Updated target date: 31/10/20</p>

Action plan (continued)

Follow up on 2018/19 Action Plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	<p>The IJB is required by law to carry out a formal review of its Integration Scheme by the fifth anniversary of its adoption, identifying and assessing potential changes which could improve integration. This review needs to:</p> <ol style="list-style-type: none"> 1. Ensure that there is agreement of responsibility and accountability arrangements. 2. Clearly set out roles and responsibilities of each of the parties. 3. Address any perceived lack of clarity in the Integration Scheme and set out how local arrangements will work. 4. Establish, communicate and enforce a clear governance structure, outlining who is responsible for service performance and quality of care. 	<p>The IJB will carry out a formal review of its Integration Scheme by the fifth anniversary of its adoption, identifying and assessing potential changes which could improve integration.</p>	Director of Corporate Services (SIC)	15/11/2020	Medium	<p>Not implemented: The IJB has not completed a review of the Integration Scheme and is now non-compliant with its obligations under its governing legislation. This is now a 'high' priority.</p> <p>Updated management response: The review of the Integration Scheme was significantly impacted due to the COVID-19 pandemic but is now a priority task.</p> <p>Updated target date: 31/12/20</p>
	<p>Progress reports provided to the IJB should make it clear:</p> <ol style="list-style-type: none"> 1. What work has been undertaken to date; 2. What work is still to be completed; 3. Why there are revised due dates (if any) and the financial impact this has had; and 4. Whether or not the action has been completed on time, and if not, what lessons have been learned and remedial actions taken. 	<p>This recommendation will be addressed through the IJB Performance Management Framework 2019-2024.</p>	Chief Officer	31/03/2020	Medium	<p>Not implemented: We have not identified any progress reports presented to the IJB in the year.</p> <p>Updated management response: This recommendation is to be addressed through the Performance Management Framework 2019-24 which was approved by the IJB in June 2019.</p> <p>Updated target date: 31/03/21</p>

Action plan (continued)

Follow up on 2018/19 Action Plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	The IJB should review whether the style of reports used and is appropriate. Covering reports should identify the key matters being considered and the implications of decisions.	This recommendation will be addressed through the IJB Governance Review which features in the IJB Business Programme.	Executive Manager, Governance & Law (SIC)	31/12/2019	Medium	<p>Not implemented: We have not received any evidence of a review into the style of reporting, and noted no changes in covering reports in the year.</p> <p>Updated management response: Although a review of reporting styles was not completed in year, focus was diverted to ensuring that the template for authors included prompts to directly address the need or otherwise to recommend any necessary new Directions (or variation of existing Directions) arising from the subject-matter of a report so as to give effect to the IJB's legal requirements and statutory Guidance.</p> <p>Updated target date: 31/03/21</p>

Our other responsibilities explained

Fraud responsibilities and representations



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 or group.

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 relation to completeness and accuracy of income 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.

Concerns:

No issues to report.



Independence and fees

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

Independence confirmation We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Board and our objectivity is not compromised.

Fees The audit fee for 2019/20, in line with the expected fee range provided by Audit Scotland, is £26,560, as analysed below:

	£
Auditor remuneration	18,300
Audit Scotland fixed charges:	
Pooled costs	1,790
Contribution to PABV	5,360
Audit support costs	1,110
Total fee	26,560

No non-audit services fees have been charged for the period.

Non-audit services In our opinion there are no inconsistencies between the FRC's Ethical Standard 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.

Relationships 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.

We are not aware of any relationships which are required to be disclosed.

Quality of public audit in Scotland

Annual report 2018/19

Audit Scotland published its annual assessment of audit quality carried out on the audit work delivered by Audit Scotland and appointed firms. A copy of the full report is available: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201819>

Public audit in Scotland

Recent high-profile corporate collapses in the private sector have led to considerable scrutiny of the audit profession. The Brydon review is looking into the quality and effectiveness of the UK audit market. The Kingman review, the Competition and Markets Authority market study of the audit services market and the Business, Energy and Industrial Strategy Committee's report on the Future of Audit have all reported on structural weaknesses in the private sector audit regime. The reviews are placing a strong focus on the need for independence of auditors from the bodies they audit.

The public audit model in Scotland is fundamentally different to the private sector audit regime and is well placed to meet the challenges arising from the reviews of the auditing profession. Public audit in Scotland already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

The Audit Scotland Audit Quality and Appointments (AQA) team will continue to develop its activities to provide the Auditor General for Scotland and Accounts Commission with assurance about audit quality. The Audit Quality Framework will be refreshed to take account of the findings from the first two years of its application and to reflect on the developments in the wider audit environment. Further development is planned over the following year to include:

- enhancing stakeholder feedback
- reviewing the structure and transparency of audit quality reporting.

Key messages

The programme of work carried out under the Audit Quality Framework provides evidence of compliance with auditing standards and the Code of audit practice (the Code), together with good levels of qualitative performance and some scope for improvements in audit work delivered in the period 1 April 2018 to 31 March 2019.

Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards:

- ICAS did not identify any concerns with audit opinions
- 55 per cent of financial audit files reviewed by ICAS over the last two years were graded as limited improvement required, the remaining reviews were graded as improvement required (*100% of Deloitte files – limited improvement*)
- ICAS noted considerable improvements in the documentation of performance audits and Best Value assurance reports.

Other performance measures showing good performance include:

- 78 per cent of internal reviews of financial audits in the last two years required only limited improvements (*100% of Deloitte internal reviews graded as no improvement required*)
- all audit providers have a strong culture of support for performing high-quality audit
- stakeholder feedback shows audit work has had impact
- non-audit services (NAS) are declining in number and value and requests made complied with the Auditor General for Scotland and Accounts Commission's NAS policy.

AQA monitors progress against areas for improvement. A common area for improvement in the last two years has been the need for better documentation of audit evidence. In 2018/19 further areas for improvement were identified in:

- the use of analytical procedures
- the application of sampling.



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