



Shetland Islands Integration Joint Board

Final report to the Members of the Shetland Islands IJB Audit Committee, Board and the Controller of Audit on the 2017/18 audit

Issued on 24 July for the meeting 21 September 2018

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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 of the Integration Joint Board (IJB) for the 2017/18 audit. The scope of our audit was set out within our planning report presented to the Committee in February 2018.

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 Board's duty to secure best value.



Introduction (continued)

The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
 - Completeness and accuracy of revenue; and
 - management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 10.
- We have identified no audit adjustments from our procedures to date.
- 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 IJB.
- The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.
- Based on our audit work, we expect to issue an unmodified audit opinion.

Insights

- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year to profile the journal population which has helped us identify journals of audit interest, such as journals posted on non-business days or journals with key words. No issues were noted from this testing.
- Other insights obtained through our audit work have been collated into an action plan for improvement on pages 38 – 41.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - Finalisation of our internal quality control procedures;
 - receipt of signed management representation letter; and
 - our review of events since 31 March 2018.

Introduction (continued)

The key messages in this report – audit dimensions

The following three pages set out the key messages of this paper in relation to the four audit dimensions:

Financial sustainability

The IJB continues to face an extremely challenging financial position. The total outturn net expenditure for 2017/18 was £47,090k, which was £2,392k over the approved budget, largely in relation to services commissioned from the NHS. NHS Shetland (NHSS) has agreed to fund the short term overspend on a non-recurring basis, through an additional one-off payment, as in previous years. However, this is not a sustainable long term practice and allows the IJB to defer responsibility and action for providing a sustainable service.

Furthermore, NHSS are continually forecasting a deficit on the portion of the IJB budget for which they are responsible for funding prior to the year commencing, as IJB recovery plans are not sufficiently robust to deliver the required savings. This, in turn, has a direct effect on the IJB who are now relying on NHSS to fill their funding gap. The IJB has a responsibility to manage its budget and commission services within the resources available. However, if overspends occur, the IJB must be clear and agree how this will be funded with the partner bodies – Shetland Islands Council (SIC) and NHSS. If this additional funding cannot be agreed, the IJB must identify savings and ensure it acts within a sustainable, balanced budget.

The IJB has a responsibility to balance its integrated budget and create its own medium/long term plan in order to better plan the future of the Board and to ensure the sustainability of the service it delivers. Currently, there are no medium or long-term financial plans in place. There is only the three year strategic plan, however, there is no corresponding financial plan to demonstrate funding for services or identify any funding gaps. However, the IJB are undertaking scenario planning in partnership with NHSS and through this aim to create a medium term financial plan in the coming months. Moreover, there must be a buy-in from staff, Board members and the public to consider the practical effects of scenario planning.

2017/18 final outturn position reported an under spend against revised budget of £239k (0.5%) . This had been added to £125k of reserves brought forward. However, the IJB only ended the year in a net underspend position due to an additional one-off payment of £2,941k made by the NHS to close the funding gap.	At 31 March 2018, the IJB held £364k of reserves . There is no guidance as to the minimum levels of reserves that should be held, but they are in line with the Strategic Commissioning Plan. The reserves will be assigned to fund projects relating to the shifting of hospital care to community care settings, and to fund in year cost pressures which arise during the delivery of the services.	The IJB achieved £924k of savings during the year 2017/18 . This was predominantly through the savings schemes of: 'shifting the balance of care from hospital to community (rehabilitation)' (£450k), 'pharmacy drugs' (£157k) and 'AHP services' (£143k).	The 2018/19 budget estimates a funding gap of £2,277k , comprising predominantly of unachieved savings carried forward. Arrangements need to be made to both approve the budget, and bridge this gap. This full amount is a recurrent savings target, but will be bridged by non-recurrent measures (i.e., further NHSS 'one-off funding') if required. As highlighted above, it is the responsibility of the IJB – not the funding partners – to create a sustainable, balanced budget and to commission services within the available resources.
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Introduction (continued)

The key messages in this report – audit dimensions (continued)

Financial Management

There are effective processes in place with regards to short-term monitoring of the IJB's performance, with effective management review and Committee oversight.

Budget setting does reflect the delivery of services by the two partner bodies and takes into consideration a number of factors including legislative requirements, additional funding from the Scottish Government and cost pressures. However, it must be noted that there was an overall 5.1% overspend against budget in the current year, given that service delivery is often put before financial sustainability in decision making. The lack of formal, detailed plans means that any attempts to bridge funding gaps are seriously undermined, and brings into question the commitment IJB have of bridging the gap.

Both partner bodies have appropriate fraud procedures, which details the steps to follow in the event of a fraud.

Governance and transparency

The IJB has governance arrangements that are appropriate and operating effectively. It is transparent in its decision making with reports discussed at Board meetings being made available online along with the minutes of the meetings. The Board meets once every quarter to review the performance (both financial and non-financial) of the IJB. From review of the Board meeting minutes, we note there is scrutiny and challenge by both executive and non-executive members of the IJB. However, there is a lack of training surrounding the Board members. We recommend IJB specific ongoing training to be put in place for both new and existing members. This should cover the specific responsibilities of those members who sit on the Audit Committee to ensure that they fully understand their responsibilities.

There has been a high level of turnover – including both electoral and changes and resignations – at the Board recently, which initially raised concern regarding continuity of leadership. Having discussed the issue with management and reviewed Board meeting minutes and correspondence regarding the turnover, we are satisfied that the high level of turnover does not indicate any underlying issues and that membership is now expected to remain relatively constant, providing the continuity of leadership that the IJB needs. We will monitor this closely over the coming year.

Internal audit is provided by the Chief Internal Auditor of Shetland Islands Council, with the internal audit plan for the year being agreed by the Audit Committee.

Introduction (continued)

The key messages in this report – audit dimensions (continued)

Value for Money

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

The pace of improvement is appropriate to the risk and challenges facing the IJB, as Shetland are performing relatively well compared to other bodies, however, there are still issues around achieving savings targets. These targets could be improved through the implementation of a medium term financial plan, which is currently under development through Scenario Planning.

Whilst we appreciate the difficulty with linking spend to outputs and the outcomes delivered, this requires renewed attention and an approach needs to be developed to show how the IJB is meeting its objectives in order to demonstrate that the IJB is delivering value for money. This links with the Scottish Government's recent Medium Term Financial Strategy which re-emphasises the focus on outcomes.

**Pat Kenny
Audit Director**

Our audit explained

Area dimensions

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

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

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 10 provides a summary of our risk assessment of your significant risks.

Quality and Independence

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

Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

Key developments in your business

As noted in our planning report, the IJB continues to face significant financial challenges due to an increase in costs whilst facing increased demand for services.

Materiality

The materiality of £728k and performance materiality of £546k has been based on the benchmark of gross expenditure.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £36.4k

Scope of the audit

We will audit the financial statements for the year ended 31 March 2018 of Shetland Islands IJB.

Timeline 2017/18

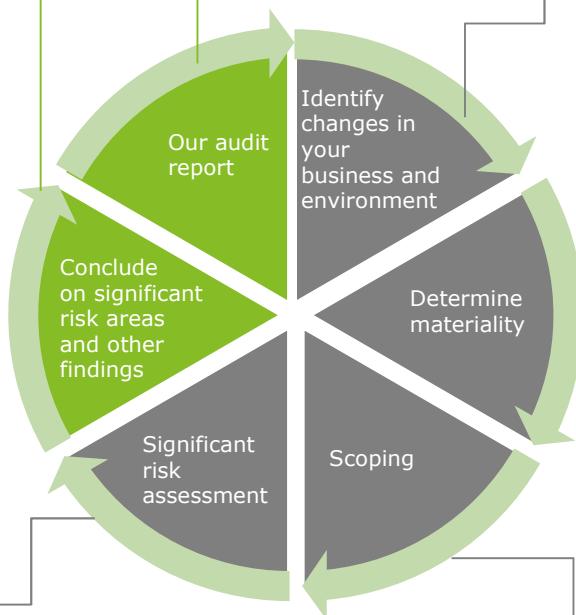
November 2017 – February 2018
Meetings with management and other staff to update understanding of the processes and controls.

14 February 2018
Presented planning paper to the Audit Committee

March 2018
Year end

July – August 2018
Review of draft accounts, testing of significant risk and performance of substantive testing of results.

21 September 2018
Audit Committee and Board meeting and accounts sign off



Financial statements audit



Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Completeness and accuracy of income			D+I	Satisfactory		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 and NHS Shetland. The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received from the Council and the Health Board.



Key judgements and our challenge of them

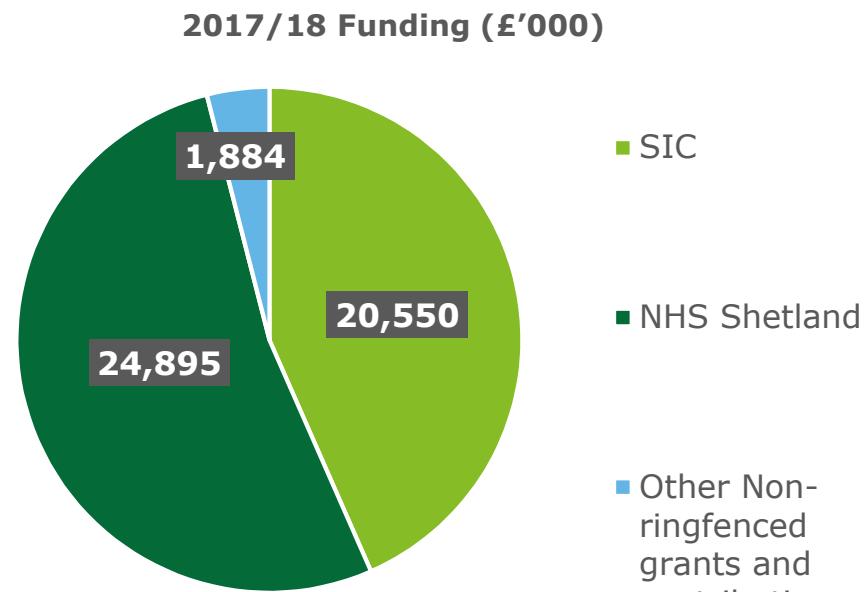
The year end surplus position of the IJB was due to the additional funding received to close the gap. Therefore, there is a possibility that overspend could continue to be funded by funding partners in the year following their approval, and hence contributions could differ from the approved budget.



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 additions/reductions have been appropriately applied;
- tested the reconciliations performed by the IJB at 31 March 2018 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2017/18 have been reviewed on a regular basis; and
- assessed 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 Local Authority Code of Audit Practice.

Significant risks (continued)

Risk 2 - Management override of controls



Risk identified

In accordance with ISA 240 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.

The key judgments in the financial statements are those which we have selected to be the significant audit risks around recognition of income. This is inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

The control environment is appropriate for the size and complexity of the Board.

Deloitte response

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

- the IJB projected to overspend against budget, although this was closely monitored by the Board throughout the year and arrangements were put in place with NHS Shetland to bridge the funding gap.
- 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 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 made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

We performed design and implementation testing of the controls in place for journal approval. We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest.

Accounting estimates

In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements has been completed with no issues noted.

Other significant findings

Financial reporting findings

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

Qualitative aspects of your accounting practices:

There has been a change in accounting policy during the year. Previously, the IJB would also present its income and expenditure throughout the year as debtors and creditors at the year end, respectively.

This was highlighted by Audit Scotland as being an accounting policy which did not comply with good practice following their review of the 2016/17 accounts from IJBs across Scotland. They recommended that the accounting policy should be updated in the current year and we highlighted this to management prior to the year end.

In light of this, management have reviewed and amended the accounting policy so that only amounts which are owing to/from the funding partners and for which there is no right of offset are included as debtors/creditors as at the year end. We are satisfied that the updated accounting policy is in line with best practice.



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.

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. The revisions to ISA (UK) 700 have changed the form and content of audit report, including how different sections are presented.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



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.



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 15.

Your annual accounts

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

	Requirement	Deloitte response
Management Commentary	<p>The Management Commentary comments on financial performance, strategy and performance review and targets. Deloitte note that the Management Commentary has been prepared in line with issued guidance. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The IJB also focusses on the strategic planning context.</p>	<p>We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance. No exceptions noted.</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>The good practice note published by Audit Scotland was provided to the IJB for consideration in preparation of the annual accounts. However, this was not followed, with a large number of recommendations and changes therefore being required to the accounts as part of the audit. We have included elements of good practice for your consideration at page 16. We noted that these recommendations have been accepted by management and substantially implemented in updated versions of the annual accounts.</p>
Remuneration Report	<p>The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of the Chief Officer.</p>	<p>We have audited the disclosures of remuneration and pension benefit and pay bands and confirmed that they have been properly prepared in accordance with the regulations.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that the IJB's governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>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 regulations. No exceptions noted.</p>

Your annual report (continued)

Audit Scotland has issued a series of Good Practice notes to highlight where annual reports can be improved. A Good Practice note covering IJB's was published in April 2018 from a review of the 2016/17 annual accounts of IJBs and all IJBs were encouraged to use the findings to assess and enhance their own disclosures to ensure they provide high quality information to stakeholders in their annual accounts,

We have provided below some extracts which should be considered by the Board in drafting future annual reports.

Management commentary

The following areas for improvement were identified when reviewing the Board's annual report:

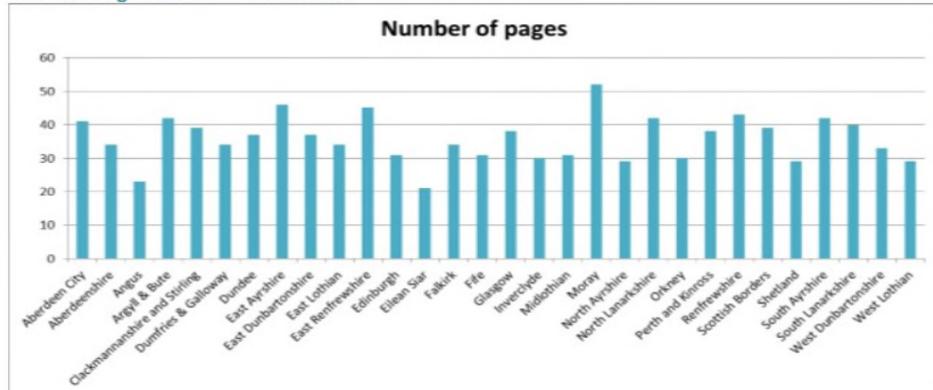
- Explain the Board's objectives, the strategy for achieving these (including current performance, position and future prospects);
- Set out how the Board generates and preserves value over the longer term;
- Include KPIs – both financial and non financial – and explain performance against these in the year and whether they have been achieved or not;
- The key risks facing the Board should be specific and tailored to the Board and genuinely be the principal risks/uncertainties that Board members are concerned about;
- The annual report should be reviewed in its entirety to identify areas where tabular, graphical or pictorial information (supported by narrative) may improve the accessibility of the document;
- The Board should consider if the use of case studies would enhance the general publics' understanding of the work carried out by the Board.

Governance statement

The following areas for improvement were identified when reviewing the Board's annual report:

- An action plan should be included which outlines key issues arising in the year, what is to be done, by whom, and timescale for completion;
- The annual governance statement should follow up on any issues from previous years;
- Critical judgements and major sources of estimation uncertainty should be explained in the commentary (rather than just disclosed in the notes);
- Significant governance issues should be given sufficient weight in the governance statement, with their impact explained and any mitigating actions outlined.

Overall length of annual accounts



From the analysis of the length of all IJB annual accounts for 2016/17, Shetland's annual accounts were of an average length. However, as noted above, there is scope to include additional information to reflect best practice, which could replace the non-material disclosures currently included.

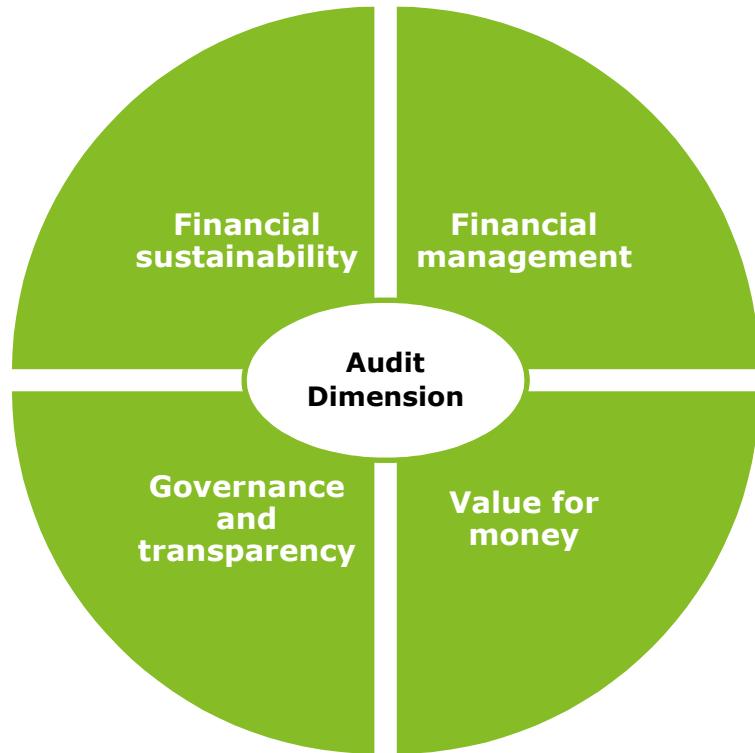
Audit dimensions



Audit dimensions

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following area. Our report is structured in accordance with the four audit dimensions, but also covers our specific audit requirements on best value and specific risks as summarised below.



Best Value (BV)

It is the duty of the IJB to secure BV as prescribed in the Local Government (Scotland) Act 1973.

We have considered the Board's duty to secure BV as part of the governance arrangements considered as part of the audit dimensions work.

Specific risks (SR)

As set out in our Annual Audit Plan, Audit Scotland had identified a number of significant risks (SRs) faced by the public sector which we have considered as part of our work on the four audit dimensions.

SR 1 – EU Withdrawal

SR 2 – New Financial Powers

SR 3 – Ending public sector pay cap

SR 4 – Cyber security risk

SR 5 – Openness and transparency

Audit dimensions (continued)

Financial sustainability

Audit dimension

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

Areas considered



Deloitte response



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

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

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

Deloitte view

We previously recommended and now support the current development of a medium term financial plan (MTFP). This should include a quantification of the forecasted funding gap, the impact of inflationary pressures, legislative changes and changes to service provision. The IJB should also consider the risk of the lack of buy-in from the public, Board members and staff in the development of this plan. We believe a MTFP will improve the focus amongst the Board members on the sustainability of the service. It has been noted by internal audit that the IJB needs to be more realistic with the timescales required to deliver savings and efficiencies, with a more strategic medium to long term outlook required. In light of this, we note that the IJB are developing new strategies to address the funding gap, both in the short and long term, through Scenario Planning which started in 2018. We recommend that the outcome of this is clearly articulated to Board members and key stakeholders and that its recommendations are implemented to ensure the Board meets its objectives in a sustainable manner.

The IJB has challenging savings targets to meet moving forward to continue to be financially sustainable. Shetland IJB faces some unique challenges being a small island Board, finding it difficult to make worthwhile recurring savings. We recommend that further efforts be made to focus on savings through predominantly recurring means, to help eliminate the funding gap. A recovery plan should also be put in place, in order to help address potential future funding gaps.

Operationally, the IJB are performing well as a partnership in several areas. However, increased focus must be given to developing an integrated budget, rather than viewing it as two separate budgets from the SIC and NHSS. We also recommend that the 2018/19 budget (and future budgets) are approved, rather than noted, in order to demonstrate that the Board accepts ownership of and responsibility for it.

Management have raised concerns that the focus in the IJB is on service delivery rather than financial sustainability. The reasons for this are understood, although given the IJB's current position, it is not sustainable. Where any decisions which will result in a significant budget variance are to be made, these should be subject to a higher level of approval than simply the budget holder, so as to ensure that appropriate challenge has been demonstrated and that sufficient consideration given to other possible options prior to approval.

Audit dimensions (continued)

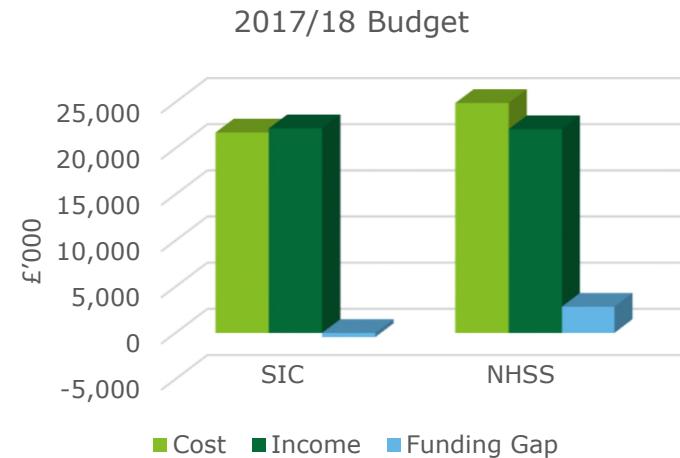
Financial sustainability (continued)

Short term financial position

For **2017/18**, the IJB noted an unbalanced revised budget of £44,222k (2016/17: £43,450k). £22,154k in funding was committed by SIC and £22,068k committed by NHS Shetland (see table below and graph). The final position of the IJB was a £239k underspend (£136k from SIC, and £103k from NHSS) due to an underspend in the Scottish Government Additionality Funding. An underspend occurred only after a 'one-off' payment from NHSS to bridge the funding gap. The original budget was revised due to application of contingency budgets and the use of carry-forward SIC funding (£650k), in addition to recurrent savings made during the year (£450k) on shifting the balance of care from hospital to community, which is a commendable saving.

The biggest short term risk currently facing the IJB is a projected overspend in **2018/19** of £2,277k. The IJB undertake a thorough budget setting process, incorporating allocations from both funding bodies. The budget is scrutinised by internal audit. The 2018/19 financial monitoring process will be based on this budget, which will be reported through the quarterly management accounts. Overspends on the SIC arm of the budget will be funded through a one-off additional payment from the SIC central contingency budget. If there are any overspends on the NHSS arm, these will be funded through underspends in other directorates and/or an additional one-off payment from NHSS' central contingency budget. As highlighted elsewhere, the IJB needs to develop balanced budgets and commission services within the available resources rather than developing budgets which incorporate these 'one-off' payments – such budgets are not balanced, nor are they sustainable. As discussed on page 21, we recognise that the IJB, in partnership with NHSS, is working on scenario planning. It is critical that this is progressed and clear plans are developed.

	2017/18 budget (£'000)	2017/18 revised budget (£'000)	2017/18 actual (£'000)	2018/19 budget (£'000)
Council managed budget	20,494	22,154	21,708	22,270
NHS managed budget	24,371	22,068	24,906	24,129
IJB Total	44,865	44,222	46,614	46,399



The **2018/19** budget has been noted but not approved as of 6 June 2018, due to the large funding gap. The Board should either approve or reject the budget, demonstrating ownership of it. The Board should develop a budget that commissions services within the available resources in the absence of confirmations from SIC and NHSS that funding will be made available to meet the gap identified.

The annual budget is based on the funding allocation agreements reached in respect of budgets delegated by SIC and NHSS. Under the terms of the Integration Scheme, the partners are required to make appropriate arrangements to fund pay awards, contractual uplifts, the impact of demographic changes and determine efficiency targets as part of their respective budget setting process.

Audit dimensions (continued)

Financial sustainability (continued)

Medium to long term financial sustainability

The IJB recognises that the partnership is operating within an extremely challenging financial environment as a result of real term reductions in funding, increased demographic pressures and the cost of implementing new legislation and policies.

There is currently no medium or long term financial plan in place. The IJB has a three year Strategic Plan. It takes into consideration other local policy directions as outlined in the Shetland Partnership Plan. Guidance requires Joint Strategic Needs Assessments (JSNAs) to inform the development of the Strategic Plan through the analysis of the needs of local populations.

The IJB has an estimated funding gap of £2,277k for 2018/19, which is a decrease from £2,529k in the current year. The funding proposals for 2019/20 and 2020/21 have consistent target savings of £2,327k per year. These are based on an indicative savings target for the 3 years of £6,981k which is 15% of the cost of the current service delivery model. However, plans are not yet in place on how to deliver the required savings. It is expected that the delivery of the savings will be linked to the outcomes of the scenario planning exercises.

A scenario planning programme was started in January 2018 for NHSS to look at alternative models for the delivery of health and social care services in Shetland. This is to help aid the Strategic Plan for 2019-22 and beyond.

The IJB has estimated that £9,955k of efficiencies over the next 5 years will be linked to the outputs of the scenario planning exercises.

It is assumed that funding levels will remain consistent over the following three years. However, the effect of this is that the IJB will have to absorb their own inflationary cost pressures over this time frame, which are estimated at 3.3% (SIC) and 3% (NHSS) each year.

The aim of the 2019-22 Strategic Commissioning Plan is to look at what the safe and sustainable health and social care services will look like in 5-10 years time.

A recent internal audit report highlighted that the IJB's key area of concern remains focused on the carried forward funding gap and ongoing savings and efficiencies targets, with the 2017/18 financial Recovery Plan not proving to be successful. This is though, a recurring issue as the same comments were raised by internal audit in 2016/17. There needs to be improvement in the coming years to improve the sustainability of the Board.

Despite this, internal audit did note some positives during the current year, including the improvement of the strategic commission plan, the start of the scenario planning programme and performance reporting requirements were substantially met.

Best Practice examples

In our 2016/17 annual report, we provided the Board with some case study data where Deloitte has been involved in cost reduction work with a number of NHS bodies in England. We recommended that the Board reviews these case studies and considers them as opportunities for improvement going forward as potential areas for cost reduction.

From our experience, public sector bodies that have successfully delivered and sustained transformational change have tended to focus on six key requirements, which is discussed further on page 30 – 32. The overarching aspect throughout a transformation programme is having strong leadership that believes in and can drive transformational change.

We have also provided some real life examples of work done in other health bodies to demonstrate how some of these six key requirements can be applied in practice, as discussed on page 30 – 32.

Audit dimensions (continued)

Financial management

Audit dimension

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

Areas considered



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

Deloitte response



We have reviewed internal audit reports in relation to their work on the key controls, including reports for SIC and NHSS. We have evaluated the key financial systems and internal control as part of our financial statements audit work and considered the work of internal audit.

We have considered the capacity and skills within the senior management of the finance team and we have reviewed the IJB's arrangements for the prevention and detection of fraud and irregularities.

The final outturn for 2017-18 was an in-year overspend of £2,392k, compared to the budget. However, the IJB received additional funding from NHSS, leaving it with usable reserves of £239k (due to an underspend in Scottish Government Additionality Funding). This has been added to the prior year's general reserve, giving a current year total of £364k.

	SIC £'000	NHSS £'000	Total £'000
Budgets delegated to the parties from the IJB	22,154	22,068	44,222
Contribution from parties to the IJB (against delegated budgets)	(21,708)	(24,906)	(46,614)
Surplus/(Deficit)	446	(2,838)	(2,392)
Fortuitous underspend repaid to SIC	(310)	0	(310)
Additional one off payment from NHSS to IJB	0	2,941	2,941
Final position of IJB	136	103	239

Deloitte view

While the IJB reported an overall overspend of 5.1% against budget for 2017/18, this was regularly reported to the Board throughout the year in the management accounts produced quarterly. The overspend predominantly came from services commissioned from NHSS. The IJB consistently begins the year with a budgeted deficit for NHSS commissioned services, with NHSS providing last minute funding to bridge the gap. Aside from sustainability, this also brings into question the budget setting process and it raises concerns that the IJB are agreeing a budget without it being fully funded. As per discussions with members and management, it was noted that it could sometimes be challenging to balance the budget allocations from both the SIC and NHSS, and determine the proportion that each partner body should contribute.

Therefore, we recommend that responsibilities of the two partner bodies be made clear, which a MTFP should assist with.

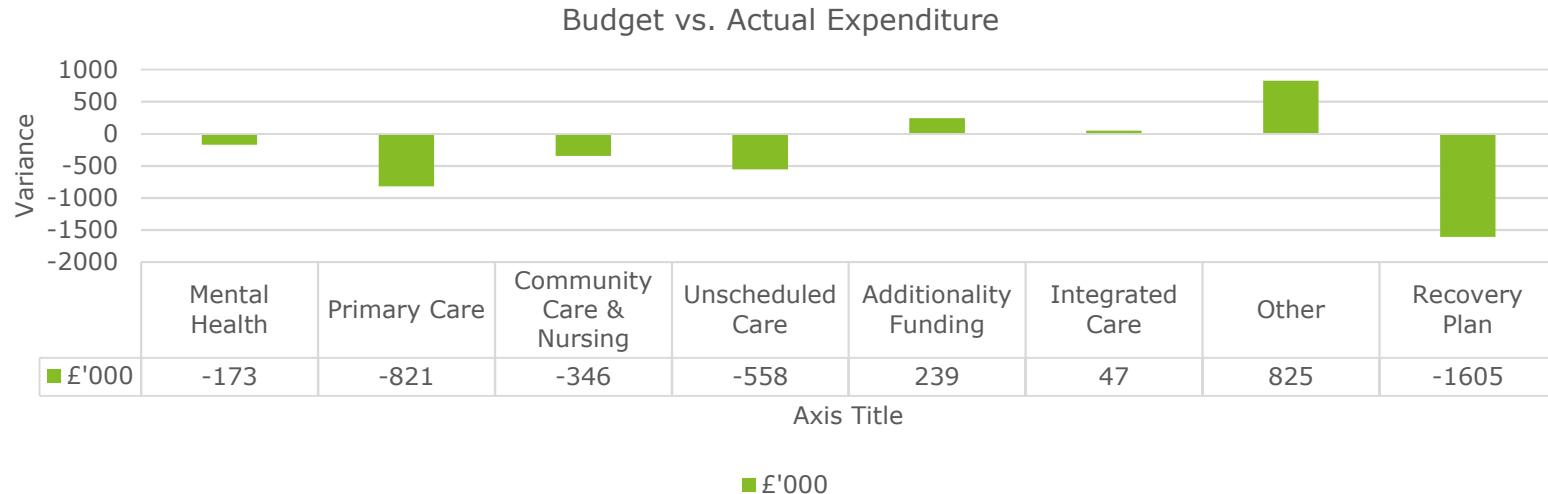
Separately, we note that the monitoring reports presented to the Board are at a very granular level – there are 24 lines which are reported against budget. This makes the chances of a material variance unlikely. Most IJBs report on a 5-7 line basis. We recommend that the reports presented to the Board contain a high level summary, with the detailed reports being provided if the members wished for further information.

Audit dimensions (continued)

Financial management

Budgetary control systems

Variance were reported to the Board throughout the year, with a final report being presented on 20 June 2018. The overall variance is a combination of under and overspends on expenditure. The expenditure variances can be analysed further as follows:



- **The IJB additionality funding** is funding first received from the Scottish Government in 2016/17 and forms part of a recurring £250m budget (with an additional £110m in 2017/18) which was distributed to Integration Joint Boards across Scotland. The aim of this funding was to reduce the contribution of funding made by local authorities, and to support integration as detailed in the Scottish Government's guidance (supporting delivery of better outcomes in social care, driving a shift towards prevention and strengthening the approach to tackling inequalities). The £239k underspend was primarily due to savings made on Self Directed Support packages.

- **Community nursing, integrated care and mental health care** reported a combined overspend of £472k. This is due to increased employee costs in many of the care homes (£187k) due to long-term staff sickness and the cost of engaging agency staff to address recruitment difficulties and sickness levels (£198k). This was partly offset as difficulty in recruiting staff has also led to temporary bed closures during the year, which impacted on staff costs (£217k). A large proportion of the mental health overspend was linked to a consultant locum who was employed throughout the year, and who is due to remain appointed until June 2018 to cover another staffing issue.

- **Primary care** has an overspend of £821k, which is linked to GP locum requirements in several practices across the Shetland Isles, including Yell (£145k) and Unst (£103k). We note that this is being addressed in 2018/19 and that the requirement for locum GPs and associated overspend is expected to decrease from autumn 2018.

- **The Recovery Plan** represents the amount the IJB had to save to ensure that there was no overspend. There was a significant variance in the year and measures have been put in place to identify areas of operation which can be made more efficient. This is the purpose of the scenario planning work which is underway. However, internal audit commented on the lack of a robust recovery plan in the prior year, which was also noted in our 2016/17 report, with similar issues affecting the recovery plan in the current year.

- **Unscheduled care** has an overspend of £558k, driven primarily by locum medical staff costs (£394k).

Audit dimensions (continued)

Governance and transparency

Audit dimension

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

Areas considered



- Governance arrangements.
- Audit Committee
- Scrutiny, challenge and transparency on decision making and financial and performance reports.
- Quality and timeliness of financial and performance reporting
- Accountable officers' duty to secure Best Value

Deloitte response



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

We have also reviewed the governance arrangement between the IJB, Council and NHS Board.

Deloitte view

We have reviewed the governance arrangements, the level of scrutiny, challenge and transparency of decision making and the quality and timeliness of financial and performance reporting and have identified no significant issues in this regard.

Given the current lack of structure and remit of the Audit Committee, we recommend a training plan is put into place for the members, to ensure they know what their roles and responsibilities are. The scope of their work could be increased through implementing an annual work plan, for example. Deloitte shared some best practice materials with the Board, in relation to training and Terms of Reference for the Audit Committee. The Board should consider implementing some of the guidance to help with the effectiveness of the Audit Committee.

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

Having reviewed the processes in place at the IJB, and having identified no issues during our audit testing, we are satisfied that there are appropriate arrangements in place for securing best value.

Audit dimensions (continued)

Governance and transparency (continued)

Leadership and vision

Decision making is transparent and subject to both scrutiny and challenge. However, we note that it takes over two months from the month end for the financial monitoring reports and performance reports to be prepared and then reported to the Board. This is to ensure that the quality of the reports and decisions are not compromised.

The Chair of the IJB has changed in the year, with the current chair having a number of years experience as a non-executive director on the NHSS Board. The previous Chair had been in the role since the IJB came into existence (until May 2017), and had also been on the NHSS Board for a number of years. The experience and continuity of the Chair undoubtedly aids the leadership and vision of the Board and provides an element of stability.

The voting membership for the Board comprises three elected members from the SIC and three non-executive directors from the NHSS. As such, we consider there to be sufficient diversity to provide effective balance and scrutiny in leadership. Further, there is concern that members who have no previous healthcare experience may find the reports difficult to understand and we recommended that appropriate training be provided for members.

There have been several changes to the Board in the current year. This included two new NHSS voting members to compensate for the end of a temporary voting membership of one member, and the resignation of another member. Further, there have been two new SIC members elected during the year, to cover resignations in May 2017 and January 2018. Although the change included some high profile resignations, we noted through discussion with management that the changes were due natural turnover for personal reasons and coincided both with the step down of the NHS Board and local Council elections, rather than indicating any underlying issue. However, we would still note that this presents an issue for the continuity of leadership as many of the members are new to the Board this year and this further emphasises the need for appropriate training. We will monitor this closely over the coming year.

Internal Audit

Shetland Islands Council's Chief Internal Auditor provides the Internal Audit function for Shetland IJB. Internal Audit concluded that the main area of concern remains centred on the carried forward funding gap and the ongoing Savings and Efficiency targets. The 2017/18 Financial Recovery Plan was not successful in its aim to eliminate the need of a Financial Recovery Plan altogether.

During the year, we have reviewed all internal audits presented to the Audit Committee and the conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

On the basis of the audit work undertaken during the year, the Chief Internal Auditor is able to conclude that a reasonable level of assurance can be given that the system of internal control is operating effectively within the IJB.

Audit Committee

The Audit Committee is made up of four voting members; a Chair, Vice-Chair, Member and Lead Officer. These members have commented that there is room for improvement within the Audit Committee, given the lack of clarity as to the role of it. Moreover, the topics discussed could be wider and there is a lack of training and professional development.

We have provided some best practice guidance on pages 26 and 27 which the Committee should consider in developing a training plan and detailed terms of reference for the Committee.

Audit dimensions (continued)

Governance and transparency (continued)

Below is some good practice guidance on Audit Committee membership and its roles and responsibilities for the IJB to consider, alongside a model Audit Committee agenda and good practice reporting discussed on the next page.

Membership

- At least 3 Non Executive Directors ('NEDs').
- One NED should have recent and relevant financial experience.
- The Chair of the Board should not chair or be a member of the committee.

Attendance

- Routine attendees should include:
 - Director of Finance
 - Head of Assurance / Governance
 - Head of Internal Audit
 - External Audit
 - Local Counter Fraud Officer
- The CEO should be invited to attend at least annually for the presentation of the accounts.
- Staff may be invited to attend for specific items in their remit.

Frequency

- Meetings should be held at least three times per year, with additional meetings where necessary.
- The external auditors should meet privately with the NEDs at least once per year.

Audit Committee: Roles and Responsibilities



Audit dimensions (continued)

Governance and transparency (continued)

Model Audit Committee agenda

- Minutes, **action log**, matters arising
- Review of progress against the **Internal Audit plan** including progress made by the organisation in implementing recommendations.
- Review of **Internal Audit reports** and resulting recommendations.
- Review of progress against the **External Audit plan** and discussion of key issues arising.
- Review of other **External Audit reports**.
- Review of the **Corporate Risk Register processes**.
- **Counter-fraud** update.
- **Whistle-blowing** / raising concerns update.
- Review of any new significant **financial reporting judgements** and seek assurance over **financial controls**.
- Review of progress against the **committee's workplan**.
- Agreement over **items for escalation** to the Board.

The Committee should also review:

- The integrity of the financial statements;
- The assertions made within the Annual Governance Statement;
- Adherence with the non-audit services policy;
- The effectiveness of the external and internal audit functions (annually); and
- Its own effectiveness (annually).

Audit Committee Reporting:

- Papers are accompanied by **clear cover sheets** to articulate the key issues, risks, strategic implications and what is required of the committee
- Papers are **concise, relevant and timely**
- There is a process in place to provide assurance over **data quality**
- **Issues are reported to the Board in a timely manner.** Minutes are accompanied by a summary report provided by the Chair of the Committee which articulates the key areas for the Board to be aware of.

Audit dimensions (continued)

Value for money

Audit dimension

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

Areas considered



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



Deloitte response

We have gained an understanding of the IJB's self-evaluation arrangements to assess how it demonstrates value for money in the use of resources and the linkage between money spent and outputs and outcomes delivered. While there has been some progress made in the second full year of the IJB being in operation, there are some issues surrounding the Board members' ability to clearly state and see the link between actions and outcomes.

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

Deloitte view

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

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

There should be continued focus with the Integration Care Team to enable costs to be cut where appropriate to do so, without compromising on the care of the individuals.

We recommend that savings plans are monitored throughout the year against the original plan to help provide transparency and clarity over savings performance against the budget.

Regarding performance management, the overall approach adopted is that it is integral to the delivery of quality and effective management, governance and accountability. The need for transparent and explicit links of performance management and reporting within the organisational structure at all levels is critical. There is a framework of measures at directorate and service level. The new implemented system for key performance indicators will aid this approach greatly.

Audit dimensions (continued)

Value for money (continued)

Performance Management

From our analysis of performance indicators, we note there is no overall improvement in outcomes. However, Shetland generally perform well, and have scored near the top of several categories (see below). The IJB have a sufficient focus on improvement and the Board aims to foster a culture of continuous improvement in the performance of the IJB's functions, and to make arrangements to secure Best Value. Given that Shetland are performing relatively well compared to other bodies, the pace of improvement seems reasonable. There is an increased focus on shifting the balance of care from a hospital to community setting, as demonstrated by the closure of Ronas Ward.

Current Performance	Shetland	Scottish Average	Position
Emergency admission to hospital rate (per 100,000 population)	10,011	12,294	First
Rate of Emergency Bed Days for Adults (per 100,000 population)	72,509	125,634	Second
Number of days people spend in hospital when they are ready to be discharged (per 1000 population)	528	842	First
Percentage of last six months of life spent in community setting	96%	89%	First

Moreover, the board's performance against its targets and standards as at Q4 2017/18 was reported to the Board in June 2018. The IJB have identified key issues for this quarter, which will be focused on moving forward. These include the update of the Strategic Plan and Scenario Planning and the systems update and key performance indicators for this quarter with regards to service performance. Future reports will include more details on the progress of these plans. We have highlighted some of the key themes below.

- Following previous feedback, the Strategic Plan for 2018-19 has now been updated, to allow better decisions to be made. The Scenario Planning process has increased the focus around leadership, community engagement and involvement with the third sector. A key focus of Scenario Planning is how to link the existing service projects with the ongoing organisation development improvements as gained from the Scenario Planning process. The aim is to approve the strategic plan by September/October 2018.
- A new system to collate and report on the performance indicators called Pentana was implemented during the year. Everything for the IJB report is reported from Pentana, either directly or indirectly. This is beneficial for IJB, and will aid the understanding of the position of each indicator. However, the financial data has to be merged from two separate systems; one for the SIC and one for the NHSS.
- The 'Health and Care Experience' survey 2017-18 has published its results, with significant movements across four separate indicators. The two largest movements include: 'service users health & care services seem to be well coordinated' improving by 12%, but 'carers feel supported to continue caring' has decreased by 13%.

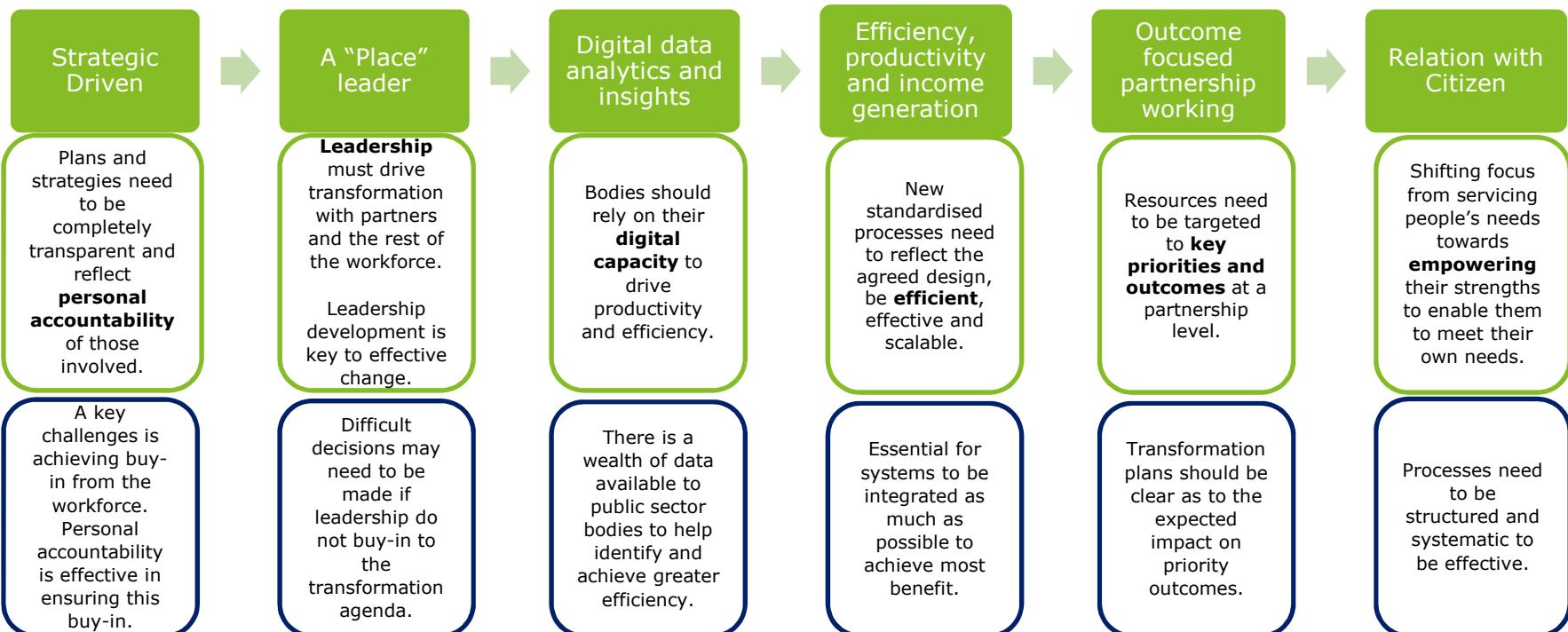
Audit dimensions (continued)

Sharing best practice

In our 2016/17 annual report, we provided the Board with some case study data where Deloitte has been involved in cost reduction work with a number of NHS bodies in England. We recommended that the Board reviews these case studies and considers them as opportunities for improvement going forward as potential areas for cost reduction.

During 2017/18, we have had some further discussion with the Chief Officer for the Shetland Health and Social Care Partnership to share areas of best practice around transformation and integration from our work in England.

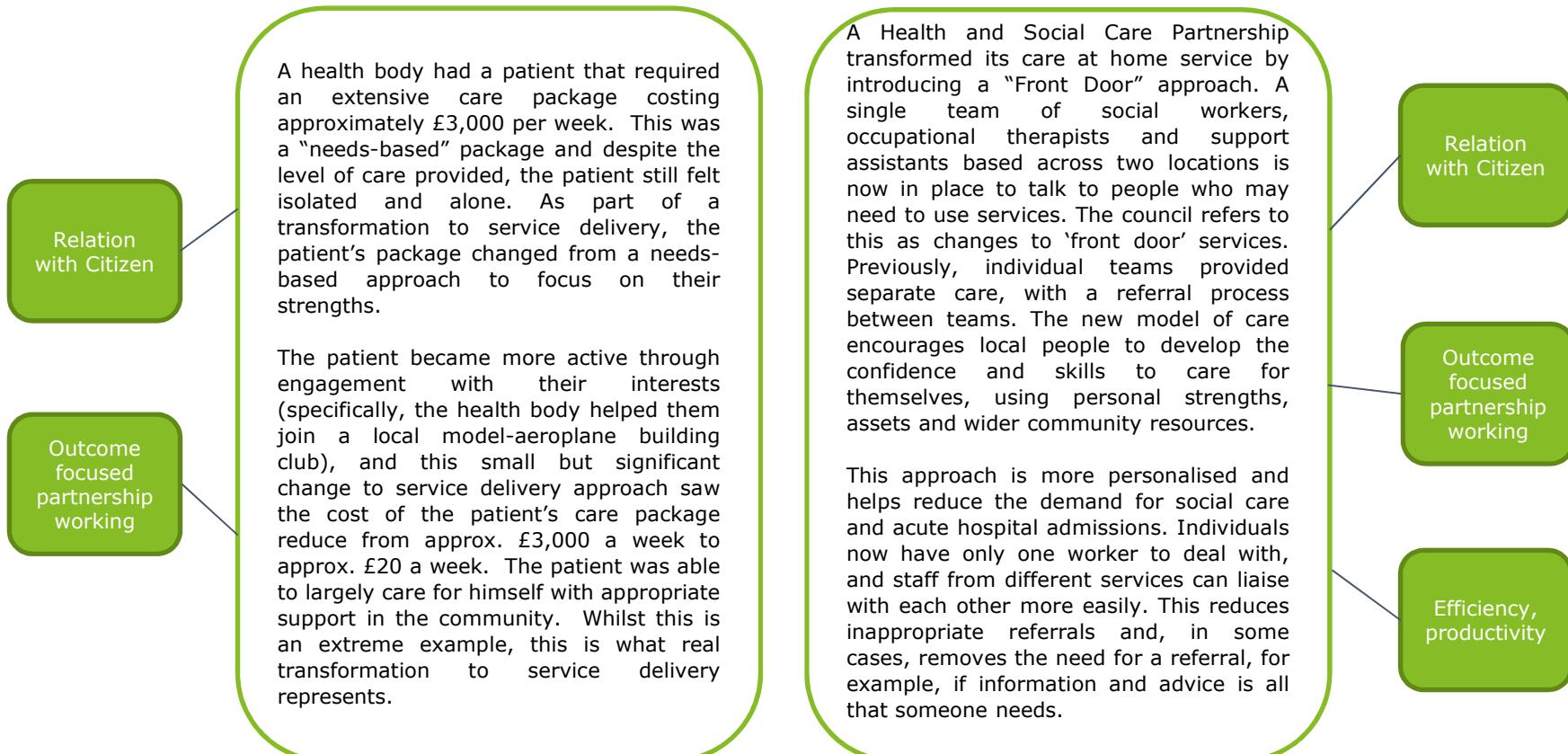
From our experience, public sector bodies that have successfully delivered and sustained transformational change have tended to focus on the following six key requirements. The overarching aspect throughout a transformation programme is having strong leadership that believes in and can drive transformational change.



Audit dimensions (continued)

Sharing best practice (continued)

Below are some real life examples of work done in other health bodies to demonstrate how some of these six key requirements can be applied in practice.



Audit dimensions (continued)

Sharing best practice (continued)

Strategic
Driven –
shift in
culture.

Monetary incentives can help achieve a shift in culture. Currently, there are incentives and systems in place that result in money being funnelled towards hospitals. Investment in early detection and prevention requires a change. One example of such change took place in Spain in 1999 (known as the **Alzira Model**). They shifted towards long-term capitated budgets which incentivised the health care system to keep people out of hospital and to deliver effective services as cost-efficiently as possible. Reimbursement was only received by the healthcare system that provides the care to the patient, therefore the provider is incentivised to maintain and drive up the quality of care to encourage patient loyalty. Benefits which were evidenced from this model included a 27% decrease in cost per capita, 34% reduction in hospital readmissions within 3 days, 54% reduction in average A&E waiting times, average length of stay reduced by 20%, 91% patient satisfaction and 93% staff satisfaction.

A Health and Social Care Partnership invested in its digital capacity to collect and process data so it can better predict chronic health issues occurring amongst patients. This investment has allowed the partnership to reduce its acute care costs as less expensive and more effective health care can be provided upfront to address potential chronic health risks predicted by the data.

Digital data
analytics
and
insights

A police force, in partnership with its local health body, used data to reduce acquisitive crime rates. Data identified a pattern of acquisitive crime peaking on the weekends, and the police force determined that this was largely driven by the fact that methadone prescriptions in the area were issued every Friday. A programme was implemented to stagger the prescriptions throughout the week, leading the acquisitive crime rates levelling out and becoming more manageable.

Wider scope audit work (continued)

Specific risks

In accordance with our Audit Plan, we have considered the specific risks identified by Audit Scotland as part of our audit as follows:

Risk identified	Response
EU Withdrawal	<p>The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved governments in Scotland and for Scottish public sector bodies.</p> <p>Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas:</p> <p>Workforce: the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.</p> <p>Funding: the extent to which potential changes to funding flows including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.</p> <p>Regulation: the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activity of the organisation.</p> <p>The IJB have noted that the EU withdrawal has been recognised in the NHSS's MTFP, but there has not been a noticeable reduction in applicants for vacant NHS jobs. There has been a big demand for locums in the year, but most of these vacancies have now been filled. Similar issues regarding locum requirements were also seen pre-Brexit, given the type of community Shetland is. The generalist type roles in Shetland are very different to those more specialised roles on the mainland, therefore making it difficult to recruit staff.</p> <p>The SIC are much less reliant on EU nationals than NHS Shetland, as a higher proportion of their staff are from local areas. However, the overall potential impact on the workforce is simply unknown at this time, but the IJB will be made aware of any developments.</p> <p>Funding and regulation of the IJB is devolved to the Scottish Government and EU withdrawal is not expected to have major impacts in these areas.</p>
New financial powers	<p>The Scottish Parliament's new financial and social security powers and responsibilities from the 2012 and 2016 Scotland Acts are fundamentally changing the Scottish public financials. The Scottish Government will publish its medium-term financial strategy in 2018 in response to recommendations in the Budget Process Review Group final report, and has made a number of other commitments to improve financial management and help Parliamentary scrutiny of decisions.</p> <p>As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. The IJB should therefore use this as an opportunity to make comment within their annual reports beyond the compliance requirements to clearly articulate their achievements against outcomes and future plans.</p>

Wider scope audit work (continued)

Specific risks (specific risks)

Risk identified	Response
Ending public sector pay cap	<p>The 2018/19 budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018.</p> <p>It has been agreed by Scottish Government that any additional costs of the pay increase in excess of 1% will be met by central funding for the NHS, whilst there is no confirmation that the Scottish Government will meet the additional cost for the Council.</p>
Cyber security risk	<p>The IJB do not have a specific cyber security policy in place as they use the ITC strategy of both the NHSS and SIC.</p> <p>Both the SIC and NHSS have passed the Scottish Government's Cyber Essentials Pre-assessment which contained some remedial actions which are common across all boards. The SIC look to carrying out the next level assessment in August/September 2018.</p>
Openness and transparency	<p>From our audit work, we are satisfied that the IJB is appropriately open and transparent in its operations and decision making.</p> <p>The IJB follow the council's guidance and very little is held back. All meetings are public, and therefore minutes and agendas are available online.</p>

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 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

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

What we don't report

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

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

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

The scope of our work

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

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated separately.

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

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



for and on behalf of Deloitte LLP
Glasgow

24 July 2018

Audit adjustments

Corrected misstatements

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

Uncorrected misstatements

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

Disclosure misstatements

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

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

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial Sustainability	Given that the Board only 'notes' rather than 'approves' the budget each year, and given that the budget is unbalanced and without sufficient plans in place to close identified funding gaps, the appropriateness of the current budget setting process needs to be considered.	The IJB were advised under legal recommendation to only 'note' the budget rather than approve, given the outstanding funding gap.	Chief Financial Officer	Sept 18	High
	The Board should take ownership of the budget by approving, rather than noting, it. Further, if 'one off' funding from NHS Shetland is anticipated to meet any funding gap, this should be disclosed in the narrative to the budget. If it is not possible to identify further savings to meet the funding gap, this should be clearly disclosed in the budget rather than including unattainable savings so as to make the budget balance.	The CFO notes that he cannot recommend a budget which is not achievable. This could be achieved if NHS/SIC 'guaranteed' to cover any shortfall. However, would result in NHSS/SIC being exposed to all financial risk, rather than the IJB.			
	It may be appropriate to revisit the Integration Scheme to include where responsibility lies for funding overspends.	The budget setting process is being reviewed as part of the Scenario Planning exercise and the recommendations will be taken on board when finalising any updated process.			
Financial Sustainability	Continued focus needs to be given to developing a medium term financial strategy through the Scenario Planning exercise. This should include quantification of the forecast funding gap and plans to address this.	The body understands the long term pressures, which have been built in plans. There is a three year strategic plan in place (2016-19), but a medium term financial plan is starting to be developed through a combination of the NHS LDP and SIC MTFP and is one of the anticipated outcomes of the Scenario Planning exercise.	Chief Financial Officer	Dec 18	High

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial Management/ Sustainability & Value for Money	<p>Where any decisions which will result in a significant budget variance are to be made, these should be subject to a higher level of approval than simply the budget holder, so as to ensure that sufficient challenge has been demonstrated and that sufficient consideration given to other possible options prior to approval. The current approach of 'service before finance' is not sustainable.</p>	<p>All locum requests must be approved by the Executive Management Team (EMT). These requests are reviewed by Finance prior to EMT consideration. Difficulties relate to the nature of the Shetland community and the demand for locum clinicians, which do come at an extra cost. If a locum cannot be employed, then patients may need to be sent to Aberdeen, which also comes at a cost.</p>	Chief Financial Officer	Dec 18	High
Financial Sustainability/ Value for Money	<p>A specific plan needs to be put in place to achieve savings prior to the year commencing, to assist with financial planning, with this being monitored throughout the year. The IJB should consider the impact of inflationary pressures, legislative changes and changes to service provisions.</p> <p>Moreover, efforts need to be made in the identification and implementation of recurring savings targets, as reliance cannot be made on non-recurring savings.</p>	<p>The IJB had a total underspend of £239k in the current year, however, this is because the NHS agreed to an additional one off payment. Internal audit also reported that this is not sustainable.</p> <p>Historically, NHSS not achieve recurring savings targets, and any savings are primarily made through non-recurrent means. This is being addressed through the Scenario Planning process, expected to be completed in mid-2018/19.</p>	Chief Financial Officer	Sept 18	High

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Governance and Transparency	A training plan should be put in place for the Audit Committee and Board members to ensure they know what their roles and responsibilities are, as well as to be clear on the scope of their work.	Management have agreed to consider the training needs of the Audit Committee and Board and to institute a relevant training plan.	Chief Financial Officer	Sept 2018	Medium
Governance and Transparency	The Audit Committee should have a clear terms of reference in place, and this should be assessed for effectiveness on an annual basis, in accordance with best practice.	The Terms of Reference will be reviewed so as to be clear on the responsibilities of the Audit Committee.	Chief Financial Officer	Sept 2018	Medium
Value for Money	In order to demonstrate how the Board is achieving its objectives and meeting planned outcomes, management should demonstrate a clear link between expenditure and outcomes achieved.	Management consider that it is difficult to see the link between actions and outcomes, as often improvement can be hidden by the changing demographics (ageing population, for e.g.). However, they have agreed to look at this further going forward.	Chief Officer	Sept 18	Medium

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial Management	<p>We recommend that consideration is given to the format of the monitoring reports.</p> <p>Currently, they are reported on a very granular level, using 24 lines to report against budget. This makes the chances of material variances unlikely, as most comparable IJBs report on 5-7 lines.</p> <p>Consequently, we recommend that the reports presented to Committee members are a higher level summary, with the detailed reports being provided if the Committee members wished for further information.</p>	Management will discuss with Committee members whether they wish for the approach to reports to be revised in line with the recommendation.	Chief Financial Officer	Sept 18	Low
Governance & Transparency / Value for Money	We recommend that there is a joint performance system (i.e., a joint NHSS/SIC Pentana system) put in place in order to strengthen the scrutiny of the IJB, and that members have access to this system.	Performance reporting all comes from Pentana. However, for financial reporting, the IJB have to merge the information from SIC's Integra system with NHSS's Cedar system. Management will look into providing access to Pentana for members.	Chief Financial Officer	Dec 18	Low
Governance & Transparency	The management accounts reporting process takes approximately two months. We accept that this is in line with protocol, but that improvements in the speed of reporting, without compromising on the quality should be explored.	Management have accepted this point and will consider if there are areas where the efficiency of reporting can be enhanced.	Chief Financial Officer	March 19	Low

Action plan

Follow up of 2016/17 recommendations

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Financial Sustainability	We recommend that the IJB considers from a Board wide perspective, the lessons learned from our wider health transformation work in the sector, including our working on increasing productivity, demand management and cost reduction.	A paper setting out proposals to address the funding gap was presented to the Board in June 2017. The plan outlines specific risks to Shetland, including a shortage of professionals, an ageing workforce, rising costs and increasing demands. Progress reports will be presented to the IJB quarterly in relation to this.	Chief Financial Officer	30 June 2018	Medium	SIC Internal Audit remains focussed on the carried forward funding gap and ongoing Savings and Efficiencies targets. The wider issues regarding transformation are anticipated to be addressed through the Scenario Planning exercise.
Financial Sustainability	The Board should focus on implementing recurring saving schemes to ensure long term financial sustainability. The Board should complete an exercise to fully evaluate demand drivers and the impact on costs going forward.	The Strategic Commissioning Plan recognises the scrutiny placed on the Board and all future redesign projects will be supported with robust needs and risk assessments. These assessments will be subject to further scrutiny through the existing decision making structure of the IJB. NHS Shetland identified that they to focus on recurring savings efficiencies in 2017/18.	Chief Financial Officer	30 June 2018	Medium	Recurring savings targets are still not being achieved. Savings are still primarily being met through non-recurring means. Although 'medium' priority in the prior year, given the failure to progress, we now consider this a critical issue for the IJB given their historical failure to achieve relevant savings and reliance on additional funding from the NHS. We have raised this again in the current year on page 38.

Action plan

Follow up of 2016/17 recommendations

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Governance and Transparency	The Board should, where possible, report earlier than the current two month timescale between reporting and actual performance. This will increase the effectiveness of the reporting.	The current timetable is set around a protocol whereby the performance reports have to be prepared, and then reporting to the Board. This is to ensure the quality of the reports and timings of meetings are not compromised.	Chief Financial Officer	30 June 2018	Medium	The reporting process still takes approximately two months from month-end. We accept that this is in line with protocol, but that improvements in the speed of reporting, without compromising on the quality should be explored.
Internal Control and Risk Management	In our view, financial management governance and general control in the Board is of a reasonable standard, although we would recommend that a system of formal long term financial planning is introduced.	There is no long term financial plan in place. However, there is the Strategic Commissioning Plan which recognises the scrutiny placed on the Board and the decision making structure of the IJB.	Chief Financial Officer	30 June 2018	High	No permanent medium or long term financial plan is in place. However, Scenario Planning started in January 2018, which aims to utilise both the MTFP of the SIC and LDP of the NHSS to build IJB a MTFP.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

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



Required representations:

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

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

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

Deloitte view:

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



Independence and fees

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

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for 2017/18 is £24,000 as detailed in our Audit Plan. No non-audit service fees have been charged by Deloitte in the period.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
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.



Events and publications

Our publications and insights to support the IJB

Publications

The State of the State 2017-18

Citizens, government and business

This year's report finds the UK government amid the complex challenge of leaving the EU. Inevitably, this early phase of EU exit is taking place under intense media scrutiny and passionate political debate. But while EU exit issues may dominate headlines, the public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.

The State of the State 2017-18 explores government through three lenses – the citizen lens, the public sector lens and the business lens.

Download a copy of our publication here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/state-of-the-state.html>



Sharing our informed perspective

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

Recent publications relevant to the local authorities are shared opposite:

Perspectives: Do you have a digital mindset?

Accelerating health and care integration

Digital technology is helping to transform the way citizens interact with service providers across all other service industries. The time is now ripe for changing the relationship between health and social care commissioners and providers and service users.

Read the full blog here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/do-you-have-a-digital-mindset.html>

Article: Public sector transformation

Five lessons from the private sector

An analysis of private sector global companies, including high-tech start-ups, manufacturers, banks, retailers and insurance firms, reveal five valuable lessons for the public sector.

Read the full article here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-transformation.html>



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