Shetland Islands Integration Joint Board
Report to the Audit Committee, Members of the IJB and the Controller of Audit on the 2018/19 audit
Issued 3 September 2019 for the meeting on 26 September 2019
01 Our final report

Introduction 3
Our audit explained 6

Financial statements audit
Significant risks 8
Other matters 11
Our audit report 12
Your annual report 13

Audit dimensions 15

02 Appendices

Purpose of our report and responsibility statement 20
Audit adjustments 21
Action plan 22
Fraud responsibilities and representations 23
Independence and fees 24
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 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2019.

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.

---

**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.**
Conclusions from our testing
Based on our audit work completed to date we expect to issue an unmodified audit opinion.

Following amendments identified during the course of our 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 and staff 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 8.

No misstatements in excess of our reporting threshold of £39k or disclosure deficiencies have been identified up to the date of this report.

Status of the financial statements audit
Outstanding matters to conclude the audit include:

- Finalisation of internal quality control procedures;
- Receipt of final financial statements;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2019.

Conclusions on audit dimensions
As set out on page 3, our audit work covered the four audit dimensions. This incorporated the specific risks highlighted by Audit Scotland, in particular, the impact of EU withdrawal, the changing landscape for public financial management, dependency on key suppliers and increased focus on openness and transparency.

Our detailed interim report, presented to the Committee in June 2019, set out our findings and conclusions on each dimension. We have updated this for any significant changes since that report and our overall conclusion on each dimension is summarised on page 5.
Financial sustainability

The IJB is not in a financially sustainable position and significant funding gaps are forecast for future years. The IJB needs to work with its partners to prioritise and progress transformational change, considering alternative methods of service delivery or taking difficult decisions such as changes to the level of service provided in order to reach a financially sustainable position in the medium to longer term.

Financial management

The IJB has effective financial management processes in place. However, there is room for improvement in the budget-setting process, the reporting of progress against budget and changes to the budget in year.

Governance and transparency

The IJB promotes a culture of openness and transparency, although there is room for improvement and the IJB needs to adopt an approach of always ‘striving for more’.

The IJB needs to significantly improve its approach to self assessment. It should develop a self assessment programme to ensure that the Council has adequate arrangements in place.

Value for money

While the IJB’s performance continues to fare well against the national average, this comes at substantial cost. Given the current financial position, the IJB needs to consider the targets it sets and outline what it considers acceptable performance in lower-priority areas, ensuring such decisions are made through engagement with the wider community.

When preparing its budget, the IJB should make clear links to outcomes and outline how spend is improving outcomes or how spend will be reduced in areas that are not impacting on outcomes achieved.

The IJB has been performing consistently against its targets. However, performance has declined from 2017/18. There needs to be a clear link between cost and performance, and the IJB should consider the targets it sets on an ongoing basis to ensure they remain realistic, demonstrate a commitment to improvement and are aligned with the Scottish Government’s National Performance Framework.

Our conclusions are included on pages 16 to 18 of this report, with the detailed findings and agreed Action Plan included in our interim report in June 2019.

We will consider progress with the agreed actions as part of our 2019/20 audit.

Added value

Our aim is to add value to the IJB 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 IJB promote improved standards of governance, better management and decision-making, and more effective use of resources.

This is provided throughout this report and our separate interim report. In particular, we have added value through our work with the IJB by sharing best practice on medium-term financial planning. We also believe that our input has encouraged a constructive discussion of the IJB’s governance arrangements, its approach to openness and transparency, how it works to improve outcomes for the community and how it can use self-assessment to improve performance.
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

**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 cost whilst facing increased demand for services.

**Materiality**
Materiality of £789k and performance materiality of £631k has been determined based on the benchmark of gross expenditure and is a slight increase from what we reported in our planning paper due to updated final figures.

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 £39k.

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

**Scope of the audit**
We have audited the financial statements for the year ended 31 March 2019 of Shetland Islands Integration Joint Board.

**Timeline 2018/19**
- **November 2018 – February 2019**
  - Meetings with management and other staff to update understanding of the processes and controls.
- **March 2019**
  - Presented planning paper to the Audit Committee
- **June-August 2019**
  - Year end
  - Review of draft accounts, testing of significant risk and performance of substantive testing of results.
- **September 2019**
  - Audit Committee meeting
  - Accounts sign-off
  - Present audit report to the Shetland Islands Integration Joint Board
  - Audit close meeting
Financial statements audit
## Significant risks

### Dashboard

<table>
<thead>
<tr>
<th>Risk</th>
<th>Material</th>
<th>Fraud risk</th>
<th>Planned approach to controls testing</th>
<th>Controls testing conclusion</th>
<th>Consistency of judgements with Deloitte’s expectations</th>
<th>Comments</th>
<th>Page no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completeness and accuracy of income</td>
<td>✅</td>
<td>✅</td>
<td>D+I</td>
<td>Satisfactory</td>
<td>✗</td>
<td>Satisfactory</td>
<td>9</td>
</tr>
<tr>
<td>Management override of controls</td>
<td>✅</td>
<td>✅</td>
<td>D+I</td>
<td>Satisfactory</td>
<td>✗</td>
<td>Satisfactory</td>
<td>10</td>
</tr>
</tbody>
</table>

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 (‘NHS’). The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received from the Health Board and the Council.

Key judgements and our challenge of them
Given the year-end deficit projected by the IJB, there is a risk that overspends could result in income being inappropriately accrued to the year prior to their approval, and therefore contributions could differ from the approved budget and income received.

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 2019 to confirm all income is correctly recorded in the ledger;
• confirmed that the reconciliations performed during 2018/19 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 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 judgment in the financial statements is that which we have selected to be the significant audit risk around the completeness and accuracy of income (page 9). This is inherently the area in which management has the potential to use their judgment 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 overspends in operational areas. This was closely monitored and whilst projecting overspends, 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
We reviewed the financial statements for accounting estimates which could include biases that could result in material misstatements due to fraud.

We considered any adjustments required for the transition to the new standards (IFRS 15 Revenues from contracts with customers and IFRS 9 Financial Instruments ), focusing on the areas of greatest judgement and value.

No issues have been identified 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 based on work performed.
Other matters
Implementation of IFRS 9 and IFRS 15

| Matter identified | The Board is required to adopt the new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenues from contracts with customers in the year ended 31 March 2019. In both cases, the Board is using a modified retrospective approach to implementation where effectively the cumulative impact of transition to 1 April 2018 is posted as an adjustment to reserves. The Board has posted no retrospective adjustments with regard to IFRS 9 or IFRS 15 as there is no material impact on the financial statements. |
| Response | Management held discussions with the audit team regarding the accounting impact of the new standards on the Board for the period and determined that the impact is immaterial. The key element impacted by IFRS 9 is the accounting for bad debt provisions, which must move to a methodology of expected credit losses. A practical expedient available for portfolios of debt is to use a matrix based on past experience, and modified in specific cases where more information is available, in order to provide at a suitable percentage. There is a presumption that NHS, local government and central government debts will not require a credit loss provision as these are effectively guaranteed by the State as a last resort. Regarding IFRS 15, a central analysis was prepared for Shetland Islands IJB’s main contracts, for which no significant changes are required under IFRS15. We have reviewed and challenged management’s assumptions with no issues noted. From this, we agree with management’s assessment that there is no material impact from transition to IFRS15. |

Deloitte view
We agree with management’s position that the new accounting standards do not have a material impact for the Board.
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.

While the IJB is faced with financial sustainability issues (discussed on page 17), there is an underlying assumption that local authority bodies which can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis.

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 13.

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

We are required to provide an opinion on the auditable parts of the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance.

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Deloitte response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Management Commentary</strong></td>
<td>The Management Commentary comments on financial performance, strategy and provides a performance review of key targets. The commentary includes both financial and non-financial KPIs and should make good use of graphs and diagrams. The Board should also ensure that it focuses on the strategic planning context.</td>
</tr>
<tr>
<td></td>
<td>We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance. 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. The good practice note published by Audit Scotland was provided to the IJB for consideration in preparation of the annual accounts and we are pleased to note that the IJB has adopted many areas of good practice in 2018/19. Our review identified a number of areas where the annual accounts needed to be revised in order to comply with statutory guidance and to ensure that they were fair, balanced and understandable. We are pleased to note that these changes have been made.</td>
</tr>
<tr>
<td><strong>Remuneration Report</strong></td>
<td>The remuneration report must be prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of the Chief Officer.</td>
</tr>
<tr>
<td></td>
<td>We have audited the disclosures of remuneration and pension benefits and confirmed that they have been properly prepared in accordance with the regulations. No exceptions were noted.</td>
</tr>
<tr>
<td><strong>Annual Governance Statement</strong></td>
<td>The Annual Governance Statement is required to report that the IJB’s governance arrangements provide assurance, are adequate and are operating effectively.</td>
</tr>
<tr>
<td></td>
<td>We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. Our review identified a number of areas of changes to the Annual Governance Statement in order to comply with statutory guidance and to ensure that they were fair, balanced and understandable. We are pleased to note that these changes have been made.</td>
</tr>
</tbody>
</table>
Audit Scotland have issued a series of Good Practice notes to highlight where Annual Reports can be improved. One specifically directed at Integration Joint Boards was published in April 2018. We have highlighted below some of the key messages from this guidance note and are pleased to note that a number of areas have been considered in drafting the 2018/19 annual accounts. A number of areas for further improvement have been communicated to management and we would encourage the Board to ensure these are adopted for the 2019/20 annual accounts.

We have also benchmarked the length of the draft 2018/19 annual accounts against other IJBs. Shetland Islands IJB sits around the average length, however, further improvements could be made in the content as highlighted below.

### Key messages

| A single story | The narrative in the management commentary and annual governance statement should be consistent with the accounting information in the financial statements. |
|               | Significant points in the financial statements should be explained in the management commentary. |
| How funding was used | The management commentary should give a clear and balanced account of how funding was used. |
|               | Explanations of the IJB’s business model should be provided. |
|               | The salient features of the IJB’s performance and position should be explained in a balanced way. |
| What worries board members | The risks and uncertainties described in the management commentary should genuinely be the principal risks and uncertainties that the board members are concerned about. |
|               | The descriptions should be sufficiently specific that users can understand why they are important to the board members. |
|               | The management commentary and annual governance statement should describe the mitigating actions to manage the impact of the principal risks and uncertainties and significant governance weaknesses. The links to accounting estimates and judgements should be clear. |
| Consistency | Highlighted or adjusted figures, key performance indicators and other measures referred to in the management commentary should be clearly reconciled to the relevant amounts in the financial statements. |
|               | Any adjustments to the figures in the management commentary should be clearly explained, together with the reasons why they are being made. |
| Cut the clutter | Important messages, policies and transactions should be highlighted and supported with relevant context and not obscured by immaterial detail. |
|               | Cross-referencing and signposting should be used effectively, and repetition avoided. |
| Summarise | Items should be reported at an appropriate level of aggregation. |
|               | Tables should be supported by, and consistent with, the accompanying narrative. |
| Explain change | Significant changes from the prior period, whether matters of policy or presentation, should be properly explained. |
| True and fair | The spirit as well as the letter of proper accounting practices should be followed. |

<table>
<thead>
<tr>
<th>Length of narrative benchmarking</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Management Commentary</strong></td>
</tr>
<tr>
<td><strong>Statement of Responsibilities</strong></td>
</tr>
<tr>
<td><strong>Remuneration Report</strong></td>
</tr>
<tr>
<td><strong>Annual Governance Statement</strong></td>
</tr>
<tr>
<td>Shetland Islands IJB</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>G</td>
</tr>
</tbody>
</table>
Audit dimensions
Audit dimensions

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our conclusions on our audit work covering the following area, with our detailed findings and conclusions reported to the Committee in June 2019 as part of our Interim Report. 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.

The IJB noted that Best Value is an area in which it is less developed. The IJB needs to identify causal factors, set clear actions for improvement and report on an annual basis on a self-assessment of Best Value to monitor improvements in this area and identify further actions.

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

- EU Withdrawal
- Changing landscape for public financial management
- Dependency on key suppliers
- Openness and transparency

Our conclusions on the above were reported in our Interim Report to the Committee in June.
Audit dimensions (continued)
Financial sustainability and financial management

**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.

**Key facts:**

**2018/19 financial position**
- £3.1m overspend against budget.

**2019/20 financial position**
- £2.3m savings required
- £1.8m savings identified; £0.5m unidentified

**Overall conclusions**
The IJB overspent in 2018/19, with this being funded through additional funding from NHS Shetland and Shetland Islands Council. The IJB's MTFP identifies a need to identify £7.5m (14%) of recurring savings by 2023/24, with the recurring annual funding gap set to increase to this from £2.5m (5%) in 2019/20. The IJB needs to identify savings, agree additional funding from the NHS and Council, or agree changes to service delivery which will enable it to reach a financially sustainable position over the medium term.

There is room for improvement in outlining how the anticipated spend over the medium term aligns with the key themes on public service reform (prevention, performance, partnership, people), the Strategic Commissioning Plan and demonstrates a focus on improving outcomes.

The IJB's Strategic Commissioning Plan needs to be improved, quantifying demand pressures and the resulting costs in a 'no change' environment, linked clearly to the MTFP and identifying the level of transformation required, linked to NHS Shetland's and Shetland Islands Council’s transformation programmes.

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

**Key facts:**

**2018/19 budget**
- Original budgeted expenditure of £44.1m.
- Savings of £0.4m achieved, against budgeted savings of £2.3m
- Overspends reported during the year.
- Regular reporting to senior management and board members

**Overall conclusions**
The budget should quantify the impact of the current year decisions on the funding gaps identified throughout the period covered by the MTFP, rather than just focusing on the impact in the coming year.

Throughout the year, the IJB was forecasting an overspend against budget. Despite this, the IJB has achieved a surplus position due to additional funding from the Scottish Government and NHS Shetland.

A significant amount of Board meeting time is spent analysing the detail of IJB finances rather than focusing on strategic thinking and priority areas. The IJB should delegate authority to a committee to review and report to the Board on financial performance.

The IJB needs to consider the capacity of the leadership team given the dual role being completed by the Chief Financial Officer, and changes in the Chief Officer role. The IJB should consider the case for a dedicated Chief Financial Officer in Shetland. The IJB also needs to consider if its leadership is appropriately resourced. If it is not, the IJB needs to be clear what is missing that would enable improved outcomes and work with the Council and NHS for these to be provided.
Audit dimensions (continued)

Governance and transparency and value for money

**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.

**Key facts:**
- **Strategic Plan 2019-2022 approved in March 2019**

**Overall conclusions**
In general, the IJB has a good attitude to openness and transparency. However, it has not taken specific actions in the year to improve its approach to openness and transparency in line with good practice. The IJB should review its approach to openness and transparency in 2019/20, developing an action plan in conjunction with the Board and wider stakeholders, monitoring improvements in openness and transparency on an ongoing basis thereafter.

The IJB should have annual self-assessments of governance arrangements, committee and Board performance. The IJB should develop a self assessment programme to ensure that the IJB has adequate self assessment arrangements in place.

The IJB is required by law to carry out a formal review of its Integration Scheme in 2019/20. Through this review, the IJB needs to ensure that there is agreement of responsibility and accountability arrangements, clearly setting out roles and responsibilities of each of the parties. The IJB should ensure it is an early adopter of the exemplar Directions being developed at a national level.

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 Board, work in conjunction with Members 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.

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

**Key facts:**
- **The IJB has been performing consistently against its targets: in 2018/19, it achieved 21 targets and missed 15 (2017/18: 20 and 15). Performance has declined from 2017/18 in 51% of cases (improving in 34%).**

**Overall conclusions**
In line with good practice identified by Audit Scotland, we recommend that the IJB prepare a clear and concise annual Improvement Plan to be reported to the Board. This Improvement Plan should be informed by service self-assessments, stakeholder surveys and national reports.

The IJB has been performing consistently against its targets. However, this information does not enable the IJB to fully understand its performance: while the IJB has performed consistently, this is because it is meeting targets which have not changed. From our review of indicators in 2018/19, we noted that performance has declined from 2017/18 in 51% of cases (improving in 34%).

From the IJB’s performance monitoring reports, it is difficult for the Board to fully assess performance, including performance against outcomes, given that performance information provided is lengthy, highly numerical and difficult to follow, with the accompanying report lacking detail. There needs to be a link made between cost and performance, and the IJB should consider the targets it sets on an ongoing basis to ensure they remain realistic whilst also demonstrating a commitment to improvement.
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) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

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

What we don’t report
As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.
Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

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 again in this report.

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

Pat Kenny
for and on behalf of Deloitte LLP
Glasgow
3 September 2019

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

Summary of corrected and uncorrected misstatements and disclosure deficiencies

**Corrected misstatements**
No corrected misstatements have been identified from our audit work performed to date.

**Uncorrected misstatements**
No uncorrected misstatements have been identified from our audit work performed to date.

**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. A number of narrative disclosure deficiencies were highlighted and communicated to management, which we are pleased to note have been corrected.
Action plan

Recommendations for improvement

We have not made any recommendations for improvement arising from our financial statements audit. Our interim report submitted to the Committee in June 2019 reported our detailed recommendations arising from our work on the wider audit dimensions. In this report, we made 17 recommendations, as follows:

We will follow up these recommendations and report to the Committee on progress as part of our 2019/20 audit.

In our interim report, we followed up on recommendations for improvement made in 2017/18. A summary of progress against 2017/18 actions has been included below. Of the 6 recommendations outstanding, all have an updated recommendation included above. Consequently, there are 17 total recommendations which we will follow up in our 2019/20 audit.

<table>
<thead>
<tr>
<th>Wider audit dimension</th>
<th>Recommendations made</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial sustainability</td>
<td>3</td>
</tr>
<tr>
<td>Financial management</td>
<td>3</td>
</tr>
<tr>
<td>Governance and transparency</td>
<td>8</td>
</tr>
<tr>
<td>Value for money</td>
<td>3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Area</th>
<th>Recommendations made</th>
<th>Recommendations implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial statements</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Financial sustainability</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Financial management</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Governance and transparency</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Value for money</td>
<td>1</td>
<td>-</td>
</tr>
</tbody>
</table>
Responsibilities:
The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:
We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.
We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:
In our planning we identified the completeness and accuracy of income and management override of controls as key audit risks for your organisation.
During course of our audit, we have had discussions with management and those charged with governance.
In addition, we have reviewed management’s own documented procedures regarding fraud and error in the financial statements. We have reviewed the paper prepared by management for the Audit Committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:
No concerns have been identified regarding fraud.
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:

<table>
<thead>
<tr>
<th>Independence confirmation</th>
<th>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.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees</td>
<td>The audit fee for 2018/19, in line with the fee range provided by Audit Scotland, is £25,000 as broken down below:</td>
</tr>
<tr>
<td></td>
<td>£</td>
</tr>
<tr>
<td>Auditor remuneration</td>
<td>17,200</td>
</tr>
<tr>
<td>Audit Scotland fixed charges:</td>
<td>rogate costs:</td>
</tr>
<tr>
<td></td>
<td>1,670</td>
</tr>
<tr>
<td></td>
<td>Contribution to PABV</td>
</tr>
<tr>
<td></td>
<td>5,050</td>
</tr>
<tr>
<td></td>
<td>Audit support costs</td>
</tr>
<tr>
<td></td>
<td>1,080</td>
</tr>
<tr>
<td>Total agreed fee</td>
<td>25,000</td>
</tr>
<tr>
<td></td>
<td>No non-audit fees have been charged by Deloitte in the period.</td>
</tr>
<tr>
<td>Non-audit services</td>
<td>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.</td>
</tr>
<tr>
<td>Relationships</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>We are not aware of any relationships which are required to be disclosed.</td>
</tr>
</tbody>
</table>