

Shetland Islands Integration Joint Board

Report to the Audit Committee, Members of the Integration Joint Board and the
Controller of Audit on the 2020/21 audit

Issued on 16 September 2021 for the meeting on 30 September 2021

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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 Annual Accounts.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit Committee (“the Committee”) of Shetland Islands Integration Joint Board (“the IJB” “the Board”) for the year ending 31 March 2021 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2021.

This report summarises our findings and conclusions in relation to:

- The audit of the **Annual Accounts**; 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 duty to secure best value.



Introduction (continued)

The key messages in this report (continued)

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

Conclusions from our testing

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

The Management Commentary and Annual Governance Statement comply with the statutory guidance and proper practice and are consistent with the Annual Accounts and our knowledge of the Board.

The auditable parts of the Remuneration Report have been prepared in accordance with the relevant regulations.

A summary of our work on the significant risks is provided in the dashboard on page 9.

We have identified one misstatement above our reporting threshold, relating to the understatement of income received from NHS Shetland and expenditure incurred, which is included on page 21.

Status of the Annual Accounts audit

Our audit is complete.

Conclusions on audit dimensions and best value

As set out on page 3, our audit work covered the four audit dimensions. Our separate detailed report presented to the Committee in June 2021 set out our findings and conclusions on each dimension. In accordance with the Code of Audit Practice, we have included our overall conclusions within this report on pages 16-18. Key highlights include:

Financial Management – The IJB continues to have effective financial planning and management arrangements in place with the detailed financial monitoring reports evidencing the IJB’s monitoring and management of the financial position throughout the year.

Financial sustainability – The IJB has set a balanced budget for 2021/22. However, it is still faced with significant financial challenges in the medium to longer term, with the impact of COVID-19 increasing this risk.

Governance and transparency – The IJB has strong leadership, and remains committed to being an open and transparent organisation. Significant improvements were noted in the governance and scrutiny arrangements during the year.

Value for money – The IJB continues to have an embedded performance management culture supported by the performance management framework and systems. Performance reporting to the Board is sufficiently detailed, however scrutiny of performance could be improved by delegating responsibility for performance monitoring to another committee of the Board.

Best value – The IJB has delivered improvements in key areas in the year and has sufficient arrangements in place to secure best value with a strong focus on continuous improvement. It has a clear understanding of areas which require further improvement.

Introduction (continued)

The key messages in this report (continued)

Emerging issues

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. We have provided a summary of those most relevant to the Board within our wider scope report.

Next steps

An agreed Action Plan is included within our wider scope report which was presented to Committee in June 21, which includes a follow-up of progress against prior year actions. We will consider progress with the agreed actions as part of our 2021/22 audit.

Added value

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

This is provided throughout the report. In addition, as information emerges as a result of COVID-19, the withdrawal from the European Union, and evolving legislation we have shared guidance with management in relation to Annual reporting. We have also shared invites to relevant Deloitte-led webinars with the IJB.

Pat Kenny
Audit Director

Annual Accounts audit



Quality indicators

Impact on the execution of our audit

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

Area	Grading	Reason
Timing of key accounting judgements		There were no significant accounting judgements included within the IJB Annual Accounts, which is in line with our expectations and understanding of the IJB.
Adherence to deliverables timetable		Management provided evidence in a timely manner, with 92% of deliverables provided in line with agreed deadlines. Any follow-up requests during the audit were quickly actioned.
Access to finance team and other key personnel		Deloitte and the IJB have worked together to facilitate remote communication during the audit which has been successful. There have been no issues with access to the finance team or other key personnel.
Quality and accuracy of management accounting papers		Documentation provided has been of a high standard, which enabled an efficient audit. Working papers were clear and reconcilable to the Annual Accounts. This is borne out by the resubmission rate on requests for the audit being low, with the only resubmission request being further evidence required in relation to COVID-19 expenditure.
Quality of draft Annual Accounts		A full draft of the Annual Accounts was received for the audit on 11 June 2021. We identified 5 changes which were required, a significant improvement on 2019/20.
Response to control deficiencies identified		We did not identify any control deficiencies during our audit.
Volume and magnitude of identified errors		We have identified one financial adjustment during our audit relating to the understatement of funding received from NHS Shetland, as set out on page 21.



Lagging



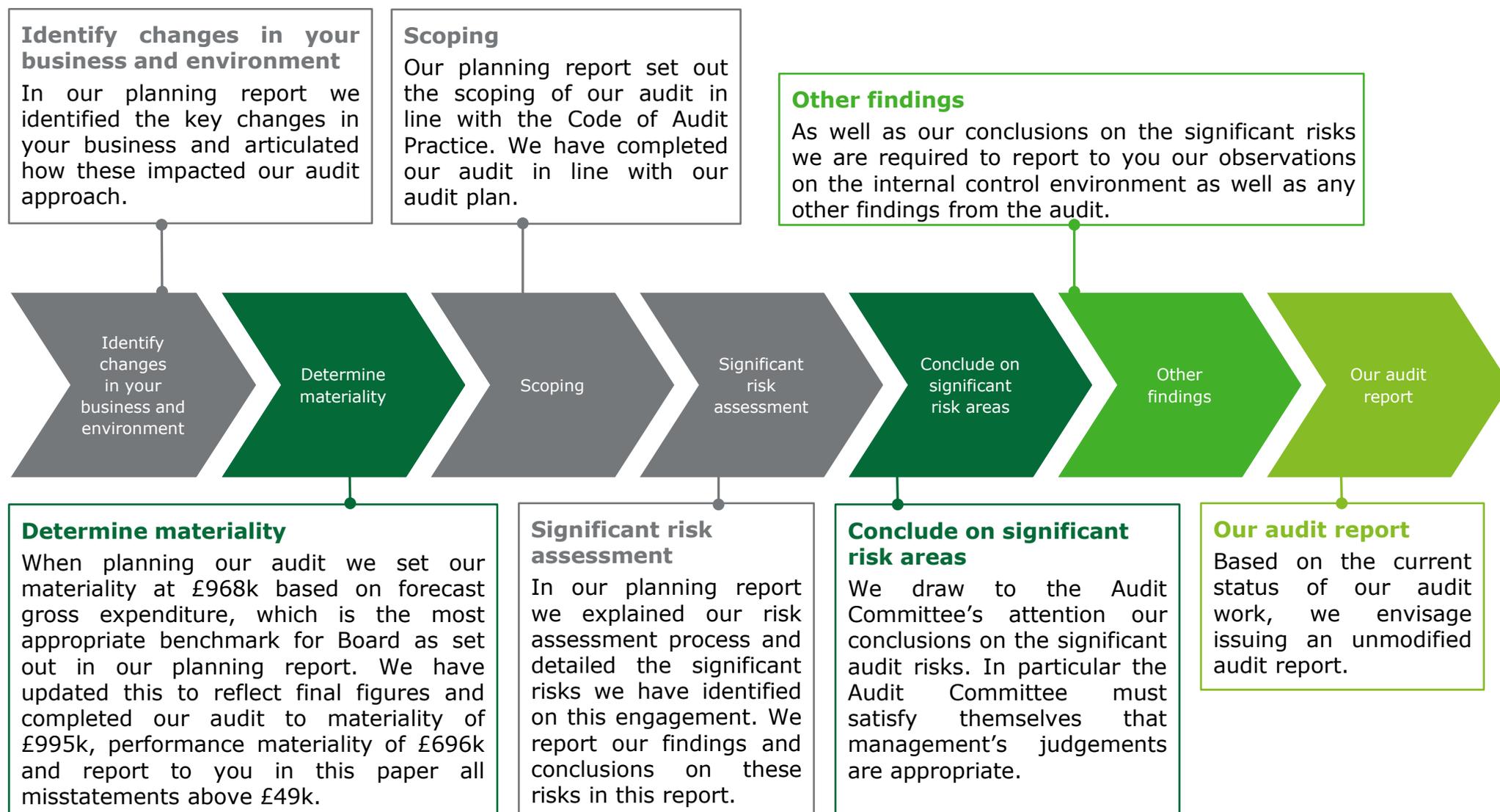
Developing



Mature

Our audit explained

We tailor our audit to your business and your strategy



Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Completeness and accuracy of income			D+I	Satisfactory		Satisfactory	10
Management override of controls			D+I	Satisfactory		Satisfactory	11

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

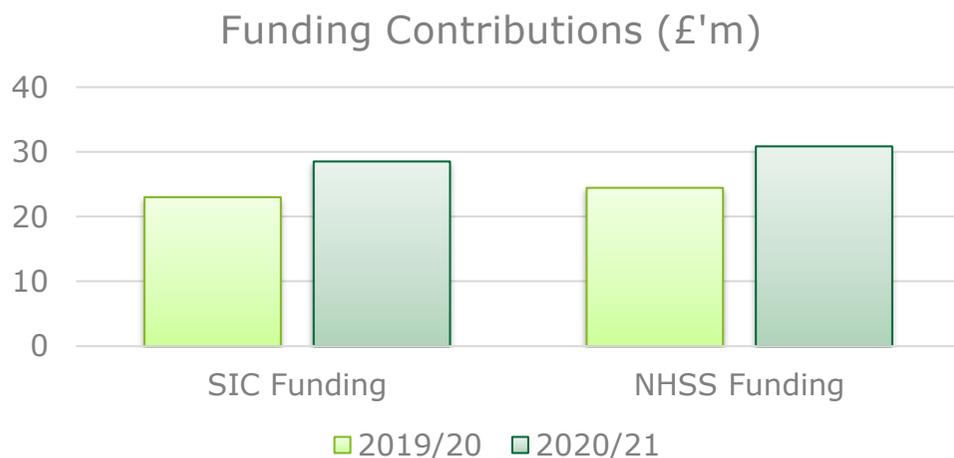
Completeness and accuracy of income



Risk identified and key judgements

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

The main components of income for the IJB are contributions from its funding partners, namely Shetland Islands Council ("SIC") and NHS Shetland ("NHSS"). The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received from the Health Board and the Council. Whilst the Board was projecting a year-end overspend against budget in relation to directly managed services, there remains a risk associated with the additional COVID-19 expenditure and associated funding.



Deloitte response and challenge

We have performed the following:

- Assessed the design and implementation of the controls around recognition of income;
- Tested the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process;
- Tested the reconciliations performed by the Board at 31 March 2021 to confirm all income is correctly recorded in the ledger; and
- Confirmed that the reconciliations performed during 2020/21 have been reviewed on a regular basis.

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)

Management override of controls



Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent Annual Accounts by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Accounts and accounting records.



Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Accounts. In designing and performing audit procedures for such tests, we have:

- Tested the design and implementation of controls over journal entry processing;
- 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;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements

We have reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.

In performing this review, we have not identified any significant accounting estimates and judgements from our testing.

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.

Deloitte view

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

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

Other significant findings

Financial reporting findings

Below, we set out the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

The IJB has prepared its Annual Accounts in line with the Code of Practice on Local Authority Accounting. We are satisfied that the IJB's accounting practices are appropriate.

Other matters relevant to financial reporting:

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

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation and accounting for PPE. The IJB was acting as an agent regarding personal protective equipment ('PPE') transactions and therefore does not recognize any income, expenditure or stock of PPE. LASAAC guidance concluded that it is reasonable to conclude that these transactions do not need to be reflected in increased funding provided to, and commissioning income received from the IJB, therefore the net financial impact on the IJB Annual Accounts is nil. This was discussed with management and confirmed that this guidance has been followed.

We will obtain written representations from the Board on matters material to the Annual Accounts 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.



Our opinion on the Annual Accounts

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



Material uncertainty related to going concern

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

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is relevant to the assessment of the continued existence of a particular body.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the Annual Accounts 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 narrative parts of the Annual Accounts is reviewed in its entirety for material consistency with the Annual Accounts 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 as discussed further on page 14.

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 is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
Management Commentary	The management commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Board also focuses on the strategic planning context.	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.
Remuneration Report	The remuneration report must be prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of the Chief Officer.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages, and we can confirm that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the Board governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the Annual Accounts and has been prepared in accordance with the Delivering Good Governance in Local Government Framework.

Audit dimensions and best value

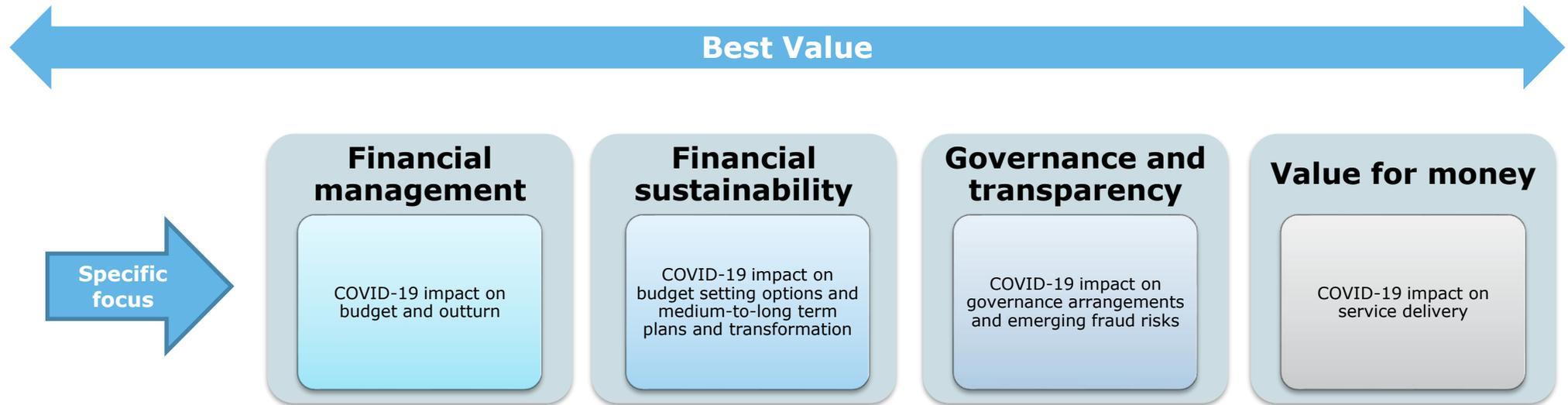


Audit dimensions and best value

Overview and conclusions

As set out in our audit plan and separate report on the “Audit Dimensions and Best Value” presented to the Committee in June 2021, public audit in Scotland is wider in scope than financial audits. Our separate report sets out our findings and conclusions on our audit work covering the areas set out below.

The risk profile of public bodies for the 2020/21 audits is significantly affected by the COVID-19 pandemic. Our audit work across each dimension has therefore been specifically focussed on how the Board has responded to these risks.



In accordance with the Code of Audit Practice, our overall conclusions on each audit dimension and best value are summarised on the following page.

Audit dimensions and best value (continued)

Overview and conclusions (continued)

Financial management

The IJB continues to have effective financial planning and management arrangements in place with the underspend at 31 March 2021 evidencing the IJB's monitoring and management of the financial position throughout the year.

The finance function continues to operate effectively, comprising appropriately skilled and qualified officers. COVID-19 has resulted in significant overtime and increased workload pressure across the finance team and the IJB should ensure this is monitored and the appropriate level of resource allocated to ensure effective operation of the finance function continues.

Further work is required by the IJB to explicitly link budget with outcomes, and there remains a need for further consideration of the level of savings required by the IJB to achieve financial sustainability.

Management have agreed to include realistic savings targets and to clearly link use of resources with the delivery of outcomes as part of the budget setting process for 2021/22.

Financial sustainability

A balanced budget has been set for 2021/22, and while we are satisfied that short-term balance can be achieved in 2021/22, the IJB needs to ensure that Board Members are appropriately involved in the budget setting process. In addition, IJB management have agreed to enhance its community engagement, seeking the views of key stakeholders and the wider public where appropriate as part of this process.

Overall, we are satisfied that there is a robust budget setting process in place, although improvements can be made to further enhance it and we continue to recommend that the IJB consider setting a budgeted contribution to its reserves.

The impact of COVID-19 remains a significant risk which could impact on the IJB achieving medium-to-longer-term financial sustainability. The IJB considers itself to not be in a financially sustainable position, with the 7-10% recurring savings target embedded into the Medium Term Financial Plan not being regarded as realistic, especially given the fact that the IJB continues to remain reliant on the transformation strategies and workforce plans of its funding partners.

Governance and transparency

The IJB continues to have strong leadership in place, and remains committed to being an open and transparent organisation.

Significant improvements were noted in the governance and scrutiny arrangement during the year and the IJB acted to ensure it was no longer non-compliant with legislation under the Public Bodies (Joint Working) (Scotland) Act 2014.

The IJB has agreed to focus on ensuring Board Member development is embedded through joint training sessions with its partner bodies and that governance arrangements between the IJB, NHS and the Council are fully understood.

Audit dimensions and best value (continued)

Overview and conclusions (continued)

Value for money

The IJB continues to have an embedded performance management culture supported by the performance management framework and systems. Performance reporting to the Board is sufficiently detailed, however scrutiny of performance could be improved by delegating responsibility for performance monitoring to another committee of the Board.

During the IJB's recovery period, performance measures should be continually assessed and aligned in response to changes in strategic priorities. In addition, the IJB should closely monitor the implementation of the psychological therapies improvement plan and outcomes achieved from this.

We welcome the IJB's commitment to tackling inequalities in Shetland in ensuring this is embedded within key strategic documents and is a key focus area included within the decision making process.

Best value

It is the duty of the IJB to secure Best Value as prescribed in Part 1 of the Local Government in Scotland Act 2003. We have a statutory duty to be satisfied that the local government bodies have made proper arrangements for securing BV.

Based on our audit work performed on the four audit dimensions, we are satisfied that the IJB has delivered improvements in key areas in the year and has sufficient arrangements in place to secure best value with a strong focus on continuous improvement. It has a clear understanding of areas which still require further development.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

The scope of our work

Our observations are developed in the context of our audit of the Annual Accounts.

We described the scope of our work in our audit plan.

Use of this report

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

What we don't report

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

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

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

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



Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 16 September 2021

Appendices



Audit adjustments

Adjusted misstatements

The following corrected misstatements have been identified up to the date of this report, which we requested that management corrected as required by ISAs (UK). The overall impact on the Comprehensive Income and Expenditure Statement is a nil impact given that the adjustment required both income and expenditure to increase by the same amount.

	Debit/(Credit) in CIES £k	Debit/(Credit) in MIRS £k	Debit/(Credit) in net assets £k	Debit/(Credit) in reserves £k	If applicable, control deficiency identified
Misstatements identified in current year					
Understatement of Funding Received from NHS Shetland [1]	(1,321)	1,321	1,321	(1,321)	N/A
Total			-	-	

[1] The IJB had received additional COVID-19 'pass through' funding in the year from NHSS equating to £1,321k. This income had not initially been recognised by the IJB meaning that income was understated within the original Annual Accounts provided to Deloitte. Management have accepted the identified misstatement and have subsequently corrected for this, as required by ISAs (UK).

Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

As auditors, we obtain reasonable, but not absolute, assurance that the Annual Accounts as a whole are free from material misstatement, whether caused by fraud or error.



Audit work performed:

In our planning we identified the risk of fraud in relation to completeness of income and management override of controls as a key audit risk for your organisation.

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

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



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 Annual Accounts may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and 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.

Independence and fees

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

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

Fees The audit fee for 2020/21, in line with the expected fee range provided by Audit Scotland, is £27,330, as analysed below:

	£
Auditor remuneration	18,850
Audit Scotland fixed charges:	
Pooled costs	1,790
Contribution to PABV	5,650
Audit support costs	1,040
Total fee	27,330

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

Non-audit services In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

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



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