

# Shetland Islands Health and Social Care Partnership

 Shetland NHS Board	 Shetland Islands Council
Enquiries to      Leisel Malcolmson, Committee Officer Direct Line:      01595 744599 E-mail:            leisel.malcolmson@shetland.gov.uk	
8 February 2018	

Dear Member

## IJB Audit Committee – 14 February 2018

Please be advised that the above meeting has been rescheduled as noted below, please use the agenda pack already circulated:

**Tuesday 27 February 2018 at 2.30pm**

**Bressay Room, NHS Shetland HQ, Burgh Road, Lerwick**

Please note that, for the benefit of all attendees, an additional item will appear on all future agendas, providing the date of the next and future meetings.

Yours sincerely



Simon Bokor-Ingram  
Chief Officer

Chair: E Macdonald  
Vice-Chair: S Manson

## AGENDA

ITEM	
A	Welcome and Apologies
B	Declaration of interests - Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.
C	Confirm minutes of meeting held on 25 October 2017 (enclosed).
1	Annual Audit Plan 2017/18 <i>F-015</i>
2	IJB Audit Committee Business Programme 2018/19 <i>CC-05</i>
3	Date of Next and Future meetings: The venue for all meetings is the Bressay Room, NHS HQ, Burgh Road, Lerwick.  Wednesday 20 June 2018 at 2pm Friday 21 September 2018 10am Thursday 8 November 2018 2pm Thursday 28 February 2019 at 10am



Shetland Islands Council

## MINUTES - PUBLIC

<b>Meeting</b>	Integration Joint Board Audit Committee
<b>Date, Time and Place</b>	Wednesday, 25 October 2017 at 2.00pm Bressay Room, NHS Shetland HQ, Burgh Road, Lerwick
<b>Present [Members]</b>	<p><u>Voting Members</u>            Natasha Cornick            Shona Manson            Emma Macdonald</p> <p><u>Non-Voting Members</u>            Simon Bokor-Ingram, IJB Chief Officer            Karl Williamson, IJB Chief Financial Officer</p>
<b>In attendance [Observers/Advisers]</b>	Christine Ferguson, Director of Corporate Services, SIC Crawford McIntyre, Chief Internal Auditor for IJB Sheila Duncan, Management Accountant, SIC Jaine Best, Solicitor, SIC Lisa Ward, IJB NHS Substitute Leisel Malcolmson, Committee Officer, SIC <i>[note taker]</i>
<b>Apologies</b>	<p><u>Voting Members</u>            Mark Burgess</p> <p><u>Non-Voting Members</u>            None</p> <p><u>Observers/Advisers</u>            None</p>
<b>Chairperson</b>	Emma Macdonald, Chair of the IJB Audit Committee, presided.

<b>Declarations of Interest</b>	None
<b>Minutes of previous meetings</b>	<p>The minutes of the meeting held on 21 September 2017 were confirmed, with the following exception:</p> <p><u>Min Ref. 03/17 and 04/17</u> - After "Chief Financial Officer" remove "- NHS" on both occasions as the Chief Financial Officer is a statutorily required role of the IJB.</p>
<b>05/17</b>	<b>2016/17 Annual Audit Report</b>
<b>Report No. CC-49-17-F</b>	<p>The IJB Audit Committee considered a report by the Director - Community Health &amp; Social Care, which presented work undertaken for 2016/17 by Internal Audit. The report focussed on the Strategic Commissioning Plan, Financial Recovery Plan and the Integrated Care Fund.</p> <p>The Director - Community Health &amp; Social Care, introduced the report and thanked the Chief Internal Auditor for the clear but stark message in his Chief Internal Auditor report attached.</p> <p>Comment was made in regard to the timing of reporting and how long it had taken for this report to be presented to the IJB Audit Committee. Concern was expressed that the IJB Audit Committee could not be effective in the audit process as a result of delayed reporting. Members were advised that once the Chief Internal Auditor has written his report time is given to the IJB Chief Officer to respond by completing the action plan. It was noted however that the Chief Internal Auditor had reported on the terms of the report in his annual report at the IJB Audit Committee meeting in June 2017, but unfortunately it had not been possible to report the full report to the IJB Audit committee until now.</p> <p>The Chief Internal Auditor said that the IJB has a financial recovery plan going forward and as Members of the IJB and the IJB Audit Committee they had to ensure that the Plan is SMART and be robust in challenging the recovery plan and any reports prepared in relation to that plan. In terms of reporting he said that the Audit Report is prepared as quickly after April as is possible but it cannot be reported further until the action plan is agreed.</p> <p>In responding to questions regarding the recovery plan and whether the Chief Officer had confidence in it, he said that there are underlying issues with regard to the NHS and the state of the finances in the Health Board that are being looked at but he said that he was confident in terms of the progress made acknowledging the issue of the underlying deficit. The Chief Officer said that non-recurring savings had been used to balance the books and there was more to be done on the pace and appetite for change taking account of risk and the need to continually redesign services.</p>

	<p>In response to a comment the Chief Internal Auditor for IJB said it would be appropriate for Ms Cornick to speak to the NHS Internal auditors, as Chair of the Audit Committee for the NHS.</p> <p>The Chief Financial Officer commented on the recovery plan and the intention from the Chief Internal Auditor to continue to monitor progress and said that there would be more focus given to looking at the recovery plan and the joint strategic commissioning plan refresh as a whole.</p> <p>During further discussion concern was expressed that savings were being sought at the beginning of the financial year but were only being realised later for part of the year. The Chief Financial Officer agreed that work should be done earlier to ensure that this does not happen again and also that it is important to look towards a 5-year savings plan and monitor progress. He said however that this could be difficult as there is only a one-year funding allocation from the Scottish Government which is not ideal for forward planning.</p> <p>The Committee unanimously approved the recommendations contained in the report.</p>
<b>Decision</b>	<p>The IJB Audit Committee NOTED the contents of the Internal Audit Report and AGREED the IJB Action Plan responses as set out in the report.</p>

The meeting concluded at 2.20pm

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CHAIR





Agenda Item

**1**

Meeting(s):	IJB Audit Committee	14 February 2018
Report Title:	Annual Audit Plan 2017/18	
Reference Number:	F-015-F	
Author / Job Title:	Karl Williamson / IJB Chief Financial Officer	
1.0 Decisions / Action required:		
1.1	The Committee is asked to NOTE the contents of the Audit Plan 2017/18 for Shetland Islands Integration Joint Board (Appendix 1) from its external auditors, Deloitte LLP.	
2.0 High Level Summary:		
2.1	The Annual Audit Plan detailed at Appendix1 provides information on the work that external auditors will undertake to review and assess the governance and performance of the Shetland Islands Integration Joint Board (IJB) in 2017/18.	
3.0 Corporate Priorities and Joint Working:		
3.1	The audit process plays a key role in helping the IJB to maintain good governance, accountability and provides assurance around financial stewardship.	
3.2	The IJB represents partnership working between Shetland Islands Council and NHS Shetland with regard to the integration of Health and Social Care.	
4.0 Key Issues:		
4.1	<p>The Annual Audit Plans present the planned audit work by the IJB's external auditors, Deloitte LLP, for the 2017/18 financial year; the second year of a five-year appointment. Their core audit work includes:</p> <ul style="list-style-type: none"><li>• providing the <b>Independent Auditor's Report</b> on the annual accounts (and any assurance statement on whole of government accounts);</li><li>• providing the <b>annual report</b> on the audit addressed to the IJB and the Controller of Audit;</li><li>• communicating <b>audit plans</b> to those charged with governance;</li><li>• providing <b>reports to management</b>, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code of Audit Practice;</li><li>• preparing and submitting <b>fraud returns</b> to Audit Scotland, where appropriate;</li><li>• identifying significant matters arising from the audit, alert the Controller of Audit and support Audit Scotland in producing statutory reports as required;</li><li>• undertaking work requested by Audit Scotland or local performance audit work.</li></ul>	

5.0 Exempt and/or confidential information:		
5.1	None.	
6.0 Implications :		
6.1 Service Users, Patients and Communities:	None arising from this report.	
6.2 Human Resources and Organisational Development:	None arising from this report.	
6.3 Equality, Diversity and Human Rights:	None arising from this report.	
6.4 Legal:	The Shetland Islands Integration Joint Board is required to prepare accounts in accordance with the Local Government (Scotland) Act 1973 and the Code of Practice on Local Authority Accounting 2017/18.	
6.5 Finance:	The audit fee for 2017/18 for Shetland Islands Integration Joint Board is £24,000.	
6.6 Assets and Property:	None arising from this report.	
6.7 ICT and new technologies:	None arising from this report.	
6.8 Environmental:	None arising from this report.	
6.9 Risk Management:	The annual audit work is focused on identifying and assessing the key challenges and risks to the Shetland Islands Integration Joint Board in order to mitigate future risk.	
6.10 Policy and Delegated Authority:	The IJB Audit Committee's terms of reference states that it is to consider external audit plans and reports as appropriate and any matters arising from these and management actions identified in response.	
6.11 Previously considered by:	n/a	n/a

**Contact Details:**

Karl Williamson, Chief Financial Officer, [karlwilliamson@nhs.net](mailto:karlwilliamson@nhs.net)

14 February 2018

**Appendices:**

Appendix 1 – Shetland Islands Integration Joint Board Annual Audit Plan for 2017/18





## **Shetland Islands Integration Joint Board**

Planning report to the Audit Committee on the audit for the year ending  
31 March 2018

14 February 2018

**Deloitte Confidential: Public Sector**

# Contents

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## 01 Planning report

Director introduction	4
Responsibilities of the Audit Committee	7
Our audit explained	8
Continuous communication and reporting	9
An audit tailored to you	10
Materiality	12
Scope of work and approach	13
Significant risks	15
Wider scope requirements	18
Audit quality	25
Purpose of our report and responsibility statement	26

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## 02 Technical update

IFRS 9 – Financial Instruments	28
General Data Protection Regulations	29

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## 03 Appendices

Prior year audit adjustments	31
Fraud responsibilities and representations	32
Independence and fees	34
Our approach to quality	35

# Planning report



# Director introduction

## The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our draft planning report to the Audit Committee of Shetland Islands Integration Joint Board ('the IJB') for the year ending 31 March 2018 audit. We would like to draw your attention to the key messages of this draft audit plan:

### **Audit Plan**

We have updated our understanding of the IJB, including discussion with management and review of relevant documentation from across the IJB as well as Audit Scotland performance audit reports published during the year.

Based on these procedures, we have developed this plan in collaboration with the IJB to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the IJB.

We have taken an initial view as to the significant audit risks the IJB faces. These are presented as a summary dashboard on page 15.

- In accordance with auditing standards, we have identified a significant risk associated with income. This risk is pinpointed to the recognition of income from its funding partners given the reliance of the IJB on this income and the potential that funding partners may not provide additional income to cover overspends.
- In accordance with auditing standards, management override of controls has also been identified as a significant audit risk.

# Director introduction (continued)

## The key messages in this report (continued):

### Audit Dimensions

- The 2016 Code of Audit Practice sets our four audit dimensions which set a common framework for all public sector audits in Scotland. Our audit work will consider how the IJB is addressing these and report our conclusions in our annual report to the Audit Committee in September 2018. In particular, our work will focus on:
  - **Financial sustainability** – As with other public sector bodies, IJB continues to face financial challenges, due to uncertainty around future funding and increase in demand for services. The overall 2017/18 forecast position as at 30 September 2017 is projecting a post-savings target overspend of £1,561k against budget. The IJB had discussions on two separate occasions with the Minister for Public Health and Sport and it was confirmed that additional funding will not be made available to fund the overspend in the IJB and that the IJB must find efficiencies elsewhere. This will become increasingly important as the IJB has identified a funding gap of £6,753k which needs to be addressed through savings by 2020/21.
  - We will monitor the IJB's actions in respect of its short, medium and longer term financial plan to assess whether short term financial balance can be achieved, whether there is a long-term financial strategy and if investment is effective. There is currently a risk around how benefits are realised from service redesign projects and also how this impacts on achieving financial targets.
  - **Financial management** – We will review the budget and monitoring reports of the IJB during the year and liaise with internal audit in relation to their work on the financial control environment to assess whether financial management and budget setting is effective. From our audit work in 2016/17 we found that the IJB had acceptable financial management procedures in place; however, there remains a risk that a lack of appropriate financial management could result in the IJB not achieving its financial targets.
  - **Governance and transparency** – From our review of IJB papers and attendance at Audit Committees we will assess the effectiveness of governance arrangements. As the IJB is still relatively new and has significant challenge around long term financial sustainability, there is a risk that the governance arrangements between the IJB and its partner bodies are not effective.
  - **Value for money** – From our 2016/17 audit work we concluded that the IJB had a well established performance management framework in place, with performance regularly considered by management and the IJB. During 2017/18 we will review how the IJB is addressing areas where targets are not being met. There is a risk that insufficient resources are targeted to areas of under performance.

# Director introduction (continued)

## The key messages in this report (continued):

### **Other wider scope work**

In accordance with Audit Scotland guidance, we will be requested to provide information to support national performance audits on Digital and Health and Social Care Integration.

### **Regulatory Change**

There are limited changes this year affecting the audit, either through the Code of Practice on Local Authority Accounting or statutory guidance.

We would highlight that new accounting standards on financial instruments will apply from 2018/19. It is important that the IJB considers their impact ahead of implementation. See page 28 for more details.

### **Our Commitment to Quality**

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

### **Adding value**

Our aim is to add value to the IJB through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice.

In this way, we aim to help the IJB promote improved standards of governance, better management and decision making and more effective use of resources.

**Pat Kenny**  
**Audit Director**



# Responsibilities of the Audit Committee

## Helping you fulfil your responsibilities

The primary purpose of the Auditor's interaction with the Audit Committee:

- Clearly communicate the planned scope of the financial statements audit
- Provide timely observations arising from the audit that are significant and relevant to the Audit Committee's responsibility to oversee the financial reporting process
- In addition, we seek to provide the Audit Committee with additional information to help fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

- Implement a policy on use of the external auditor for non-audit services and approve if arise.

Oversight of external audit

Integrity of reporting

- Make an impact assessment of key judgements and the level of management challenge.

- Review the external audit findings, key judgements and level of misstatements.

- Assess the quality and capacity of the internal team and their incentives.

- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by the IJB, provide advice in respect of the fair, balanced and understandable statement.

- Review the internal control and risk management systems.

- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

-Oversee the work of the IJB's local counter fraud service.

Internal controls and risks

Oversight of internal audit

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

- Consider annually whether the scope of the internal audit programme is adequate.

- Monitor and review the effectiveness of the internal audit activities.

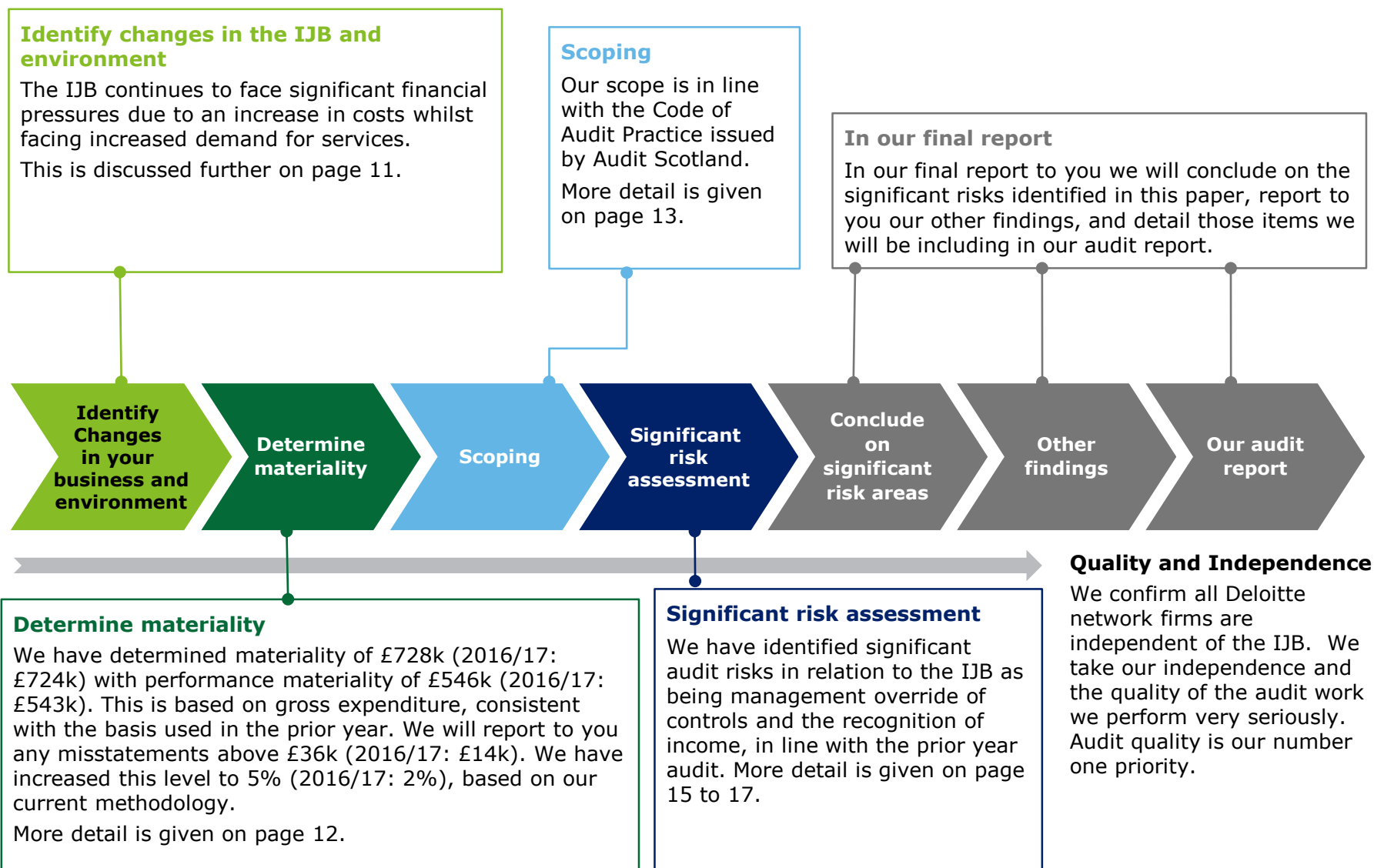


Target icons throughout the document highlights key information which should be a focus of interest for the Audit Committee.



# Our audit explained

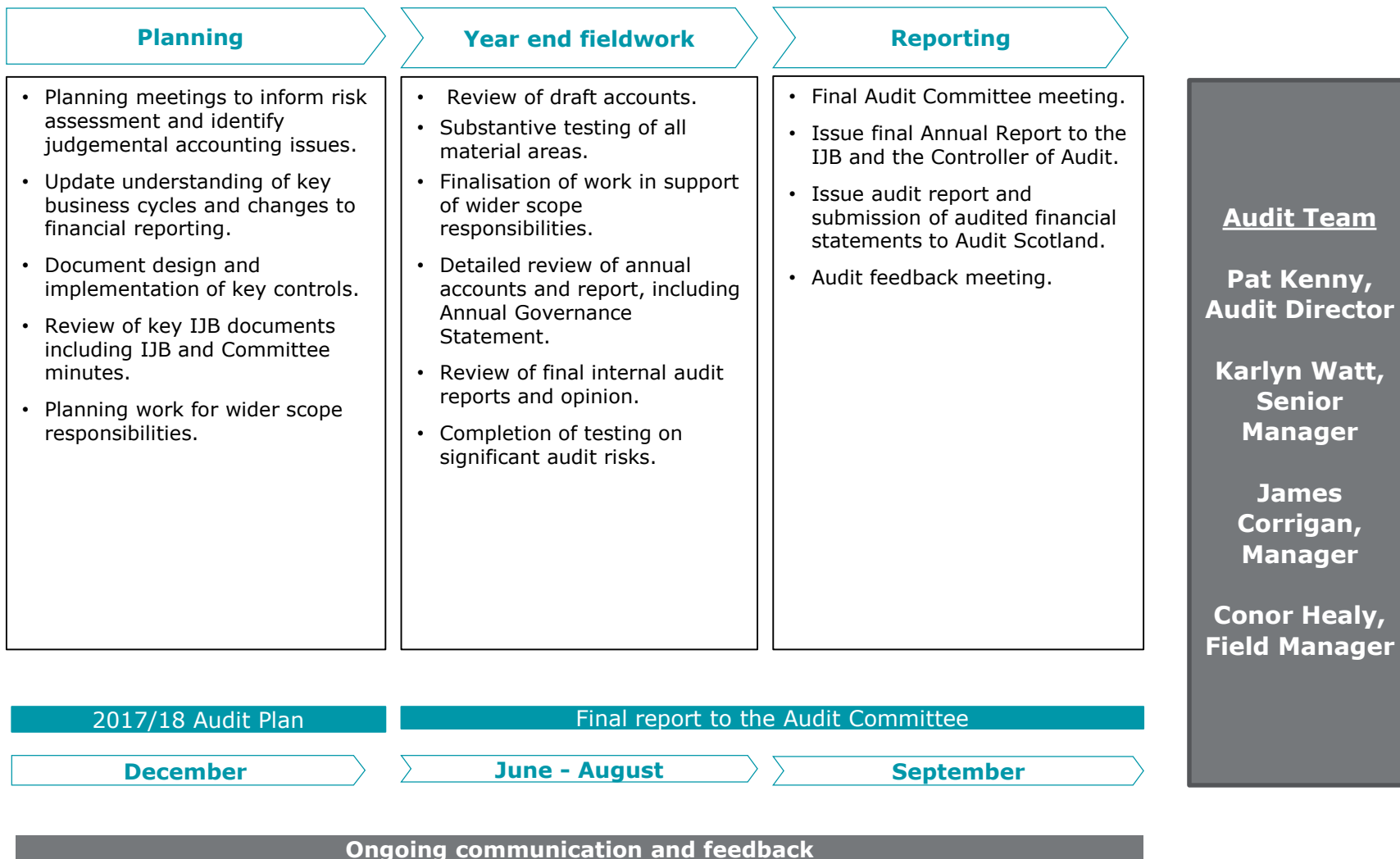
## We tailor our audit to the IJB and your strategy





# Continuous communication and reporting

## Planned timing of the audit



### Audit Team

**Pat Kenny,  
Audit Director**

**Karlyn Watt,  
Senior  
Manager**

**James  
Corrigan,  
Manager**

**Conor Healy,  
Field Manager**

# An audit tailored to you

## Focusing on your business and strategy

### Impact on our audit

#### Future financial strategy and sustainability



The IJB continues to face significant financial challenges. The overall 2017/18 forecast position as at 30 September 2017 is projecting an overspend of £1,561k against budget. Discussions were held on two separate occasions with the Minister for Public Health and Sport and it was confirmed that additional funding will not be made available to fund the overspend in the IJB and that the IJB must find efficiencies elsewhere. The IJB has directed NHS Shetland ('NHS') to redesign services to deliver the required savings. Identifying recurring savings will become increasingly important given that the IJB is forecasting a funding gap of £6,753k by 2020/21 which will need to be addressed through savings.

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

#### Health and social care integration



2016/17 saw the first full year of health and social care partnership between the NHS and the Shetland Islands Council ('Council'). The IJB is now responsible for the distribution of resources to partner bodies to achieve what it set out in its strategic plan. The risk remains, however, that the IJB and its partners encounter problems in working together in these new arrangements. A medium to long term plan needs to be developed to ensure that the IJB is financially sustainable. It is also important that Strategic Plans provide details of the level of resources required in each key area and how they will shift resources towards preventative and community based care.



New significant risk



Continuing significant risk



Considered as part of wider scope audit requirements

# An audit tailored to you

## Focusing on your business and strategy (continued)

### Impact on our audit

NHS in  
Scotland 2017



Audit Scotland published its annual overview report on the **NHS in Scotland** in October 2017. This highlighted a number of key themes and recommendations which are consistent with the issues noted above specific to NHS Shetland and the IJB around capital investment strategies, workforce planning, monitoring of savings and working with the public, local communities and staff. We have included the key messages from this report on page 22 and will consider how the IJB have addressed these as part of our work referred to above.

Local  
Government in  
Scotland –  
Financial  
Overview  
2016/17



Audit Scotland also published its annual overview report **Local Government in Scotland: Financial Overview 2017** in November 2017. It concluded that Councils' financial challenges continue to grow and they are showing increasing financial stress. Throughout the report, Audit Scotland has identified examples of questions that councillors may wish to consider to help them better understand their Council's financial position and to scrutinise financial performance. A number of these are equally relevant for members of the IJB. The key messages and example questions from the report are summarised on page 23. We will evaluate Shetland Islands Council and the IJB against these as part of our wider scope work.



New significant risk



Continuing significant risk



Considered as part of wider scope  
audit requirements

# Materiality

## Our approach to materiality

### Basis of our materiality benchmark

- The audit director has determined materiality as £728k (2016/17: £724k) and a performance materiality of £546k (2016/17: £543k), based on professional judgement and risk factors specific to NHS Shetland, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 1.6% of forecasted gross expenditure as the benchmark for determining materiality.
- This approach is consistent with our prior year materiality calculation.

### Reporting to those charged with governance

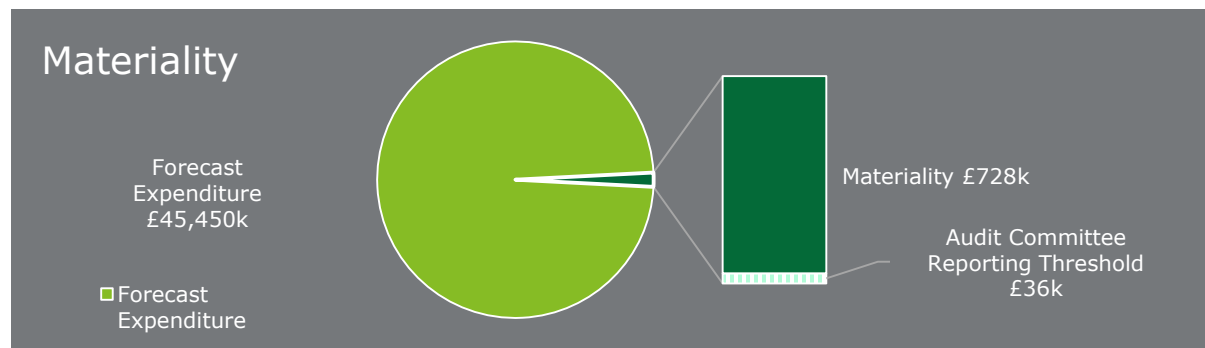
- We will report to you all misstatements found in excess of £36k (2016/17: £14k).
- We have increased this level to 5% (2016/17: 2%) of materiality based on our current methodology.

- We will report to you misstatements below this threshold if we consider them to be material by nature.
- Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance which states that the threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to audit committees must not exceed £250k.

### Our annual audit report

We will:

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



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



# Scope of work and approach

## Our key areas of responsibility under the Code of Audit Practice

### Core audit

Our core audit work as defined by Audit Scotland comprises:

- Providing the **Independent Auditor's Report** on the annual accounts (and any assurance statement on consolidation packs);
- Providing the **annual report** on the audit addressed to the IJB and the Controller of Audit;
- Communicating **audit plans** to those charged with governance;
- Providing **reports to management**, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code;
- Preparing and submitting **fraud returns**, including nil returns, to Audit Scotland where appropriate;
- Identifying significant matters arising from the audit, alert the Auditor General for Scotland and support Audit Scotland in producing statutory reports as required; and
- Undertaking work requested by Audit Scotland or local performance audit work.

### Wider scope requirements

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

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

# Scope of work and approach (continued)

## Our approach

### Liaison with internal audit

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

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

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

### Approach to controls testing

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

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

### Promoting high quality reporting to stakeholders

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

We will utilise the Code of practice on local authority accounts in the UK disclosure checklist to support the Council in preparing high quality drafts of the Annual Report and financial statements, which we would recommend the IJB complete during drafting.

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

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

Identify risks and controls that address those risks.







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

If considered necessary, test the operating effectiveness of selected controls

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

# Significant risks Dashboard



Risk	Material	Fraud risk	Planned approach to controls testing	Level of management judgement	Page no.
Completeness and accuracy of income			Design and implementation		16
Management override of controls			Design and implementation		17



Some degree of management judgement



Limited management judgement

# Significant risks (continued)

## Risk 1 – Completeness and accuracy of income

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**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 NHS and the Council.

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**Our response**

We will perform the following:

- Test the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process;
- Test the reconciliations performed by the IJB at 31 March 2018 to confirm all income is correctly recorded in the ledger;
- Confirm that the reconciliations performed during 2017/18 have been reviewed on a regular basis; and
- Assess management's controls around recognition of income.

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**Deloitte Comment**

We are not aware of any issues arising which would impact on the treatment of income during the year. We have not identified in our prior year audit work any issues regarding the completeness and accuracy of income. We have completed our testing on the design and implementation of controls around income recognition and have noted no issues.

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# Significant risks (continued)

## Risk 2 – Management override of controls

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

<b>Risk identified</b>	<p>In accordance with ISA 240 (UK and Ireland) 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 IJB's controls for specific transactions.</p> <p>The key judgments in the financial statements are those which we have selected to be the significant audit risk around expenditure recognition. This is inherently the areas in which management has the potential to use their judgment to influence the financial statements.</p>
<b>Planned audit challenge</b>	<p>In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:</p> <ul style="list-style-type: none"><li>• We will test journals, using our Spotlight data analytics tool, to focus our testing on higher risk journals;</li><li>• We will review accounting estimates for bias that could result in material misstatements due to fraud; and</li><li>• We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.</li></ul>
<b>Deloitte Comment</b>	<p>We have not identified in our prior year audit work any transactions which appear unusual or outside the normal course of business. We have completed our testing on the design and implementation of controls around management override of controls and note no issues.</p>

# Wider scope requirements

## Audit dimensions

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

Audit dimension	Areas to be considered	Impact on the 2017/18 Audit
<b>Financial sustainability</b> looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.	<ul style="list-style-type: none"><li>• The financial planning systems in place across the shorter and longer terms</li><li>• The arrangements to address any identified funding gaps</li><li>• The affordability and effectiveness of funding and investment decisions made</li><li>• Workforce planning</li></ul>	<p>From our work in 2016/17, we recommended that the IJB implements recurring savings. We will review the work of the IJB and how this is driving the IJB's plans to achieve long term financial sustainability.</p> <p><b>Audit Risk:</b> There is a risk that the plans for efficiency and service redesign are not robust to allow the benefits to be realised.</p> <p>We will review service redesign plans prepared by or directed to be prepared by the IJB.</p> <p><b>Audit Risk:</b> A failure to properly plan for the redesign of services or expected funding gap may lead to the inability of the IJB to provide continuity of services.</p>
<b>Financial management</b> is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively	<ul style="list-style-type: none"><li>• Systems of internal control</li><li>• Budgetary control system</li><li>• Financial capacity and skills</li><li>• Arrangements for the prevention and detection of fraud</li></ul>	<p>We will review the budget and monitoring reporting of the IJB during the year to assess whether financial management and budget setting is effective. From our audit work in 2016/17 we found that the IJB had sound financial management procedures in place.</p> <p>Our fraud responsibilities and representations are detailed on pages 32 and 33.</p> <p><b>Audit Risk:</b> A lack of appropriate financial management could result in the IJB not achieving its financial targets.</p>

# Wider scope requirements (continued)

## Audit dimensions (continued)

Audit dimension	Areas to be considered	Impact on the 2017/18 Audit
<p><b>Governance and transparency</b> is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<ul style="list-style-type: none"> <li>• Governance arrangements</li> <li>• Scrutiny, challenge and transparency on decision making and financial and performance reports</li> <li>• Quality and timeliness of financial and performance reporting</li> </ul>	<p>We will review the financial and performance reporting of the IJB during the year as well as minutes of all IJB and key Committee meetings to assess the effectiveness of the governance arrangements. Our attendance at Audit Committees will also inform our work in this area. We will consider the arrangements in place for securing effective governance and engagement. Our audit work in 2016/17 found no issues.</p> <p><b>Audit Risk:</b> As the IJB is still relatively new and has significant challenge around long term financial sustainability, there is a risk that the governance arrangements between the IJB, Council and NHS Board are not effective.</p>
<p><b>Value for money</b> is concerned with using resources effectively and continually improving services.</p>	<ul style="list-style-type: none"> <li>• Value for money in the use of resources</li> <li>• Link between money spent and outputs and the outcomes delivered</li> <li>• Improvement of outcomes</li> <li>• Focus on and pace of improvement.</li> </ul>	<p>From our 2016/17 audit work we concluded that the IJB had a well established performance management framework in place, with performance regularly considered by management, and the IJB.</p> <p>During 2017/18 we will review how the IJB is addressing areas where targets are not being met and also how the implementation of the Strategic Change Programme is impacting on how the IJB's performance is measured and reported.</p> <p><b>Audit Risk:</b> There is a risk that insufficient resources are targeted to areas of under performance.</p>

# Wider scope requirements (continued)

## Specific risks

As part of the 2017/18 planning guidance, Audit Scotland have identified the following areas as significant risks faced by the public sector. While we have not identified any specific risks in relation to these areas for the IJB, we will continue to monitor these areas as part of our audit work.

Risk	
<b>EU withdrawal</b>	<p>There remains significant uncertainty about the detailed implications of EU withdrawal. Nonetheless, given the potential timetables involved, it is critical public sector bodies are working to understand, assess and prepare for the impact on their business. Key aspects of this are likely to include three broad areas:</p> <ul style="list-style-type: none"><li>- Workforce</li><li>- Funding</li><li>- Regulation</li></ul>
<b>New Financial Powers</b>	<p>The provisions of the 2012 and 2016 Scotland Acts and the accompanying Fiscal Framework agreement are leading to fundamental changes to the Scottish public finances. New tax raising, borrowing and social security powers provide the Scottish Parliament with more policy choice, but also mean the Scottish budget is subject to greater volatility, uncertainty and complexity. There is also a stronger link between the performance of the Scottish economy (relative to the rest of the UK) and available funding.</p> <p>The changes are likely to impact across public sector bodies to varying degrees, both directly (for example where an organisation's activities include additional responsibilities as a result of the new powers) and indirectly (for example as a result of potential changes to the way the Scottish Government manages its overall budget).</p>

# Wider scope requirements (continued)

## Specific risks (continued)

Risk	
<b>Ending of public sector pay cap</b>	<p>Pay increases in the public sector have been frozen and then capped at 1% for seven years. Politicians in both Westminster and Holyrood are talking about ending the public sector pay cap.</p> <p>When introducing the Programme for Government 2017-18, the First Minister confirmed that the Scottish Government will lift the 1% public sector pay cap.</p> <p>All public bodies need to consider the potential impact of the ending the pay cap as they prepare their budgets and consider their financial sustainability.</p>
<b>Response to cyber security risks</b>	<p>Audit Scotland will issue further guidance in relation to this risk, setting out the risk context for public bodies, the new cyber resilience requirements being introduced by the Scottish Government and questions that auditors can pose to bodies to understand the risk and mitigating action in a local context. We will share this with management when this is available.</p>
<b>Openness and transparency</b>	<p>There are signals of changing and more challenging expectations for openness and transparency in public business. In view of this direction of travel, Audit Scotland noted that 2016/17 annual audit reports highlighted the need for public bodies to keep this area under review and to consider whether there is scope to enhance transparency.</p>

# Wider scope requirements (continued)

## NHS in Scotland 2017

Audit Scotland published its annual overview report **NHS in Scotland 2017** in October 2017. It concluded that significant activity is under way to transform Scotland's healthcare system, but a number of crucial building blocks still need to be put in place. The report made a number of recommendations specific to NHS Boards as well as IJBs, shown below. We will evaluate the IJB against these considerations as part of our wider scope work.

### **To provide the foundation for delivery of the 2020 Vision and changing the way healthcare services are provided:**

The Scottish Government, in partnership with NHS boards and integration authorities should:

- Develop a capital investment strategy to ensure the NHS Scotland estate is appropriate for delivering more regional and community-based services.
- Continue to develop a comprehensive approach to workforce planning.

### **To improve governance, accountability and transparency:**

The Scottish Government and NHS boards should:

- Work together to develop a consistent way of measuring and reporting savings to ensure that it is clear how boards have planned and made savings, and what type of savings they have made.

### **To promote the culture change necessary to move to new ways of providing and accessing healthcare services:**

The Scottish Government, NHS boards and integration authorities, should:

- Continue to work with the public, local communities and staff to develop a shared understanding and agreement on ways to provide and access services differently.
- Work together to embed the principles of 'realistic medicine' in the way they work, monitor progress in reducing waste, harm and unwarranted variation; and creating a personalised approach to care.

# Wider scope requirements (continued)

## Local Government in Scotland: Financial Overview 2016/17

Audit Scotland published its annual overview report **Local Government in Scotland: Financial Overview 2017** in November 2017. It concluded that Councils' financial challenges continue to grow and they are showing increasing financial stress. Throughout the report, Audit Scotland have identified examples of questions that councillors may wish to consider to help them better understand their Council's financial position and to scrutinise financial performance. These are equally relevant for members of the IJB. The key messages from the report are summarised below. We will evaluate the IJB against these as part of our wider scope work.

### Key messages

- 1** Councils' financial challenges continue to grow. Funding reductions are compounded by increasing costs and demands on services. In response, councils have needed to achieve ambitious savings plans, including around £524 million of savings for 2016/17.
- 2** Councils are showing signs of increasing financial stress. They are finding it increasingly difficult to identify and deliver savings and more have drawn on reserves than in previous years to fund change programmes and routine service delivery. Some councils risk running out of General Fund reserves within two to three years if they continue to use them at levels planned for 2017/18.
- 3** Debt increased by £836 million in 2016/17 as councils took advantage of low interest rates to borrow more to invest in larger capital programmes. Councils' debt levels are not currently problematic, but some are becoming concerned about affordability of costs associated with debt within future budgets.
- 4** Councils' budget-setting processes for 2016/17 were complicated by late confirmation of funding from the Scottish Government and the funding arrangements for integrating health and social care. Councils' expenditure and use of reserves often differed noticeably from that originally planned, indicating the need for budget-setting to become more robust and reliable.
- 5** All councils received an unqualified audit opinion on their 2016/17 accounts but auditors found that in several councils financial management could be improved. Councils can use their accounts to more clearly explain their financial performance over the whole year to support better scrutiny.
- 6** The financial outlook for councils continues to be challenging, with the need to deliver savings being increasingly critical to their financial sustainability. As such, robust medium-term financial strategies and effective leadership to deliver them are of increasing importance.

### Example Questions for councillors to consider

#### **Part 1 - Councils' income and budget 2016/17**

- Does your Council have a charging policy? Is this in line with corporate plans and objectives?
- What information do you need to be able to explain increases in fees and charges to your constituent?

#### **Part 2 - 2016/17 financial performance**

- How does the Council ensure that Council staff have the capacity to deliver transformational change?
- What have reserves been used for in recent years? Supporting services and bridging the funding gap or transforming services? What are the level of reserves held by your Council's IJB? Are these in line with the IJBs reserves policy?

#### **Part 3 - Financial Outlook**

- How is your Council preparing for any further real term reduction in Scottish Government funding?
- If your Council plans to raise council tax, do you know how much it will raise? How will you communicate and explain the reasons for the rise to constituents?
- Does your Council have a savings plan? What are the options to close future gaps?
- What is the likely use of reserves for 2017/18? How does this compare to forecast funding gaps?
- What is your Council's financial position? What particular challenge does it face?
- Does your Council have a medium term financial strategy aligned with corporate objectives?
- What impact will savings have on the delivery of services? What are the potential risks?
- What additional training would you like to receive to develop your knowledge and skills in financial scrutiny?
- What measures in the Council's corporate and transformational plans are aimed at addressing the underlying demand for services?

Note: The full list of questions are available in **Supplement 1: Scrutiny tool for councillors**, available on Audit Scotland's website.

# Wider scope requirements (continued)

## Performance audits and impact reports

### Performance Audits

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

Performance audit title	Appointed auditor input
Digital – Cross cutting	No formal return. Audit Scotland will provide information and guidance on current issues and risks to consider as part of the planning process.
Health and social care integration part 2 – Publication Autumn 2018	There is a requirement for a minimum data set in support of this audit. Specific requirements are still to be confirmed, however, it will encompass information such as: timescales for agreeing budgets; shifts in resources from acute to community-based care; progress in agreeing budgets and publishing meaningful strategic plans, and governance arrangements.

### Impact reports

We will be requested to provide information to support Audit Scotland’s Performance Audit and Best Value (PABV) team in assessing the impact of the following performance audits during 2017/18: Changing models of health and social care; Social work in Scotland, and Supporting Scotland’s economic growth.



# Audit Quality

## Our commitment to audit quality



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

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

We will apply professional scepticism on material issues and significant judgements identified, by using our expertise in the health sector and elsewhere to provide robust challenge to management.

We have obtained a deep understanding of your business, its environment and of your processes in income and expenditure recognition, payroll expenditure and capital expenditure enabling us to develop a risk-focused approach tailored to the IJB.

Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve specialists to support the audit team in our work where this is appropriate.

In order to deliver a quality audit to you, each member of the core audit team has received tailored learning to develop their expertise in audit skills, delivered by Pat Kenny, Audit Director. This is a Director led programme encouraging teams from across our practice to engage and discuss current sector and audit issues, sharing best practice and expertise. This is in addition to a practice wide local government training day held prior to the end of the financial year to share key issues from across the country, to update on regulatory changes and provide early warning of issues other teams may have faced at the interim testing phase.



### Engagement Quality Control Review

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

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

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

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

### What we don't report

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

### Other relevant communications

We will update you if there are any significant changes to the audit plan.

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

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

30 January 2018

# **Technical update**

Information on sector developments



# IFRS 9 *Financial Instruments*

## In a nutshell

- In July 2014, the IASB published a final version of IFRS 9. This version supersedes all previous versions.
- IFRS 9 *Financial Instruments* will replace IAS 39 *Financial Instruments: Recognition and Measurement*, and has three main impacts
  - *Classification and measurement* - introduces new approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This classification determines how financial assets are accounted for in financial statements and, in particular, how they are measured on an ongoing basis.
  - *Amortised cost and impairment of financial assets* – introduces an “expected losses” impairment model where entities are required to account for expected credit losses from when financial instruments are first recognised.
  - *Hedge accounting* - introduces new general hedge accounting model that aligns the accounting treatment with risk management activities and allows for better reflection of the hedging activities in the financial statements.
- The key practical change in IFRS 9 for most local government bodies is the introduction of a new approach to recognising impairments of debtors and other financial instruments.
- CIPFA/ LASAAC has advised that representatives from central and devolved governments, including the Scottish Government, have confirmed that they would be willing to consider representations from local authorities for a statutory mitigation.

## Potential impact on the IJB

IFRS 9 is expected to have relatively limited impact on most IJBs, but will at least affect the process of assessing impairment of debtors and other financial assets. As part of the process of adoption, the IJB will need to consider the impact on policies, processes, systems and people.

## Effective date

The Standard has a mandatory effective date for annual periods beginning on or after 1 January 2018, with earlier application permitted. CIPFA/ LASAAC has confirmed that it has approved the full adoption of IFRS9 into the accounting code and therefore will apply to local authority annual accounts from 2018/19.



Find out more on our  
website UK Accounting  
Plus  
<https://www2.deloitte.com/uk/en/pages/audit/articles/uk-accounting-plus.html>



# General Data Protection Regulation

The EU GDPR will come into effect from 25 May 2018, and will effectively supercede the existing Data Protection Act.

## Issue

The EU General Data Protection Regulation ("GDPR") will come into effect in 2018, replacing the Directive that formed the basis for the Data Protection Act. The GDPR is expected to remain in effect for the foreseeable future, notwithstanding Brexit.

The key new concept is of "accountability" – being able to **demonstrate** compliance, with specific actions required with an evidence trail.

- Data Protection Impact Assessments are required for high risk processing of data, and there are specific requirements for transparency and fair processing of data. There are tighter rules where consent is the basis for processing data.
- There are requirements to keep records of data processing activities, with the removal of most charges for providing copies of records to patients or staff who request them.
- Penalties for breaches of the regulation are significantly higher than existing arrangements (up to €10m for data breaches and up to €20m for breaches of the principles), and apply to any breach of the regulation, not just data breaches.
- All public authorities are required to appoint a suitably qualified and experienced Data Protection Officer.
- There is a legal requirement to notify security breaches to the Information Commissioner within 72 hours.

Getting ready to comply with the GDPR can start with reducing the risk of the data breaches – and reducing that risk doesn't need to be complicated. The biggest causes of data breaches can be avoided by making sure the basics are in place: keep all operating systems and software up to date, implement encryption for sensitive data, and educate all employees about the risk of phishing and other social engineering attacks.

Your organisation might also consider the Cyber Essentials scheme and the 10 Steps to Cyber Security, both developed by Government to ensure any organisation can protect themselves from common cyber-attacks.

The Information Commissioner's Office has also developed a useful 12 step guide to help organisations consider their current data protection activities and what needs to be done to comply with the new regulations. They will be developing guidance over the coming months so keep an eye on their website for more information.

## Deloitte View

Privacy as a concept is broad and far-reaching. The GDPR impacts many areas of an organisation, and is not just a legal/compliance issue. The GDPR brings specific rights to the public, including the "right to be forgotten" and data portability.

The emphasis on organisational accountability will require proactive, robust privacy governance. A key challenge is the need to identify a suitably qualified Data Protection Officer, with an estimated need for 28,000 DPOs across Europe.

The requirements will change how information technologies are designed and managed, with a requirement for documented privacy risk assessments when implementing major new systems, with "Privacy by Design" now enshrined in law.

The requirement to notify security breaches within 72 hours will require new or enhanced incident response procedures.

Teams tasked with information management will need to provide clearer oversight on data storage, journeys and lineage. Greater clarity on what data is collected and where it is stored will make it easier to comply with the new data subject rights.

## Next steps

The Audit Committee should consider how it is obtaining assurance over the adequacy of the IJB's action plans to ensure compliance with the GDPR.

# Appendices



# Prior year audit adjustments

## Uncorrected and disclosure misstatements

### **Uncorrected misstatements**

There were no uncorrected misstatements identified during the course of our prior year audit.

### **Disclosure misstatements**

There were no uncorrected disclosure misstatements identified during the course of our prior year audit.

# Fraud responsibilities and representations

## Responsibilities explained



### Your 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.



### Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in the achievement of expenditure resource limits and management override of controls as a key audit risk for your organisation.



### Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

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

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





# Fraud responsibilities and representations

## Inquiries

We will make the following inquiries regarding fraud:



### **Management:**

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.



### **Internal audit and Local Counter Fraud Specialist**

- Whether internal audit and the IJB's local counter fraud specialist has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



### **Those charged with governance**

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

# 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 will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2018 in our final report to the Audit Committee.

## Fees

The audit fee for 2017/18, in line with the fee range provided by Audit Scotland, is £24,000 as analysed below.

	2017/18 £
Auditor remuneration	16,470
<i>Audit Scotland fixed charges:</i>	
Pooled costs	1,460
Performance audit and Best Value	5,020
Audit support costs	1,050
<b>Total Fee</b>	<b>24,000</b>

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

## Non-audit services

We continue to review our independence and ensure that appropriate safeguards are in place in relation to any non-audit services provided 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 have no other relationships with the IJB, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

# Our approach to quality

## AQR team report and findings



We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our overall firm Audit Quality Monitoring and Measuring programme.

In June 2017 the Financial Reporting Council ("FRC") issued individual reports on each of the six largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the 2016/17 cycle of reviews.

The review performed by the AQR forms an important part of our overall inspection process. We perform causal factor analysis on each significant finding arising from both our own internal quality review and those of our regulators to identify the underlying cause. This provides insight which drives the developments in our quality agenda.

18 of the audits reviewed by the AQR were performed to a good standard with limited improvements required. We were disappointed that, despite the high standards we set and many areas of improvement in our quality record, the percentage of audits rated as requiring more than limited improvements has remained broadly similar to the previous year and that two reviews were identified as requiring significant improvement.

We have taken swift and decisive action to respond to the matters identified and will continue to monitor the implementation of these. We are firmly committed to achieving, and indeed exceeding, the FRC's objective that by 2019 90% of FTSE 350 audits reviewed will be assessed as requiring no more than limited improvements.

All the AQR public reports are available on its website.

### The AQR's 2016/17 Audit Quality Inspection Report on Deloitte LLP

"We reviewed selected aspects of 23 individual audits in 2016/17. In selecting which aspects of an audit to inspect, we took account of those areas identified to be of higher risk by the auditors and Audit Committees, our knowledge and experience of audits of similar entities and the significance of an area in the context of the audited financial statements. The communications with the Audit Committee and the audit of revenue were reviewed on nearly all of these audits..."

"The firm has taken the actions they committed to take following our last inspection. Some of the issues driving more adverse quality assessments this year are in similar areas to those reported last year, although some audits reviewed were undertaken before these actions had been carried out. Our main concern continues to be the adequacy of audit teams' challenge of management in key areas of judgment (particularly goodwill impairment) and further immediate action is required to improve audit quality in this area.

### The firm has enhanced its policies and procedures in the following areas:

- Strengthened the evidence of the Engagement Quality Control Review ("EQCR") partner and audit technical reviewer involvement.
- Updated Deloitte's audit methodology to include additional focus on risk assessment and the related audit response (effective from 31 December 2016 year-end audits).
- Introduced more focused coaching for audit teams throughout the audit process.
- Issued more timely and focused guidance and reminders to the audit practice on key audit matters, to facilitate appropriate consideration by audit teams at the key stages of the audit.
- Increased mandatory technical training for qualified staff through to partner level

**Our key findings in the current year** requiring action by the firm, which are elaborated further in section 2 together with the firm's actions to address them, are that the firm should:

- Improve the extent of challenge of management in key areas of judgment, in particular impairment reviews and valuation of acquired intangible assets.
- Strengthen the firm's audit of revenue recognition.
- Make further improvements to the audit of defined benefit pension scheme balances in corporate entities.
- Continue to seek to improve the consistency of the quality of communications with Audit Committees."

# Our approach to quality

Areas identified for particular attention	How we have addressed these as a firm	How addressed in our audit
Strengthen the firm's audit of revenue recognition.	<p>A key theme of the enhancements to our methodology in 2016, (deployed after these engagements reviewed by the AQR were complete), was to enhance our risk assessment procedures and, as a result, encourage our auditors to develop more robust responses to the largest most critical account balances, with a natural focus on revenue.</p> <p>This included the removal of capped sample sizes for very large balances and facilitation of a combination of test of details and substantive analytical procedures to enable more comprehensive audit responses to be designed.</p> <p>This theme has continued in 2017 when our Summer Technical Training showcased our investment in analytic tools applied to the audit of revenue, as well as training on the accounting and auditing of revenue as we prepare to audit the implementation of the new revenue standard IFRS 15 'Revenue from Contracts with Customers' which is effective for periods beginning on or after 1 January 2018.</p>	This is a significant audit risk and is addressed in page 16 of this paper.
Continue to seek to improve the consistency of the quality of communications with Audit Committees.	<p>We take our responsibilities for reporting to the Audit Committee very seriously. There is a natural follow on that if there is a failure in the underlying audit work we will inevitably fall short in our reporting on those areas. The majority of issues noted in the report linked directly to the review findings.</p> <p>We continue to stress the critical importance of reporting matters to the Audit Committee in the training we deliver and in the enhanced procedures we have established, in particular around key management estimates and judgments. We have issued refreshed Audit Committee reporting templates to the practice reflecting the observations of the reviews to ensure audit practitioners continue to focus on this critical aspect of our role.</p>	<p>We have reported to you in page 13 and 14 of this paper the scope of work and the planned approach to the audit.</p> <p>We would welcome any feedback on our approach to communicating with you.</p>



# Our approach to quality

Areas identified for particular attention	How we have addressed these as a firm	How addressed in our audit
Improve the extent of challenge of management in key areas of judgment, in particular impairment reviews and valuation of acquired intangible assets.	<p>We have developed an Impairment Centre of Excellence and have mandated its involvement in all public interest entity audits with a material goodwill or intangibles balance for years ending on or after 15 December 2016. The specialists within the Impairment Centre of Excellence, in addition to having significant experience auditing complex impairment issues, have had specialist training to be able to identify and respond to the issues raised in the AQR report.</p> <p>Our Summer Technical Training in 2017 included interactive workshops on this area including sharing anonymised findings from internal and external review to illustrate the types of challenge and extent of audit evidence that teams should seek to achieve in this area.</p>	The IJB does not have a goodwill balance or a material intangible asset balance, and so this is not applicable for the IJB's audit.
Make further improvements to the audit of defined benefit pension scheme balances in corporate entities.	<p>We have improved our procedures to ensure confirmations are obtained from asset custodians where appropriate. In December 2015 we introduced a detailed practice aid dedicated to all areas of corporate pension balance auditing together with increased training.</p> <p>We have also mandated consultation with our Pension Audit Centre of Excellence for years ending on or after 15 December 2016 and refreshed the practice aid. This ensures our corporate audit teams have access to our experts in the audit of pension balances.</p>	The IJB does not have an on balance sheet pension scheme, and so this is not applicable for the IJB's audit.





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<b>Meeting(s):</b>	Integration Joint Board Audit Committee	14 February 2018
<b>Report Title:</b>	IJB Audit Committee Business Programme 2018/19	
<b>Reference Number:</b>	CC-05-18 F	
<b>Author / Job Title:</b>	Simon Bokor-Ingram, IJB Chief Officer	

## 1.0 Decisions / Action required:

- 1.1 That the IJB Audit Committee RESOLVES to consider and approve its business planned for the financial year to 31 March 2019, including any changes or additions identified.

## 2.0 High Level Summary:

- 2.1 The purpose of this report is to inform the IJB Audit Committee of the planned business to be presented over the financial year to 31 March 2019, and discuss with Officers any changes or additions required to that programme.

## 3.0 Corporate Priorities and Joint Working:

- 3.1 The IJB Joint Strategic Commissioning Plan describes how health and care services can be delivered, jointly, across the services described in the Shetland Islands Health and Social Care Partnership's Integration Scheme.
- 3.2 In order to fulfil the statutory duties with regard to the functions delegated to the IJB Audit Committee by the Shetland Islands Council (the Council) and Shetland NHS Board (the Health Board), and in order to meet public governance principles, the IJB Audit Committee must make sure its Business Programme supports its role in the planning and direction of services to meet the needs of some of the most vulnerable people in our community, and to set its business in accordance with local and national reporting frameworks.

## 4.0 Key Issues:

- 4.1 The IJB Audit Committee's governance documents contain the legislative requirements and matters of best practice and standards, and the Business Programme enhances these by publicising the plans for decision making and other public reporting requirements, in keeping with the principles of good governance.

4.2	There is a strong link between strategic planning and financial planning, to provide the best possible environment to ensure that the strategic direction, service models and resources to deliver services are aligned.
<b>5.0 Exempt and/or confidential information:</b>	
5.1	None.
<b>6.0 Implications :</b>	
<b>6.1 Service Users, Patients and Communities:</b>	The Business Programme provides the community and other stakeholders with important information, along with the Strategic Commission Plans, as to the planned business for the coming year.
<b>6.2 Human Resources and Organisational Development:</b>	There are no direct impacts on staffing or organisational development matters with regard to approval of the Business Programme. However approval of the Business Programme will give direction and assurances to staff with regard to the timing and requirements for decisions and public reporting that the IJB has agreed.
<b>6.3 Equality, Diversity and Human Rights:</b>	There are no direct impacts on equality, diversity or human rights with regard to approval of the Business Programme, although individual items will have to have regard to those in terms of any outcomes and associated risks. The recommendation in this report does not require an Equalities Impact Assessment.
<b>6.4 Legal:</b>	<p>The IJB Audit Committee is advised to establish a Business Programme, but there are no legal requirements to do so.</p> <p>There are no direct legal impacts with regard to approval of the Business Programme, although individual reports will have to have regard to current and impending legislation and the impact on the IJB, and the services which the NHS and SIC deliver, in terms of outcomes and legal risks.</p>
<b>6.5 Finance:</b>	<p>There are no direct financial implications by approving the Business Programme, but indirect costs may be avoided by optimising time spent by officers and members of the IJB at scheduled meetings. Regular financial and performance reporting will ensure that the IJB fulfils the terms of the Integration Scheme.</p> <p>Any costs associated with the development and maintenance of the IJB Audit Committee</p>



	Business Programme will be met from within existing budgets of the Council and the Health Board.	
<b>6.6 Assets and Property:</b>	There are no implications for major assets and property. It is proposed that all meetings of the IJB Audit Committee will be held in either the premises of the Council or the Health Board and that the costs will be covered accordingly by the Council and the Health Board.	
<b>6.7 ICT and new technologies:</b>	There are no ICT and new technology issues arising from this report.	
<b>6.8 Environmental:</b>	There are no environmental issues arising from this report.	
<b>6.9 Risk Management:</b>	The risks associated with setting the Business Programme are around the challenges for officers meeting the timescales required, and any part of the Business Programme slipping and causing reputational damage to the IJB, the Council or the NHS. Equally, not applying the Business Programme would result in decision making being unplanned and haphazard and aligning the IJB's Business Programme with the objectives and actions contained in its Strategic Plans could mitigate against those risks.	
<b>6.10 Policy and Delegated Authority:</b>	As a separate legal entity the IJB has full autonomy and capacity to act on its own behalf. Having in place a structured approach to considering key planning, policy and performance documents at the right time is a key element of good governance. Regular Business Planning reports are already prepared for each IJB meeting.	
<b>6.11 Previously considered by:</b>	None	

**Contact Details:**

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6 February 2018

**Appendices:**

Appendix 1 Business Planning Cycle





Shetland NHS  
Board



Shetland Islands  
Council

Shetland Health and Social Care Partnership  
**Integration Joint Board Audit Committee**  
**Meeting Dates and Business Programme 2018/19**  
as at Wednesday, 07 February 2018

IJB Audit Committee		
Quarter 1	Date of Meeting	Business
1 April 2018 to 30 June 2018	Wednesday 20 June 2018 at 2 p.m..	<ul style="list-style-type: none"> <li>Draft 2017/18 Accounts</li> <li>2018/19 Internal Audit Plan</li> <li>Chief Internal Auditor Annual Report - 2017/18</li> </ul>
Quarter 2 – 1 July 2018 to 30 September 2018	Friday 21 September 2018 at 10 a.m.	<ul style="list-style-type: none"> <li>Final 2017/18 Accounts</li> </ul>
Quarter 3 - 1 October to 31 December 2018	Thursday 8 November 2018 at 2 p.m..	<ul style="list-style-type: none"> <li><i>To be confirmed</i></li> </ul>
Quarter 4 1 January 2019 to 31 March 2019	Thursday 28 February 2019 at 10 a.m.	<ul style="list-style-type: none"> <li><i>To be confirmed</i></li> </ul>

END OF BUSINESS PROGRAMME as at Wednesday, 07 February 2018