

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	
13 September 2018	

Dear Member

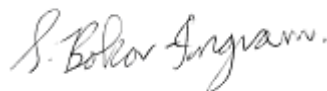
Special IJB Audit Committee

Friday 21 September 2018 at 10am

Bressay Room, NHS Shetland HQ, Burgh Road, Lerwick

Apologies for absence should be notified to SIC Committee Services on 01595 744599.

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.
1	Annual Audit Report 2017/18 CC-38
2	Final Audited Accounts 2017/18 CC-37
3	Date of Next and Future meetings: The venue for all meetings is the Bressay Room, NHS HQ, Burgh Road, Lerwick. Thursday 8 November 2018 2pm Thursday 28 February 2019 at 10am

Shetland Islands Health and Social Care Partnership

Agenda Item

1



Meeting(s):	IJB Audit Committee Integration Joint Board	21 September 2018 21 September 2018
Report Title:	Annual Audit Report 2017/18	
Reference Number:	CC-38-18-F	
Author / Job Title:	Karl Williamson / Chief Financial Officer	

1.0	Decisions / Action required:
1.1	The IJB Audit Committee and the IJB RESOLVE to NOTE Deloitte's Annual Audit Report on the 2017/18 Audit (Appendix 1).
2.0	High Level Summary:
2.1	IJBs are specified in legislation as 'Section 106' bodies under the terms of the Local Government (Scotland) Act 1973, so are expected to prepare their financial statements in compliance with the Code of Practice on Local Government Accounting in the United Kingdom. These Annual Accounts are then subject to external audit. Deloitte LLP is currently the IJB's nominated auditors.
2.2	The purpose of this report is to receive Deloitte's Annual Audit Report on the 2017/18 Audit.
3.0	Corporate Priorities and Joint Working:
3.1	The IJB is a separate legal entity, accountable for the stewardship of public funds and expected to operate under public sector best practice governance arrangements, proportionate to its transactions and responsibilities.
3.2	Section 95 of the Local Government (Scotland) Act 1973 requires that every local authority shall make arrangements for the proper administration of their financial affairs. One of the key controls for financial management is the preparation of annual account which will be submitted for external audit.
4.0	Key Issues:
4.1	Deloitte has issued an unqualified independent auditor's report on the 2017/18 financial statements. They have been prepared in accordance with accounting regulations and guidance.
5.0	Exempt and/or confidential information:

None		
6.0 Implications:		
6.1 Service Users, Patients and Communities:	None	
6.2 Human Resources and Organisational Development:	None	
6.3 Equality, Diversity and Human Rights:	None	
6.4 Legal:	IJBs are specified in legislation as 'Section 106' bodies under the terms of the Local Government (Scotland) Act 1973, so are expected to prepare their financial statements in compliance with the Code of Practice on Local Government Accounting in the United Kingdom.	
6.5 Finance:	There are no financial implications arising from this report.	
6.6 Assets and Property:	None	
6.7 ICT and new technologies:	None	
6.8 Environmental:	None	
6.9 Risk Management:	The Annual Audit Report includes the identification of key risks and internal control arrangement in place to manage those risks, together with any improvement actions required.	
6.10 Policy and Delegated Authority:	<p>Shetland's Integration Joint Board (IJB) was formally constituted on 27 June 2015 and operates in accordance with the approved Integration Scheme, Scheme of Administration, and the Financial Regulations.</p> <p>The IJB Audit Committee remit includes consideration of all report from the external auditors, including the External Auditor's Annual Report and to review the IJB's financial performance as contained in the Annual Report. Receiving the audited accounts of the IJB and related certificates and reports is a matter reserved by the IJB.</p>	
6.11 Previously considered by:	The proposals in this report have not been presented to any other committee or organisation.	

Contact Details:

Karl Williamson, Chief Financial Officer, karlwilliamson@nhs.net
4 September 2018

Appendices:

Appendix 1 – Deloitte's Annual Audit Report 2017/18



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

Issued on 24 July for the meeting 21 September 2018

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Introduction

The key messages in this report

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

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

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

This report summarises our findings and conclusions in relation to:

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



Introduction (continued)

The key messages in this report – financial statements audit

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

Conclusions from our testing

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

Insights

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

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - [TO UPDATE WITH ANYTHING ELSE OUTSTANDING AT TIME OF ISSUING PAPER]
 - finalisation of our internal quality control procedures;
 - receipt of signed management representation letter; and
 - our review of events since 31 March 2018.

Introduction (continued)

The key messages in this report – audit dimensions

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

Financial sustainability

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

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

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

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

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

Financial Management

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

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

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

Governance and transparency

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

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

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

Introduction (continued)

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

Value for Money

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

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

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

Pat Kenny
Audit Director

Our audit explained

Area dimensions

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

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

Final audit report

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

Key developments in your business

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

Materiality

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

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

Significant risks

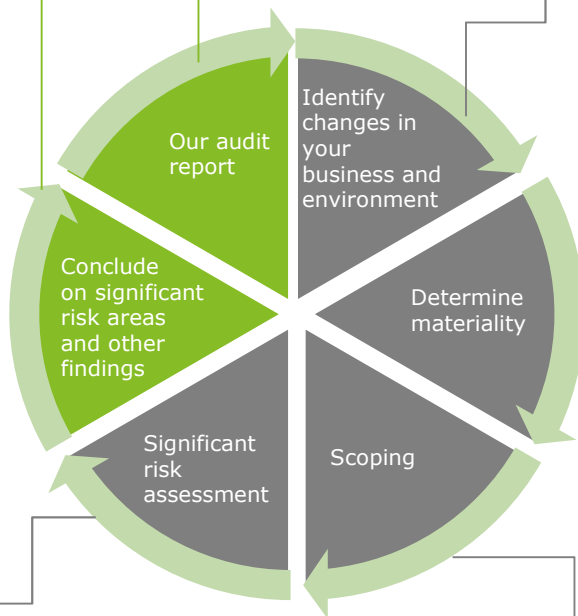
Our risk assessment process is a continuous cycle throughout the year. Page 10 provides a summary of our risk assessment of your significant risks.

Quality and Independence

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

Scope of the audit

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



Timeline 2017/18

November 2017 – February 2018

Meetings with management and other staff to update understanding of the processes and controls.

14 February 2018

Presented planning paper to the Audit Committee

March 2018

Year end

July – August 2018

Review of draft accounts, testing of significant risk and performance of substantive testing of results.

21 September 2018







Audit Committee and Board meeting and accounts sign off

Financial statements audit



Significant risks

Dashboard

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

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Risk 1 – Completeness and accuracy of income

Risk identified

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

The main components of income for the IJB are contributions from its funding partners, namely Shetland Islands Council and NHS Shetland. The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received from the Council and the Health Board.



Key judgements and our challenge of them

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

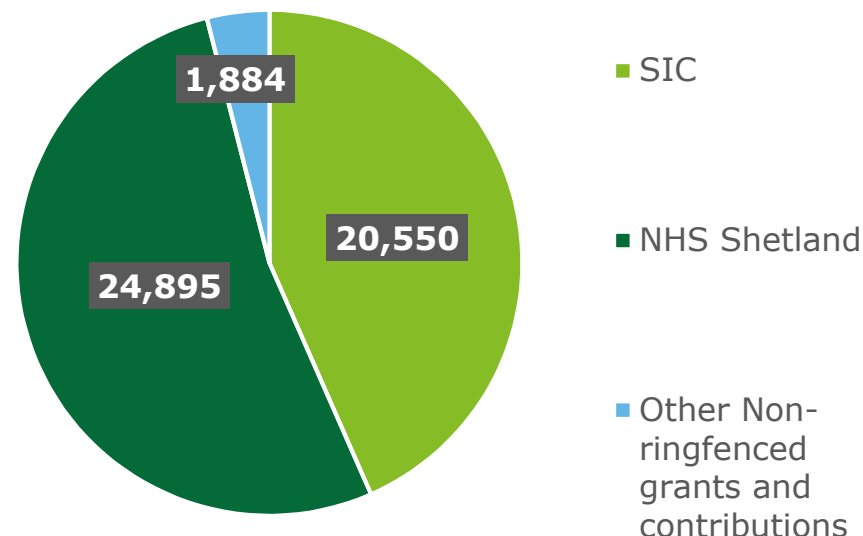


Deloitte response

We have performed the following:

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

2017/18 Funding (£'000)



Deloitte view

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

Significant risks (continued)

Risk 2 - Management override of controls



Risk identified

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

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

Deloitte view

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

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

Deloitte response

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

- the IJB projected to overspend against budget, although this was closely monitored by the Board throughout the year and arrangements in were put in place with NHS Shetland to bridge the funding gap.
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant transactions

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

Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

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

Accounting estimates

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

Other significant findings

Financial reporting findings

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

Qualitative aspects of your accounting practices:

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

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

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

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



Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report. The revisions to ISA (UK) 700 have changed the form and content of audit report, including how different sections are presented.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



Material uncertainty related to going concern

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



Emphasis of matter and other matter paragraphs

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

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



Other reporting responsibilities

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

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 15.

Your annual accounts

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

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

Your annual report (continued)

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

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

Management commentary

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

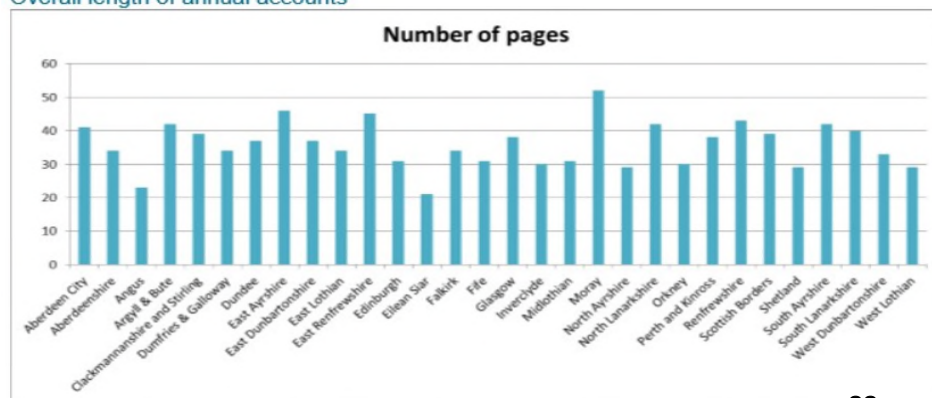
- Explain the Board's objectives, the strategy for achieving these (including current performance, position and future prospects);
- Set out how the Board generates and preserves value over the longer term;
- Include KPIs – both financial and non financial – and explain performance against these in the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

Governance statement

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

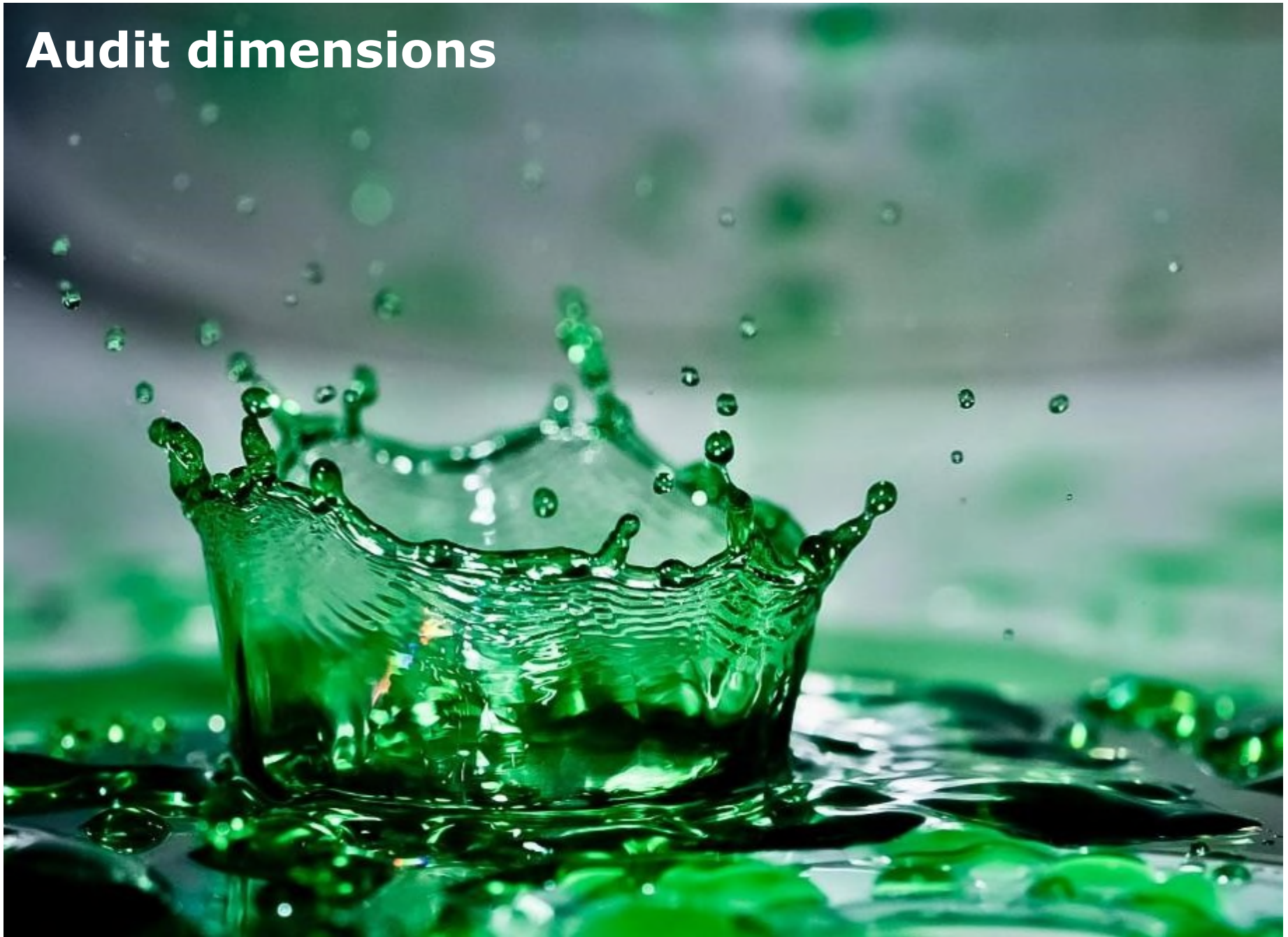
- An action plan should be included which outlines key issues arising in the year, what is to be done, by whom, and timescale for completion;
- The annual governance statement should follow up on any issues from previous years;
- Critical judgements and major sources of estimation uncertainty should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

Overall length of annual accounts



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

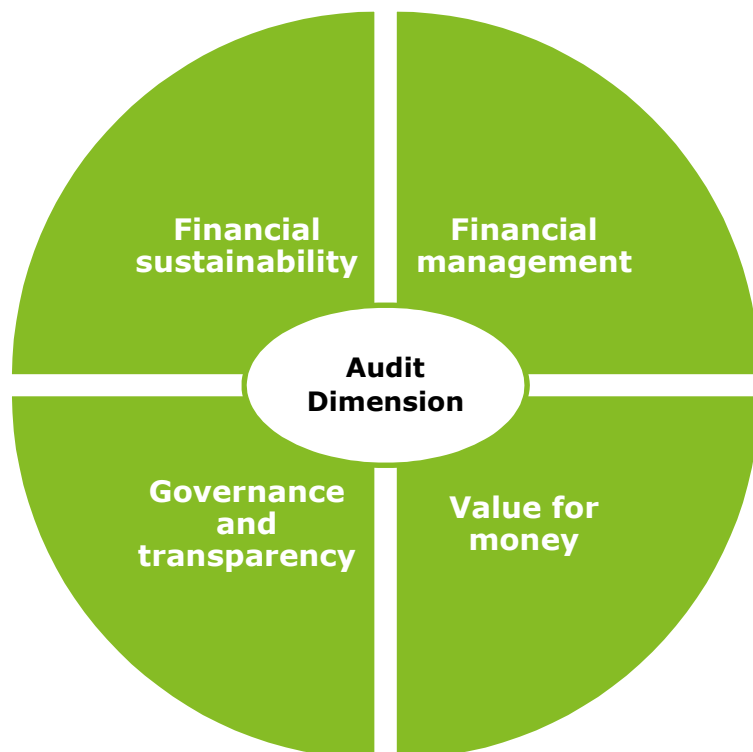
Audit dimensions



Audit dimensions

Overview

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



Best Value (BV)

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

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

Specific risks (SR)

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

SR 1 – EU Withdrawal

SR 2 – New Financial Powers

SR 3 – Ending public sector pay cap

SR 4 – Cyber security risk

SR 5 – Openness and transparency

Audit dimensions (continued)

Financial sustainability

Audit dimension

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

Areas considered



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

Deloitte response



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

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

Deloitte view

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

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

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

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

Audit dimensions (continued)

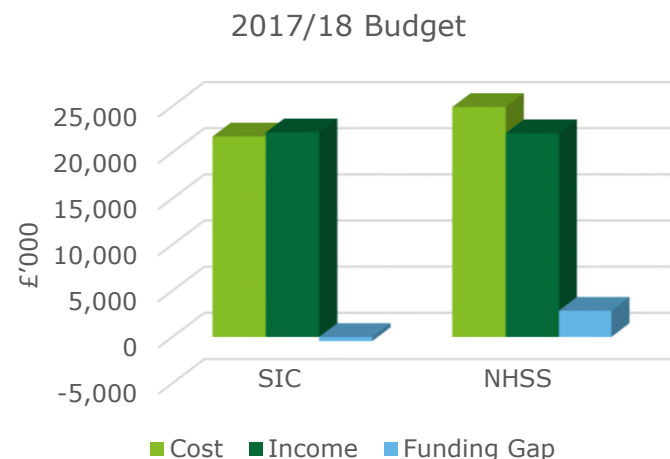
Financial sustainability (continued)

Short term financial position

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

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

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



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

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

Audit dimensions (continued)

Financial sustainability (continued)

Medium to long term financial sustainability

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

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

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

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

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

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

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

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

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

Best Practice examples

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

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

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

Audit dimensions (continued)

Financial management

Audit dimension

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

Areas considered



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

Deloitte response



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

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

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

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

Deloitte view

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

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

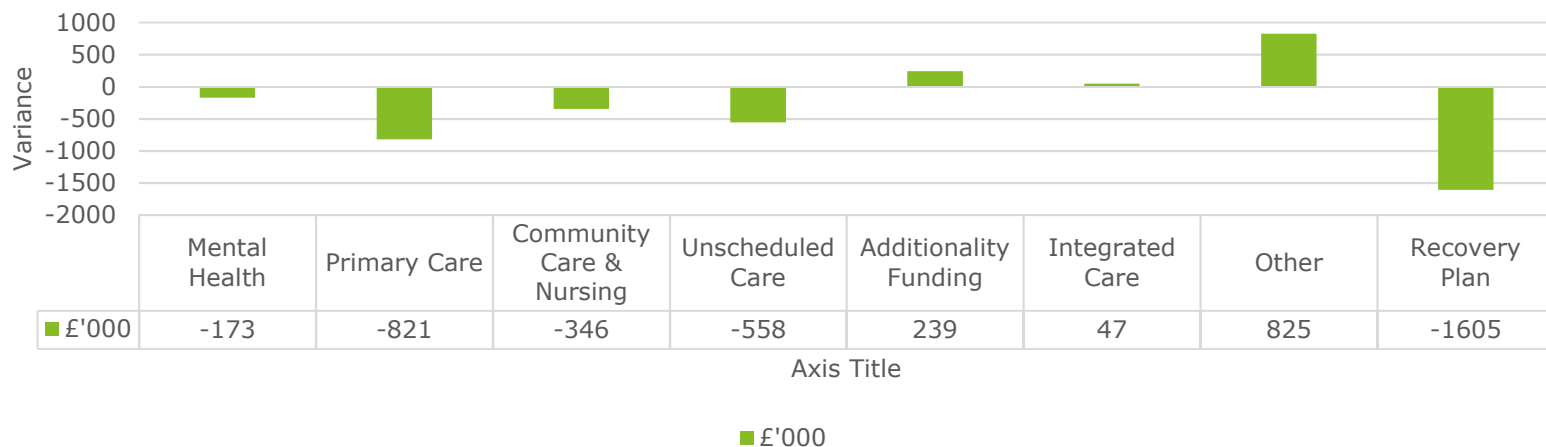
Audit dimensions (continued)

Financial management

Budgetary control systems

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

Budget vs. Actual Expenditure



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

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

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

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

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

Audit dimensions (continued)

Governance and transparency

Audit dimension

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

Areas considered



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

Deloitte response



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

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

Deloitte view

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

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

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

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

Audit dimensions (continued)

Governance and transparency (continued)

Leadership and vision

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

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

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

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

Internal Audit

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

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

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

Audit Committee

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

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

Audit dimensions (continued)

Governance and transparency (continued)

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

Membership

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

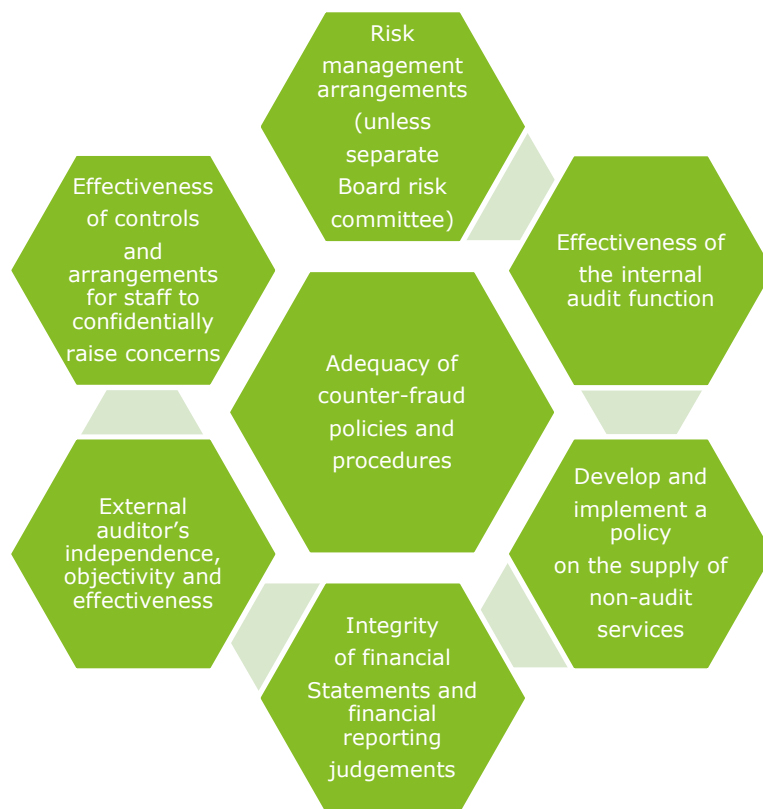
Attendance

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

Frequency

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

Audit Committee: Roles and Responsibilities



Audit dimensions (continued)

Governance and transparency (continued)

Model Audit Committee agenda

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

The Committee should also review:

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

Audit Committee Reporting:

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

Audit dimensions (continued)

Value for money

Audit dimension

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

Areas considered



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



Deloitte response

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

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

Deloitte view

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

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

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

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

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

Audit dimensions (continued)

Value for money (continued)

Performance Management

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

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

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

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

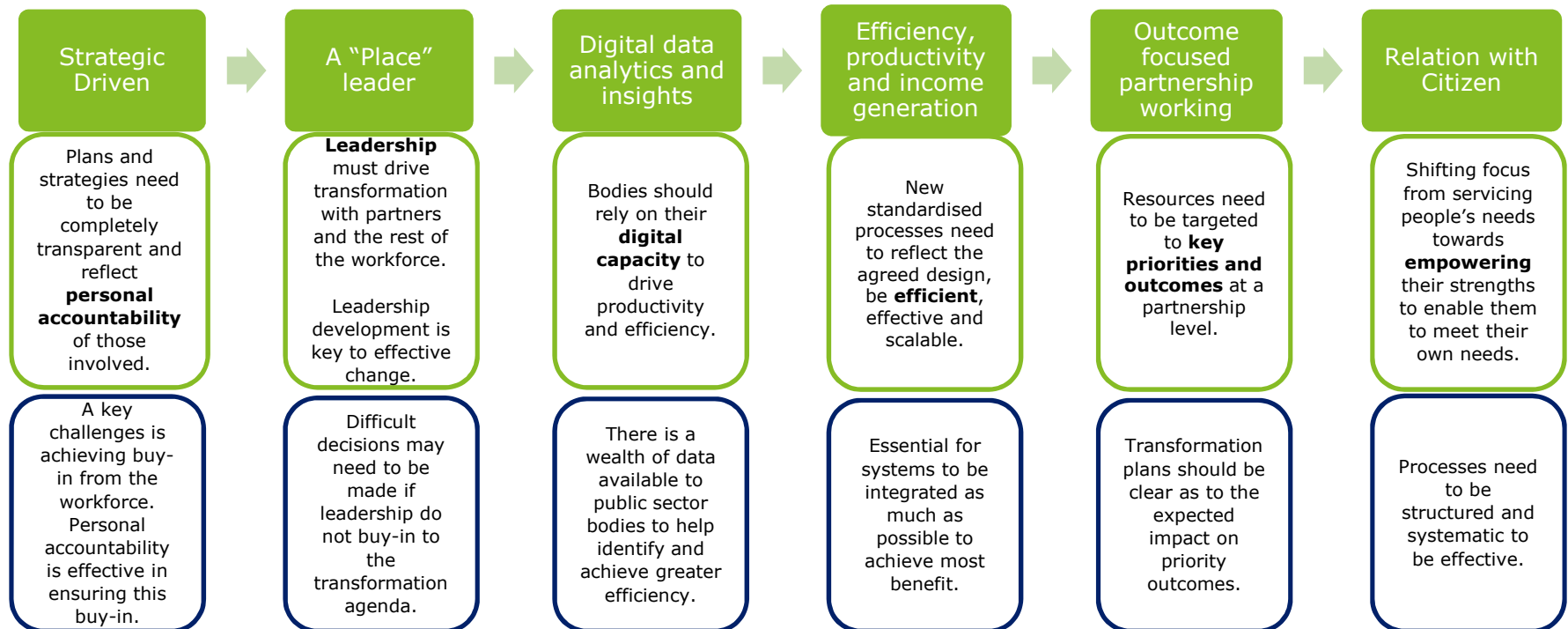
Audit dimensions (continued)

Sharing best practice

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

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

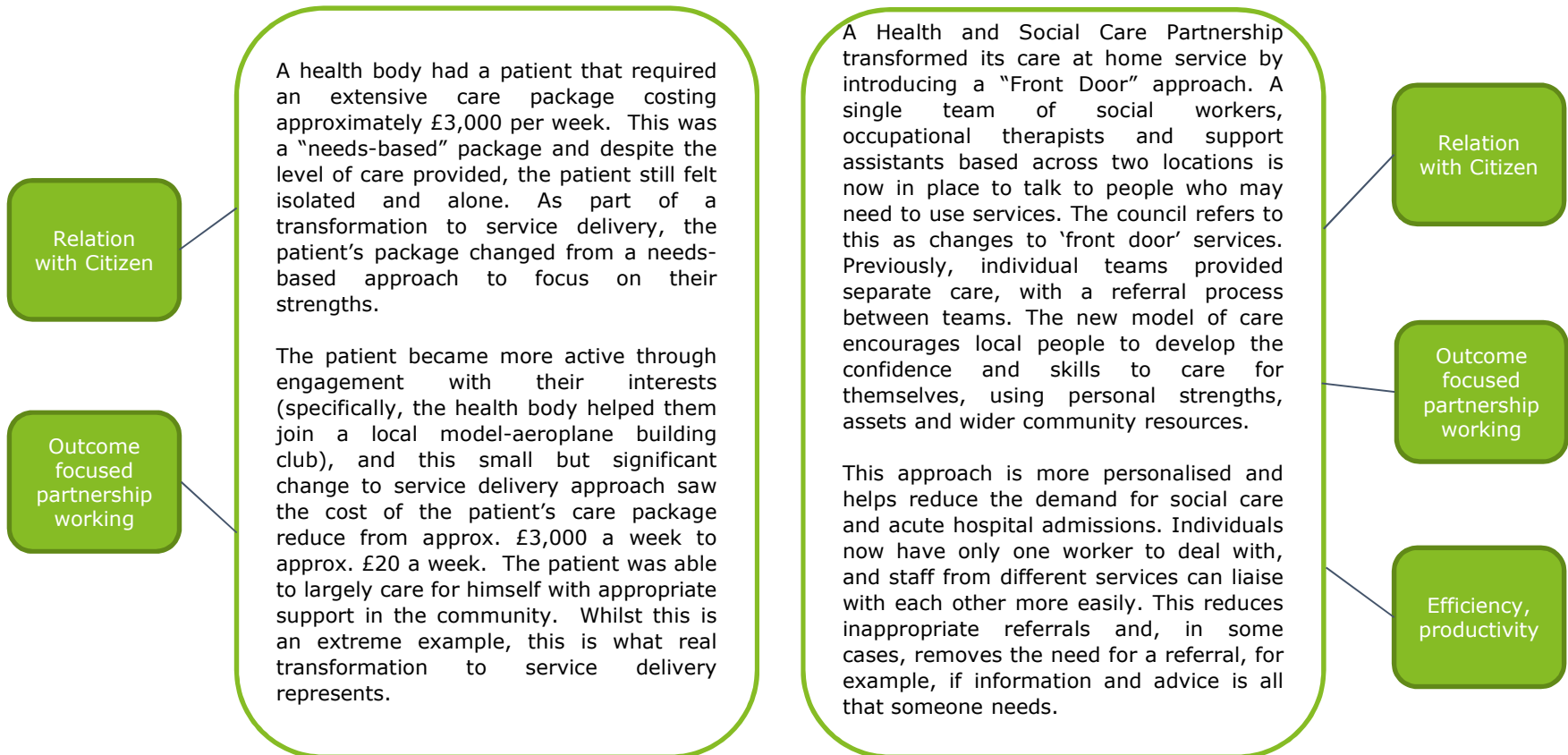
From our experience, public sector bodies that have successfully delivered and sustained transformational change have tended to focus on the following six key requirements. The overarching aspect throughout a transformation programme is having strong leadership that believes in and can drive transformational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



Audit dimensions (continued)

Sharing best practice (continued)

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



Audit dimensions (continued)

Sharing best practice (continued)

Strategic
Driven –
shift in
culture.

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

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

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

Digital data
analytics
and
insights

Wider scope audit work (continued)

Specific risks

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

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

Wider scope audit work (continued)

Specific risks (specific risks)

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

Appendices



Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

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

The scope of our work

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

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

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



for and on behalf of Deloitte LLP
Glasgow
24 July 2018

Audit adjustments

Corrected misstatements

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

Uncorrected misstatements

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

Disclosure misstatements

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

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

Action plan

Recommendations for improvement

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

Action plan

Recommendations for improvement

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

Action plan

Recommendations for improvement

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

Action plan

Recommendations for improvement

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

Action plan

Follow up of 2016/17 recommendations

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

Action plan

Follow up of 2016/17 recommendations

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

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

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



Required representations:

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

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

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

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

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

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

Deloitte view:

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



Independence and fees

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

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



Events and publications

Our publications and insights to support the IJB

Publications

The State of the State 2017-18

Citizens, government and business

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

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

Download a copy of our publication here:

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



Sharing our informed perspective

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

Recent publications relevant to the local authorities are shared opposite:

Perspectives: Do you have a digital mindset?

Accelerating health and care integration

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

Read the full blog here:

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

Article: Public sector transformation **Five lessons from the private sector**

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

Read the full article here:

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

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Shetland Islands Health and Social Care Partnership

Agenda Item

2



Meeting(s):	IJB Audit Committee Integration Joint Board	21 September 2018 21 September 2018
Report Title:	Final Audited Accounts 2017/18	
Reference Number:	CC-37-18-F	
Author / Job Title:	Karl Williamson / Chief Financial Officer	

1.0	Decisions / Action required:
1.1	<p>The IJB Audit Committee RESOLVE to:</p> <ul style="list-style-type: none"> a) CONSIDER the audited Annual Accounts for 2017/18 (Appendix 1) b) NOTE the Management Representation Letter (Appendix 2); and <p>The IJB RESOLVE to:</p> <ul style="list-style-type: none"> a) APPROVE the audited Annual Accounts for 2017/18 for signature (Appendix 1). b) NOTE the Management Representation Letter for signature (Appendix 2)
2.0	High Level Summary:
2.1	IJBs are specified in legislation as 'Section 106' bodies under the terms of the Local Government (Scotland) Act 1973, so are expected to prepare their financial statements in compliance with the Code of Practice on Local Government Accounting in the United Kingdom.
2.2	Regulations require that IJB Members consider the audited annual accounts and approve them for signature by 30 September 2018 and publish them no later than 31 October 2018.
3.0	Corporate Priorities and Joint Working:
3.1	The IJB is a separate legal entity, accountable for the stewardship of public funds and expected to operate under public sector best practice governance arrangements, proportionate to its transactions and responsibilities. The preparation and presentation of the accounts is a key element of the IJB's overall governance and reporting arrangements.
4.0	Key Issues:
4.1	The audited accounts include the following key points for members' consideration:

- Deloitte has issued an unqualified independent auditor's report on the 2017/18 financial statements. They have been prepared in accordance with accounting regulations and guidance;
- The IJB made an accounting surplus of £0.239m in 2017/18, which will be carried forward in the IJB Reserve;
- The IJB General Reserve balance as at 31 March 2018 is £364k.

5.0 Exempt and/or confidential information:

None

6.0 Implications:

6.1 Service Users, Patients and Communities:

None

6.2 Human Resources and Organisational Development:

None

6.3 Equality, Diversity and Human Rights:

None

6.4 Legal:

None

6.5 Finance:

There are no financial implications arising from this report.

6.6 Assets and Property:

None

6.7 ICT and new technologies:

None

6.8 Environmental:

None

6.9 Risk Management:

There are no significant issues in relation to the audited Annual Accounts. Deloitte's Annual Report on the 2017/18 audit was presented as a separate item on the agenda.

6.10 Policy and Delegated Authority:

Shetland's Integration Joint Board (IJB) was formally constituted on 27 June 2015 and operates in accordance with the approved Integration Scheme, Scheme of Administration, and the Financial Regulations.

Regulations require that IJB Members consider the audited annual accounts and approve them for signature by 30 September 2018 and publish them no later than 31 October 2018.

6.11 Previously considered by:	The proposals in this report have not been presented to any other committee or organisation.

Contact Details:

Karl Williamson, Chief Financial Officer, karlwilliamson@nhs.net

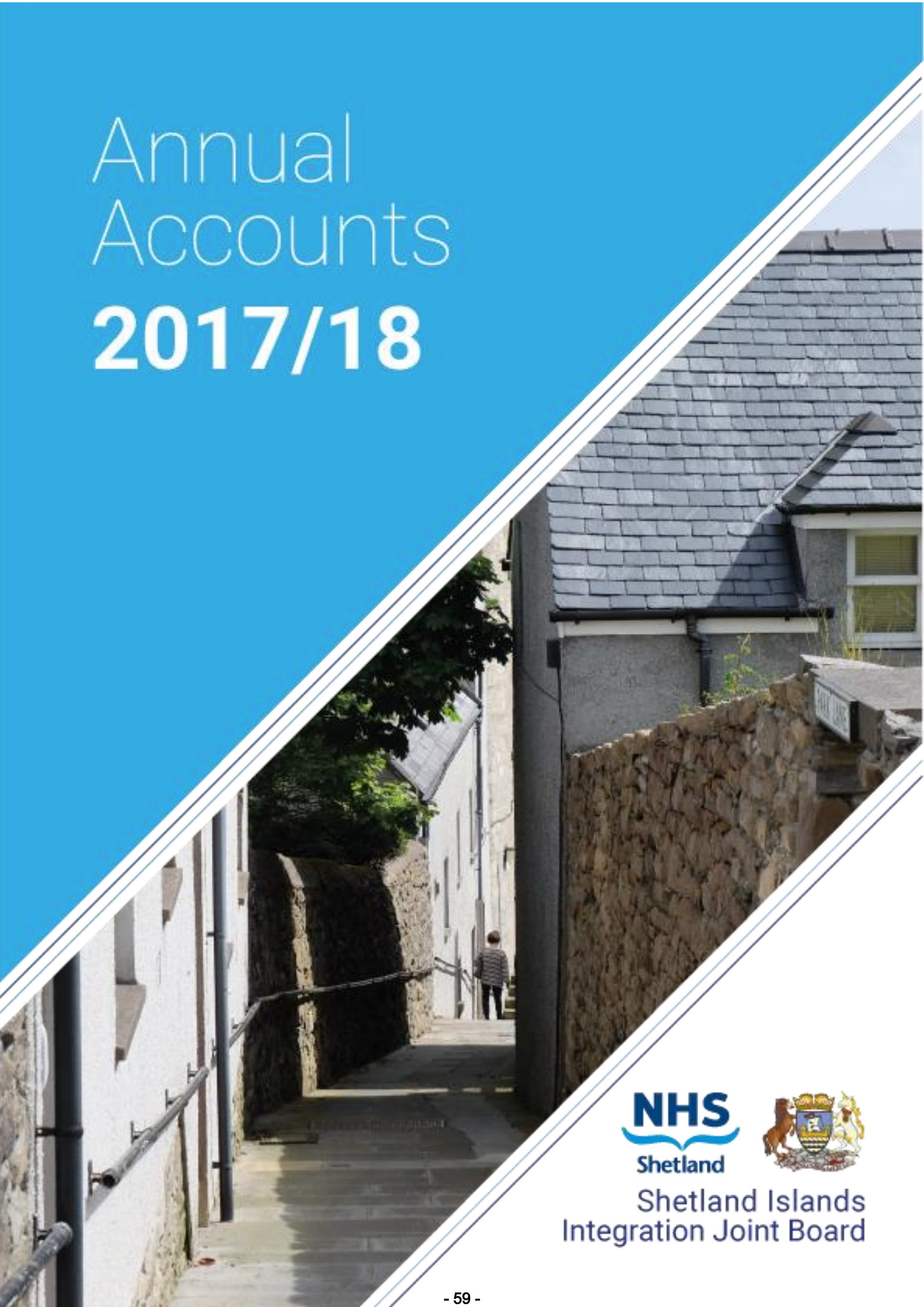
4 September 2018

Appendices:

Appendix 1 – Shetland Health and Social Care Partnership Audited Annual Accounts 2017/18

Appendix 2 - Management representation letter

Annual Accounts **2017/18**



Shetland Islands
Integration Joint Board

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Introduction

The Shetland Islands Health and Social Care Partnership (Integration Joint Board) is a body corporate, established by Parliamentary Order under section 9 of the Public Bodies (Joint Working) (Scotland) Act 2014, on 27 June 2015.

The Parties:

Shetland Islands Council (“the Council” or “SIC”), established under the Local Government etc. (Scotland) Act 1994.

Shetland Health Board (“the Health Board” or “NHS Shetland” or “NHSS”), established under section 2(1) of the National Health Service (Scotland) Act 1978 (operating as Shetland NHS Board).

The Parties agreed the Integration Scheme of Shetland Islands Health and Social Care Partnership, which sets out the delegation of functions by the Parties to the Integration Joint Board.

The Shetland Health and Social Care Partnership Members for 2017/18 were as follows:

Voting Members:

- Mr C Smith (Chairperson - SIC) – Resigned 4 May 2017
- Mr A Duncan (Vice Chairperson – SIC)
- Ms E MacDonald (SIC) – Appointed 18 May 2017
- Ms Shona Manson (NHSS) – Appointed 6 September 2017
- Ms Natasha Cornick (NHSS) – Appointed 6 September 2017
- Mrs M Williamson (Chairperson - NHSS)
- Mr R McGregor (SIC) – Appointed 17 January 2018

- Mrs E Watson (NHSS) – Temporary voting membership ended 6 September 2017
- Mr M Burgess (SIC) – Resigned 9 January 2018
- Mr T Morton (NHSS) – Resigned July 2017

Non-Voting Members:

- Mr S Bokor-Ingram (Chief Officer)
- Mrs M Nicolson (Chief Social Work Officer)
- Mr K Williamson (Chief Financial Officer)
- Mr J Guyan (Carers’ Representative) – appointed 22 February 2018
- Dr S Bowie (GP Representative)
- Mrs E Watson (Lead Nurse for the Community)
- Ms S Gens (Staff Representative)
- Mrs C Hughson (Third Sector Representative)
- Ms M Gemmill (Patient / Service User Representative) – Appointed 22 February 2018
- Mr I Sandilands (Staff Representative)
- Mr J Unsworth (Senior Consultant: Local Acute Sector) - Resigned 9 August 2017 (currently vacant)
- Ms K Carolan (Lead Nurse for the Community) – Resigned 6 September 2017

Post Year End Changes to Voting Membership

Since 1 April 2018 there have been no further changes to membership.

Management Commentary

The purpose of the Management Commentary is to inform all users of these Accounts and help them to understand the most significant aspects of Shetland Islands Health and Social Care Partnership's financial performance for the year to 31 March 2018 ("period", "year") and its financial position as at 31 March 2018.

Background

Integration of health and social care is the Scottish Government's ambitious programme of reform to improve services for people who use health and social care services. Integration will ensure that health and social care provision across Scotland is joined-up and seamless, especially for people with long-term conditions and disabilities, many of whom are older people.

The Public Bodies (Joint Working) (Scotland) Act was granted royal assent on 1 April 2014. SIC and the Board of NHSS, took the decision that the model of integration of health and social care services in Shetland would be the Body Corporate, known as an Integrated Joint Board (IJB).

Under the Body Corporate model, NHSS and SIC delegate the responsibility for planning and resourcing service provision of adult health and social care services to the IJB.

As a separate legal entity, the IJB has full autonomy and capacity to act on its own behalf and can make decisions about the exercise of its functions and responsibilities as it sees fit.

The IJB is responsible for the strategic planning of the functions delegated to it by SIC and NHSS and for the preparation of the Strategic Plan. The Strategic Plan specifies the services to be delivered by the Parties. The IJB is also responsible for ensuring the delivery of its functions through the locally agreed operational arrangements set out within its Integration Scheme, which can be found at; http://www.shetland.gov.uk/Health_Social_Care_Integration/documents/SHSCPPartnershipIntegrationScheme15May2015_000.pdf

The practical application of the Integration Scheme is managed and administered in accordance with the Financial Regulations,

Standing Orders and Scheme of Administration of the Parties, as amended to meet the requirements of the Act.

The IJB approved its Strategic Commissioning Plan 2017 -2020 on 10 March 2017.

Purpose and Objectives

The main purpose of integration is to improve the wellbeing of people who use health and social care services, particularly those whose needs are complex and involve support from health and social care at the same time. The Integration Scheme is intended to achieve the National Health and Wellbeing Outcomes prescribed by the Scottish Ministers in Regulations under section 5(1) of the Act; as follows:

National Health and Wellbeing Outcomes

1. People are able to look after and improve their own health and wellbeing and live in good health for longer.
2. People, including those with disabilities or long-term conditions or who are frail are able to live, as far as reasonably practicable, independently and at home or in a homely setting in their community.
3. People who use health and social care services have positive experiences of those services, and have their dignity respected.
4. Health and social care services are centred on helping to maintain or improve the quality of life of people who use those services.
5. Health and social care services contribute to reducing health inequalities.
6. People who provide unpaid care are supported to look after their own health and wellbeing, including reducing any negative impact of their caring role on their own health and wellbeing.
7. People using health and social care services are safe from harm.
8. People who work in health and social care services feel engaged with the work they do and are supported to continuously improve the information, support, care and treatment they provide.
9. Resources are used effectively and efficiently in the provision of health and social care.

In its Strategic Commissioning Plan 2017-2020 the IJB set out its vision for health and care services in Shetland.

Our vision is that by 2020 everyone in Shetland is able to live longer healthier lives, at home or in a homely setting. We will have an integrated health and care system focused on prevention, supported self-management and reducing health inequalities. We will focus on supporting people to be at home or in their community with as much specialist care provided in Shetland and as close to home as possible. Care will be provided to the highest standards of quality and safety, with the person at the centre of all decisions.

The IJB approved the Shetland Partnership Plan 2018-2028 – the Local Outcomes Improvement Plan (LOIP) on 20 June 2018, agreeing to prioritise resources in the annual budgeting process to improve local outcomes.

The Shetland Partnership is the Community Planning Partnership (CPP) for Shetland and is made up of a wide range of partners and community bodies. The IJB has a statutory duty to be involved in community planning.

The shared priorities of the LOIP are:

People – Individuals and families can thrive and reach their full potential
Participation – People can participate and influence decisions on services and use of resources
Place – Shetland is an attractive place to live, work and invest
Money – All households can afford to have a good standard of living

The focus for the IJB with regard to delivery of the LOIP outcomes will be 'People' and 'Participation' with specific focus on;

Tackling alcohol misuse
 Healthy weight and physical activity
 Low income/poverty
 Satisfaction with public services
 People's ability to influence and be involved in decisions which affect them.

Key Performance Indicators

The Scottish Government has asked all partnerships, to pay particular attention to the following indicators:

Unplanned admissions
 Occupied bed days for unscheduled care
 A&E performance
 Delayed discharges
 End of life care; and
 The balance of spend across institutional and community services

The table below provides detail of our performance against these key performance indicators.

Performance Indicator	Shetland Actual 2017/18*	Shetland Actual 2016/17	Scotland Actual 2016/17
Rate of emergency admissions for adults (per 100,000 population)	N/A	10,011	12,294
Rate of emergency bed days for adults (per 100,000 of population)	N/A	72,509	125,634
Readmission to hospital within 28 days of discharge (per 1,000 population)	N/A	69	100
Proportion of last 6 months of life spent at home or in community setting	96%	94%	87%
A&E Performance (seen within 4 hrs)	96.5%	96%	89%
Delayed discharge bed days (per 1,000 of population)	N/A	528	842
Percentage of adults with intensive needs receiving care at home	N/A	74%	61%

*data not yet available is denoted N/A.

The financial performance of the IJB is explained in detail below in the Financial Review section. During the year the Board had a Recovery Plan in place to monitor efficiency savings required.

Financial Performance Indicator	2017/18	2016/17
Percentage of Recovery Plan savings target achieved in year	37%	50%
Percentage of recurrent savings achieved against Recovery Plan savings target in year	30%	13%

Operational Review

In 2017/18 the IJB set out to put in place arrangements to improve services through a range of initiatives and activities, building on work from previous years.

The IJB oversaw several strategic initiatives which will further develop and improve services in the areas of:

- The extension of the work of the Intermediate Care Team to deliver good outcomes for people moving from a period in hospital back to their home, or a community setting;
- Autism Spectrum Disorder, through the approval of a new Strategy from 2016-2021; and
- Falls Prevention, through approval to utilise IJB Reserve over the next three years to extend the reach of the pilot project into all areas of Shetland.

The IJB also continued to improve the documents which guides the way in which it works and takes good decisions. During the year, the IJB:

- Formalised its approach to 'Directions', which is the term used for the mechanism by which the IJB passes operational delivery instruction to its service delivery partners, NHSS and SIC, in order to action its Strategic Commissioning Plan;
- Agreed the Market Facilitation Strategy, which sets out how the IJB will interact and support the work of the third sector, and others, in helping to deliver good health and care outcomes; and
- Agreed a Protocol to support joint working between the NHSS and SIC to help staff work in a more integrated way and help our services users to receive a seamless service.

Some key service changes that have happened, or continued in the year, include:

- The work to review and redesign our mental health service. The overall project aims to ensure people who required services achieve better outcomes, making best use of overall resources;

- The Criminal Justice Service has continued to support the development of the local Community Justice Partnership;
- Implementing Government direction to move dental services towards independent NHS providers with the objective to increase registration figures;
- A review of services for adults with learning disabilities and autism started last year with an audit of the service by a Scottish university. The review will continue during 2018/19 to redesign services to ensure that the people who need these services obtain better outcomes and that we achieve fair and equal access to services and resources; and
- Investment in community pharmacists has enabled reviews to be done with patients who have complex or multiple prescriptions to make sure their medicines are well managed.

Shetland continues to perform well against peer group comparators and the Scottish average. For example:

- We achieved the highest proportion in Scotland – at 95.6% - of people spending the last six months of their life at home, or in a community setting.

Some areas worth highlighting are:

- The number of people using Self-Directed Support Options 1 and 2 to meet their support needs has doubled going from 2% (of those using all social care) in 2014/15 to 4% in 2017/18;
- During 2017/18, 34% of Adults with a Learning Disability were in some form of employment – the highest in Scotland – and 22% of people with learning disabilities have undertaken some form of further education;
- The percentage of the adult population who are registered with Shetland dentists for NHS dental care gradually increased from 80% in 2015/16 to 85% in 2016/17 and 88% in 2017/18; and
- We enabled 59 people to continue to live safely in their own home through intensive care at home provision each week, a small reduction on the previous year.

The operational management team had a continued challenge in the year to find further efficiencies within the IJB budgets due to the known efficiency savings required in the NHSS delegated budget. Further details in respect of these efficiency savings and their continued impact are contained in the Significant Budget Variances section at page 7.

Further detail on operational performance can be found in the IJB Annual Performance Report 2017/18 at:

[\(link to be updated once approved by Board\)](#)

Primary Financial Statements

The Financial Statements detail Shetland Health and Social Care Partnership's transactions for the year and its year-end position as at 31 March 2018. The Financial Statements are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (IASB Framework) as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom.

A description of the purpose of the primary statements has been included immediately prior to each of the financial statements: The Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the Balance Sheet. These Statements are accompanied by Notes to the Accounts which set out the Accounting Policies adopted by the Partnership and provide more detailed analysis of the figures disclosed on the face of the primary financial statements.

No Cashflow Statement is required as the IJB does not operate a bank account or hold cash.

The primary financial statements and notes to the accounts, including the accounting policies, form the relevant financial statements for the purpose of the auditor's certificate and opinion. The remuneration of the Chief Officer of the Partnership is disclosed in the Remuneration Report.

Financial Review

The Joint Strategic (Commissioning) Plan 2017-2020, agreed by IJB members on 10 March 2017, sets out the functions that have been delegated

by the Parties and the associated indicative budgets for 2017/18.

At its meeting on 10 March 2017 the IJB noted its 2017/18 budget. These budget figures were later used in the IJB Directions issued to the Parties following their approval on 19 December 2017. Subsequently, budget revisions have been made during the year for additional funding allocations and application of contingency and cost pressure budgets with a total budget delegated from the IJB to the Parties of £44.222m (£43.450m 2016/17).

The purpose of the Financial Statements is to present a public statement on the stewardship of funds for the benefit of both Members of the IJB and the public. The IJB is funded by SIC and NHSS.

The Comprehensive Income and Expenditure Statement presents the full economic cost of providing the Board's services in 2017/18.

For the year-ended 31 March 2018, the IJB generated a surplus of £0.239m (£0.125m 2016/17), after adjustment has been made for fortuitous underspend repaid to SIC and additional contribution made by NHSS.

The Integration Scheme states that where there is a planned, forecast underspend on an element of the operational budget due to agreed changes in line with the Strategic Plan, this will be retained by the IJB to either fund other service areas in-year in line with the Strategic Plan or be carried forward to fund services in subsequent years of the Strategic Plan. However, any windfall under spend will be returned to SIC and/or NHSS in line with the budget allocation for the year.

The surplus of £0.239m represents the underspend in the year of Scottish Government Additionality Funding allocations agreed by the IJB to each of the Parties. This funding will be carried forward and the IJB can then make decisions on how best it can be utilised to further its objectives, in line with its Strategic Plan.

The outturn position at 31 March 2018 is an overall deficit against budget of £2.392m (2016/17: £0.939m), which represents an underspend in relation to services commissioned from SIC of £0.446m (underspend £0.414m 2016/17) and an overspend in relation to services

commissioned from NHSS of £2.838m (overspend £1.353m 2016/17). The £2.392m deficit (which includes 'set aside budget') is detailed in Row 3 in the following table.

Financial Transactions 2017/18

		SIC £000	NHSS £000	Total £000
1	Budgets delegated to the Parties from the IJB	22,154	22,068	44,222
2	Contribution from the Parties to the IJB (against delegated budgets)	(21,708)	(24,906)	(46,614)
2	Surplus/(Deficit)	446	(2,838)	(2,392)
3	Additional contributions from Parties to meet IJB Direct Costs	(14)	(14)	(28)
3	IJB Direct Costs (Audit fee, Insurance & Members Expenses)	14	14	28
4	Fortuitous underspend repaid to SIC	(310)	0	(310)
4	Additional contribution from NHS to IJB to meet overspend	0	2,941	2,941
5	Final Surplus/(Deficit) of IJB	136	103	239

Significant Budget Variances

Mental Health: overspend of £173k

The overspend relates mainly to the cost plus flights and accommodation for a Consultant Mental Health locum in the year (£312k). A Consultant Psychiatrist has now been appointed but it is likely locum costs will continue until June 2018 to cover another staffing issue in the service. This is partially off-set by an underspend due to vacant community psychiatric nurse posts in the year.

Primary Care: overspend of £821k

The overspend relates mainly to the use of locum General Practitioners during the year in Health Centres where it was not possible to fill vacant posts, with notable overspend against budgets at, Bixter (£101k), Whalsay (£92k), Yell (£145k), Unst (£103k), Brae (£44k) and Walls (£55k). There was also a further overspend as a result of in-year cost pressure following the TUPE transfer of staff at the Scalloway Practice (£190k).

Recruitment to vacant posts is an ongoing challenge but there has been successful recruitment to several posts following the year-end. All GP vacancies at Lerwick Health Centre will be filled from 1 September 2018 and the vacancy at Bixter will be filled from early January 2019. There are also ongoing discussions with several GPs regarding other vacancies in Shetland which will hopefully bear fruit and

further assist in reducing locum costs. In addition, the GP Training scheme based in Lerwick Health Centre is continuing to bring GP trainees to Shetland, two of whom have accepted substantive positions in Shetland.

The shared priorities of the LOIP include the objective to attract people to live, work and invest in Shetland.

Directorate: underspend of £422k

The underspend relates mainly to:

- Inability to spend the 2016/17 SIC Carry-Forward Funding (available as one-off additional budget allocation in 2017/18 as per the SIC Budget Carry Forward Scheme) due to delays in getting projects and recruitment underway, £129k;
- The SIC Training budget for Community Health and Social Care has been held centrally within the Directorate, but costs were applied across the service areas. This means the Directorate shows an underspend of £128k in this regard, however this has been fully spent under service headings; and
- The reversal in 2017/18 of a GP on-call accrual from the prior year to account for the overestimation of this liability in 2016/17, £104k.

Adult Social Work: underspend of £123k

The underspend in Adult Social Work is mainly due to the impact of maternity leave not back-filled, a vacant post within the Admin Team and the impact of staff who are new to posts starting on a lower grade than budgeted, creating a combined employee cost underspend of £96k.

Community Care Resources: overspend of £305k

The overspend relates mainly to:

- Employee costs budgets in many of the care homes have been overspent this year (£187k), notably Edward Thomason House (£92k) and Wastview (£93k) due to long-term staff sickness. This has been off-set by smaller projected underspending in employee costs at Overtonlea, Isleshavn and Nordalea, totalling £66k, as a result of less demand for care at home services at times allowing these staff to be used to back-fill residential shift, avoiding the use of relief staff. Difficulty in recruiting staff has led to temporary bed closures during the year at both Wastview and Isleshavn, which has also impacted on staffing costs;
- There was an underspend in employee costs at Care at Home Central of £151k, due to vacant posts which have proved difficult to recruit to. Demand for care at home services have been less than budgeted during the year, but the vacancies have led to some unmet need, particularly in home help services;
- As a result of recruitment difficulties and the significant sickness levels in areas of Community Care Resources during the year it has been necessary to engage agency staff at the additional cost of £198k; and
- There was an underachievement of Board and Accommodation income in the year (£69k). Charging income can vary significantly dependent on the financial circumstances of those receiving care but new Carers legislation also requires that charges are waived where the care is for the benefit of the carer, rather than the person receiving

care. Charges are also waived for periods of re-ablement and palliative care.

Recruitment and retention of staff continues to be difficult, however the Modern Apprenticeship programme has encouraged people to take up social care work and the SIC also supports the vocational programme in social care run by the Anderson High School which aims to encourage school pupils to take up social care roles.

The biggest challenge is recruiting and retaining in more remote communities. The shared priorities of the LOIP include attracting people to live and work in Shetland, recognising that the population of Shetland is ageing at a faster rate than the rest of Scotland. Through locality planning the unique challenges of remote areas will also be addressed.

The use of Agency staff has continued into 2018/19, to ensure the safe delivery of care services.

Unscheduled Care: overspend of £558k

The overspend in Unscheduled Care relates mainly to;

- The cost of medical consultant locums (£314k) and junior doctor locums (£80k) being required to maintain the 1 in 4 rota.
- An overspend in employee costs in Ward 3, due to a lack of vacant posts into which the staff redeployed following the closure of Ronas Ward could be transferred (£92k).

Recruitment to consultant and junior doctor posts actively continues, working closely with the Deanery, Universities and NHS Education for Scotland to look at ways in which training can be developed to support remote and rural practice and encourage doctors to take up posts in Shetland.

The challenge of filling junior doctor vacancies and ensuring rotas are compliant with current guidance and legislation is affecting Scotland as a whole, not only Shetland. Alternative models for delivering out of hours care are being considered as a means of providing more sustainability.

The IJB is focused on preventative work that can be done to reduce the need for unscheduled care. The local target to develop anticipatory care plans has been exceeded (2017/18 target 700 – Actual 1,119), allowing for better planning of the care required for those with long-term conditions or in need of palliative care. The IJB has also agreed continued investment to roll out its Falls Prevention Programme throughout Shetland.

The IJB has utilised additional funding provided by the Scottish Government since it was established to develop the Intermediate Care Team. The team comprises a combination of nursing staff, occupational therapists and rehabilitation workers who work closely with colleagues across health and social care services to support individuals to:

- Remain at home, avoiding unnecessary admission to hospital or care centre;
- Return to home from a hospital admission; or
- Return home from a care home interim placement.

Work will continue in 2018/19 to promote the role of the Intermediate Care Team more widely and expand provision across the Shetland.

Scottish Government Additionality Funding: underspend of £239k

The Scottish Government allocated £250m of funding nationally in 2016/17 to the health and social care partnerships to support the delivery of improved outcomes in social care, help drive the shift toward prevention and further strengthen its approach to tackling inequalities. Shetland Health and Social Care Partnership was allocated £1.024m of this funding.

In 2017/18, the Scottish Government agreed the 2016/17 funding allocation would be continuing and made a further national allocation of funding for Social Care of £110m. Shetland Health and Social Care Partnership was allocated £450k.

As per Scottish Government guidance, £852k of the funding was provided to help meet a range of existing costs faced by local authorities in the delivery of effective and high quality health and social care services in the context of reducing budgets. The remaining £622k was available to

support integration projects and the IJB agreed it would be used as follows:

- Support for increased demand for Self-Directed Support packages - £348k;
- Recruitment of 2 therapist posts for the Re-ablement Programme in Care Homes - £86k; and
- Funding for Hospital Discharge Liaison Staff - £78k;
- Support the costs associated with providing an enhanced Intermediate Care Team - £80k; and
- Implementation of Carers Legislation - £30k.

The IJB recognises an underspend in this funding of £239k, due to less demand for Self-Directed Support packages than anticipated in year, £136k, delays in recruitment of staffing in relation to the Re-ablement Programme in Care Homes, £46k, and underspend in employee costs due to vacant posts within the Intermediate Care Team during the year, £57k.

Integrated Care Funding: Underspend £47k

The Integrated Care Fund (ICF) was provided by the Scottish Government in 2016/17 to help Health and Social Care Partnerships to support investment in integrated services. In March 2015, the Cabinet Secretary for Health, Wellbeing and Sport announced that an additional £100m would be made available to Health and Social Care Partnerships through the ICF in each of the financial years 2016/17 and 2017/18.

The Shetland IJB funding allocation for 2017/18 was £410k. The plan for use of this funding was developed alongside the work on the Joint Strategic (Commissioning) Plan 2017– 2020. It was hoped to continue building the capabilities to shift the balance of care further to community settings, with support to people to maintain and enhance independence seen as key to enhancing people's lives, whilst maintaining service provision for those that most need it in the face of diminishing resources.

There is an underspend in this funding of £47k, as a result of vacant posts within the Intermediate Care Team during the year. This

underspend has been retained by NHSS as part of its core funding allocation.

Efficiency Target: Overspend £1.605m

A Recovery Plan of £2.529m was put in place by the IJB to address the efficiency savings required within the NHS budgets for directly managed and set-aside services. As at 31 March 2018, there was an underachievement of £1.605m against the Recovery Plan.

Of the £924k savings achieved, £745k represented recurring savings and £179k were non-recurrent.

NHSS have rolled forward their unachieved savings from 2017/18 and combined this with their 2018/19 savings target. In March 2018, the IJB Board noted that that gap between the current service models and available NHSS funding for 2018/19 is £2.077m in respect of functions delegated to the IJB and agreed to work urgently with NHSS to develop plans to deliver financial balance and develop long term sustainable and affordable health services.

NHSS began a Scenario Planning exercise in January 2018 to look at alternative models for the delivery of health and social care service in Shetland. The exercise recognises that identifying and implementing savings and efficiency targets is increasingly challenging and aims to take a whole system approach to establish a best value, safe and sustainable model which can inform the development of the Strategic Plan for 2019-2022 and beyond.

The Balance Sheet as at 31 March 2018

The IJB carried a General Reserve of £125k as at 1 April 2017. This reserve was created from an underspend in the Scottish Government Additionality Funding in 2016/17. Further underspending in the Scottish Additionality Funding in 2017/18 of £239k has been added to this Reserve, leaving a closing General Reserve balance as at 31 March 2018 of £364k.

2018/19 Budget and Medium Term Financial Outlook

The IJB Board noted the funding allocations by SIC and NHSS for 2018/19 in respect of the functions delegated to them on 22 February 2018, with revisions on 8 March 2018. The allocations were £21.807m and £23.342m respectively (Total £44.149).

General Reserve of £0.364m, generated from underspend in Scottish Additionality Funding in previous years is also available to support the strategic objectives of the IJB

The IJB recognises that there is an overall funding gap of £2.277m (£0.2m – SIC and £2.077m - NHSS) against the 2018-19 delegated budgets.

SIC have a timetable established to look at the review and redesign of its mental health support services, provided from Annsbrae. It is hoped that this review can generate savings of £200k with implementation estimated to start in February 2019.

NHSS continue to look at the redesign of services to find efficiency savings in their budget. Scenario planning is being used to enable them to think about future service delivery in a structured way. Recurring savings will be sought wherever possible, but realistically non-recurring savings will also be required in-year to meet the funding gap of £2.077m in 2018/19.

A Financial Recovery Plan will continue to be required in 2018/19 to address the efficiency savings required by both NHSS and SIC and regular updates on the Recovery Plan will be presented as part of the quarterly financial monitoring reports prepared by the Chief Financial Officer for the Board.

The Shetland IJB, like many others, faces significant financial challenges and is required to operate within tight fiscal constraints for the foreseeable future due to the continuing difficult national economic outlook and increasing demand for services. Additional funding for Health and Social Care Partnerships, as detailed above, was made available from the Scottish Government. Despite this additional funding, pressure continues on public sector expenditure

at a UK and Scottish level with further reductions in government funding predicted in 2019/20.

Medium term financial planning for the IJB is difficult as Scottish Government funding settlements for both Partners have been made on one-year basis in recent years.

Principle Risks and Uncertainties

The key risks for the IJB in 2018/19 are:
Continued staffing vacancies across IJB services, with difficulty in recruiting to both health and care roles, resulting in significant expenditure on locum costs.

Failure to deliver recurring efficiency savings through service redesign proposals leaving a funding gap for the IJB.

The continued need to make efficiency savings hindering the future development of services. The IJB will need to manage immediate cost pressures and any planned investment in services within available budgets.

In order to maintain financial balance significant changes in current practise or service models may be required. It is important that proposals are evidence based on current and emerging best practice and represent the optimum balance between cost, quality and safety.

Limited digital connectivity due to remote location, restricting the potential for use of information technology in service delivery.

Acknowledgement

We would like to acknowledge the significant effort of all the staff across the IJB who contributed to the preparation of the Annual Accounts and to the budget managers and support staff who have ensured delivery of the outcomes of the Strategic Plan within the financial resources available to the IJB for the year ended 31 March 2018.

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Simon Bokor-Ingram
Chief Officer
21 September 2018

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Marjorie Williamson
Chair
21 September 2018

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Karl Williamson
Chief Financial Officer
21 September 2018

Annual Governance Statement

Introduction

The Annual Governance Statement explains the IJB's governance arrangements and reports on the effectiveness of the IJB's system of internal control.

Scope of Responsibility

The IJB is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The IJB also aims to foster a culture of continuous improvement in the performance of the IJB's functions and to make arrangements to secure Best Value.

In discharging these responsibilities, the Chief Officer has a reliance on the systems of internal control of both NHSS and SIC that support compliance with both organisations' policies and promote achievement of each organisation's aims and objectives, as well as those of the IJB.

The IJB has adopted a Local Code of Corporate Governance ("the Local Code") consistent where appropriate with the six principles of CIPFA and the Society of Local Authority Chief Executives (SOLACE) framework "*Delivering Good Governance in Local Government*". This statement explains how the IJB has complied with the Local Code and also meets the Code of Practice on Local Authority Accounting in the UK, which details the requirement for an Annual Governance Statement.

Purpose of Internal Control

The system of internal control is based on an ongoing process designed to identify, prioritise and manage the risks facing the organisation. The system aims to evaluate the nature and extent of failure to achieve the organisation's policies, aims and objectives and to manage risks efficiently, effectively and economically. As such it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control has been in place at the IJB for the financial year ended 31 March

2018 and up to the date of the approval of the Annual Accounts.

The Governance Framework and Internal Control System

The Board of the IJB comprises the Chair and five Members with voting rights; three are SIC Members appointed by the Council and three are Non-Executive Directors appointed by the Scottish Government to the NHSS Board. The IJB via a process of delegation from NHSS and SIC has responsibility for the planning, resourcing and oversight of operational delivery of all integrated health and social care within its geographical area through its Chief Officer. The IJB also has strategic planning responsibilities for a range of acute health services for which the budget is "set aside".

The main features of the IJB's system of internal control are summarised below.

- The overarching strategic vision and objectives of the IJB are detailed in the IJB's Integration Scheme which sets out the key outcomes the IJB is committed to delivering through SIC and NHSS as set out in the IJB's Strategic Plan and Annual Accounts.
- Services are able to demonstrate how their own activities link to the IJB's vision and priorities through their Improvement Plans and Service Plans.
- Performance management, monitoring of service delivery and financial governance is provided through quarterly reports to the IJB as part of the Planning and Performance Management Framework. Quarterly reports include financial monitoring of the integrated budget and the "set aside" budget, the IJB Risk Registers, performance against national outcome measures, local outcome measures and service development projects. The IJB also receives regular reports from the joint Council, Health Board and IJB Clinical, Care and Professional Governance Committee and the IJB Audit Committee.
- The Participation and Engagement Strategy sets out the IJB's approach to engaging with stakeholders. Consultation on the future vision and activities of the IJB is undertaken collaboratively with SIC and NHSS and through existing community planning networks. The IJB publishes information

about its performance regularly as part of its public performance reporting.

- The IJB operates within an established procedural framework. The roles and responsibilities of Board Members and officers are defined within Standing Orders, Scheme of Administration and Financial Regulations; these are subject to regular review.
- Effective scrutiny and service improvement activities are supported by the formal submission of reports, findings and recommendations by Audit Scotland, the external auditors, national inspection agencies and the appointed Internal Audit service to the IJB's Senior Management Team, to the IJB and the main Board and Audit Committee.
- The IJB follows the principles set out in COSLA's *Code of Guidance on Funding External Bodies and Following the Public Pound* for both resources delegated to the Partnership by NHSS and SIC and resources paid to its SIC and NHSS Partners.
- Responsibility for maintaining and operating an effective system of internal financial control rests with the Chief Financial Officer. The system of internal financial control is based on a framework of regular management information, Financial Regulations and Standing Financial Instructions, administrative procedures (including segregation of duties), management and supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the IJB.
- The IJB's approach to risk management is set out in the Integration Scheme and IJB Risk Management Strategy. Reports on risk management are considered regularly by the Health and Social Care Management Team with quarterly reporting on the IJB Risk Registers to the IJB Board and an annual report to the IJB Audit Committee.
- IJB Board Members observe and comply with the Nolan Seven Principles of Public Life. Comprehensive arrangements are in place to ensure IJB Board Members and officers are supported by appropriate training and development.
- Staff of both NHSS and SIC are made aware of their obligations to protect client, patient and staff data. The NHS Scotland *Code of Practice on Protecting Patient Confidentiality*

has been issued to all NHSS staff working in IJB directed services and all staff employed by SIC working in IJB directed services have been issued with the SSSC Codes of Practice.

Review of Adequacy and Effectiveness

The IJB has responsibility for conducting at least annually, a review of effectiveness of the system of internal control and the quality of data used throughout the organisation. The review is informed by the work of the Service Managers within SIC and NHSS (who have responsibility for the development and maintenance of the internal control framework environment), the work of the internal auditors, the Chief Internal Auditor's annual report, and reports from external auditors and other review agencies and inspectorates.

The review of the IJB's governance framework is supported by a process of self-assessment and assurance certification by Directors within SIC and NHSS. The IJB directs SIC and NHSS to provide services on its behalf and does not provide services directly. Therefore, the review of the effectiveness of the governance arrangements and systems of internal control within the IJB places reliance upon the individual bodies' management assurances in relation to the soundness of their systems of internal control.

There were four changes to the voting membership of the IJB Board during the year, which is a high turnover, however this was mainly due changes in the NHSS Board and SIC elections. While this is not ideal, the resignation of Members is not considered a significant issue. Induction and training has been provided to the new voting Members to ensure they undertake and understand their roles and responsibilities in respect of the governance of the IJB.

There was one significant internal control issue identified by the 2017/18 Internal Audit Report. The key area of concern remains focused on the carried forward funding gap and ongoing Savings and Efficiency targets. The 2017/18 Financial Recovery Plan did not succeed in achieving the IJBs aspiration to "develop a Strategic Commissioning Plan which minimises, or ideally eliminates, the need for a Financial Recovery Plan in 2017/18. The shortfall in achieving the

2017/18 Recovery Plan was £1.605m which was met by NHSS from non-recurrent savings.

Given that the Recovery Plan has not been successful in both 2016/17 and 2017/18 it is vital that lessons are learned and that progress is made during 2018/19.

It is important that innovation and redesign of services is a whole system approach. The Scenario planning exercise being led by NHS Shetland is an attempt to make longer-term sustainable change. The IJB has a key role in ensuring that services remain effective and safe, and of a high quality, as redesign is enacted. There will be regular updates on progress from Scenario Planning and the translation to implementation, along with regular reporting on the financial consequences and how the IJB is moving to a longer-term sustainable position.

In addition to the significant internal control issue above there have been a high number of resignations from the IJB over the last two years which initially raised concern regarding continuity of leadership. We are satisfied that the high level of turnover does not indicate any underlying issues and that membership is now expected to remain relatively constant. Resignations were primarily due to changes in Council members following local elections and natural rotation in NHS Shetland's non-executive directors.

Roles and Responsibilities of the Audit Committee and Chief Internal Auditor

IJB Members and officers of the IJB are committed to the concept of sound internal control and the effective delivery of IJB services. The IJB's Audit Committee operates in accordance with CIPFA's Audit Committee Principles in Local Authorities in Scotland and Audit Committees: Practical Guidance for Local Authorities.

The Audit Committee performs a scrutiny role in relation to the application of CIPFA's Public Sector Internal Audit Standards 2013 (PSIAS) and reviews the performance of the IJB's Internal Audit Service. The appointed Chief Internal Auditor has responsibility to review independently and report to the Audit Committee annually, to provide assurance on the adequacy and effectiveness of the IJB's system of internal control.

The internal audit service undertakes an annual programme of work, approved by the Audit Committee, based on a strategic risk assessment. The appointed Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of internal control.

The work undertaken for 2017/18 focused on the Financial Recovery Plan, the Strategic Priority Projects and the IJB's Performance Reporting requirements. The Chief Internal Auditor has also conducted a review of all relevant NHSS Internal Audit reports issued in the financial year by Scott Moncrieff.

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

Compliance with Best Practice

The IJB complies with the CIPFA Statement on "*The Role of the Chief Financial Officer in Local Government 2010*". The IJB's Chief Finance Officer has overall responsibility for the IJB's financial arrangements and is professionally qualified and suitably experienced to lead the IJB's finance function and to direct finance staff in both partner organisations to ensure the effective financial management of the IJB. The Chief Financial Officer has direct access to the Director of Finance for NHSS and the Executive Manager – Finance for SIC to address financial issues and is a member of the Local Partnership Finance Team.

The Partnership complies with the requirements of the CIPFA Statement on "*The Role of the Head of Internal Audit in Public Organisations 2010*". The IJB's appointed Chief Internal Auditor has responsibility for the IJB's internal audit function and is professionally qualified and suitably experienced to lead and direct internal audit staff. The Internal Audit service operates in accordance with the CIPFA "*Public Sector Internal Audit Standards 2013*".

Internal Control Issues and Planned Actions

The IJB continues to recognise the need to exercise strong management arrangements to manage the pressures common to all public bodies. Regular reviews of the IJB's arrangements are undertaken by the appointed internal auditors and overall the IJB's arrangements are sound. The key area of concern is currently in relation to the 2017/18 Financial Recovery Plan. The Chief Officer has agreed action to address this governance issue and has provided assurance that the audit recommendations will be implemented.

Assurance

Subject to the above, and on the basis of assurances provided, we consider that the internal control environment operating during the reporting period provides reasonable and objective assurance that any significant risks impacting upon the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact. Systems are in place to continually review and improve the internal control environment and action plans are in place to identify areas for improvement.

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Simon Bokor-Ingram
Chief officer
21 September 2018

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Marjorie Williamson
Chair
21 September 2018

Remuneration Report

Introduction

This Remuneration Report is provided in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It discloses information relating to the remuneration and pension benefits of specified IJB members and staff.

The information in the tables below is subject to external audit. The explanatory text in the Remuneration Report is reviewed by the external auditors to ensure it is consistent with the financial statements.

Remuneration: IJB Chair and Vice Chair

The voting members of the Integration Joint Board shall comprise three persons appointed by NHSS, and three persons appointed by the SIC. Nomination of the IJB Chair and Vice Chair post holders alternates between a SIC Councillor and a Health Board representative.

The IJB does not provide any additional remuneration to the Chair, Vice Chair or any other board members relating to their role on the IJB. The IJB does not reimburse the relevant partner organisations for any voting board member costs borne by the partner. The Chair and Vice Chair did not receive any taxable expenses paid by the IJB in 2017/18 or 2016/17.

The IJB does not have responsibilities, in either the current year or in future years, for funding any pension entitlements of voting IJB members. Therefore, no pension rights disclosures are provided for the Chair or Vice Chair.

Remuneration: Officers of the IJB

The IJB does not directly employ any staff in its own right, however specific post-holding officers are non-voting members of the Board.

Chief Officer

Under section 10 of the Public Bodies (Joint Working) (Scotland) Act 2014 a Chief Officer for the IJB has to be appointed and the employing partner has to formally second the officer to the IJB. The employment contract for the Chief Officer will adhere to the legislative and regulatory framework of the employing partner organisation. The remuneration terms of the Chief Officer's employment are approved by the IJB.

Other Officers

No other staff are appointed by the IJB under a similar legal regime and no other non-voting board members of the IJB meet the criteria for disclosure.

All Partnership officers are employed by either NHSS or SIC, and remuneration to senior staff is reported through the employing organisation.

The Chief Officer is employed by NHSS but this is a joint post with SIC, with 50% of his cost being recharged to the SIC. Performance appraisal and terms and conditions of service are in line with NHS Scotland circulars and continuity of service applies. Formal line management is provided through the Chief Executive, NHSS, but the Director of Community Health and Social Care is accountable to both the Chief Executive of NHSS and the Chief Executive of SIC.

The IJB approved the appointment of the Chief Financial Officer at its meeting on 20 July 2015. The role of Chief Financial Officer for the IJB is carried out by the NHSS Head of Finance & Procurement, Karl Williamson, with NHSS meeting his full cost.

Disclosure by Pay Bands

As required by the regulations, the following table shows the number of persons whose remuneration for the year was £50,000 or above, in bands of £5,000 (where bands are missing, values were nil for 2016/17 and 2017/18).

Remuneration Band	Number of Employees	
	2017/18	2016/17
£90,000 - £94,999	1	1
Total	1	1

Remuneration

The Chief Officer received the following remuneration during 2017/18:

Senior Employees	Designation	2017/18			2016/17
		Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £	Total Remuneration £
Simon Bokor-Ingram	Chief Officer	93,698	0	93,698	92,432

Pension benefits

In respect of officers' pension benefits, the statutory liability for any future contributions to be made rests with the relevant employing partner organisation. On this basis, there is no pensions liability reflected on the IJB balance sheet for the Chief Officer or any other officers.

The IJB, however, has responsibility for funding the employer contributions for the current year in respect of the officer time spent on fulfilling the responsibilities of their role on the IJB. The table below shows the IJB's funding during the year to support officers' pension benefits. The table also shows the total value of accrued pension benefits which may include benefits earned in other

employment positions and from each officer's own contributions.

The Chief Officer participates in the National Health Service Superannuation Scheme (Scotland). The scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations.

Pension entitlement for the Chief Officer for the year to 31 March 2018 is shown in the table below, together with the contribution made to this pension by the employing body.

Name of Senior Official	Designation	In-Year Employer		Accrued Pension Benefits			
		2017/18 £	2016/17 £	As at 31 March 2018		Increase from 31	
				Pension £	Lump Sum £	Pension £	Lump Sum £
Simon Bokor-Ingram	Chief Officer	13,677	13,516	29,598	72,520	2,326	852

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Simon Bokor-Ingram
Chief Officer

21 September 2018

.....
Marjorie Williamson
Chair

21 September 2018

Statement of Responsibilities for the Annual Accounts

The Integration Joint Board's Responsibility

The Integration Joint Board is required to:

- make arrangements for the proper administration of its financial affairs and to secure that the proper officer has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Integration Joint Board, the proper officer is the Chief Financial Officer;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and, so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and
- approve the Annual Accounts for signature.

I can confirm that these Annual Accounts were approved for signature by the Integration Joint Board on 21 September 2018.

Signed on behalf of Shetland Islands Integration Joint Board.

.....
Marjorie Williamson
Chair
21 September 2018

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Board's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the Annual Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
 - made judgements and estimates that were reasonable and prudent;
 - complied with legislation; and
 - complied with the local authority Accounting Code (in so far as it is compatible with legislation).
- The Chief Financial Officer has also:
- kept adequate accounting records which were up to date; and
 - taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Annual Accounts give a true and fair view of the financial position of the Integration Joint Board at the reporting date and the transactions of the Integration Joint Board for the year ended 31 March 2018.

.....
Karl Williamson
Chief Financial Officer
21 September 2018

Independent auditor's report to the members of Shetland Islands Integration Joint Board and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Shetland Islands Integration Joint Board for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the Shetland Islands Integration Joint Board as at 31 March 2018 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Shetland Islands Integration Joint Board in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Shetland Islands Integration Joint Board's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Chief Financial Officer and Shetland Islands Integration Joint Board for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Shetland Islands Integration Joint Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Shetland Islands Integration Joint Board is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other information in the annual accounts

The Chief Financial Officer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

.....
Pat Kenny, CPFA (for and on behalf of Deloitte LLP)
110 Queen Street,
Glasgow,
G1 3BX,
United Kingdom

21 September 2018

Comprehensive Income and Expenditure Statement for year ended 31 March 2018

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices (GAAP).

2016/17 Net Expenditure £000		Notes	2017/18 Gross Expenditure £000	2017/18 Gross Income £000	2017/18 Net Expenditure £000
24,838	Health Services	3	25,354		25,354
20,430	Social Care Services	3	21,708		21,708
25	Corporate Services	3	28		28
45,293	Cost of Services		47,090	0	47,090
(45,418)	Taxation and non-specific grant income	4		(47,329)	(47,329)
(125)	(Surplus) / Deficit on Provision of Services		47,090	(47,329)	(239)
(125)	Total Comprehensive Income and Expenditure				(239)

There are no statutory or presentation adjustments which affect the IJB's application of the funding received from partners. The movement in the General Fund balance is therefore solely due to the transactions shown in the Comprehensive Income and Expenditure Statement. Consequently, an Expenditure and Funding Analysis is not provided in these Annual Accounts.

Movement in Reserves Statement

This statement shows the movement in the year on the reserves held by the IJB.

2017/18	General Fund Balance £000	Total Reserves £000
Balance at 1 April 2017	(125)	(125)
Total Comprehensive Income	(239)	(239)
(Increase) / Decrease in 2017/18	(239)	(239)
Balance at 31 March 2018	(364)	(364)

Comparative movements in 2016/17	General Fund Balance £000	Total Reserves £000
Balance at 1 April 2016	0	0
Total Comprehensive Income and Expenditure	(125)	(125)
(Increase) / Decrease in 2016/17	(125)	(125)
Balance at 31 March 2017	(125)	(125)

Balance Sheet as at 31 March 2018

This shows the value as at the Balance Sheet date of the assets and liabilities recognised by the IJB. The net assets of the IJB (asset less liabilities) are matched by the reserves held.

As at 31 March 2017 (restated)* £000		Notes	As at 31 March 2018 £000
125	Other Current Assets	4	364
125	Current Assets		364
125	Net Assets		364
	Represented by:		
125	Usable Reserves		364
125	Total Reserves		364

*Details of the restatement due to change in accounting policy are disclosed in note 7.

The Annual Accounts presents a true and fair view of the financial position of the Integration Joint Board as at 31 March 2018 and its income and expenditure for the year then ended.

.....
Karl Williamson
Chief Financial Officer
21 September 2018

Notes to the Primary Financial Statements

Note 1: Accounting Standards issued Not Adopted

The Code requires the disclosure of information about accounting changes that will be required by new accounting standards that are not yet due to be adopted. There are none which are relevant to the IJB accounts.

Note 2: Events After the Reporting Period

The Annual Accounts were authorised for issue by the Chief Financial Officer on 21 September 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respect to reflect the impact of this information.

Note 3: Taxation and Non-Specific Grant Income

2016/17 £000		2017/18 £000
19,552	Funding contribution from Shetland Islands Council	20,550
24,432	Funding contribution from NHS Shetland	24,895
1,434	Other Non-ringfenced grants and contributions	1,884
45,418	Total	47,329

The funding contribution from the NHS Board shown above includes £4.533m in respect of 'set aside' resources. These are provided by the NHS which retains responsibility for managing the costs of providing the services. The IJB has responsibility for the consumption of, and level of demand placed on, these resources.

Other non-ring fenced grants and contributions represents Scottish Government funding provided for the IJB, which is paid to the IJB via NHSS.

Note 4: Other Current Assets

As at 31 March 2017 (restated)* £000		As at 31 March 2018 £000
47	Shetland Islands Council	183
78	NHS Shetland	181
125	Total	364

*Details of the restatement due to change of accounting policy are disclosed in note 7.

Amounts owed by the funding partners are stated on a net basis. Creditor balances relating to expenditure obligations incurred by the funding partners but not yet settled in cash terms are offset against the funds they are holding on behalf of the IJB.

Note 5: Usable Reserve: General Fund

The IJB holds a balance on the General Fund for two main purposes:

- to earmark, or build up, funds which are to be used for specific purposes in the future, such as known or predicted future expenditure needs. This supports strategic financial management.
- to provide a contingency fund to cushion the impact of unexpected events or emergencies.

2016/17 £000	General Fund	2017/18 £000
0	Balance at 1 April	(125)
	Transfers in:	
(125)	Scottish Government Additionality Funding Reserve	(239)
(125)	Balance at 31 March	(364)

Note 6: Related Party Transactions

The IJB has related party relationships with the SIC and NHSS. In particular, the nature of the partnership means that the IJB may influence, and be influenced by, its partners. The following

transactions and balance included in the IJB's accounts are presented to provide additional information on the relationships.

Transactions with Shetland Islands Council

2016/17 £000		2017/18 £000
(19,552)	Funding contributions due from Shetland Islands Council	(20,550)
20,430	Expenditure on services provided by Shetland Islands Council	21,708
878	Total	1,158

Balances with Shetland Islands Council

As at 31 March 2017 (restated)* £000		2017/18 £000
47	Amounts due from Shetland Islands Council	183
47	Total	183

*Details of the prior year adjustment are disclosed in note 7.

Transactions with NHS Shetland

2016/17 £000		2017/18 £000
(25,866)	Funding contributions due from NHS Shetland	(26,779)
24,838	Expenditure on services provided by NHS Shetland	25,354
(1,028)	Total	(1,425)

Balances with NHS Shetland

As at 31 March 2017 (restated)* £000		2017/18 £000
78	Amounts due from NHS Shetland	181
78	Total	181

*Details of the restatement due to change of accounting policy are disclosed in note 7.

The SIC and NHSS provide support services to the IJB. These costs are not recharged to the IJB.

The Scottish Government have the power to exert significant influence over the IJB through changes to legislation and funding.

Note 7: Change of Accounting Policy

During the Year, the IJB changed its accounting policy with respect to the treatment of debtors and creditors. The IJB previously recorded all income and expenditure from the funding partners as a debtor and a creditor at the year end. The accounting policy has been amended to record any underspend carried forward as an "other current asset", with any overspend being recorded as an "other current liability".

The IJB believes the new policy is a more accurate reflection of the status of the funds carried forward as these amounts are not owing to/from the IJB, rather funding can be used by them.

The impact of this voluntary change in accounting policy on the financial statements is primarily to reduce debtors and associated creditors, with the net impact on the Balance Sheet being £nil as detailed in the table below.

Balance Sheet	Short-term Debtors £000	Other Current Assets £000	Short-term Creditors £000	Net Assets £000
As At 31 March 2017	45,418	0	(45,293)	125
Impact of change of Accounting Policy	(45,418)	125	45,293	0
As Restated At 31 March 2017	0	125	0	125

Note 8: Summary of Significant Accounting Policies

A General Principles

The Annual Accounts summarise the IJB's transactions for the 2017/18 financial year and its position as at 31 March 2018.

The IJB was established under the requirements of the Public Bodies (Joint Working) (Scotland) Act 2014 and is a Section 106 body as defined in the Local Government Act 1973 and as such is required to prepare its annual accounts in compliance with the Code of Practice on Accounting for Local Authorities in the United Kingdom, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the financial statements is historical cost. The accounts have been prepared on a going concern basis, on the premise that its functions and services will continue in existence for the foreseeable future.

B Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are made only when required by proper accounting practices, or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the IJB's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending

opening balances and comparative amounts for the prior period.

C Accruals of income and expenditure

Activity is accounted for in the year that it takes place, not simply when settlement in cash occurs. In particular:

- Expenditure is recognised when goods or services are received and their benefits are used by the IJB;
- Income is recognised when the IJB has a right to the income, for instance by meeting any terms and conditions required to earn the income, and receipt of the income is probable;
- Where income and expenditure have been recognised but settlement in cash has not taken place, a debtor or creditor is recorded in the Balance Sheet;
- Any underspend of grant funding is held as another current asset for use in future years; and
- Where debts may not be received, the balance of debtors is written down.

D Funding

The IJB is primarily funded through funding contributions from the statutory funding partners, SIC and NHSS. Expenditure is incurred as the IJB commissions specified health and social care services from the funding partners for the benefit of service recipients in Shetland.

E Cash and Cash Equivalents

The IJB does not operate a bank account or hold cash. Transactions are settled on behalf of the IJB by the funding partners. Consequently, the IJB does not present a 'Cash and Cash Equivalent' figure on the balance sheet. The funding balance due to or from each funding partner as at 31 March is represented as a debtor or creditor on the IJB's Balance Sheet.

F Employee Benefits

The IJB does not directly employ staff. Staff are formally employed by the funding partners who retain the liability for pension benefits payable in the future. The IJB therefore does not present a Pensions Liability on its Balance Sheet.

The IJB has a legal responsibility to appoint a Chief Officer. More details on the arrangement are provided in the Remuneration Report. Charges from the employing partner are treated as employee costs.

G Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount. A provision is recognised as a liability on the balance sheet when there is an obligation as at 31 March due to a past event; settlement of the obligation is probably; and a reliable estimate of the amount can be made. Recognition of a provision will result in expenditure being charged to the Comprehensive Income and Expenditure Statement and will normally be a charge to the General Fund.

A contingent liability is a possible liability arising from events on or before 31 March, whose existence will only be confirmed by later events. A provision that cannot be reasonably estimated, or where settlement is not probable, is treated as a contingent liability. A contingent liability is not recognised in the IJB's Balance Sheet, but is disclosed in a note where it is material.

A contingent asset is a possible asset arising from events on or before 31 March, whose existence will only be confirmed by later events. A contingent asset is not recognised in the IJB's Balance Sheet, but is disclosed in a note only if it is probable to arise and can be reliably measured.

H Reserves

The IJB's reserves are classified as either Usable or Unusable Reserves.

The IJB's only Usable Reserve is the General Fund. The balance of the General Fund as at 31 March shows the extent of resources which the IJB can use in later years to support service provision.

I Indemnity Insurance

The IJB has indemnity insurance for costs relating primarily to potential claim liabilities regarding Board member or officer responsibilities. The NHSS Board and the SIC have responsibility for claims in respect of the services that they are statutorily responsible for and that they provide.

Unlike NHS Boards, the IJB does not have any "shared risk" exposure from participation in the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). The IJB participation in the CNORIS scheme is therefore analogous to normal insurance arrangements.

Known claims are assessed as to the value and probability of settlement. Where it is material the expected value of known claims, taking probability of settlement into consideration, is provided for in the IJB's Balance Sheet.

J Events after the Balance Sheet

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the annual accounts are authorised for issue.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period, whereby the annual accounts are adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period, whereby the annual accounts are not adjusted to reflect such events; where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

K VAT

The IJB is not VAT registered and does not charge VAT on income or recover VAT on payments. Any VAT incurred in the course of activities is included within service expenditure in the accounts.

Shetland Integration Joint Board



Deloitte LLP
110 Queen Street
Glasgow
G1 3BX

Date: 21 September 2018

Our Ref: PK/CH/2018

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of the Shetland Islands Integration Joint Board for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Shetland Islands Integration Joint Board as of 31 March 2018 and of the results of its operations, other comprehensive net expenditure and its cash flows for the year then ended in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

In addition to the above, this representation letter is provided in connection with your audit of the Management Commentary, Remuneration Report and Annual Governance Statement for the following purposes:

- Expressing an opinion on the auditable part of the Remuneration Report as to whether it has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- Expressing an opinion as to whether the information given in the Management Commentary is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- Expressing an opinion as to whether the information given in the Annual Governance Statement is consistent with the financial statements and that the report has been prepared in accordance with the Delivering Good Governance in Local Government Framework (2016).

I am aware that it is an offence to mislead a Boards auditor.

As Responsible Financial officer and on behalf of the board, I confirm, to the best of my knowledge and belief, the following representations.

Financial statements

1. I understand and have fulfilled my responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), which give a true and fair view, as set out in the terms of the audit engagement letter.
2. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.

3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures".
5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
6. There are no uncorrected misstatements or disclosure deficiencies.
7. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the IJB or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the IJB's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
8. We confirm that all of the disclosures within the Management Commentary, Remuneration Report and the Annual Governance Statement have been prepared in accordance with the relevant legislation and guidance.

Information provided

9. We have provided you with all relevant information and access.
10. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
11. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
12. 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.
13. We are not aware of any fraud or suspected fraud that affects the entity 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.
14. 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.

15. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements
16. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
17. No claims in connection with litigation have been or are expected to be received.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed as the Chief Officer, and on behalf of the Integration Joint Board