



# Shetland Islands Integration Joint Board

2015/16 Annual Audit  
Report for members of  
Shetland Islands  
Integration Joint Board and  
the Controller of Audit

September 2016



## Key contacts

David McConnell, Assistant Director

[dmccconnell@audit-scotland.gov.uk](mailto:dmccconnell@audit-scotland.gov.uk)

Patricia Fraser, Audit Manager

[pfraser@audit-scotland.gov.uk](mailto:pfraser@audit-scotland.gov.uk)

Graeme Samson, Senior Auditor

[gsamson@audit-scotland.gov.uk](mailto:gsamson@audit-scotland.gov.uk)

Audit Scotland

4<sup>th</sup> floor, South Suite

8 Nelson Mandela Place

Glasgow

G2 1BT

Telephone: 0131 625 1500

Website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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David McConnell, Assistant Director, Audit Scotland is the engagement lead of Shetland Islands Integration Board 2015/16 year.

This report has been prepared for the use of Shetland Islands Integration Joint Board and no responsibility to any member or officer in their individual capacity or any third party is accepted.

## Contents

<b>Key messages</b> .....	<b>4</b>
<b>Introduction</b> .....	<b>5</b>
<b>Audit of the 2015/16 financial statements</b> .....	<b>7</b>
<b>Financial management and sustainability</b> .....	<b>11</b>
<b>Governance and transparency</b> .....	<b>16</b>
<b>Best Value</b> .....	<b>21</b>
<b>Appendix I: Significant audit risks</b> .....	<b>25</b>
<b>Appendix II: Summary of Shetland Islands HSCP local audit reports 2015/16</b> .....	<b>28</b>
<b>Appendix III: Summary of Audit Scotland national reports 2015/16</b> .....	<b>29</b>
<b>Appendix IV: Action plan</b> .....	<b>30</b>

# Key messages

<b>Audit of financial statements</b>	<ul style="list-style-type: none"> <li>• This is the first year that Shetland Islands Integration Joint Board (IJB) has operated, and published its accounts.</li> <li>• We have issued an unqualified independent auditor's report on the 2015/16 financial statements. They have been prepared in accordance with accounting regulations and guidance.</li> </ul>
<b>Financial management &amp; sustainability</b>	<ul style="list-style-type: none"> <li>• Shetland Islands IJB spent over £16 million on delivering health and social care services for the residents of the Shetland Islands during the period 27 June 2015 to 31 March 2016.</li> <li>• Shetland Islands IJB has introduced effective financial management arrangements and the financial position is sustainable but challenging.</li> <li>• Regular budgetary control reports are provided to Shetland Islands IJB and to the partner bodies.</li> <li>• There was an underspend of £0.688 million in 2015/16 against the Shetland Islands Council (SIC) arm of the budget which was returned to the SIC as per the Integration scheme. Likewise there was an overspend of £0.367 million in the Shetland Health Board (NHS Shetland) arm of the budget which had to be funded by additional contributions from the NHS Shetland.</li> </ul>
<b>Governance &amp; transparency</b>	<ul style="list-style-type: none"> <li>• Appropriate governance arrangements are in place.</li> <li>• We obtained audit assurance over the accuracy and completeness of financial transactions processed by the partner bodies.</li> <li>• Internal audit services provided to Shetland Islands IJB comply with Public Sector Internal Audit Standards. A protocol is in place which ensures all internal audit work and subsequent reports are considered by and approved by the IJB.</li> </ul>
<b>Best Value</b>	<ul style="list-style-type: none"> <li>• Shetland Islands IJB was one of the first established in Scotland.</li> <li>• An annual performance report has been published which provides details of progress against performance targets set out in the Strategic Plan.</li> </ul>
<b>Outlook</b>	<ul style="list-style-type: none"> <li>• Shetland Islands IJB will continue to operate in a period of austerity with reduced funding in real terms, increasing cost pressures and a growing demand for services. Shetland Islands IJB will need to demonstrate its evolving approach is making a positive impact on users and outcome measures.</li> <li>• It will be challenging for the IJB to develop and implement workforce strategies which enable the redesign of health and care services to meet future needs. Current difficulties in recruiting and retaining staff may heighten this challenge.</li> </ul>

# Introduction

1. In October 2015 the Accounts Commission approved the appointment of Audit Scotland's Audit Services Group as external auditors of Shetland Islands IJB. Our audit appointment is for one year, covering the 2015/16 financial year, the first accounting period for which Shetland Islands IJB is required to prepare financial statements.
2. This report is a summary of our findings arising from the 2015/16 audit of Shetland Islands IJB. The report is divided into sections which reflect our public sector audit model.
3. The management of the IJB is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
4. Our responsibility, as the external auditor of Shetland Islands IJB, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
5. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility to prepare financial statements which give a true and fair view.
6. [Appendix I](#) lists the audit risks that we identified in the annual audit plan we issued in March 2016. It also summarises the assurances provided by management to demonstrate that risks are being addressed and the conclusions of our audit work. [Appendix II](#) lists the reports we issued to the IJB during the year. A number of national reports have been issued by Audit Scotland during the course of the year. These reports, summarised at [Appendix III](#), include recommendations for improvements.
7. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers considered the issues and agreed to take steps to address them. The IJB should ensure it has a mechanism in place to assess progress and monitor outcomes.
8. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

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9. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Audit of the 2015/16 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"><li>• We have completed our audit and issued an unqualified independent auditor's report.</li></ul>
<b>Going concern</b>	<ul style="list-style-type: none"><li>• The financial statements were prepared on the going concern basis.</li></ul>
<b>Other information</b>	<ul style="list-style-type: none"><li>• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We consider whether these reports have been properly prepared, comply with extant guidance and are consistent with the financial statements.</li><li>• We report any material errors or omissions, any material inconsistencies with the financial statements or any otherwise misleading content. We have nothing to report in respect of the other information published as part of the annual report and accounts.</li></ul>

## Submission of financial statements for audit

10. The Public Bodies (Joint Working) (Scotland) Act 2014 specifies that IJBs should be treated as if they were bodies falling within section 106 of the Local Government (Scotland) Act 1973. The financial statements of the IJB are prepared in accordance with the 1973 Act and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
11. NHS Shetland is required to submit audited accounts by 30 June each year. The IJB had satisfactory arrangements in place to ensure that information required by its stakeholder bodies was received by specified dates to enable incorporation into the group accounts of the stakeholder bodies. This included details of balances held at the year-end, the transactions in the year and other information including assurances needed for the governance statement.
12. We received the unaudited financial statements of Shetland Islands IJB on 27 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit by the deadline.

## Overview of the scope of the audit of the financial statements

13. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined

in our Annual Audit Plan presented to the Audit Committee on 27 May 2016.

14. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
15. The concept of audit risk is central to our audit approach. We focus on those areas that are most at risk of causing material misstatement in the financial statements. In addition, we consider what risks are present in respect of our wider responsibility, as public sector auditors, under Audit Scotland's Code of Audit Practice.
16. During the planning phase of our audit we identified a number of risks and reported these to you in our Annual Audit Plan along with the work we proposed doing in order to obtain appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks identified and how we addressed each risk.
17. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.



## Materiality

18. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
19. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
20. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Shetland Islands IJB we set our planning materiality for 2015/16 at £0.190m million (or 1% of gross expenditure). Performance materiality was calculated at £0.095 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. Additionally, we set a misstatement threshold of £0.020 million (approximately 1% of planning materiality) for reporting errors. Our annual audit plan highlighted that we would report all misstatements greater than £0.020 million.
21. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that

our original calculations remained appropriate.

## Evaluation of misstatements

22. All misstatements identified during the audit which exceeded our misstatement threshold have been amended in the financial statements.
23. The audit identified some presentational adjustments which were discussed and agreed with management.

## Significant findings from the audit

24. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
  - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
  - Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.
  - Other matters which in the auditor's professional judgment are significant to the oversight of the financial reporting process.

There are no matters other than those set out elsewhere in this report that we want to bring to your attention.

## Future accounting and auditing developments

### Audit appointment from 2016/17

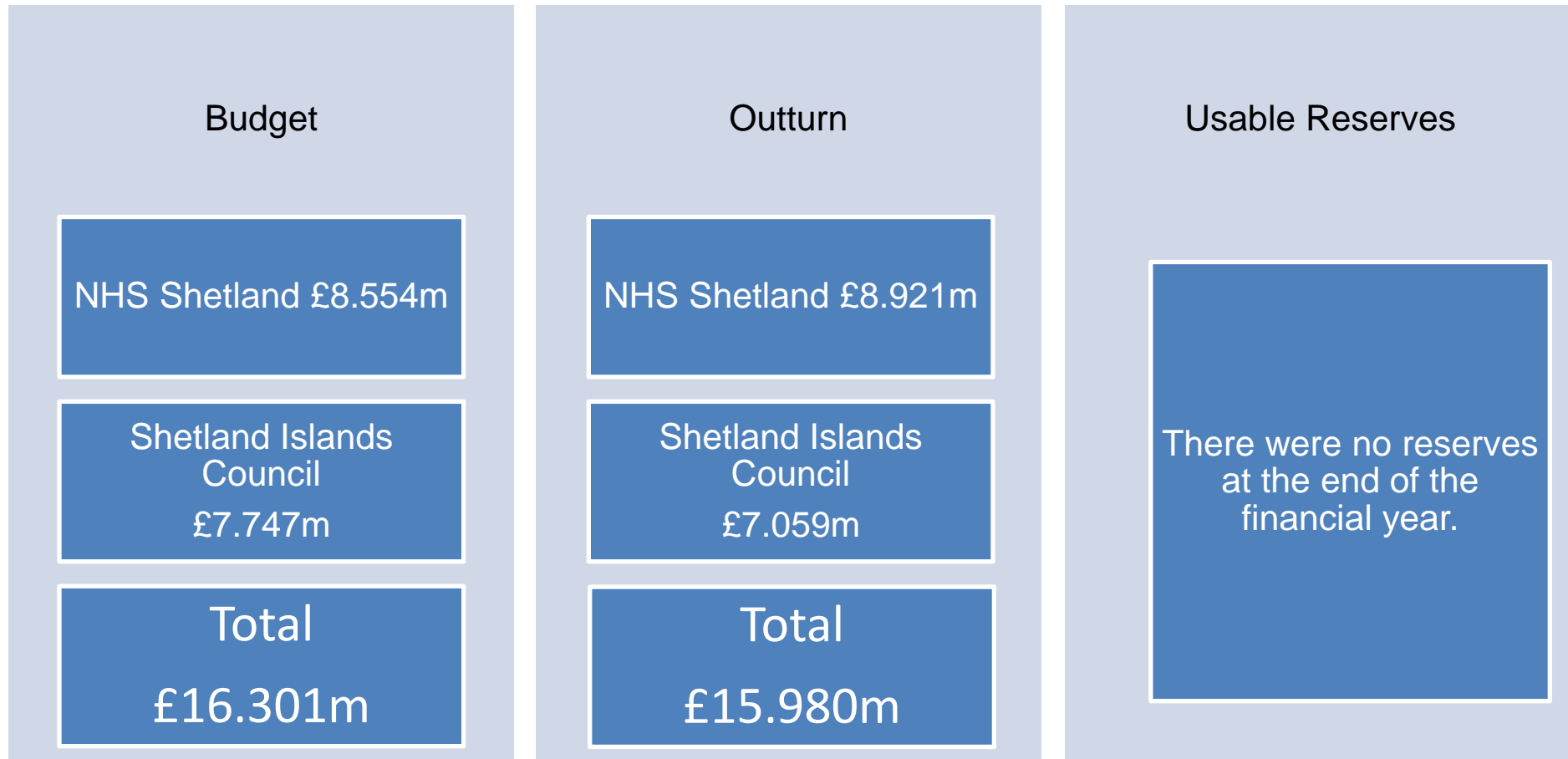
25. The Accounts Commission is responsible for the appointment of external auditors to IJB's. Paragraph 1 referred to Audit Scotland's one year appointment as the auditor of Shetland IJB in 2015/16. This was restricted to one year to reflect the final year of our five year appointment as auditors of NHS Shetland and Shetland Islands Council. External auditors are appointed for a five year term either from Audit Scotland's Audit Services Group or private firms of accountants.
26. The procurement process for the new round of audit appointments was completed in March 2016. From next year (2016/17) Deloitte LLP will be the appointed auditor for Shetland Islands IJB.

### Code of Audit Practice

27. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011. It outlines the objectives and principles to be followed by auditors.
28. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In

addition to publishing all Annual Audit Reports, Annual Audit Plans and other significant audit outputs will be put on the website for all audited bodies. This is irrespective of whether the body meets in public or makes documents.

# Financial management and sustainability



## Financial management

29. In this section we comment on Shetland Islands IJB's financial performance and assess Shetland Islands IJB's financial management arrangements.
30. Shetland Islands IJB does not have any assets, nor does it directly incur expenditure or employ staff, other than the Chief Officer. All funding and expenditure for Shetland Islands IJB is processed in the stakeholders' accounting records. Satisfactory arrangements are in place to identify this income and expenditure and report this financial information to Shetland Islands IJB.
31. The integration scheme between NHS Shetland and Shetland Islands Council sets out the amount to be paid by the parties to Shetland Islands IJB. Delegated baseline budgets for 2015/16 were subject to due diligence and comparison to actual expenditure in previous years.
32. Legislation empowers Shetland Islands IJB to hold reserves. The integration scheme set out the arrangements between the partners for addressing and financing any overspends or underspends. It highlights that underspends in an element of the operational budget arising from specific management action may be retained by the IJB to either fund additional in year capacity, or be carried forward to fund capacity in future years of the Strategic Plan. Alternatively, these can be returned to the partner bodies in the event of a windfall saving.

33. Where there is a forecast overspend the partner bodies must agree a recovery plan to balance the budget.

### Financial performance 2015/16

34. Shetland Islands IJB set a breakeven budget for 2015/16. This was based on expenditure of £16.301 million to deliver partnership services: with £8.554 million contributed from NHS Shetland; and £7.747 million contributed by Shetland Islands Council. During the year additional contributions of £0.019 million were made from Parties to meet Integration Joint Board direct costs.
35. The actual outturn for the year was an underspend of £0.321 million for the year as illustrated in Table 1:

**Table 1: Summary of financial performance**

	SIC (£m)	NHSS (£m)	Total (£m)
Budgets delegated to the parties from Shetland IJB	(7,747)	(8,554)	(16,301)
Contribution from the parties to the IJB (against delegated budgets)	7,059	8,921	15,980
Variance	(688)	367	(321)

	SIC (£m)	NHSS (£m)	Total (£m)
Additional contributions from Parties to meet IJB direct costs	9	10	19
IJB Direct costs	(9)	(10)	19
Fortuitous underspend repaid to SIC	688	-	688
Additional contribution from NHS Shetland to the IJB to meet overspend	-	(367)	(367)
Final balanced position of the IJB	-	-	-

Source: *Shetland Islands IJB Annual report and accounts 2015/16*

36. The potential for a year end overspend in the Community Health & Social Care directorate and the whole of Acute & Specialist Services was recognised by NHS Shetland at the end of September 2015.
37. A budget deficit recovery plan was approved by NHS Shetland in November 2015 to try to ensure a break even position at the year end.
38. The recovery plan was unsuccessful and at 31 March 2016 NHS Shetland had to contribute additional funds of £0.367 million to the IJB to meet the overspend on health services.
39. The outturn position for SIC at 31 March 2016 was a favourable variance of £0.688 million and as this underspend was fortuitous it was returned to SIC. The IJB therefore finished the year with no reserves.
40. To try to create sustainability for 2016/17 and beyond the Integration Joint Board approved a programme of work between November and the end of March 2016 to develop detailed efficiency schemes, with clear timeframes. This work was done in conjunction with the work being undertaken by NHS Shetland to meet the same objectives.

### Financial management arrangements

41. As auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the Chief Financial Officer has sufficient status to be able to deliver good financial management
  - standing financial instructions and standing orders are comprehensive, current and promoted within the Board
  - reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance

- IJB members provide a good level of challenge and question budget holders on significant variances.
42. The Chief Finance Officer was in post throughout the accounting year, and is responsible for ensuring that appropriate financial services are available to the IJB and the Chief Officer.
  43. We reviewed the standing financial instructions and standing orders, which were created on the formation of Shetland Islands IJB. These were approved by the IJB and we consider these to be comprehensive.
  44. Financial monitoring of Shetland Islands IJB budget is reported in an agreed format to the IJB, the Audit Committee, and externally to NHS Shetland and Shetland Islands Council. This is reported every quarter and an annual review for the year to March is provided with the annual accounts.
  45. Projections of the year end position are included in the budget monitoring reports. These provide information on any adjustments to the baseline budgets, together with forecast outturn for the year and reasons for variances. Income and expenditure is analysed in accordance with the joint services provided by Shetland Islands IJB. Underspends and overspends are also attributed to the relevant partner body. The IJB has responsibility for carrying out detailed scrutiny of the financial and operational performance and ensuring that prompt corrective actions are taken where appropriate.

## Conclusion on financial management

46. Overall we have concluded that Shetland Islands IJB has satisfactory financial management arrangements. These support the review and scrutiny of financial performance, the achievement of financial targets, and awareness of any potential overspends.

## Financial sustainability

47. Financial sustainability means that the IJB has the capacity to meet its current and future plans. In assessing financial sustainability we are concerned with whether:
  - spending is being balanced with income in the short term
  - long-term financial pressures are understood and planned for.

## Financial planning

48. Shetland Islands IJB allocates the resources it receives from NHS Shetland and Shetland Islands Council in line with the Strategic Plan. Due diligence was undertaken to consider the sufficiency of the 2015/16 budget provided for Shetland Islands IJB. The 2015/16 budget for the IJB was set and approved prior to the IJB going live in November 2015.
49. This has not been the case for 2016/17. The IJB was unable to carry out planned due diligence on its 2016/17 budget as a result of delays to the agreement of the Scottish Government's financial plans which meant that the Shetland Islands IJB budget for 2016/17 was not formally set at the beginning of the financial year. The

Shetland Islands Council budget was set on 10 February 2016. This provided confirmation around the council element of Shetland Islands IJB funding for 2016/17. The health board budget was formally set on 28 June 2016. During the intervening period the IJB set an interim working budget at the end of February 2016, based on assumed funding from the Health Board.

- 50. This meant that for the first few months of 2016/17 the IJB was pursuing its strategic plan activities but there was uncertainty during this period regarding the extent to which the IJB could develop and implement its strategic plan objectives.
- 51. The final agreed 2016/17 budget for the services the IJB has responsibility for is £42.820m. The funding that is anticipated from each organisation has been advised as follows:

	SIC	NHS Shetland	NHS Shetland set-aside	Total
	£'000	£'000	£'000	£'000
Total	19,920	19,175	3,725	42,820

- 52. The report from the Chief Financial Officer in September 2016 presented to Shetland Islands IJB is reporting a projected outturn to the end of March 2017 for the IJB as an overall adverse variance of £1.255 million which represents an under spend in the Shetland

Islands Council arm of the budget of £0.376 million and an over spend in NHS Shetland arm of £1.631million.

- 53. In the Chief Financial Officer’s report is an Appendix with a detailed recovery plan designed to restore financial balance to the health care budget in 2016/17.
- 54. If savings plans are insufficient to deliver a break even position in 2016/17 then Shetland Islands IJB will need to consider how to address this taking account of the options set out in the Integration Scheme. It is essential that the IJB continues to monitor its financial position closely throughout the year and engages with its funding partners on a regular basis to review the financial position. With significant pressures on Shetland Islands IJB’s budget, it is important that budget monitoring continues to be undertaken on a timely basis so that a financial recovery plan can be developed and agreed in time for actions to be effective.

**Action Plan No. 1**

**Conclusion on financial sustainability**

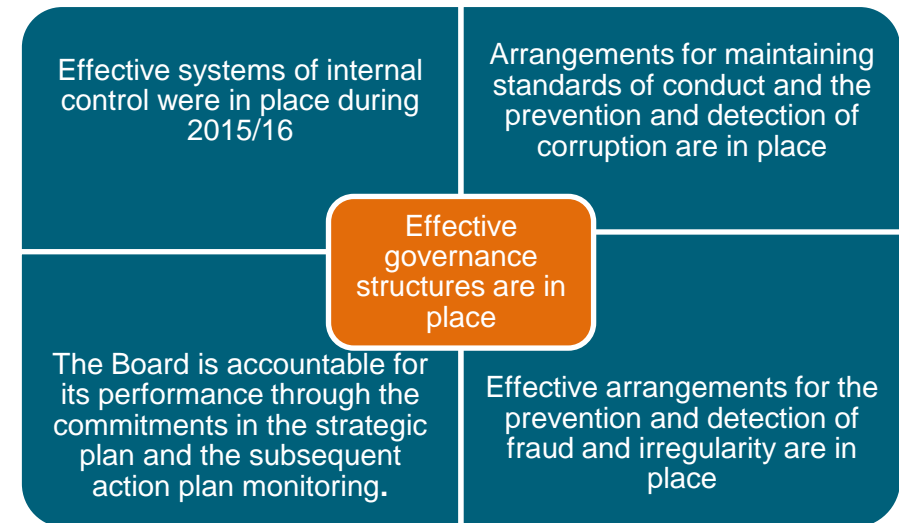
- 55. Overall we conclude that adequate financial planning arrangements are in place. Shetland Islands IJB’s financial position is sustainable but it is challenging currently and in the foreseeable future.

56. While there were well documented reasons why the IJB required to set an interim working budget for 2016/17, there are risks to service delivery when operating without an agreed budget.

## Outlook

57. NHS boards and councils have faced several years of financial constraints and this is expected to continue in the coming years. The ageing population and increasing numbers of people with long term conditions and complex needs have already placed significant pressure on health and social care budgets. This puts further pressure on finances.
58. Strategic plans, while setting out the broad direction, will need to be clear regarding the IJB's priorities and the financing and staff that will be available over the longer term to match these priorities. It is important that they provide detail on the level of resources required in each key area and how they will shift resources towards preventative and community based care.

# Governance and transparency

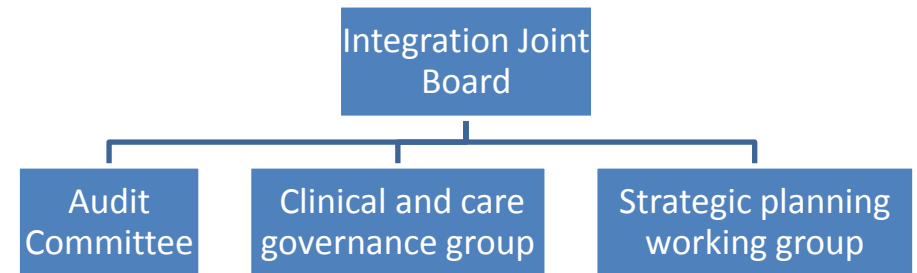


59. Good governance is vital to ensure that public bodies perform effectively. This can be a particular challenge in partnerships, with IJB members drawn from a wide range of backgrounds.
60. The integration scheme between Shetland Islands Council and NHS Shetland sets out the key governance arrangements. It also sets out the requirement to identify and collate a core set of indicators and measures which relate to integrated functions to enable the reporting of performance targets and improvement measures.



61. The IJB is responsible for establishing arrangements for ensuring the proper conduct of the affairs of Shetland Islands IJB and for monitoring the adequacy of these arrangements.
62. Shetland Islands IJB comprises a wide range of service users and partners including three elected councillors nominated by Shetland Islands Council and three Directors nominated by NHS Shetland.
63. Shetland Islands IJB is supported by a Chief Officer who provides overall strategic and operational advice to the IJB, and is directly accountable to the IJB for all of its responsibilities. The Chief Officer is also accountable to both the Chief Executive of Shetland Islands Council and the Chief Executive of NHS Shetland. The Chief Officer provides regular reports to both the Council and the NHS Board.
64. The IJB is responsible for the management and delivery of health and social care services in Shetland, and is supported by a number of groups as illustrated at [Exhibit 1](#).
65. Shetland Islands IJB and each of the groups met on a regular basis throughout the year. We review Partnership Board minutes and Audit Committee minutes to ensure they are fulfilling their responsibilities.

### Exhibit 1: Committees and Groups at Shetland Integration Joint Board



66. Standing Orders for Shetland Islands IJB were approved when it was established in June 2015. Schemes of Delegation are in place which clarify the functions delegated by Shetland Islands Council and NHS Shetland. These delegate operational management of services to the Chief Officer. We concluded that Shetland Islands IJB has appropriate governance arrangements in place and they provide a framework for effective organisational decision making.
67. A Clinical and Care Governance Group has been established which will report to the Chief Officer and through him to the IJB. The membership reflects the professional groups within Shetland Islands

IJB including nursing, medical, social work and primary care colleagues.

68. The role of the Clinical and Care Governance Group is to consider matters relating to Strategic Plan development, governance, risk management, service user feedback and complaints, standards, education, learning, continuous improvement and inspection activity.
69. Overall we concluded that Shetland Islands IJB has appropriate governance arrangements in place and they provide a framework for effective organisational decision making.
70. Notwithstanding our overall conclusion we experienced some degree of confusion between the IJB and SIC during 2015/16 around the date the IJB officially went live. In February 2016 we were advised by the IJB that it was confirmed as live from November 2015 but the council advised us at that time that the IJB was not live. Obtaining adequate assurance of the go live date proved to be problematic and it was not until April 2016 that SIC and Audit Scotland received adequate assurance to confirm the go live date as 20 November 2015 for the IJB. No other governance matters were highlighted during 2015/16.

## Internal control

71. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
72. Shetland Islands Council and NHS Shetland are the partner bodies. All financial transactions of the Partnership are processed through the financial systems of the partner bodies and are subject to the same controls and scrutiny of the council and health board, including the work performed by internal audit.
73. Shetland Islands IJB is keen to ensure only relevant information is shared and accessed by relevant people, and therefore keeping information secure. Until the structure of service provision has been developed further each party will remain responsible for its element of data security, protection, maintenance, training and technical support.
74. We sought and obtained assurances from the external auditor of the council and health board regarding the systems of internal control used to produce the transactions and balances recorded in Shetland Islands IJB's annual accounts.

75. We also reviewed Shetland Islands IJB's budget setting and financial monitoring arrangements. We consider the systems of internal control to be effective.

## Internal audit

76. Internal audit provides the IJB and Chief Officer with independent assurance on the IJB's overall risk management, internal control and corporate governance processes. Internal audit services are provided to Shetland Island's IJB by the internal auditors of Shetland Islands Council who provide a review of all internal audit reports issued in the financial year that relate to the IJB. We carried out a review of the adequacy of the internal audit functions at each of the partner bodies. We concluded that internal audit at each partner body operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
77. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2015/16 we placed reliance on internal audit's work on:
- Integration assurance
  - Due diligence and governance arrangements.
78. The Chief Internal Auditor concluded that reasonable assurance can be placed on the adequacy and effectiveness of the IJB's systems of governance, risk and internal control. This assertion was based on the Chief Internal Auditor's audit work carried out at Shetland

Islands Council that related to the Board and a review of internal audit reports prepared for Shetland NHS that related to the IJB.

79. As services become more integrated, transactions relating to the IJB will be more fluid between the parties. This provides a challenge to auditors since the annual audit plans of each partner are based on carrying out audit work which may be based on the accounting systems and governance arrangements that relate only to the partner that the auditor is appointed to.

## Arrangements for the prevention and detection of fraud and other irregularities

80. Arrangements are in place to ensure that suspected or alleged frauds or irregularities are investigated by one of the partner bodies internal audit sections. Since Shetland Islands IJB does not directly employ staff, it has been agreed that investigations will be carried out by the internal audit service of the partner body where any fraud or irregularity originates.
81. We concluded that Shetland Islands IJB had appropriate arrangements in place for fraud detection and prevention during 2015/16.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

- 82. The IJB requires that all members must comply with the Standards in Public Life - Code of Conduct for Members of Devolved Public Bodies. A register of members' interests is in place for Board Members and senior officers.
- 83. Based on our review of the evidence we concluded that the IJB has effective arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

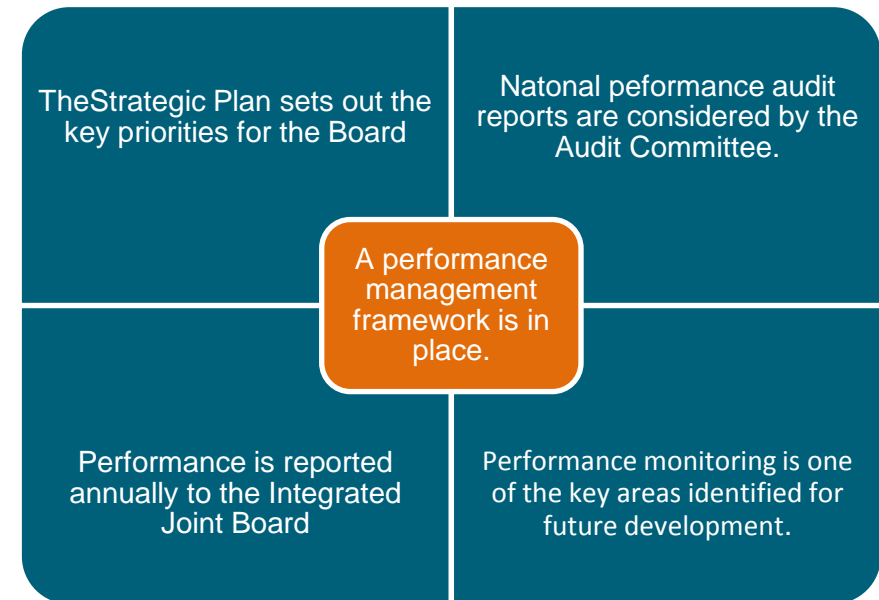
## Transparency

- 84. Shetland Islands IJB is committed to ensuring that a wide range of partners including Community Planning Partners, third sector, independent sector and communities have an opportunity to become engaged, involved and are able to contribute to the success of the IJB. The Strategic Plan and locality planning arrangements enable wider partners to engage in, and support the delivery of the Strategic Plan. The Integration Scheme sets out the requirement for the consultation and engagement of key groups.
- 85. In addition to Shetland Islands Council and NHS Shetland representation, Shetland Islands IJB Board includes a number of representatives from health and social care professionals, including GPs, employees, unpaid carers, service users, and the third sector.
- 86. Shetland Islands IJB receives regular financial monitoring reports, which are clear and concise.
- 87. Local residents should be able to hold Shetland Islands IJB to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how Shetland Islands IJB Board is taking decisions and how it is using its resources.
- 88. Shetland Islands IJB has its own website which contains information about services provided by the IJB and details of the meetings held by the IJB, including access to committee papers and minutes of meetings.
- 89. Members of the public can attend meetings of Shetland Islands IJB. A significant amount of Shetland Islands IJB's business is transacted through the Audit Committee, or through the groups listed at [Exhibit 1](#). Minutes and related papers for Shetland Islands IJB Board and Audit Committee are available on Shetland Islands IJB's websites which highlights that Shetland Islands IJB demonstrates transparency.
- 90. Overall we concluded that the IJB is sufficiently open and transparent.

## Outlook

91. Shetland Islands IJB faces continuing challenges on a number of fronts including mounting financial challenges, meeting exacting performance targets, and delivering the Scottish Government's aim of having people living longer and healthier lives at home or a homely setting (i.e. the 2020 Vision).
92. The design of IJBs brings the potential for real or perceived conflicts of interest for board members and senior managers. Partners need to be clear regarding how governance arrangements will work in practice, particularly when disagreements arise. This is because there are potentially confusing lines of accountability, which could hamper the IJB's ability to make decisions about the changes involved in redesigning services. People may also be unclear who is ultimately responsible for the quality of care.
93. Embedding robust governance arrangements will be an essential element in meeting these challenges and maintaining accountability. All stakeholders including patients, clinicians, carers, the public, staff, partner bodies and the Scottish Government, benefit from the assurance and confidence a good governance regime brings.

## Best Value



94. The Public Bodies (Joint Working) (Scotland) Act 2014 set out a broad framework for creating integration authorities and gave councils and NHS boards a great deal of flexibility to enable them to develop integrated services that are best suited to local circumstances.
95. Integration authorities are required to contribute towards nine national health and wellbeing outcomes. These high level outcomes seek to measure the quality of health and social care services and their impact on, for example, allowing people to live independently

and in good health, and reducing health inequalities. This signals an important shift from measuring internal processes to assessing the impact on people using health and social care services.

96. Shetland Islands IJB Board approved the 2015/16 Strategic Plan on 20 November 2015 which is predominantly based on the previously approved targets and actions set out in strategic plans already produced during the previous Community Healthcare Partnership (CHCP). This is a logical process to adopt as it reflects the fact that Shetland Islands Council has had in place integrated working via the CHCP and collaboration within the Community Planning Partnership for a number of years.
97. In June 2016 The IJB approved a revised strategic plan for the period 2016/19. During 2016/17 the IJB intends to produce locality plans for Shetland to inform the first year update of the 2016/19 strategic plan. Financial analysis of service delivery and change will also be developed over the coming year to support analytical processes such as programme budgeting / marginal analysis, and budgeting for locality plans to show how the Integration Authority's resources are currently used by the locality population.
98. Shetland Integration Joint Board was one of the first to be established in Scotland. The integration scheme specifies the very wide range of functions delegated by the council and the health board to the Board. These include all services previously carried out by the council's social services department plus a wide range of service previously carried out by the health board including accident

and emergency, all community hospitals, all mental health inpatients services, and primary care. Good progress is being made.

99. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. IJBs need to establish effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives, and holding partners to account. There is also a need for regular reporting to partner organisations. This is particularly important as most members of Shetland Islands Council and NHS Shetland are not directly involved in the Board's work.

## Arrangements for securing Best Value

100. The integration scheme committed the Board to delivering the national outcomes for Health & Wellbeing. The Parties (NHS Shetland (NHSS) and Shetland Islands Council (SIC)) have identified a core set of indicators linked to national outcomes that relate to health and social care services for delegated integration functions.
101. The Board is also committed to a number of high profile deliverables, including national HEAT targets relating to delayed discharge from hospital, psychological therapy, and smoking cessation.
102. Overall, we concluded that the Board has arrangements for securing BV and continuous improvement.

## Performance management

- 103.** Performance is reported annually to the IJB and in June 2016 the annual performance report included:
- the Projects and Actions for the Community
  - sickness absence levels
  - the suite of national core indicators generated by NHSS that are relevant to the IJB
  - indicators which are grouped under the headings of the 9 National Health & Wellbeing outcomes
  - complaints recorded to date.
- 104.** The strategic commissioning plan for 2016/17 highlights performance monitoring as one of the key areas for future development. In particular the focus during 2016/17 will be on developing the key performance indicators already in place to show progress towards meeting the national health and wellbeing outcome indicators.
- 105.** We concluded that the IJB has established a satisfactory performance management framework which should evolve over the next three years.

## National performance audit reports

- 106.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for

Scotland. During 2015/16, a number of reports were issued which are of direct interest to the IJB. These are outlined in [Appendix III](#) accompanying this report.

- 107.** Shetland Islands IJB has processes in place to ensure that all national performance reports and their impact on the IJB are considered by the IJB and the Audit committee. The Chief Officer prepares a covering report highlighting the key issues in national performance reports relevant to Shetland Islands IJB.

## Outlook

- 108.** Pressures on health and social care services are likely to continue to increase for the foreseeable future. These increasing pressures have significant implications on the cost of providing health and social care services and challenges in ensuring that people receive the right care, at the right time, and in the right setting.
- 109.** The IJB is responsible for co-ordinating health and social care services and commissioning NHS Shetland and Shetland Islands Council to deliver services in line with the strategic plan. Over time, the intention is that this will lead to a change in how services are provided, with a greater emphasis on preventative services and allowing people to receive care and support in their home or local community.
- 110.** The IJB will need to continue to demonstrate and report whether this is making a positive impact on service users and improving outcomes. To help achieve this it is important that the IJB has

strategies covering the workforce, risk management, engagement with service users, and data sharing arrangements which help to enable delivery of the IJB's strategic priorities.



## Appendix I: Significant audit risks

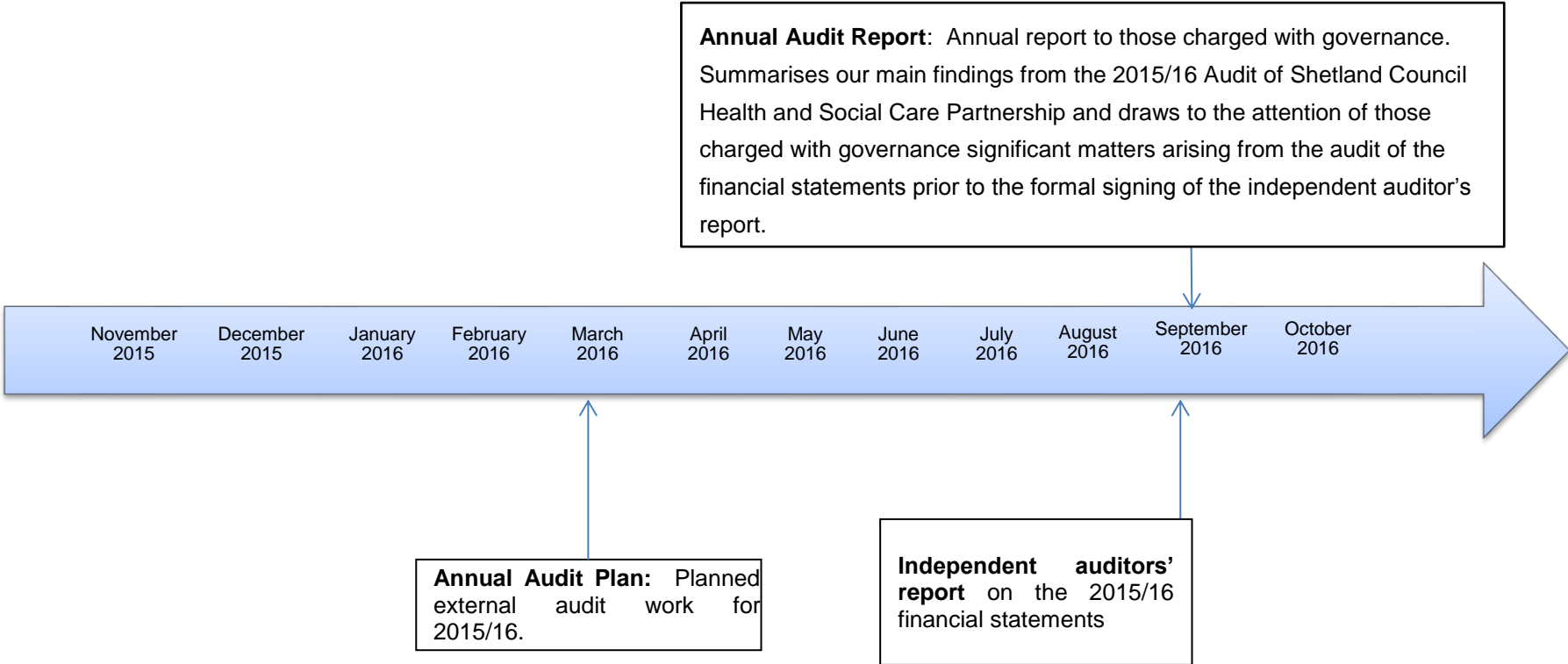
The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement in the financial statements</b>		
<p><b>Financial statements</b></p> <p>As Shetland Islands IJB is a new body, there is a risk that adequate systems and procedures are not in place to allow the body to submit its financial statements on time, and in line with statutory guidance.</p>	<ul style="list-style-type: none"> <li>• We engaged with officers prior to the accounts being prepared to help ensure the relevant information would be disclosed and timetable met.</li> <li>• We ensured the governance statement complies with the Code requirements.</li> <li>• Reviewed technical guidance from IRAG and LASAAC</li> <li>• Ensured accounting policies are appropriate and complete.</li> <li>• Obtained assurances from the auditors of Shetland Islands Council and NHS Shetland over the accuracy, completeness and appropriate allocation of the IJB ledger entries.</li> </ul>	<p>Financial statements were prepared in accordance with the Code and in accordance with timescales to meet NHS reporting requirements</p>

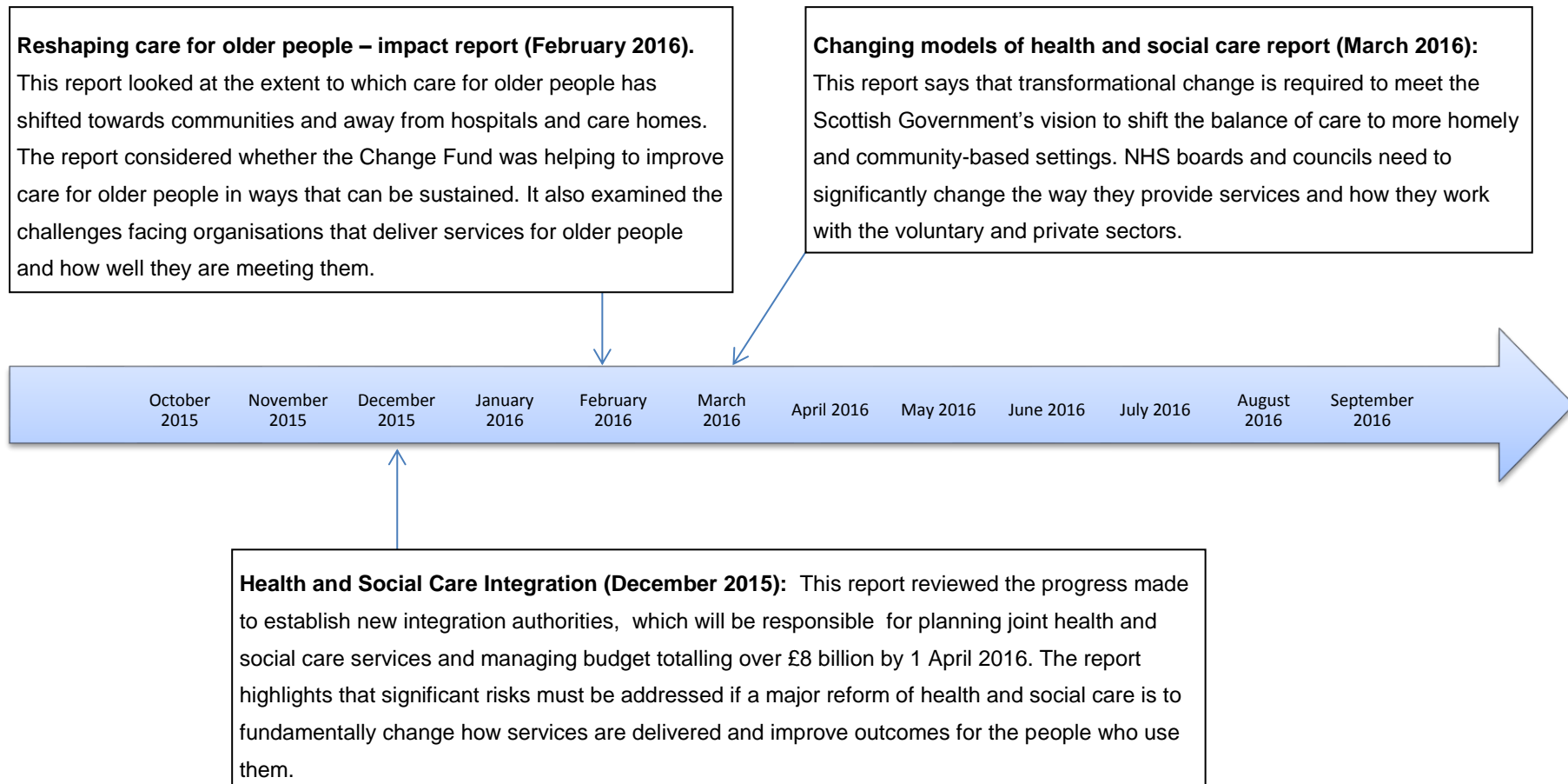
Audit Risk	Assurance procedure	Results and conclusions
<p>Preparation of the IJB financial statements relies on the provision of financial and non-financial information from the systems of the two partner bodies. The Chief Finance Officer of the IJB must obtain assurance; that the costs transferred to the accounts of the IJB are complete and accurate and were incurred on behalf of the IJB for services prescribed in the integration scheme.</p> <p>There is a risk that the Chief Finance officer does not have adequate assurance that information received from each party is accurate and complete.</p>	<p>We ensured the governance statement adequately reflects the position of IJB.</p> <p>We ensured financial reporting throughout the year was accurately reflected in the year end position.</p> <p>We considered whether appropriate action was taken on issues raised in any Internal Audit reports.</p>	<p>The governance statement adequately reflects the position of IJB.</p> <p>Financial reporting throughout the year was accurately reflected in the year end position.</p> <p>Appropriate action was taken on issues raised in any Internal Audit reports.</p>
<p>The IJB was established in June 2015 and assumed responsibility for its delegated functions in November 2015. There is a risk that costs relating to services prior to the board assuming responsibility are not correctly identified and excluded from the accounts.</p>	<p>We obtained audit assurances from the auditor of the council and health board regarding the accuracy and allocation of IJB transactions and to ensure they are recorded in the correct financial year.</p>	<p>Costs are all accurately identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p>The board will need strong financial management and budgetary control to address the challenges and risks to future finance.</p>	<p>We reviewed ongoing budget monitoring reports to ensure they accurately reflect the position of the board.</p> <p>We obtained evidence of remedial action being taken against areas of overspend.</p>	<p>Budget monitoring arrangements audited as satisfactory but risks identified for future spending.</p>
<p>The board may not be able to comply with the requirement and deadline for an annual performance report, given that this is the first year of operation and external guidance regarding how this should be presented is not yet available.</p>	<p>We reviewed the annual performance report to ensure it accurately reflects the work of the board during the year and covers the information required by the Act.</p>	<p>Annual performance report was published within three months of the year end.</p>

# Appendix II: Summary of Shetland Islands HSCP local audit reports 2015/16



# Appendix III: Summary of Audit Scotland national reports 2015/16



## Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	51-54	<p><b>2016/17 Projected Revenue Budget Overspend</b></p> <p>The projected outturn to the end of March 2017 for the IJB is an overall adverse variance of £1,255k which represents an under spend in the SIC arm of the budget of £376k and an over spend in NHSS arm of £1,631k.</p> <p>If savings plans are insufficient to deliver a break even position in 2016/17 then Shetland Islands IJB will need to consider how to address this taking account of the options set out in the Integration Scheme.</p> <p><b>Recommendation</b></p> <p>Shetland Islands IJB should monitor its financial position closely throughout the year and engage with its funding partners on a regular basis to review the financial position, including the achievement of savings and take appropriate action to address existing and emerging budget pressures.</p>	<p>Management Accounts will be presented to the IJB quarterly during 2016/17.</p> <p>Progress reports on the Recovery Plan will also be presented regularly during 2016/17. The first of these progress reports is being presented to the IJB on 19/10/16</p>	<p>Chief Financial Officer</p> <p>March 2017</p>