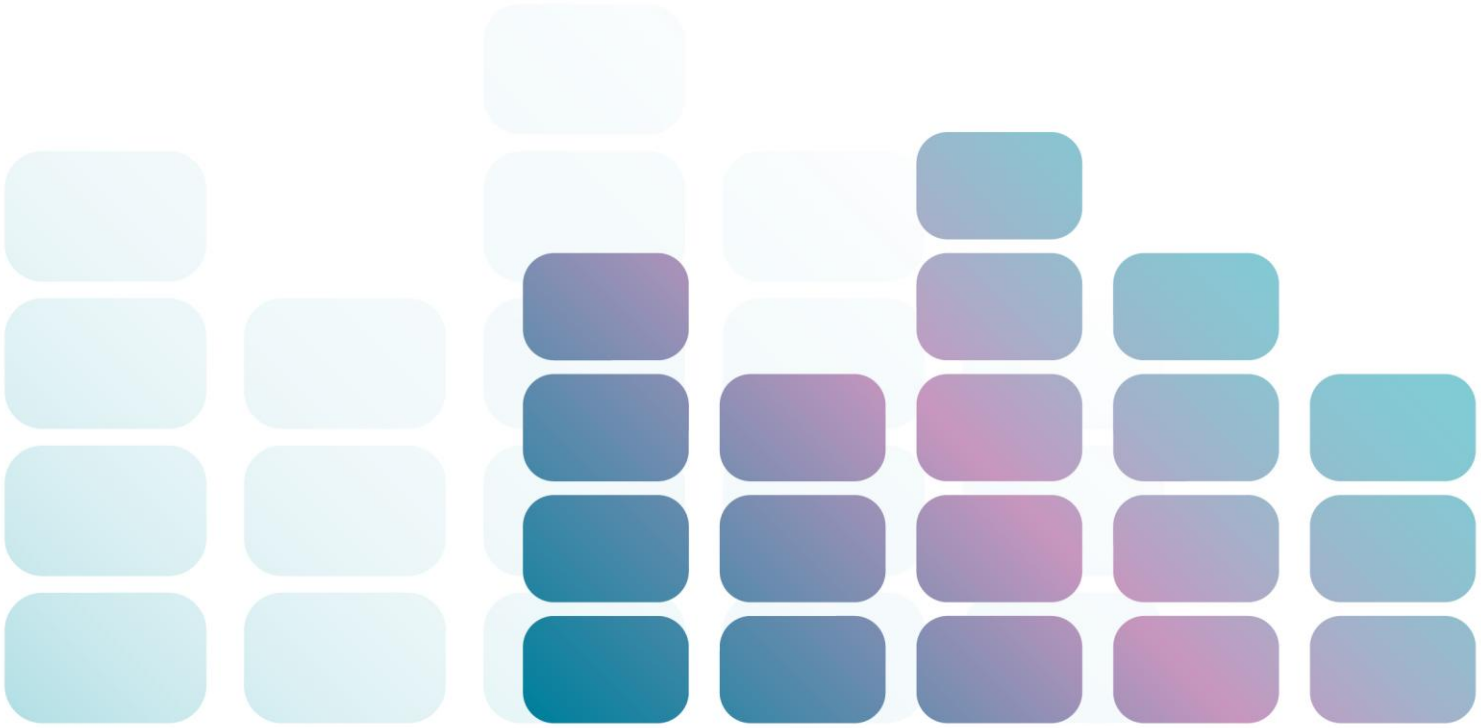
NHS Shetland

2024/25 Annual Audit Report



AUDIT SCOTLAND

Prepared for the Board of NHS Shetland and the Auditor General for Scotland
26 June 2025

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Key messages

Audit of the annual report and accounts

1 All audit opinions stated that the annual report and accounts were free from material misstatement.

2 During our audit, we identified the need for an impairment review of the Gilbert Bain Hospital. This review led to a material reduction of £4.258 million in the value of fixed assets, which has been reflected in the audited accounts. There were no other significant findings or key audit matters to report.

3 We were unable to complete our review and assessment of the wider IT environment at NHS Shetland due to difficulties in obtaining responses from management to requests for information. The missing information did not impact our overall audit opinions.

4 All audit adjustments that required correction in the financial statements were processed by NHS Shetland.

Wider scope and Best Value audit

5 NHS Shetland's financial management arrangements include effective budget setting and monitoring. The board achieved a small surplus in 2024/25 against core revenue funding, but there is still a reliance on non-recurring savings and late allocations. The board failed to deliver against its overall savings target.

6 Short and medium-term financial plans project a break-even position but rely on in-year savings, with many recurring savings proposals still undeveloped. Planned savings from service transformation and reform are limited. A Finance and Sustainability Group has been established to support identification of savings opportunities and board level transformation.

7 Capital investment will rise significantly in 2025/26, but future funding must be carefully allocated to maximise benefits for service users.

8 NHS Shetland's overall arrangements for Vision, Leadership and Governance are effective, with a clear vision and strategy in place, but there is scope to improve the progress monitoring of actions relating to long-term plans.

9 NHS Shetland has effective performance monitoring and reporting arrangements. Performance against national waiting times standards remains above the Scottish average for most indicators, but performance relative to last year has deteriorated in several areas including waiting times for outpatient appointments and referrals to psychological services.

10 NHS Shetland has appropriate arrangements in place to secure Best Value, which include a comprehensive self-evaluation. Arrangements are in place to ensure the Best Value principle of fairness and equality is embedded at all levels of the organisation.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of NHS Shetland's annual report and accounts and the wider scope areas specified in the Code of Audit Practice (2021).

2. The Annual Audit Report is addressed to NHS Shetland, hereafter referred to as 'the board', and the Auditor General for Scotland and will be published on Audit Scotland's website in due course.

Appointed auditor and independence

3. Rachel Browne, of Audit Scotland, has been appointed as external auditor of the board for the period from 2023/24 until 2026/27. As reported in the Annual Audit Plan, Rachel Browne and the audit team are independent of the board in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the board, including no provision of non-audit services.

Acknowledgements

4. We would like to thank the board and its staff, particularly those involved in preparation of the annual report and accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Performance Report and Governance Statement.
- An opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on the board's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the board's arrangements for securing Best Value.
- Provision of this Annual Audit Report.

Responsibilities and reporting

6. The Code of Audit Practice sets out the respective responsibilities of the board and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts and concluding on the board's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may

not be all that exist. Communicating these does not absolve the board from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at Appendix 1 setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

The board's responsibilities

10. The board has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements for the board and its group that gives a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

National and performance audit reporting

11. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to the board and the Audit and Risk Committee. Details of national and performance audit reports published over the last year can be seen in Appendix 3.

Audit of the annual report and accounts

Main judgements

All audit opinions stated that the annual report and accounts were free from material misstatement.

During our audit, we identified the need for an impairment review of the Gilbert Bain Hospital. This review led to a material reduction of £4.258 million in the value of fixed assets, which has been reflected in the audited annual report and accounts.

We were unable to complete our review and assessment of the wider IT environment at NHS Shetland due to difficulties in obtaining responses from management to requests for information. The missing information did not impact our overall audit opinions.

All audit adjustments required to correct the financial statements were processed by the board.

Audit opinions on the annual report and accounts

12. NHS Shetland and its group's annual report and accounts were approved by the Board on 26 June 2025 and signed by the appointed auditor on 26 June 2025. The Independent Auditor's Report is included in the board's annual report and accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.

Audit timetable

13. The unaudited primary statements and notes, along with all working papers were received on 5 May 2025 in accordance with the agreed audit timetable. The narrative to the accounts was received on 13 May 2025. This did not impact on the ability to deliver the audit in line with the agreed date for certification.

Audit Fee

14. The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £102,700. There have been no developments that

impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

Overall materiality is £2.7 million

15. Materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

16. The concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

17. Materiality levels for the audit of the board and its group were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts. Materiality levels were updated and these can be seen in Exhibit 1.

Exhibit 1
2024/25 Materiality levels for the board and its group

Materiality	
Materiality – set at 2% of gross expenditure	£2.7 million
Performance materiality – set at 70% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£1.85 million
Reporting threshold – set at 5% of materiality.	£135,000

Source: Audit Scotland

Significant findings and key audit matters

18. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for the board is the Audit and Risk Committee.

19. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

20. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

21. The significant findings and key audit matters to report are outlined in Exhibit 2.

Exhibit 2
Significant findings and key audit matters

Significant findings and key audit matters	Outcome
Impairment of Gilbert Bain Hospital The April 2025 Board meeting considered a report relating to the physical condition of Gilbert Bain Hospital and remedial work required due to water ingress. Remedial work is due to commence during 2025/26. The supporting engineering and investigative reports indicated the physical condition issues were in existence prior to 31 March 2025. However, the management impairment review process to support the final accounts preparation did not identify a need to impair the asset. Following audit review, management engaged with the valuer who concluded the value of the asset should be impaired by £4.258 million.	We reviewed the supporting analysis from the valuer and concluded that the proposed impairment of £4.258 million was appropriate. The certified accounts were amended to reflect the impairment. We recommend that the finance team provides clarification and training to individuals involved in the impairment review process to clarify what could constitute a potential impairment to an asset. **Recommendation 1** (refer to Appendix 1 action plan)

Source: Audit Scotland

Qualitative aspects of accounting practices

22. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the board's accounting practices, including

accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

23. The appropriateness of accounting policies adopted by the board was assessed as part of the audit. These were considered to be appropriate to the circumstances of the board, and there were no significant departures from the accounting policies set out in the Government Financial Reporting Manual (FReM).

Accounting estimates

24. Accounting estimates are used in a number of areas in the board's financial statements, including the valuation of land and buildings assets. Audit work considered the process management of the board has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

25. Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in Exhibit 5.

Disclosures in the financial statements

26. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as valuation indexation and financial instruments.

Group audit approach

27. The board is part of a group and prepares group financial statements. The group is made up of three components, including the board which is the parent of the group. As outlined in the Annual Audit Plan, audit work was required on both of the other components for the purposes of the group audit, and this work was performed by a combination of the audit team and the components' audit teams. Group audit instructions were issued to component auditors, where required, to outline the expectations and requirements in performing the audit work for the purposes of the group audit. The audit work performed on the group's components is summarised in Exhibit 3.

Exhibit 3
Summary of audit work on the group's components

Group component	Auditor and audit work required	Summary of audit work performed
NHS Shetland	**Audit Scotland** Full scope audit of the board's annual report and accounts.	The outcome of audit work performed is reported within this Annual Audit Report, with details of significant findings and key audit matters reported in Exhibit 2.
Shetland Islands Integration Joint Board	**Audit Scotland** Analytical procedures at group level.	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.
NHS Shetland Endowment Fund	**The A9 Partnership Ltd** Review of component auditor audit questionnaire to confirm results of their audit, including assurance over fund manager controls. Review of source documentation to confirm key balances. Review of a sample of income provided by the Endowment to confirm appropriate use in the health board.	The A9 Partnership Ltd completed and returned our audit questionnaire. No issues found on review. Source documentation for cash and investment balances was provided by A9 which were matched to the group accounts. Confirmed a sample of donated income to expenditure within the board. Use was in line with expressed purpose.

Source: Audit Scotland

Other matters to report

28. Auditing standards require auditors to report a number of other matters if they are identified or encountered during an audit. The matters identified or encountered on the audit of the board are outlined in Exhibit 4.

Exhibit 4
Other matters to report

Auditing standard requirement	Matter to report	Outcome
Other ISA (UK) 260 matters In addition to the matters already reported under ISA (UK) 260 in the Annual Audit Report, this standard also requires auditors to report: • Any significant difficulties encountered during the audit. • Circumstances that affect the form and content of the auditor's report. • Any other matters that are relevant to those charged with governance.	We were unable to complete our review of the wider IT environment at NHS Shetland. This was due to difficulties in obtaining responses from management to our requests for information.	The missing information was not of the magnitude as to impact our audit opinion. We will address the outstanding information issues as part of our 2025/25 audit work. We recommend that management engage with key IT personnel to ensure adequate availability for participation in the audit process. **Recommendation 2** (refer to Appendix 1 action plan)

Source: Audit Scotland

There were two identified misstatements in the accounts above our reporting threshold which were corrected by the board

29. Two misstatements which were above our reporting threshold of £135,000 were identified during the audit and corrected in the audited accounts. Details of the audit adjustments are outlined in Appendix 2.

30. The adjustments identified both related to fixed assets. The first adjustment, the impairment of Gilbert Bain Hospital, has been detailed earlier in Exhibit 2. The second adjustment relates to the carrying value of the completed Helyer MRI Suite. The construction cost of the asset was £3.086 million. The asset became operational during 2024/25 and was revalued at £0.925 million. However, this valuation was initially omitted from the fixed asset register due to the complicated nature of integrating the new asset into the existing components of the hospital, with the asset impaired to nil value.

31. Following audit review, the fixed asset register was updated to include the Helyer MRI suite as a separate asset. The value of assets in the Statement of Financial Position in the audited accounts increased by

£0.925 million to reflect this correction, along with a corresponding decrease in the impairment charge to the Statement of Comprehensive Net Expenditure.

32. Management of the board processed audit adjustments for all misstatements identified greater than the reporting threshold. As a result, there are no uncorrected misstatements to report.

Significant risks of material misstatement identified in the Annual Audit Plan

33. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in Exhibit 5.

Exhibit 5
Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response	Outcome of audit work
Significant risks of material misstatement		
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.	Audit work performed found: • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • No significant transactions outside the normal course of business were identified for review. • Accounting estimates remained unchanged and were concluded to be free from bias. • Controls for identification and disclosure of related party relationships and transactions were appropriate. However, there continued to be omissions in the unaudited annual report and accounts that were required to be amended. (See b/f recommendation 3 in Appendix 1) **Conclusion:** no evidence of fraud due to management override of controls.

Risk of material misstatement	Planned audit response	Outcome of audit work
Estimation in the valuation of land and buildings The board held £36.256 million of property, plant, and equipment (PPE) at 31 March 2024, of which £28.735 million was land and building assets. The board is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated cost replacement (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.	The audit team will: • Evaluate the design and implementation of controls over the valuation process. • Review the information provided to the valuer and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the appropriateness of the key data and assumptions used in the 2024/25 valuation process, and challenge these where required. • Review management's assessment that the value in the Statement of Financial Position of assets not subject to a valuation process in 2024/25 is not materially different to current value at the year-end, and challenge this where required.	Audit work performed found: • The design and implementation of controls over the valuation process were appropriate. • The information provided to the valuer was accurate and complete. • The valuer had sufficient competence, capability, and objectivity to perform their work. • Management is involved in the valuation process and have an appropriate level of oversight. • The data and assumptions used in the 2024/25 valuation process were appropriate. • Management's assessment of assets not subject to a valuation process in 2024/25 was reasonable and concluded there was unlikely to be a material difference to the current value at the year-end. **Conclusion:** the valuation of property, plant, and equipment assets in the financial statements is not materially misstated.

Source: Audit Scotland

Prior year recommendations

34. The board has made good progress in implementing the agreed prior year audit recommendations. Our 2023/24 annual audit report contained 16 recommendations which were yet to be actioned. NHS Shetland has implemented 9 of these recommendations. For actions not yet implemented, revised responses and timescales have been agreed with the board and are outlined in Appendix 1.

Wider scope and Best Value audit

Audit approach to wider scope and Best Value

Wider scope

35. As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management.
- Financial Sustainability.
- Vision, Leadership and Governance.
- Use of Resources to Improve Outcomes.

36. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements the board has in place for each of these is reported in this chapter.

Duty of Best Value

37. The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Best Value in public services: guidance for Accountable Officers is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

38. Consideration of the arrangements the board has in place to secure Best Value has been carried out alongside the wider scope audit. Specific work covering the 'fairness and equality' Best Value characteristic was carried out as part of the 2024/25 audit.

Financial Management

Conclusion

The audit work performed on the arrangements the board has in place for securing sound financial management found that these were effective and appropriate.

The board achieved a small surplus in 2024/25 against core revenue funding, but there is still a reliance on non-recurring savings and late allocations. The board failed to deliver against its overall savings target.

The board had appropriate internal control arrangements in 2024/25.

The board has effective and appropriate arrangements to secure sound financial management

39. The board submitted a draft medium term financial plan for 2024/25 to 2026/27 to the Scottish Government in April 2024 and presented it to the board in April 2024. The 2024/25 financial plan identified a financial gap of £5.169 million before savings.

40. During 2024/25 budget monitoring reports were prepared quarterly and considered at both Finance and Performance Committee and the Board. The reports detailed revisions to budget, expenditure against phased budget and the projected outturn. The reports also highlighted any other key issues for Board members' attention including progress in the delivery of the savings plan and risks to the overall delivery of the financial plan.

41. During the financial year, the finance team liaised with the Scottish Government regarding the distant islands allowance. This additional payment had not been uplifted for a number of years in line with the pay review, leaving island health boards supporting more of this funding themselves. This work resulted in NHS Shetland receiving an additional £1.291 million in recurring funding and a commitment by the Scottish Government to consider this cost pressure annually.

42. Based on our review of the 2024/25 budget setting process, and the arrangements in place to monitor and report on the financial position throughout the year, we have concluded that the board has effective and appropriate arrangements to secure sound financial management.

NHS Shetland achieved a small surplus in 2024/25 against core revenue funding, but there is still a reliance on non-recurring savings and late allocations

43. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within.

44. NHS Shetland's initial financial plan for 2024/25 set out a forecast deficit of £5.169 million before savings. The financial position improved significantly during the year due to the achievement of savings and additional funding provided by the Scottish Government. Exhibit 6 shows that NHS Shetland operated within the three key financial targets set by the Scottish Government.

Exhibit 6
Performance against resource limits in 2024/25

Financial target	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	84.594	84.578	0.016
Non-core revenue resource limit	5.368	5.368	0.000
Total revenue resource limit	**89.962**	**89.946**	**0.016**
Core capital resource limit	4.059	4.058	0.001
Non-core capital resource limit	0.794	0.794	0.000
Total capital resource limit	**4.853**	**4.852**	**0.001**
Cash requirement	**86.574**	**86.574**	**0.000**

Source: NHS Shetland Annual Report and Accounts 2024/25

45. Late funding allocations hinder effective financial management by creating uncertainty in budgeting, disrupting cash flow and potentially delaying the start of planned programme expenditure. This can slow decision making and reduce the efficiency of resource use. We highlighted in NHS in Scotland 2024 Finance and Performance that the Scottish Government needed to work to provide more certainty for boards to allow them to effectively manage their budgets.

46. To achieve financial balance, NHS Shetland relied on funding allocations received late in the financial year from the Scottish Government. Revisions of £12.844 million were made to baseline

recurring funding, with a further £2.627 million for non-recurring and earmarked funding. NHS Shetland worked hard to manage the in-year budget, but without these additional allocations, it would have reported a significant deficit. The board recognises its reliance on late allocations is unsustainable.

NHS Shetland failed to deliver against its overall savings target

47. In 2024/25 the Scottish Government required all health boards to plan to deliver at least 3 per cent recurring savings during the financial year alongside any other savings required to reach a balanced position. The board's 2024/25 financial plan included a saving target of £4.482 million, comprised of £1.872 million in recurring and £2.610 million non-recurring.

48. The board achieved £3.883 million of savings in year of which only £0.593 million were on a recurring basis. This created a shortfall against the original total savings target of £0.599 million. The shortfall was addressed through additional funding from Scottish Government to reach the year end surplus position.

NHS Shetland had appropriate internal control arrangements in 2024/25

49. From our review of the design and implementation of systems of internal control, including those relating to IT, relevant to our audit approach, we did not identify any significant internal control weaknesses which could affect NHS Shetland's ability to record, process and report financial and other relevant data to result in a material misstatement in the financial statements.

50. In last year's annual audit report, we recommended that management maintain evidence of reconciliations and management consideration of reasonableness of expert information provided (see b/f recommendation 5 in Appendix 1). Audit review confirmed the board has implemented this improvement.

There are assurance gaps in the general IT controls for eFinancials and PECOS systems

51. Across the NHS in Scotland a number of shared services exist and therefore NHS Shetland's control environment includes externally provided services from:

- NHS National Services Scotland (NSS) provision of primary care payments and the national IT controls
- NHS Ayrshire and Arran provision of the National Single Instance eFinancials service
- Elcom who provide Professional Electronic Commerce Online System (PECOS) the eProcurement system used by NHS Boards across Scotland

52. The NHS in Scotland procures service audits each year to provide assurance on the controls operating within the shared systems. As part of our overall audit approach, we consider the evidence from service auditors of NHS NSS and NHS Ayrshire and Arran to inform our risk assessment procedures.

53. For Practitioner and Counter Fraud Services, the Type II service audit resulted in an unqualified opinion, i.e. the controls tested operated effectively during 2024/25.

54. For the national IT services contract, the Type II service audit resulted in a qualified opinion on the controls relating to access to the systems as the controls associated with the objective 'Controls provide reasonable assurance that logical access to applications, operating systems and databases is restricted to authorised individuals' did not operate effectively during the year.

55. NHS Ayrshire and Arran procures a Type II service audit of the National Single Instance (NSI) eFinancials services. The service auditor assurance reporting in relation to the NSI eFinancials was unqualified. The assurance gap identified in previous years for the IT general controls, system backup and disaster recovery remains. Although this assurance gap did not impact on the board's systems this year, there remains a risk for future years. All boards should ensure that going forward they are satisfied that controls over the NSI eFinancials system are adequate in the absence of these service auditor assurances.

56. The PECOS contract is managed via the Scottish Government and the system was used by the Scottish Government until 2024/25. Historically, there has not been a service auditor arrangement in place to provide assurance, but the operation of the system was subject to review as part of the Scottish Government financial audit which informed our risk assessment procedures. As the system is no longer used by the Scottish Government there is a risk that the contract is not actively managed.

57. While boards can rely on local controls over user access and the operation of interfaces, there is an assurance gap over the general IT environment including back up procedures and disaster recovery. The board should explore how it can gain assurance over the IT arrangements in relation to PECOS.

58. Having considered the content of these service auditor assurance report and other mitigating controls at the board we are content that no change in our audit approach was required.

Standards of conduct for prevention and detection of fraud and error are appropriate

59. The board is responsible for having arrangements to prevent and detect fraud, error and irregularities, bribery and corruption. It is also responsible for ensuring that its affairs are managed in accordance with

proper standards of conduct by putting effective arrangements in place. Our conclusion is that the board has adequate arrangements in place to prevent and detect fraud or other irregularities. This is based on our review of:

- control arrangements
- overall policies and procedures, including codes of conduct for members and officers
- internal audit reports
- Counter Fraud Service reports
- post payment verification reporting.

60. Scottish health boards also participate in the National Fraud Initiative (NFI) in Scotland, a counter-fraud exercise coordinated by Audit Scotland which aims to prevent and detect fraud. The board has well established arrangements for investigating data matches and reporting outcomes identified by the NFI exercise. The requested data for the 2024/25 exercise was provided on time and data matches were investigated with the outcome reported to the Board in March 2025. No instances of fraud were identified. There were 5 cases of overpaid suppliers which resulted in £10,000 being returned to NHS Shetland.

Financial Sustainability

Conclusion

Short and medium-term financial plans project a break-even position but this relies on in-year savings, with many recurring savings proposals still undeveloped.

A Finance and Sustainability Group has been established to support identification of savings opportunities and board level transformation.

Capital investment will rise significantly in 2025/26, but future funding must be carefully allocated to maximise benefits for service users.

Health boards across Scotland face substantial affordability challenges despite increases in funding

61. Health remains the single biggest area of government spending with a planned increase to £19.4 billion in the 2024/25 Budget Bill. The Scottish Government continued to distribute funding throughout the year which increased the final budgets provided to NHS Boards and reflects the long-term trend of annual increases in health expenditure.

62. Despite increases in health spending much of the additional funding was consumed by pay deals and inflation leaving little room to invest in transformation or service improvement.

63. In their three-year financial plans submitted to the Scottish Government, for 2024/25, NHS boards continued to forecast increases in spending. Boards are also increasingly citing a reliance on non-recurring savings, and therefore carrying forward underlying deficits into future years, which poses a significant risk to long term financial sustainability.

64. Audit Scotland's NHS in Scotland 2024 Finance and Performance highlights that the affordability of healthcare spending is now an urgent issue that the Scottish Government must address. Difficult decisions need to be made about transforming services potentially identifying areas of limited clinical value and considering how services can be provided more efficiently or withdrawn. Boards should work with the Scottish Government to focus on longer term reform. This will be essential for managing the demands placed on the healthcare system and ensuring its future sustainability.

Short and medium-term financial plans project a break-even position but depend on in-year savings, with many recurring savings proposals still undeveloped

65. NHS Shetland submitted its three-year financial plan 2025/26 to 2027/28 to the Scottish Government in March 2025 and presented it to the

Board in April 2025. The plan for 2025/26 predicts a breakeven position, with assumed core revenue expenditure of £85.803 million matched to funding levels. This requires the delivery of £4.962 million in savings, comprising £2.244 million recurring savings and £2.718 million non-recurring savings. This is a higher savings target than in any of the preceding 5 years.

66. The financial plan projects break-even positions for the subsequent years, reliant on delivery of in-year savings of £4.872 million in 2026/27 and £3.712m in 2027/28.

67. The key cost pressures in 2025/26 relate to prescribing and workforce costs. Prescribing for primary and acute services is a volatile cost area and is predicted to increase from £9.592 million in 2024/25 to £11.524 million in 2027/28.

68. In addition to pay uplift of 3 per cent, challenges around staff recruitment, in particular consultant roles, has resulted in continued reliance on locum and agency staff. In 2024/25, agency and locum costs were £6.01 million, with the financial plan assuming a reduction of £0.7 million during 2025/26. Work continues on the development of a workforce plan to support and direct activity to realise cost reductions (see b/f recommendation 16, Appendix 1).

69. While the overall level of savings required to achieve financial balance is reducing, most of the recurring savings elements of medium-term financial plan have still to be identified, including £1.610 million of recurring savings in 2025/26. Of the £0.634 million recurrent savings in 2025/26 that have been identified, £0.227 million are at high risk of non-delivery. Significant work will be required during 2025/26 to ensure overall savings targets are realised.

Planned savings from service transformation and reform are limited. A Finance and Sustainability Group has been established to support identification of savings opportunities and board level transformation

70. Total identified savings are comprised of £2.718 million non-recurring and £0.634 million recurring. These plans are primarily to be delivered within workforce (£2.629 million; 53 per cent), focusing on reducing agency staff cost. Of the identified savings in the plan, only £0.05 million relate to service re-design and reform.

71. Identifying transformational changes in service will be key to delivering the level of savings required across the medium term. The board has established a Finance and Sustainability Group, comprising key members of the management team, to support this process. The group reports regularly to the Finance and Performance Committee. We will continue to monitor progress in this area and report through our financial sustainability assessment in next year's annual audit report.

Integration Joint Board funding requirements continue to exceed the budget

72. Shetland Islands Integration Joint Board (IJB) has repeatedly returned an overspend position against its agreed budget. In 2024/25 this required increased funding from NHS Shetland of £2.455 million (£1.347 million in 2023/24). Primarily this is driven by staff expenditure as the IJB does not budget for the additional costs of using agency staff. It is known and accepted by NHS Shetland, as one of the IJB's statutory partner bodies, that the IJB will return an overspend position against agreed budget. However, this causes additional financial pressure on the health board, as the IJB's partners are required to cover the shortfall.

73. The trend in the IJB is an increasingly negative performance against the budget set. NHS Shetland must continue to work with Shetland Islands Council and the IJB to identify where efficiency savings are possible, and work to deliver them. The partners should also consider whether the budgets being set for the IJB are realistic. Accurate budget setting is imperative to give NHS Shetland a realistic understanding of its own financial position.

Capital investment will rise significantly in 2025/26, but future funding must be carefully allocated to maximise benefits for service users

74. The outlook for capital funding presents a challenge for NHS Shetland, and the Scottish health sector as a whole. The Scottish Government placed a moratorium on significant capital projects within the NHS in February 2024, for two years. This stalled the ongoing plans for a replacement to the Gilbert Bain Hospital. This position is likely to alter with time, as specific projects are identified, and funding is applied for through the Scottish Government.

75. Core capital resource limit for 2025/26 is projected to increase by 48 per cent to £10.499 million. This is primarily to fund remedial works at the Gilbert Bain hospital (see Exhibit 2). Over the course of the next 5 years the funding available is projected to decrease to £2.599 million by 2029/30. Careful consideration of the most effective way to apply limited capital resources will be necessary to ensure the best outcome for service users.

Vision, Leadership and Governance

Conclusion

Our audit work has concluded that there are effective governance arrangements in place at NHS Shetland.

NHS Shetland has a clear vision and strategy in place, but progress monitoring of long-term plans could improve.

Compliance with network and information systems regulations has improved during 2024/25, but IT capacity remains an issue.

Challenges continue in demonstrating compliance with mandatory training and timely review of policies and key documents.

Governance arrangements are effective and appropriate

76. NHS Shetland's governance arrangements have been set out in the Governance Statement in the annual accounts. We reviewed these arrangements and concluded that they are appropriate and effective.

77. Papers and minutes for Board meetings, including financial and performance information are available on NHS Shetland's website. Scrutiny arrangements in NHS Shetland are considered appropriate.

78. NHS Shetland has a clear risk management strategy, which enables consistent and effective application of risk management. There is evidence that risk management is embedded into the day-to-day management activity of the organisation. There is also evidence of periodic review of the strategic risk register with robust scrutiny of the items included. We concluded that this meets the requirements set out by Scottish Ministers in relation to risk management.

NHS Shetland has a clear vision and strategy in place, but progress monitoring of long-term plans could improve.

79. NHS Shetland developed a five-year strategic delivery plan which was approved by the Board in April 2024. We reviewed this during the 2023/24 annual audit and found it aligned with national strategic direction and had a clear proposal of strategic intent.

80. As part of this year's audit we reviewed other key strategies and plans during the year, including the board's five-year digital strategy, the three-year health and social care strategic partnership plan 2025-28, and the annual operating plan for 2025/26. We concluded there is clear alignment between the goals and planned activities within these plans and the overall strategic delivery plan.

81. In our 2023/24 Annual Audit Report, we recommended establishing clear governance arrangements for monitoring progress against the strategic delivery plan. Currently, this is undertaken through quarterly performance reports submitted to the Finance and Performance Committee. While these reports are detailed, they are not directly aligned with the five-year strategic plan, requiring inference to assess actual progress and identify underperformance. Management has acknowledged this gap and indicated plans are underway to enhance the reporting framework.

Recommendation 3

Progress reporting on Strategic Delivery Plan

The board should introduce an annual review process aligned with the strategic delivery plan to assess progress and enable timely adjustments to the approach as needed.

Reporting of sustainability and environmental disclosures

82. The Scottish Government requires public bodies, including health boards, to comply with guidance issued by the Taskforce on Climate-related Financial Disclosures (TCFD) relating to disclosure in the annual report and accounts. Implementation is phased over 3 years, with 2024/25 being year 2.

83. Following discussion with management, changes were made to the disclosure which we concluded were sufficient to meet the requirements of the TCFD. There is still scope for improving the disclosure, and with phase 3 planned for implementation in 2025/26, further work will be needed to ensure that NHS Shetland remains compliant with its disclosure requirements.

Compliance with network and information systems regulations has improved during 2024/25, but IT capacity remains an issue

84. The board received a low score of 35 per cent compliance from an interim audit in November 2023 by Cyber Security Scotland (see b/f recommendation 9 in Appendix 1). This audit was undertaken to assess NHS Shetland's compliance against network and information systems (NIS) regulations. The report noted that failure to submit evidence in a timely manner had a significant impact on the scoring.

85. Following approval of its digital strategy in June 2024, the board committed to additional resources to support the delivery of the strategy and address issues identified through the NIS report. A follow up NIS audit was completed in 2024/25. The report highlighted expected cyber security key controls are in place and evidenced. Overall compliance increased to 66 per cent, with NIS auditors commenting on a noticeable increase in engagement from the IT department of NHS Shetland.

86. The report did note most outstanding issues relating to areas such as evidencing plans and policies and that non-compliance in these areas related to issues of capacity rather than capability. This issue of capacity was also experienced during external audit work (see Exhibit 4 and recommendation 2 in Appendix 1).

Challenges continue in demonstrating compliance with mandatory training and timely review of policies and key documents

87. In our 2023/24 annual audit report we identified the need for management to work to increase compliance with mandatory staff training on information governance (b/f recommendation 8, Appendix 1). This issue is recognised on the board's risk register which is reviewed and reported periodically.

88. The most recent review noted that despite some improvement in uptake from staff in substantive posts, compliance with mandatory training remains an issue. The risk status has also increased due to information governance training requirements for non-NHS staff. At present, there are no reliable controls in place to ensure that this training is being completed prior to individuals working with NHS Shetland. Management recognises the cyber security risk this poses and we will continue to monitor progress in mitigating this risk.

89. In response to prior year audit recommendation on effective management and review of policies (b/f recommendation 11, Appendix 1), the board has created a register of policies and key documents. However, this review identified that of the 373 registered documents, 92 per cent are overdue for review. Of this, 140 are policy documents, 109 of which remain outwith the review timescale.

1. The board has identified a software package, PolicyStat, to assist with management and review. Documents will be reviewed prior to upload to the software, and automated reminders generated for review dates. While this tool will assist the process, the board will still require robust and effective governance and oversight to ensure reviews are completed. We will monitor implementation progress during our 2025/26 audit.

Use of Resources to Improve Outcomes

Conclusion

The board has effective arrangements in place for reporting and oversight of performance information.

Performance remains above the Scottish average for most key performance indicators, however relative performance has deteriorated due to growing demand. Seven out of ten waiting time indicators have shown deterioration against the prior year.

There is evidence of planned and completed investment by NHS Shetland which will improve outcomes for service users.

Arrangements for reporting and monitoring key performance information are effective

90. The Finance and Performance Committee is charged with oversight of healthcare performance. Committee membership consists of five non-executive members and chaired by the chair of the board. Regular attendance by key management personnel is expected and has been consistently maintained throughout the 2024/25 period.

2. NHS Shetland regularly monitors key performance information through quarterly performance reports to the Finance and Performance Committee. From our review of minutes and papers we concluded that meetings are well attended and there is evidence of scrutiny and involvement of all members. Reports and information to the committee are of good quality and provided sufficiently in advance to allow effective scrutiny.

91. We conclude that the arrangements in place are sufficient to allow committee members to provide informed scrutiny regarding non-financial performance at NHS Shetland, against national targets.

Performance remains above the Scottish average for most key performance indicators, but relative performance has deteriorated due to growing demand

92. A summary of NHS Shetland's performance against targets for the 10 key waiting time indicators set by Scottish Government as at March 2025 (Exhibit 8) is below. The agreed targets are 90% compliance for all measures except cancer access and A&E waiting times which are 95%:

- 2 measures exceeded the target set
- 2 measures are within 10% of the target set
- 6 measures are more than 10% below the target set

- 7 of 10 measures have shown deterioration between 2023/24 and 2024/25.

93. Exhibit 7Exhibit 7 shows activity demand and waiting times for acute services, highlighting increasing demand for outpatient appointments and diagnostic tests the past 4 years alongside recent falls in activity levels. There has been a significant deterioration in the number of patients waiting longer than 12 weeks for a new outpatient appointment.

94. The growing demand for services has impacted NHS Shetland's ability to meet performance targets, with a significant downturn in performance against national indicators compared with 2023/24 (see Exhibit 8).

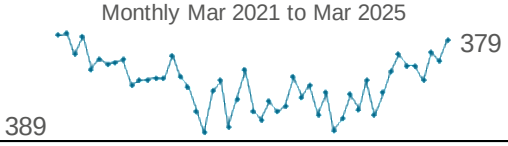
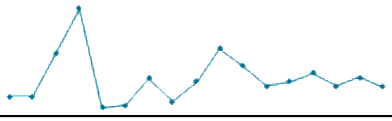
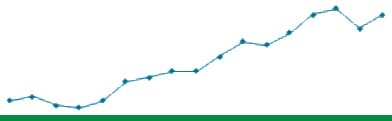
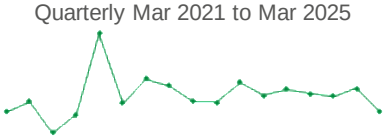
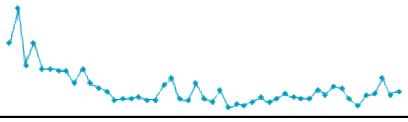
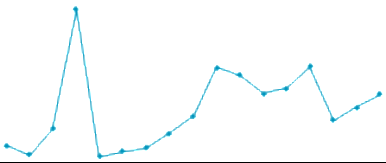
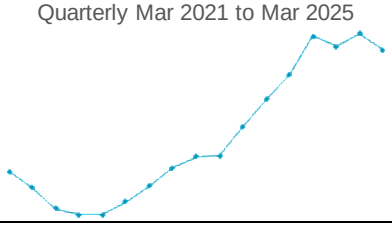
95. Key performance indicators (KPIs) have decreased in seven of ten key waiting time categories year on year. The areas of greatest deterioration were the 18 weeks from GP referral to outpatient appointment or treatment; under 6 week waiting time for key diagnostic tests; and 18-week referral to psychological therapies.

96. When comparing performance to the national context NHS Shetland are performing above average for Scotland in seven of the ten areas. The areas where NHS Shetland were weaker than the Scottish average were in 18-week referral for psychological therapies; 62-day referral to treatment for newly diagnosed primary cancers; and drug and alcohol patients seen within 3 weeks.

97. NHS Shetland has provided analysis of its performance against the KPIs in the 2024/25 annual report and accounts and outlined planned action to improve areas of significant underperformance. This includes engaging with NHS Orkney to expand capacity for psychological therapies to increase service capacity and alleviate waiting times.

Exhibit 7

Trends in demand and activity for acute services

Demand		% change
Number waiting for diagnostic tests	Monthly Mar 2021 to Mar 2025  389 379	-2.6%
Number of patients waiting for an inpatient or day case admission	Quarterly Mar 2021 to Mar 2025  287 308	7.3%
Number of patients waiting for a new outpatient appointment	Quarterly Mar 2021 to Mar 2025  872 1,524	74.8%
Activity		
Number of scheduled elective operations in theatre system	Quarterly Mar 2021 to Mar 2025  448 448	0.0%
Number of inpatient and day case admissions	Quarterly Mar 2021 to Mar 2025  156 228	46.2%
Number of new outpatient appointments	Quarterly Mar 2021 to Mar 2025  1,072 1,064	-0.7%
Length of waits		
Number waiting longer than 6 weeks for diagnostic tests	Monthly Mar 2021 to Mar 2025  162 50	-69.1%
Number of patients waiting longer than 12 weeks for an inpatient or day case admission	Quarterly Mar 2021 to Mar 2025  94 147	56.4%
Number of patients waiting longer than 12 weeks for a new outpatient appointment	Quarterly Mar 2021 to Mar 2025  292 655	124.3%

Source: Public Health Scotland

Exhibit 8

Performance against key waiting time standards

Target/standard	NHS Shetland performance			NHS Scotland
	March 2023	March 2024	March 2025	March 2025
Cancer 62 Day Referral to Treatment target Proportion of patients that started treatment within 62 days of referral.	44.4%	77.8%	65.7%	73.5%[1]
Cancer 31 Days Referral to Treatment target Proportion of patients who started treatment within 31 days of decision to treat.	100%	100%	100%	94.7%[1]
18 Weeks Referral to Treatment target Proportion of patients that started treatment within 18 weeks of referral.	87.2%	78.2%	73.9%	67%[1]
Patient Treatment Time Guarantee Proportion of inpatients or day cases that were seen within 12 weeks.	72.3%	67.9%	72%	56.7%
Outpatients waiting less than 12 weeks Proportion of patients on the waiting list at month end who have been waiting less than 12 weeks since referral.	70.2%	71.5%	68.6%	61.2%
A & E attendees Proportion of A&E attendees who were admitted, transferred or discharged within 4 hours.	88.1%	88.2%	83.6%	67.5%
Drug and Alcohol 21 days Proportion of drug and alcohol patients that started treatment within 21 days.	100%	100%	89.1%	95.5%[1]
Children and Adolescent Mental Health Services Waiting Times Proportion of patients seen within 18 weeks of referral.	73.5%	100%	100%	91.6%

Psychological therapies Proportion of patients that started treatment within 18 weeks of referral.	54.4%	71.4%	63.7%	80%[1]
Key Diagnostic tests Proportion of patients waiting less than 6 weeks for one or more of eight key diagnostic tests	91%	92.1%	85%	59.3%

Note. 1: As the validated March 2025 data is not yet available for these measures, the December 2024 validated data has been used.

Source: Public Health Scotland

Delayed discharges have increased significantly in year

98. Delayed discharges have seen a significant increase since 2023/24. Occupied bed days in 2024/25 were 3057 (1,272 in 2023/24), representing a 140 per cent increase year on year. The number of people waiting longer than 14 days for discharge to more appropriate care settings also increased to 54 (31 in 2023/24), representing a 74 per cent increase.

99. NHS Shetland has identified the root cause as a lack of suitable community care to accommodate the individuals in a timely manner. This falls under the remit of the IJB. Work is ongoing with its strategic partners to resolve this issue. We will continue to monitor these figures to ascertain whether 2024/25 was an outlier or a sign of more long-term issues.

NHS Shetland has delivered on projects during the year to improve outcomes for service users

100. Building of the Helyer MRI suite was completed in June 2025, with 842 attendances conducted in 2024/25. This aligns with the board's strategic aim to provide more services close to home, improving the patient experience. It has also realised savings for the board through reduced patient travel.

101. The new Digital Strategy, approved by the Board in June 2024, evidences a key step in improving services. Planned improvements to patient facing services, including online booking and cancellation of appointments and online patient access to medical records will both decrease burden on NHS staff and provide service users options for engagement. The service user desire for alternative channels has been evidenced through the year-on-year increased uptake in telephone and video conference appointments.

102. NHS Shetland is investing in resources which are aligned with their strategic vision of providing easier access to support with care as close to home as possible. Given the geographical challenges of NHS Shetland,

digital transformation will play a pivotal role in creating a sustainable and effective healthcare service. NHS Shetland is showing its acknowledgement of this and taking steps to achieve it.

Conclusions on duty of Best Value

103. The audit work performed on the arrangements the board has in place for securing Best Value found these were effective and appropriate. This judgement is evidenced by:

- the board having well established and effective governance arrangements in place, with the Best Value being a key aspect of the governance arrangements.
- the arrangements the board has in place around the four wider scope audit areas, which are effective and appropriate, contribute to it being able to secure Best Value.

104. NHS Shetland has an established Best Value framework which provides assurance to the board on how Best Value is being achieved. The board has an established process of committee self-review, which is used to inform the Performance and Finance Committee when reviewing the proposed governance statement for the financial year. Board members then conclude whether this presents an accurate reflection of their performance.

Arrangements to secure fairness and equalities at NHS Shetland are appropriate and well embedded

105. The Scottish Public Finance Manual identifies fairness and equalities as a cross-cutting theme of Best Value. Organisations must demonstrate that equality issues are embedded in their vision, strategic direction and throughout their work. As auditors we are required to assess the extent to which this is true at least once during our five-year audit appointment.

106. Equality of access is a key part of the board's strategic vision. Equality impact assessments are conducted during planning projects through stakeholder engagement. The board also publishes a range of reports on its website to demonstrate commitment and outcomes in the delivery of progress against its duties. These include equality outcome reports, workforce monitoring reports and mainstreaming reports.

107. NHS Shetland provides mandatory equality training for all staff on induction to ensure they are fully informed on their expectations, policies and approach. This is refreshed every 3 years. It also has an Equality Network group comprised of employees, volunteers and partner representatives. This group is responsible for helping with collaboration between stakeholders on plan development and staff training, and act as consultation for changes in legislation and strategy which impact equality and fairness.

108. We conclude that the evidence provided by NHS Shetland is sufficient to show that equality and fairness is embedded at all levels of the organisation.

Appendix 1

Action plan 2024/25

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. Asset impairment Accounting standards require bodies to assess whether there has been any impairment of assets during the year that would impact on their valuation. As part of the closedown procedures the Finance team requests confirmation from services of any potential impairment. Despite the level of remedial work required at the Gilbert Bain Hospital, it was not flagged internally as a potential impairment at financial year end. Following audit review, management engaged with the valuer who concluded an impairment in value was appropriate. **Risk** - the carrying value of assets at financial year end is overstated.	To support the year end impairment review process, the finance team should provide clarification and training to individuals involved in the impairment review process to support them in their assessment of what could constitute a potential impairment to an asset.	**Accepted** Asset Impairment to be added as standing agenda item at Capital Review Meetings. This meeting has representation from both Finance and Estates teams. **Responsible officer:** Head of Finance & Procurement **Agreed date:** June 2025

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
2. Gaps in information responses and requests We were unable to complete our review of the wider IT infrastructure at NHS Shetland. This was due difficulties in obtaining responses from management to our requests for information. **Risk** - lack of responses and information results in reduced audit assurance, requiring additional audit procedures which could impact on resource requirements and cost of audit.	Management should engage with key IT personnel to ensure adequate availability for participation in the audit process at relevant times.	**Accepted** A revised departmental structure is being developed which will support the delivery of timely participation in future audits. **Responsible officer:** Director of HR & Support Services **Agreed date:** 1 March 2026
3. Progress reporting on Strategic Delivery Plan Progress reporting against the strategic delivery plan is undertaken through quarterly performance reports submitted to the Finance and Performance Committee. These reports are not directly aligned with the five-year strategic plan, requiring inference to assess actual progress and identify underperformance. **Risk** - Without clear reporting on progress there is a risk that the goals of the plan are not achieved.	The board should introduce an annual review process aligned with the strategic delivery plan to assess progress and enable timely adjustments to the approach as needed.	**Accepted** Will implement annual review of Strategic Delivery Plan, with first report to be completed and submitted to September 2025 **Responsible officer:** Chief Executive **Agreed date:** 30 September 2025

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 1. Cash Flow Statement Adjustments Government Financial Reporting Manual, para 7.4.2, requires bodies to exclude movements in debtors and creditors relating to capital item in reconciling the operating expenditure to operating cash flows. Our review of working papers and the accounts template identified that these adjustments had not been made in the accounts presented for audit. Risk – This could result in a misclassification within the cash flow statement.	Closedown procedures should be updated to review, identify and adjust for capital items relating to debtors and creditors. **Accepted** The cause of the issue was discussed with External Audit and lessons learnt will now be added in to the procedure notes for completing annual accounts spreadsheet template where the cash flow statement is created. **Responsible officer:** Head of Finance and Procurement **Agreed date:** August 2024	**Implemented** Audit work conducted in 2024/25 found that the closedown procedures in place were sufficient to identify and adjust the cash flow statement for capital items not paid at year end.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 2. SPPA CETV Calculator The Remuneration and Staff Report discloses pension information including the opening Cash Equivalent Transfer Values (CETV) value at the start of the financial year. In accordance with guidance, this should exclude the impact of inflation. However, due to the way the information was presented within calculation sheets provided by SPPA, NHS Shetland (in common with other Scottish health boards) incorrectly disclosed the opening balance adjusted for inflation. These figures were subsequently corrected. Risk – This can result in incorrect disclosure if the figures are not checked prior to inclusion in the unaudited annual report and accounts.	Closedown procedures should be updated to include management consideration of information provided by management's experts, including a reasonableness check. For example, checking SPPA calculations to confirm the correct payroll information is used in the calculations, and checking that the correct figures from the SPPA calculation are disclosed in the Remuneration Report. **Accepted** Accounts procedures to be updated to ensure correct figures are used. **Responsible officer** Head of Finance and Procurement **Agreed date:** March 2025	**Work in progress** Management provided evidence that they had reviewed the reasonableness of the figures provided by SPPA. This involved consideration of movements to prior year along with other information per their payroll records. We recommend management continue this check in future. However, the error persisted regarding disclosure of the inflation adjusted opening balance. This was adjusted in the audited annual report and accounts. We will assess compliance again as part of our 2025/26 financial statements audit.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 3. Related Party Transactions review and disclosure Our work identified two improvement areas: Related party transactions disclosure doesn't include a materiality explanation. The Register of Interests (RoI) check spreadsheet doesn't include a clear link between figures in the spreadsheet and those disclosed in the accounts note; it also does not consider all categories of RoI. Risk – this can result in incomplete disclosure.	Including a specific explanation regarding materiality threshold used by the board when assessing related party transactions will improve the quality of the disclosure and is recognised good practice. The process of checking Registers of Interests should ensure a clear link between the figures disclosed in the note and the working paper. All categories of RoI should be considered and supplier / transactions checks carried out on all RoI disclosures. **Accepted** Accounts procedures to be updated to address this recommendation. **Responsible officer** Head of Finance and Procurement **Agreed date:** March 2025	**Work in progress** Our review of related parties in 2024/25 concluded that there is now a satisfactory assessment of materiality for related parties included within the accounts. However, from our review, not all key related party transactions had been disclosed in the unaudited annual report and accounts or included within the working papers. This has been adjusted in the accounts, but work is required to strengthen these procedures. We will assess compliance again as part of our 2025/26 financial statements audit.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 4. Evidence of budget monitoring The budget monitoring process is informed by regular meetings between budget holders and finance staff. Audit review during 2023/24 highlighted irregular frequency of scheduled meetings and limited documentary evidence of the meetings held.	To demonstrate appropriate scrutiny of budgets, regular scrutiny meetings with departments should be held and outcomes documented. **Partially Accepted** Management Accountants meet regularly with budget holders at a frequency deemed appropriate for the risk profile of the department. Outcomes are documented and retained by team. Best value for money is not met by monthly meetings with all budget holders. Additional staff would be required to conduct these meetings with low-risk areas. Training for managers to self-manage the financial risk for their service is part of their job description and how in the long-term sustainability will occur. Will review the training for budget managers. Finance will focus resources on support to assist sustainable redesign projects and high-risk areas to support Directors to meet Board objectives as outlined as issues in the report. **Responsible officer:** Director of Finance **Agreed date:** 30 September 2024	**Implemented** Evidence of meetings with higher risk budget areas has been provided. There has also been evidence of training provided to new budget managers, which was deemed appropriate to help them perform their role. The budget monitoring controls are operating as described by management.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 5. Controls documentation Our work has identified a weakness in documentation of various control checks which are in place, but where an audit trail is not retained. This includes not formally documenting: Management review of reasonableness of indexation provided by the management expert, Gerald Eve Reconciliation between feeder systems (FHS and JAC Pharmacy)	Control checks performed by officers should be documented and the evidence retained to maintain a clear audit trail. **Partially accepted:** Valuation/Indexation checklist is in place following prior year audit recommendation. Reconciliations occur but note that there should be clear and transparent documentation available to evidence that all necessary check and controls are routinely in place and they are working effectively. Documented evidence will be available to assure internal and external audit scrutiny. **Responsible officer:** Head of Finance and Procurement **Agreed date:** September 2024	**Implemented** Our work to review controls in 2024/25 concluded that management was able to evidence their review over reasonableness checks for indexation figures and could provide evidence for reconciliations performed.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 6. Review of key documents Our review of key documents identified that the standing orders, financial regulations and the fraud and corruption policy have not been reviewed in several years. Risk – The lack of regular review presents a risk that these key documents may be outdated and not fit for purpose.	Standing orders, financial regulations, fraud and corruption policy and any other key documents should be reviewed with regular frequency (annually where appropriate) to establish if any updates are required for the policy / key document to remain relevant and fit for purpose. **Partially accepted** The standing orders align with the Blueprint for good Governance issued by Scottish Government. The refreshed Blueprint for good Governance issued did result in the standing orders review as passed by the Board at 30 April 2024 meeting. The Standing Financial Instructions and Scheme of Delegation are reviewed annually at the November Audit Committee with any changes taken to the Board reviewing proposals at the December Board meeting. The fraud and corruption policy has passed its review date so during 2024-25 it will be updated and taken through the review process with relevant Governance Committees and operational groups. **Responsible officer:** Director of Finance **Agreed date:** 30 November 2024	**Implemented** Audit work in 2024/25 has confirmed that these key documents have been reviewed and updated, with the fraud and corruption policy being reviewed in May 2025. However there remains an ongoing issue with ensuring regular policy and document review. Refer to b/f recommendation 11 below.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 7. Review of secondment arrangements The Board currently has two employees seconded to the Scottish Government, with both arrangements having been subject to extension. Their roles in the Board have been filled on a permanent basis. The Board remains exposed to any risk related to seconded staff during the period of secondment.	The Board should review secondee agreements during 2024/25 to ensure they all remain valid secondments, and assess any risks presented to the Board of longer-term secondments of staff to other bodies. **Partially accepted** Service Level Agreements (SLAs) exists with Scottish Government as that is their preferred method to contract the services from colleagues. From Employment Law perspective these contracts should be treated as Fixed term and not Secondment. There is a process in place whereby all secondments prior to coming to their end date are checked with the line manager/relevant Director of Service and advice provided if extensions required, including related risks. This is reported via the Workforce Report to the Staff Governance Committee and therefore this action point is already in place. **Responsible officer:** Director of Human Resources and Support Services **Agreed date:** Already actioned and will be reviewed on a continuous basis.	**Risk accepted by NHS Shetland** Per management's response in the previous year, they are aware of the long-term secondment arrangements with Scottish Government. Oversight of this is maintained through workforce reporting and the Staff Governance Committee. The Scottish Government has expressed the wish to continue with the arrangements as they stand. Therefore, NHS Shetland has agreed to accept the risk this poses to the organisation.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 8. Low completion of mandatory staff training Our review of the risk register identified that risk SR06 relating to Information Governance Training continues to highlight consistently low completion of mandatory staff training on information governance. The risk level has risen to 16 points (High); the risk has inadequate mitigating controls; and Internal Audit reports that compliance is not just low but is trending down. Poor information governance creates a significant risk of an information governance breach, including potential cyber security incidents. Risk – of an information governance breach, reputational damage, regulatory action (including financial penalty) and potentially harm to patients.	We recommend that staff uptake of mandatory training, especially Information Governance, and any other is prioritised to ensure this risk is mitigated to an acceptably low level. **Accepted** All members of the Executive Management Team have in their objectives the issue of tacking the Boards systemic issue in increasing staff participation in completing their Statutory and Mandatory Training obligations. Under the AfC changes from 1 April 2024 each member of staff will have dedicated time to complete this training. Service managers and their director will be monitoring their staff compliance. Staff Governance committee will have overall lead upon seeking reporting and assurance on behalf of the Board. Other committees will also manage specific risks. **Responsible officer:** Chief Executive **Agreed date:** 31 March 2025	**Work in progress** There has been some improvement in compliance against information governance training, but it is still not fully compliant per strategic risk register (SR06). There has also been a second high risk noted regarding the inability to measure uptake for third party workers (SR11). We will continue to monitor progress against this.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 9. NIS regulations compliance NHS Shetland performed poorly in a November 2023 interim audit by Cyber Security Scotland, with many controls assessed as non-compliant, due to lack of evidence submitted in a timely manner. Non-compliance with NIS regulations presents a risk of financial penalties, alongside an enhanced risk of exposure to malicious cyber activity if expected controls are not in place.	NHS Shetland needs to address NIS compliance issues as a matter of urgency to ensure an appropriate IT control environment is in place. This should include ensuring sufficient capacity and skills are in place to address the NIS audit outcomes. **Accepted** Finance and Performance Committee received a redacted version of the NISR report in November 2023. The Digital Strategy and delivery plan was agreed at the June 2024 Board meeting. Additional staff are being sought to deliver the digital strategy and address issues raised in the NISR 2023/24 Audit. **Responsible officer:** Director of Human Resources and Support Services **Agreed date:** Ongoing	**Work in progress** The 2024/25 NIS audit report shows that NHS Shetland's engagement with the NIS audit has significantly improved and compliance with NIS regulations has improved, although further work is required to ensure compliance with the regulations. **Updated action** Two new posts were recruited to in February and March 2025 that has increased the overall IT staff establishment that will allow more focussed work plan on cyber security issues. The work plan to complete prior to October submission is based upon review of the 2024-25 audit report and will address key issues identified to improve overall resilience. In addition external support will be engaged to under-take cyber security simulations using resources available to NHS Scotland. Work plan activity updates to address audit actions are provided to the Information Governance Committee who report to Finance and Performance Committee. **Responsible officer:** Director of Human Resources and Support Services **Agreed date:** 30 September 2025

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 10. Payroll services provided by NHS Grampian The annual assurance arrangements for the payroll services provided by NHS Grampian should be re-introduced. **Original date** April 2024	**Work in progress** Annual assurance reporting not in place for April 2024, however Internal Audit reviewed this service in 2023-24 and a resultant management action plan is in place. SLA review meeting was held in February 2024 and revised version received from NHS Grampian. Currently under review for agreement and signoff. **Responsible officer** Director of Finance **Revised date** July 2024	**Implemented** An updated SLA between NHS Grampian and NHS Shetland has been reviewed. Regular meetings are being held between the two parties to discuss any issues, with evidence seen that issues are being brought to NHS Shetland in a timely manner.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 11. Review of policies NHS Shetland should ensure more robust management of the policies register to ensure reviews are conducted on a timely basis. **Original date** 30 September 2023	**Work in progress** **Revised action:** As part of their business cycle of the Information Governance Group (IIG) review of the Board's policy compliance is audited. Finance and Performance Committee is the governance committee responsible for this performance issue. The policy register lists the lead individual, director and Governance committee. There is a systemic issue in policy review compliance with NHS Shetland over the last decade that will not be quickly resolved amongst the competing priorities. Project Management Office were last to attempt to capture the complete list that Quarterly reporting of IGG review. However, ownership of the policies does not sit with IGG. To address ownership and responsibility of policies quarterly reporting of policy compliance will be reported to EMT and their assigned Governance Committee to improve transparency in gaps and management action. **Responsible officer:** Executive Management Team. **Revised date** Ongoing actions required.	**Work in progress** Improvement has been made to identify the full catalogue of policies and other key documents and to identify their review timescales. However, this has identified the scale of the issue, not resolved it. Currently 92 per cent of all documents are out with review timescales. Management have confirmed that implementation of the new PolicyStat software will help to reduce this and ensure continued compliance with review. We will monitor progress with this next year.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 12. Best value framework NHS Shetland should implement an annual Best Value report to allow the Board to make informed conclusions on the performance of their duties under the requirements of Best Value. **Original date** 30 April 2024	**Work in progress** **Revised action** As part of the Governance Committee, other committees and various annual service reports these are asked to illustrate best value. The Governance Committees have submitted their reports including how they delivered Best Value that been shared with external audit. All the other reports required to complete a full analysis review of 2023-24 are yet to be received and per the Board's business cycle will be October 2024 before this is likely to be completed. Once done, November Finance and Performance Committee will receive draft report for comment and approval at for final review at December Board meeting. **Responsible officer** Director of Finance **Revised date** December 2024	**Implemented** The Board has implemented a comprehensive review of performance which includes the views of all key committees as to their delivery of Best Value through their work. All of these reports are then considered by the finance and performance committee prior to their review of the proposed governance statement. This process is sufficiently robust for the Board to make an informed decision on its performance under Best Value duties.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 13. Financial Sustainability: Transformational change NHS Shetland needs to put appropriate infrastructure in place to deliver the required transformational change This needs to include a dedicated officer who is primarily responsible for driving transformational change and ensuring a consistent approach is taken across the organisation. The Transformational Change Board needs to work with wider stakeholders to identify areas of real transformational change which can be progressed, including consideration of alternative service delivery models It is imperative that transformational change is driven from the top, with the Chair and the Chief Executive giving it the clear priority and associated resources that it deserves. **Original date** Previous auditor's recommendation	**Work in progress** **Revised action** Project Management Office (PMO) recommended by previous External Auditors no longer in place. Focus is now on strategic planning and delivery cycle as set out in Chief Executive's priorities. Investment in the planning team is through recycling the resource previously invested in the PMO. A Finance and Sustainability Group has now been established to oversee Transformational Change. This group will report to the Finance & Performance Committee to ensure appropriate governance is in place. **Responsible officer** Chief Executive **Revised date** March 2025	**Implemented** The Finance and Sustainability Group has been set up. This group has the remit for identification of saving opportunities and service transformation at a board wide level. Group members include key management personnel, and the group regularly reports to the Finance and Performance Committee. The infrastructure implemented is seen as sufficient to allow identification and implementation of transformational change if used correctly.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 14. Financial Sustainability: savings plans NHS Shetland needs to develop detailed savings plans to address identified funding gaps. The approach to savings needs to be made more robust, as opposed to the 'salami slice' approach currently adopted, with additional efforts made to move away from reliance on non-recurring savings. Where savings cannot be identified, management and the Board need to work together to identify alternative methods of service delivery or changes to service provision which would be required to ensure NHS Shetland can achieve financial balance, accepting that there is a need to balance finances with performance and service delivery. **Original date** Previous auditor's recommendation	**Work in progress** **Revised action** As the previous Auditors were advised the Board did not and does not have a 'salami slice' approach to the delivery of efficiency services through redesign of services. Delegation of allocation of targets to Director or projects is not 'salami slice'. Executive Management Team still has corporate ownership of the Board's financial plan including addressing the gap. Operationally Finance and Sustainability Group has been established to oversee the development and review of Savings Plans. This group will report to the Finance & Performance Committee to ensure appropriate governance is in place. The identification of potential opportunities for service redesign, procurement or other opportunities to achieve best value in use of resource to improve outcomes will also include staff and managers across the organisation and our partners. **Responsible officer** Director of Finance **Revised date** Will always be on going as quality circle principles apply. Further efficiency savings will be perpetual in the public sector.	**Implemented** NHS Shetland is required to provide the Scottish Government with annual updates to its savings plan. The progress against the plan is internally monitored and updated and changes occur within the year. The year end result is then reported within the annual report and accounts. There is evidence that the NHS Shetland is attempting to identify a greater proportion of recurring savings to reduce this gap. The implementation of the Finance and Sustainability Group has the remit to aid in identification of new recurring saving schemes and service transformation. Progress against saving plans will continue to be reviewed by ourselves annually, however we consider this point resolved.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 15. Financial sustainability: Medium term financial planning NHS Shetland needs to ensure that its Five-Year Financial Plan outlines how anticipated spend over the medium term aligns with the key themes on public service reform (prevention, performance, partnership, people) and demonstrates a focus on improving outcomes. **Original date** Previous auditor's recommendation	**Work in progress** **Revised action** Current financial plan meets the Scottish Government requirement and has been approved for 2024-25. Longer term Finance and Sustainability Group has now been established to oversee Medium Term Financial Planning and work taking place during 2024-25 on the workforce plan will inform the planned changes to deliver the outcomes inherent within the plan as part of Annual Delivery Plan (ADP) that has been approved for 2024-25. New out-come measures may be developed in the future that will need incorporated into all aspects of the ADP. This group will report to the Finance & Performance Committee to ensure appropriate governance is in place. **Responsible officer** Director of Finance **Revised date** February 2025	**Implemented** NHS Shetland produces a combined annual and medium-term financial plan which must be approved by Scottish Government each year. Our review of the medium-term financial plan covering 2025/26-2027/28 has concluded that it is aligned with the overarching five-year strategy produced by NHS Shetland in 2024.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 16. Financial sustainability: workforce planning NHS Shetland needs to further develop its Workforce Planning, ensuring it is future focused, projecting the workforce against estimated changes in demographics and health factors. Accompanying this high-level analysis should be detailed plans which outline the expected workforce required, supported by analysis of workforce supply and demand trends. In doing this, NHS Shetland needs to cost the workforce changes needed and improve the accuracy of budgeting for agency spending. **Original date** Previous auditor's recommendation	**Work in progress** **Revised action** Chief Executive and all members of the Executive Management Team (EMT) 2024-25 objectives include creation of workforce plan. A Finance and Sustainability Group has now been established to oversee Workforce Planning across the Board. The group reports to the Finance and Performance Committee to ensure appropriate governance is in place. The group's work more routinely will be reviewed with EMT to ensure sense check and corporate ownership. **Responsible officer** Chief Executive **Revised date** March 2025	**Work in progress** The report is in the final stages of development. Final input from key stakeholders including finance and health and social care are still being sought. **Responsible officer:** Chief Executive **Revised date:** 31 December 2025

Appendix 2

Summary of misstatements

Details	Financial statements lines impacted	Statement of Comprehensive Net Expenditure (SoCNE)		Statement of Financial Position (SoFP)	
Adjusted misstatements		**Dr**	**Cr**	**Dr**	**Cr**
		£000	**£000**	**£000**	**£000**
1. Impairment of Gilbert Bain hospital					
	Impairment charges	4,258			
	Buildings - Cost				(4,258)
2. Recognition of Helyer MRI suite					
	Impairment charges		(925)		
	Buildings - Cost			925	
Net impact on financial statements		**3,333**			**(3,333)**

Appendix 3

Supporting national and performance audit reports

Report name	Date published
Local government budgets 2024/25	15 May 2024
Scotland's colleges 2024	19 September 2024
Integration Joint Boards: Finance and performance 2024	25 July 2024
The National Fraud Initiative in Scotland 2024	15 August 2024
Transformation in councils	1 October 2024
Alcohol and drug services	31 October 2024
Fiscal sustainability and reform in Scotland	21 November 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024
NHS in Scotland 2024: Finance and performance	3 December 2024
Auditing climate change	7 January 2025
Local government in Scotland: Financial bulletin 2023/24	28 January 2025
Transparency, transformation and the sustainability of council services	28 January 2025
Sustainable transport	30 January 2025
A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study	20 February 2025
Additional support for learning	27 February 2025
Integration Joint Boards: Finance bulletin 2023/24	6 March 2025
Integration Joint Boards finances continue to be precarious	6 March 2025
General practise: Progress since the 2018 General Medical Services contract	27 March 2025
Council Tax rises in Scotland	28 March 2025

NHS Shetland

2024/25 Annual Audit Report

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