

NHS Shetland

2023/24 Annual Audit Report



Prepared for the Board of NHS Shetland and the Auditor General for Scotland
25 June 2024

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Key messages

2023/24 annual report and accounts

1. Audit opinions on the annual report and accounts are unmodified.
2. There were no material adjustments arising from the audit of the annual report and accounts.
3. The 2023/24 annual report and accounts were certified on 25 June 2024, in line with the agreed audit timetable.

Financial management

4. NHS Shetland has effective and appropriate arrangements to secure sound financial management.
5. NHS Shetland operated within its resource limits for the financial year. It exceeded its target efficiency savings for the year, but under 20 percent of these were of a recurring nature.
6. Standards of conduct for prevention and detection of fraud and error are adequate but arrangements can be improved.

Financial sustainability

7. NHS Shetland has developed a three-year financial plan for 2024/25 to 2026/27 but further work is required to align it with public service reform themes and demonstrate focus on improving outcomes.
8. There are significant challenges in identifying and delivering recurring savings to support the medium-term financial plan.
9. The Board has made progress in reducing agency staff costs, but developing a sustainable workforce model remains the biggest challenge
10. Plans for service transformation have been developed and there is evidence of initial implementation.

Vision, leadership and governance

- 11.** NHS Shetland has a clear vision and strategy, with effective governance arrangement for delivery of its plans
- 12.** NHS Shetland has risk management arrangements that reflect the Board's risk appetite but there is scope for improvement.
- 13.** Work is needed to improve NHS Shetland's compliance with NIS testing and ensure they are meeting national cyber security standards.

Use of resources to improve outcomes

- 14.** NHS Shetland has appropriate arrangements for performance monitoring and reporting.
- 15.** Service performance reporting identifies achievement of targets is mixed. Waiting times have deteriorated, but in other areas NHS Shetland has maintained performance above the Scottish average.
- 16.** NHS Shetland has an appropriate and effective best value framework.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of NHS Shetland and will be published on Audit Scotland's website: www.audit-scotland.gov.uk in due course.
2. The scope of the audit was set out in an annual plan presented to the March 2024 meeting of the Audit and Risk Committee. This annual audit report comprises the significant matters arising from the audit of NHS Shetland's annual report and accounts and conclusions on the following wider scope areas, as set out in the [Code of Audit Practice](#).
3. We would like to thank directors and staff, particularly those in finance, for their cooperation and assistance during the course of the audit.

Responsibilities and reporting

4. NHS Shetland has responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts in accordance with the accounts direction from Scottish Ministers. NHS Shetland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.
5. The responsibilities of the independent appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the [Code of Audit Practice 2021](#) and supplementary guidance, and International Standards on Auditing in the UK (ISAs).
6. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation. Weaknesses or risks identified in this report are only those which have come to our attention during our audit work and may not be all that exist. Communicating these does not absolve management of its responsibility to address the issues we raise and from maintaining adequate systems of control.

Auditor independence

7. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We also confirm that we have not undertaken any non-audit related services, and therefore our audit fee of £100,740, as set out in the Annual Audit Plan, is unchanged. We are not aware of any relationships that could compromise our objectivity or our independence.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship of public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

The 2023/24 annual report and accounts were certified on 25 June 2024, in line with the agreed audit timetable.

There were no material adjustments arising from the audit of the annual report and accounts.

Audit opinions on the annual report and accounts are unmodified

8. The Board approved the annual report and accounts for NHS Shetland and its group for the year ended 31 March 2024 on 25 June 2024. The independent auditor's report included the following audit opinions on the annual report and accounts:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited parts of the Remuneration and Staff Report were prepared in accordance with the financial reporting framework
- the Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The unaudited annual report and accounts were submitted for audit on 14 May 2024 in line with the agreed timetable

9. We received the unaudited annual report and accounts in line with our agreed audit timetable. The spreadsheet accounts template, including consolidated group figures, was received for audit on 6 May 2024, with the narrative section of the accounts provided on 14 May 2024.

10. The accounts and working papers presented were of a good standard and management and finance staff provided excellent support to the audit team during the audit process. This helped ensure that the final accounts audit was completed in line with the audit timetable and the 2023/24 annual report and accounts were certified on 25 June 2024.

Our audit approach was based on the overall materiality level of £2.5 million

11. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements and impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

12. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit and documented in our annual audit plan. On receipt of the unaudited annual report and accounts we reviewed our planning materiality levels, summarised in [Exhibit 1](#), and concluded that they remained appropriate.

Exhibit 1 Materiality levels for the 2023/24 audit

| Materiality level | Amount |
|---|----------------------|
| Overall materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set based on our assessment of the needs of the users of the financial statements and the nature of NHS Shetland's operations. For the year ended 31 March 2024, we have set our materiality at 2 per cent of gross expenditure based on the audited financial statements for 2023/24. | £2.5 million |
| Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures | £1.75 million |

| Materiality level | Amount |
|--|-----------------------|
| are required. Using our professional judgement, we have assessed performance materiality at 70 per cent of overall materiality. | |
| Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. | £0.125 million |

Source: Audit Scotland

Audit work responded to the risk of material misstatement identified in the annual report and accounts

13. [Exhibit 2](#) sets out the significant risk of material misstatement to the financial statements. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Significant risk of material misstatement in the annual report and accounts

| Audit Risk | Audit Response | Conclusion |
|---|---|--|
| <p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> | <ul style="list-style-type: none"> Assessed the design and implementation of controls over journal entry processing. Detailed testing of transactions and journals with a focus on significant risk areas, including year-end and post-closedown entries. Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Considered the need to test journal entries and other adjustments throughout the period. | <p>We undertook detailed control and substantive testing of journal entries, accruals and invoices throughout the period. Our journal testing included a data analytics review to identify key risk factors.</p> <p>Our inquiries of officers regarding potentially inappropriate or unusual activity relating to the processing of journal entries and other adjustments confirmed that these were valid transactions.</p> <p>We did not identify any changes to the methods and underlying assumptions used to prepare significant</p> |

| Audit Risk | Audit Response | Conclusion |
|------------|---|---|
| | <ul style="list-style-type: none"> • Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Focussed testing of accruals and prepayments. • Evaluated significant transactions outside the normal course of business. • Assessed the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. | <p>accounting estimates compared to the prior year.</p> <p>We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We did not identify any significant transactions outside the normal course of business.</p> <p>We concluded that arrangements in place to identify related party relationships are largely appropriate, but the process and disclosure can be further improved (see significant findings and key audit matters at Exhibit 3)</p> <p>Conclusion: Our testing did not identify any instances of management override of controls.</p> |

Source: Audit Scotland

Significant findings and key audit matters

14. Under ISA (UK) 260, we are required to communicate significant findings from our audit, including our view about the qualitative aspects of the Board's accounting practices, to those charged with governance prior to the annual report and accounts being approved and certified.

15. The Code of Audit Practice also requires us to highlight key audit matters which are defined in ISA (UK) 701 are those matters judged to be of most significance.

16. The significant findings are summarised in [Exhibit 3](#). Our audit also identified other presentation and disclosure issues which were discussed with management. These were all adjusted in the audited annual report and accounts, and none were significant enough to be separately reported under ISA260.

Exhibit 3

Significant findings and key audit matters from the audit of the annual report and accounts

| Issue | Resolution |
|---|--|
| <p>1. Cash Flow Statement adjustments</p> <p>Government Financial Reporting Manual, para 7.4.2, requires bodies to exclude movements in debtors and creditors relating to capital items in reconciling the operating expenditure to operating cash flows. Our review of working papers and accounts template identified that these adjustments had not been made in the accounts presented for audit.</p> | <p>Presentational adjustments for capital creditors of £432,000 and donated asset income of £500,000 were made to the cash flow statement and associated notes in the audited annual report and accounts. These amendments had no impact on the net expenditure of the Board.</p> <p>We recommend that financial statement closedown procedures are updated to include ensure review, identify and adjust for capital items relating to debtors and creditors.</p> <p>Recommendation 1</p> <p>(refer Appendix 1, action plan)</p> |
| <p>2. Remuneration and staff report - missing pensions disclosures</p> <p>The Remuneration and Staff Report discloses pension information informed by calculations prepared by the Scottish Public Pensions Agency (SPPA). There have been significant delays in the provision of information from SPPA which have affected a number of public bodies across Scotland. Information in relation to one director at NHS Shetland was not received until late June.</p> | <p>NHS Shetland received the outstanding information in relation to the Medical Director's pension benefits prior to Board approval of the accounts, and updated the Remuneration and Staff Report to reflect this.</p> <p>The Government Financial Reporting Manual has been amended to allow alternative disclosure in future where pensions information is not available, to avoid delays in certifying accounts. This alternative disclosure applies to Scottish NHS bodies.</p> |

| Issue | Resolution |
|---|--|
| <p>3. Remuneration and staff report – opening CETV disclosure</p> <p>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 manner in which 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.</p> | <p>Opening CETV values and movements in the year, for both the current and prior year disclosures, were amended in the audited annual report and accounts.</p> <p>We recommend that closedown procedures and checklists are updated to include management consideration of information provided by management’s experts, including a reasonableness check. This should include checks that the correct payroll data has been used by SPPA in pension benefit calculations.</p> <p>Recommendation 2</p> <p>(refer Appendix 1, action plan)</p> |
| <p>4. Service auditor qualification</p> <p>NHS boards across Scotland rely on other organisations for the provision of shared systems and services. These services form part of NHS Shetland’s information system which is relevant to the preparation of financial statements and we consider them as part of our audit procedures in line with ISA402.</p> <p>Control weaknesses were identified within NHS National Services Scotland which resulted in the service auditor issuing qualified opinions. Further details on the systems affected and nature of issues identified are set out in paragraph 32</p> | <p>Having considered the qualifications in the context of other mitigating controls at both NHS National Services Scotland and NHS Shetland, and our assessment of materiality, we are content that no change in our audit approach was required.</p> |
| <p>5. Related Party Transactions – review and disclosure</p> <p>NHS Shetland has arrangements in place to identify and disclose significant related party arrangements in place during the financial year. Following audit testing on disclosures in the annual report and accounts, we concluded that all material related parties were identified and disclosed and transactions agreed to supporting documentation. However, we identified some areas for improvement:</p> <ul style="list-style-type: none"> – disclosures didn’t include an explanation of materiality. | <p>Good practice in Related Parties disclosure suggests including a specific explanation of the materiality threshold used by the body when assessing related party transactions. This will improve the quality of the disclosure.</p> <p>Procedures for documenting material related parties should be updated to ensure clearer links between underlying records and disclosure made.</p> <p>Recommendation 3</p> <p>(refer Appendix 1, action plan)</p> |

| Issue | Resolution |
|---|------------|
| <ul style="list-style-type: none"> – there was no clear link between figures in the register of interest (RoI) check spreadsheet and the values and categories of interests disclosed in the related parties note to the accounts. | |

Source: Audit Scotland

There were no identified material misstatements

17. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected but the final decision on making the correction lies with those charged with governance. Other than the corrected misstatement detailed in [Exhibit 3](#), the audit identified no misstatements above the reporting threshold.

Prior year recommendations have been progressed, but 8 have still to be fully implemented

18. Our 2022/23 annual audit report included 11 recommendations for improvement and 4 brought forward from the previous appointment round (i.e. made by predecessor auditor). NHS Shetland has made good progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

NHS Shetland has effective and appropriate arrangements to secure sound financial management.

Budget setting processes were appropriate but there is scope to improve monitoring arrangements.

NHS Shetland operated within its resource limits for the financial year. It exceeded its target efficiency savings for the year, but under 20 percent of these were of a recurring nature.

Standards of conduct for prevention and detection of fraud and error are adequate but arrangements could be improved.

Budget setting processes were appropriate but there is scope to improve monitoring arrangements

19. Our review of the overall budget setting process at NHS Shetland concluded that it is comprehensive and involves consultations with individual departments to give a bottom-up cost pressure analysis. This is then analysed from the top-down perspective, taking account of the pressures across the organisation. This holistic approach is used to decide where resource can be allocated and feed into the medium-term financial plan, which is then submitted to the Scottish Government to inform of the NHS Shetland spend intentions.

20. Wrap around meetings of key service areas are held at the beginning and end of the process to ensure clear communication, provide an opportunity for feedback and promote joined up working across the organisation.

21. We reviewed the Board's budget monitoring processes as part of our controls work. The monitoring process is informed by regular meetings between budget holders and finance staff. During the 2022/23 audit we noted a lack of formal recording of some meetings with Estates department. While this has now been addressed, audit review during 2023/24 highlighted irregular frequency of

scheduled meetings in other departments and limited documentary evidence of the meetings held.

Recommendation 4

In order to demonstrate appropriate scrutiny of budgets, regular scrutiny meetings with departments should be held and outcomes documented.

NHS Shetland operated within its resource limits for the financial year

22. 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. In each year, NHS Boards have 1% flexibility on their annual resource budget to allow scope to marginally under or over-spend.

23. In January 2024, the Board were projecting an overspend of £2.3 million. By the end of the financial year, the Board achieved a breakeven position through a combination of effective budget monitoring and additional funding including £1.2 million of non-recurring funding for staff costs. [Exhibit 4](#) shows that the Board operated within its limits during 2023/24.

Exhibit 4

Performance against resource limits in 2023/24

| Performance against resource limits set by SGHSCD | Resource Limit £m | Actual £m | Underspend £m |
|---|----------------------|---------------|------------------|
| Core revenue resource limit | 79.418 | 79.418 | 0.00 |
| Non-core revenue resource limit | 2.813 | 2.813 | 0.00 |
| Total revenue resource limit | 82.231 | 82.231 | 0.00 |
| Core capital resource limit | 2.696 | 2.696 | 0.00 |
| Non-core capital resource limit | 0.500 | 0.500 | 0.00 |
| Total capital resource limit | 3.196 | 3.196 | 0.00 |
| Cash requirement | 85.752 | 85.724 | 0.028 |

Source: NHS Shetland Annual Report and Accounts 2023/24

24. NHS Shetland's capital outturn for the year was £3.196 million, an increase of £1.016 million on prior year. This consisted of a total capital allocation for 2023/24 of £2.696 million received through Scottish Government, which was primarily used towards the construction costs of buildings to house a new MRI scanner. A further £0.500 million donated assets were secured from Shetland Charitable Trust as a contribution towards these infrastructure costs.

25. Despite increased capital funding in 2023/24, the Scottish Government has introduced a two-year moratorium on major NHS construction projects, including the planned replacement of the Gilbert Bain Hospital, which is also a key milestone on the NHS Shetland's route to net zero carbon emissions. This also means that the Board has to closely monitor the Scottish Government position on the matter and adapt its transformational plans accordingly.

Shetland Islands Integration Joint Board required additional funding

26. Shetland Islands Integration Joint Board (IJB) required additional year-end funding from NHS Shetland of £1.347 million to breakeven, due largely to the impact of agency and locum staffing costs incurred. This was provided on a non-recurring basis and represents a decrease of £1.711 million (or 56%) from the additional funding provided in 2022/23.

NHS Shetland exceeded its target efficiency savings for the year, but under 20 percent of these were of a recurring nature

27. In its original budget for 2023/24, NHS Shetland was required to make efficiency savings of £2.580 million or 4 per cent of its baseline resource allocation, to achieve financial balance. NHS Shetland reported delivery of £2.7 million savings at the year-end.

28. While savings in excess of the target were generated, only £0.5 million of these were of a recurring nature. As noted in the report section on financial sustainability, reliance on non-recurring savings increases the pressure to find savings in future years (see paragraph [56](#)). The underlying deficit for Board has increased from the prior year to £2.066 million.

Key financial controls were in place during the year, however there is some scope to strengthen arrangements

29. Audit Scotland's Code of Audit Practice requires us to assess the key systems of internal financial control put in place by management. This allows us to gain assurance that NHS Shetland has systems that provide a sound basis for the preparation of the financial statements.

30. We did not identify any significant internal control weaknesses which affected NHS Shetland's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the

financial statements. However, we did identify scope to improve the evidencing of established checks, including formally documenting:

- management review of reasonableness of asset indexation data provided by the management expert, Gerald Eve
- checks on the feeder system reconciliations for FHS and JAC Pharmacy transactions.

31. In addition, we identified that due to staff absence, reconciliation controls in the accounts payable system were not in operation during the full financial year. Our standard audit procedures performed during the final accounts stage provided sufficient assurance that trade and other payables account area were not materially misstated.

Recommendation 5

Control checks performed by officers should be documented and the evidence retained to maintain a clear audit trail.

Control weaknesses within NHS National Services Scotland resulted in the service auditor issuing qualified opinions but mitigating controls meant that no change in our audit approach was required

32. NHS boards across Scotland rely on other organisations for the provision of shared systems and services. These services form part of NHS Shetland's information system which is relevant to the preparation of financial statements and we consider them as part of our audit procedures in line with ISA402.

33. NHS Ayrshire & 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 last year for the IT general controls, system backup and disaster recovery remains. This continues to be a risk for NHS Scotland that needs to be addressed, but it did not impact on our 2023/24 audit.

34. NHS National Services Scotland procures service audits covering Practitioner and Counter Fraud Services (primary care payments), payroll and the national IT services contract that supports the associated systems. The service auditor report relating to payroll was unqualified, with minor qualifications noted in the other reports.

35. For the Practitioner and Counter Fraud Services the Type II service audit resulted in a qualified opinion on the controls relating to dental payments as the controls associated with the objective: "*Controls provide reasonable assurance*

that: GDS payments are made completely and accurately based on authorised claims to the valid contractors; GDS payments are made only once; and Verification is performed in accordance with Scottish Government Guidance” did not operate effectively during the year.

36. For the national IT services contract the Type II service audit also 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.

37. Having considered these qualifications in the context of other mitigating controls at both NHS National Services Scotland and NHS Shetland, and our assessment of materiality, we are content that no change in our audit approach was required.

Standards of conduct for prevention and detection of fraud and error are adequate but arrangements could be improved

38. In the public sector there are specific fraud risks, such as those relating to prescription fraud, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

39. Our conclusion is that NHS Shetland 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
- Counter Fraud Service Reports
- post payment verification reporting
- the national fraud initiative; and
- internal audit reports.

40. However, some core governance documents have not been subject to regular review. Standing orders were reviewed by the Board in April 2024, but were last reviewed in 2021. The fraud and corruption policy has not been reviewed since 2018. The lack of regular review presents a risk that these key documents may be outdated and do not reflect current best practice.

Recommendation 6

Key policy and process documentation such as standing orders, financial regulations, fraud and corruption policies should be subject to regular review to ensure they remain relevant and fit for purpose.

NHS Shetland actively engages with the National Fraud Initiative

41. The National Fraud Initiative (NFI) is a counter-fraud data matching exercise across the UK public sector which aims to prevent and detect fraud. NHS Shetland participates in this biennial exercise. The 2022/23 exercise concluded during the 2023/24 financial year and the final NFI report is due to be published in Summer 2024.

42. We reviewed the arrangements in place at NHS Shetland and found these were working well. We confirmed that the requested data was provided on time and data matches were investigated promptly which is recognised as a good practice.

43. Audit Scotland issued a self-appraisal checklist to support bodies which participate in the NFI process. This checklist was considered by the Head of Finance in preparing a report on NFI for the Audit and Risk Committee. Best practice is for the Audit and Risk Committee as well as the staff who lead the NFI process to review the checklist, to inform the Board's NFI planning, approach, and progress. We encourage NHS Shetland to share the checklist with the Audit and Risk Committee for future NFI exercises.

Long term outward secondments may create risks for the Board and arrangements should be reviewed

44. Many secondments of staff are organised between boards to support the right staff being in place across Scotland to provide health services. Under a secondment agreement the outward secondee's employment contract remains with the employer body, with costs being reimbursed by the body seconding in the employee. The employer body is exposed to any risks related to staff seconded to other bodies as they remain employees of the board.

45. Secondments should generally be short term arrangements where the secondee's substantive post with the employer body is not filled on a permanent basis due to the expectation that they will return to that post at the end of their secondment.

46. During 2023/24, two staff were seconded out from NHS Shetland. Both secondments have been subject to extensions, with one due to finish in 2024 and the other in 2026. The period of both secondments will exceed 4 years. These staff remain on the Board payroll and are included in the staff costs in

Note 3 within the accounts, with amounts reimbursed reflected through income in Note 4. Their Board posts have been filled on a permanent basis.

Recommendation 7

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.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusions

NHS Shetland developed a three-year financial plan for 2024/25 to 2026/27 but further work is required to align it with public service reform themes and demonstrate focus on improving outcomes.

There are significant challenges in identifying and delivering recurring savings to support the medium-term financial plan.

The Board has made progress in reducing agency staff costs, but developing a sustainable workforce model remains its biggest challenge.

Plans for service transformation have been developed and there is evidence of initial implementation.

47. In our 2023/24 Annual Audit Plan we identified a wider scope audit risk relating to the board's financial sustainability. Our audit findings from the work done on this area are recorded below.

48. We have reviewed NHS Shetland's three-year financial plan, covering 2024-2027. There is good evidence that consideration is given to increasing cost pressures over this period. However, much of the savings required to be made by the board have yet to be identified, particularly in the later years of the plan. This poses a risk to the ability of NHS Shetland to balance its budget without assistance from Scottish Government and impacts their financial sustainability.

Rising demand, operational challenges and rising costs have exacerbated the financial position of the NHS in Scotland

49. As highlighted in Audit Scotland's [NHS in Scotland 2023](#) report, the financial position is concerning across the health sector. Despite growth in health funding a range of financial pressures are presenting a significant challenge for all health boards. The key messages from the report are:

- Significant service transformation is required to ensure the financial sustainability of Scotland's health service. Rising demand, operational challenges and increasing costs have added to the financial pressures on the NHS and, without reform, its longer-term affordability.
- The NHS, and its workforce, is unable to meet the growing demand for health services. Activity in secondary care has increased in the last year but it remains below pre-pandemic levels and is outpaced by growing demand. This pressure is creating operational challenges throughout the whole system and is having a direct impact on patient safety and experience.
- There are a range of strategies, plans and policies in place for the future delivery of healthcare, but no overall vision. To shift from recovery to reform, the Scottish Government needs to lead on the development of a clear national strategy for health and social care. It should include investment in preventative measures and put patients at the centre of future services. The current absence of an overall vision makes longer-term planning more difficult for NHS boards.

NHS Shetland has prepared a medium-term financial plan in line with Scottish Government requirements but further work is required to align it with public service reform themes and demonstrate focus on improving outcomes

50. The significant cost pressures already experienced by public bodies are likely to continue. As highlighted in Audit Scotland's [NHS in Scotland 2023](#) report, the financial position is concerning across the health sector, despite the health budget increasing in real terms since 2013/14. A range of financial pressures are presenting a significant challenge for all health boards. These include:

- Inflation
- recurring pay pressures
- rising prescribing costs
- a growing capital maintenance backlog.

51. NHS Shetland's Medium-Term financial plan 2023-24 to 2025-26 was approved by the Board in June 2023. An updated plan covering 2024-2027 has been approved by Scottish Government in April 2024, and it assumes core funding of £62.4 million annually.

52. Forecasts in the financial plan are based on several assumptions, including allocation uplifts, inflationary costs, and pay growth. The forecast excludes pay increases because it is considered that Scottish Government will provide funding to cover this. This is likely to be the largest increase to expenditure. The

largest predicted increase for non-pay expenditure is prescribing across primary and acute care, which is predicted to increase by £0.521 million in 2024/25.

53. Further work will be required by NHS Shetland to ensure the medium-term financial planning considers key themes on public service reform or demonstrates focus on improving outcomes (**recommendation b/f 14** in [Appendix 1](#)).

The financial plan has identified a small funding gap in 2024/25, even if savings targets are achieved in full

54. Following the agreement of the three-year financial plan 2024-2027, the Scottish Government provided no additional financial support to NHS Shetland across the last 2 financial years.

55. The financial plan for 2024/25 has identified that after delivery of £4.482 million in recurring and non-recurring savings, there will be a £0.730 million funding deficit for the year. This amounts to less than 1 per cent of the planned resource budget for the year. However, £0.896 million of the savings figure for 2024/25 have yet to be identified and may therefore not be achieved. NHS Shetland will need to proactively manage its expenditure to ensure it is able to reach a balanced outturn without further funding from Scottish Government.

There are significant challenges in identifying and delivering recurring savings to support the medium-term financial plan

56. As noted in paragraph [27](#), achievement of the savings target in 2023/24 was heavily reliant on non-recurring savings. This remains the case for each of the 3 years covered in the medium-term financial plan. As reported in prior years (**recommendation b/f 13** in [Appendix 1](#)), NHS Shetland needs to achieve more recurring than non-recurring savings to secure its long-term financial sustainability.

57. To achieve a sustainable financial balance over the 2024-25 to 2026-27 period, NHS Shetland needs to deliver £5.616m recurring efficiency savings and a further £4.955m in non-recurring savings. In the 2023/24 financial year NHS Shetland delivered £0.495 million in recurring savings, significantly below the £2.580 million target. Despite this the Board has continued to achieve the overall target through delivery of non-recurrent savings. It is noted that this target was based on 4 per cent of RRL, however the savings target for 2024/25 onwards will be 3 per cent of RRL, equating to £1.872m per year.

58. The proposed savings plan covering 2024/25-2026/27 highlights a significant gap between identified sources of savings and the target. In 2024/25 only £0.934 million of the £1.872 million recurring savings target has been identified and costed, with the remainder either in development or to be identified. For the following two years there is £0.291 million of planned recurring savings, with £0.783 million in development and £2.931 million yet to be identified. This highlights the significant work still required by NHS Shetland

to identify and deliver on recurring savings if financial sustainability is to be achieved in line with agreed targets.

The Board has made good progress in reducing agency staff costs, but attracting and retaining a sustainable workforce is the biggest challenge faced by NHS Shetland

59. NHS Shetland made progress in reducing agency staff costs by 20 per cent from £8.136 million in 2022/23 to £6.479 million in 2023/24. However, significant challenges remain around staff recruitment and retention which is an on-going issue as reported in prior years (**recommendation b/f 15** in [Appendix 1](#)).

60. Staffing remains the most significant cost for health boards and this will continue to increase. NHS Shetland has historically been reliant on agency and locum staff due to a mixture of national and local factors. Actions taken to address recruitment and retention include:

- increasing Advanced Practitioner Nurse numbers to change service delivery model
- hosting remote and rural GP recruitment hub for bank GP staff
- use of TempRE direct engagement model, hosted via third party partner, to mitigate the use on staff outwith the NHS standard terms and conditions.

61. The most recent outturn has shown a 20 per cent (£1.657m) reduction in agency and locum costs, which is a positive trend for the health Board.

62. Workforce remains a key strategic risk and the Board is developing a workforce plan, due for publication in 2024/25, which aims to reflect planned service redesign and support the medium-term financial plan.

There is evidence of progress of service transformation planning to improve sustainability but action is needed to drive change

63. The transformation of services is ongoing, with a five-year strategic delivery plan presented to the Board in April 2024. The plan identifies three key drivers to achieving sustainability in the organisation: replacement and upgrading of aged estate, innovation in working methods, and development of workforce. Addressing these issues will be key in transforming services at NHS Shetland and achieving longer term financial sustainability.

64. There is evidence some progress has been made. Installation of a new MRI scanner has been completed and will be operational within 2024/25, improving service provision on the islands and reducing associated patient travel cost. A five-year digital strategy was also presented to the Board in December 2023, which aims to improve efficiency in practices through the use of new

technologies. However, the detail is insufficient to understand the full impact at this time.

65. We also recognised that NHS Shetland's Excellence in Care Awards is a good example of an effort by the staff to develop new ways of working, engaging with patients and the community to develop services that best meet people's needs. The Board should ensure these innovations are shared with other health boards in a spirit of cooperation and partnership working to spread good practice in health care provision across Scotland.

66. As previously recommended (**recommendation b/f #12** in [Appendix 1](#)), the Board could benefit from putting in place appropriate arrangements to secure delivery of the transformational plans it now has in place.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusions

NHS Shetland has a clear vision and strategy, with effective governance arrangement for delivery of its plans

NHS Shetland has risk management arrangements that reflect the Board's risk appetite but there is scope for improvement

Work is needed to improve NHS Shetland's compliance with NIS testing and ensure they are meeting national cyber security standards

NHS Shetland has a clear vision and strategy

67. NHS Shetland's Strategic Delivery Plan 2024-2029 was presented and approved at the Board's meeting in April 2024. It aligns with national strategic direction and outlines the proposal for achieving the organisation's vision and strategic intent.

68. The three core objectives are to:

- Provide excellent services for people
- Create the conditions for a sustainable organisation
- Support the building blocks of healthy communities

69. These are further underpinned by six high priority areas of focus for the next 3-5 years. The plan is linked to a number of other strategies and plans which were used either as foundations or as enablers of the Strategic Delivery

Plan and the appropriate arrangements will need to be put in place to ensure all of these are effectively reviewed, renewed and aligned.

70. Further work also continues to ensure the plan is effectively monitored and meaningful performance reporting arrangements are in place. The plan is a positive step forward for NHS Shetland to have a clear vision and strategy for the future.

Governance arrangements are effective and appropriate

71. 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.

72. Papers and minutes for Board meetings, including financial and performance information are available on NHS Shetland's website. Scrutiny arrangements are working well in NHS Shetland and all members of committees participate.

73. In prior year, we reported that NHS Shetland should ensure more robust management of the policies register to ensure reviews are conducted on a timely basis (**recommendation b/f 10** in [Appendix 1](#)). This was also the case with the IT strategy and disaster recovery plans which were outdated (**recommendation b/f 9** in [Appendix 1](#)).

74. This year we identified further key governance documents with outstanding reviews. There is scope to strengthen NHS Shetland governance arrangements by ensuring robust arrangements are in place and we have already recommended improvement (see paragraph [40](#)).

NHS Shetland has risk management arrangements that reflect the Board's risk appetite but there is scope for improvement

75. NHS Scotland bodies are subject to the requirements of the SPFM and must operate a risk management strategy in accordance with relevant guidance issued by Scottish Ministers.

76. NHS Shetland's Risk Management Strategy purpose is to achieve a consistent and effective application of risk management and enable it to be embedded into all core processes, forming part of the day-to-day management activity of the organisation. It aims to create a safety culture by embedding risk management throughout the organisation, provide organisational leadership of risk management, provide the tools and training to support risk management in order to promote reporting and ensure lessons are learned and changes in practice are implemented through the identification of risk.

77. The strategy is clear and encompasses all the expected components of a risk management strategy, including a clear risk review requirement based on the level of risk, i.e. very high risks reviewed monthly, low risks reviewed yearly,

etc. Strategic Risk Register (SRR) is subject to scrutiny and discussion on an ongoing basis by the Board and Audit and Risk Committee. Although some risks may not be agreed in the final version there is evidence from the meetings that the SRR remains under constant review.

78. Our review of risk register identified however, that risk relating to Information Governance Training (SR06) has been reporting for years a consistently low update in mandatory training for staff around information governance. This risk has seen a raise in the risk level to 16 points. This risk is noted to have inadequate controls due to their failure to resolve this position. Furthermore, Internal Audit Plan reports that the compliance isn't only low but is trending down. This risk increases the Board's risk of an information governance breach, regulatory action (including financial penalty) and even can result in harm to patients.

79. Mandatory training is an essential requirement for all staff to ensure safe and efficient delivery of services and helps to reduce organisational risks, comply with legislation, regulation and guidance.

Recommendation 8

Staff uptake of information governance and any other mandatory training should be prioritised to ensure this risk is mitigated to an acceptably low level.

Work is needed to improve NHS Shetland's compliance with NIS testing and demonstrate they are meeting national cyber security standards.

80. There continues to be a significant risk of cyber-attacks to public bodies. Recent incidents such as those at [NHS Dumfries and Galloway](#) and [Comhairle nan Eilean Siar](#) have demonstrated the significant impact they can have on both the finances and operation of an organisation.

81. As part of our audit planning work, we undertook a review of the Board's use of information technology. We noted some improvements in documentation for NHS Shetland with the publication of a new IT strategy and Disaster Recovery Plan. However, engagement with the IT team was challenging at times with information requests being slow to fulfil.

82. NHS Shetland were subject to an interim audit in November 2023 by Cyber Security Scotland to assess their compliance against 427 controls required by network and information systems (NIS) regulations. NHS Shetland performed poorly with only 29% of these controls achieving the required pass mark. The overall compliance score given was 35%. It was noted in the report that 82% of the controls rated as 'not achieved' were due to a lack of evidence being provided by the IT team. The report stated that failure to submit evidence in a

timely manner had been a significant issue for the past three years, giving NHS Shetland the worst “on-time” submission rate of Scottish health boards.

83. The NIS report recommended that the resources allocated, and the commitment of governance and leadership to the NIS audit be reviewed to ensure greater compliance. It also identified several areas for specific improvement based upon the results of testing, recommending the Board consider whether there is need for a dedicated cyber security staff member to ensure it has the necessary capacity and expertise.

84. 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.

Recommendation 9

NHS Shetland need 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.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

NHS Shetland has appropriate arrangements for performance monitoring and reporting.

Service performance reporting identifies achievement of targets is mixed. Waiting times have deteriorated, but in other areas NHS Shetland has maintained performance above the Scottish average.

NHS Shetland has an appropriate and effective best value framework.

NHS Shetland has appropriate arrangements for performance monitoring and reporting

85. NHS Shetland reports to the Finance and Performance Committee and the Board regularly throughout the year on performance against a range of national and local measures and standards. Reports focus on a suite of monthly and quarterly indicators linked to national and local priorities.

86. During 2023/24, performance reports covered performance against the 18 national measures including A&E, Inpatient and Outpatient waiting times, and provision of cancer, mental health, and drug and alcohol services, along with a further 18 indicators linked to service delivery and local priorities.

Service performance reporting identifies achievement of targets is mixed

87. The 2023/24 annual report and accounts includes a summary of the Board's performance against eight key non-financial indicators that Audit Scotland reported on prior to the Covid-19 pandemic. The Board achieved four of the eight target waiting times for the year, in relation to:

- diagnostic test referrals
- referrals for specialist mental health services
- decision to treat through to start of treatment for primary cancers
- drug and alcohol referrals.

88. Two of the other measures, GP referral waiting times and A&E discharge times, were within 10 percent of the national targets. The remaining two measures were outwith 10 percent of the national target but showed improvement on the prior year. Further details are disclosed in the analysis of the clinical key performance statistics in the Performance Report.

Waiting times have deteriorated but in other areas NHS Shetland has maintained performance above the Scottish average

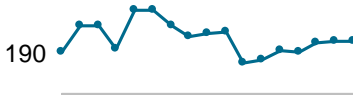
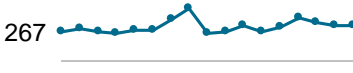



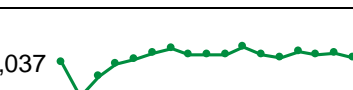



89. [Exhibit 5](#) on page 31 shows how activity and waiting times trends across all national indicators have changed since the Covid-19 pandemic and [Exhibit 6](#) on page 32 provides a comparison of current waiting times compared to prior years.

90. While the number of patients waiting for treatment is increasing, the percentage number waiting is significantly less in NHS Shetland compared to the Scottish average. Activity data remains static, similar to the national picture, although inpatient admissions have fallen over the year. The length of wait data has deteriorated on average across Scotland, with NHS Shetland deterioration significantly above national average for inpatient and outpatient admissions.

91. [Exhibit 6](#) shows that NHS Shetland's performance against cancer treatment waiting time from referral remains below the national average, although it has improved from prior year. Performance against the patient treatment time guarantee and the 18-week referral to treatment targets have dropped compared to prior year, however they remain above the national average. All other indicators show improvement and remain above national average.

Exhibit 5

Trends in demand, activity and length of waits

| Demand | Quarterly trend Mar 2020 to Mar 2024 | Change (%) | |
|---|---|--------------|--------------|
| | | NHS Shetland | NHS Scotland |
| Ongoing waits for diagnostic tests |  190 239 | ↑ 26% | ↑ 77% |
| Ongoing waits for an inpatient or day case admission |  267 329 | ↑ 23% | ↑ 98% |
| Ongoing waits for a new outpatient appointment |  728 1,416 | ↑ 95% | ↑ 108% |
| Activity | Quarterly trend Mar 2020 to Mar 2024 | Change (%) | |
| | | NHS Shetland | NHS Scotland |
| Number of scheduled elective operations in theatre system |  487 527 | ↑ 8% | ↓ 6% |
| Number of inpatient and day case admissions |  234 209 | ↓ 11% | ↓ 1% |
| Number of new outpatient appointments |  1,037 1,124 | ↑ 8% | ↓ 1% |
| Length of waits | Quarterly trend Mar 2020 to Mar 2024 | Change (%) | |
| | | NHS Shetland | NHS Scotland |
| Ongoing waits longer than 6 weeks for diagnostic tests |  20 34 | ↑ 70% | ↑ 237% |
| Ongoing waits longer than 12 weeks for an inpatient or day case admission |  17 162 | ↑ 853% | ↑ 279% |
| Ongoing waits longer than 12 weeks for a new outpatient appointment |  98 583 | ↑ 495% | ↑ 371% |

Source: [Public Health Scotland](#)

Exhibit 6**Performance against key waiting time standards**

| Target/standard | NHS Shetland performance | | | NHS Scotland |
|---|--------------------------|------------|--------------------|--------------------|
| | March 2022 | March 2023 | March 2024 | March 2024 |
| Cancer 62 Day Referral to Treatment target Proportion of patients that started treatment within 62 days of referral. | 82.4% | 44.4% | 50.0% ¹ | 71.1% ¹ |
| Cancer 31 Days Referral to Treatment target Proportion of patients who started treatment within 31 days of decision to treat. | 100% | 100% | 100% ¹ | 94.1% ¹ |
| 18 Weeks Referral to Treatment target Proportion of patients that started treatment within 18 weeks of referral. | 75.5% | 87.2% | 78.2% | 65.5% |
| Patient Treatment Time Guarantee Proportion of inpatients or day cases that were seen within 12 weeks. | 55.2% | 72.3% | 67.9% | 57.0% |
| 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. | 80.9% | 70.2% | 71.4% | 61.2% |
| A & E attendees Proportion of A&E attendees who were admitted, transferred or discharged within 4 hours. | 97.5% | 88.0% | 88.3% | 66.6% |
| Drug and Alcohol 21 days Proportion of drug and alcohol patients that started treatment within 21 days. | 100% | 100% | 100% ¹ | 90.6% ¹ |
| Children and Adolescent Mental Health Services Waiting Times Proportion of patients seen within 18 weeks of referral. | 100% | 73.5% | 100% ¹ | 83.8% ¹ |
| Psychological therapies Proportion of patients that started treatment within 18 weeks of referral. | 52.4% | 54.4% | 84.7% ¹ | 80.6% ¹ |

Note. 1: As the validated March 2024 data is not yet available for these measures, the December 2023 validated data has been used.

Source: [Public Health Scotland](#)

NHS Shetland's annual delivery plan has a series of actions designed to improve the sustainable delivery of healthcare

92. The Scottish Government requested NHS boards to produce annual delivery plans, focusing on planned actions in response to 10 nationally developed recovery drivers. NHS Shetland's 2023/24 annual delivery plan was approved by Scottish Government in the summer of 2023 and quarterly reports on improvement activity were submitted to the Board and Scottish Government.

93. The Board identified some key challenges in the delivery plan, including:

- development of a Digital Strategy to support and accelerate improvement activity
- delivering effective integrated workforce planning linked to future service delivery
- the urgent need to redesign services to ensure they remain sustainable.

94. A 2024-25 plan update was considered by the Board in April 2024, and approved by Scottish Government in May 2024. It reflected the continuing challenges around the financial sustainability of the existing service model, and the need for supplementary staffing to achieve some of the national standards.

NHS Shetland has an appropriate and effective best value framework

95. [*Ministerial guidance to Accountable Officers*](#) for public bodies and the [*Scottish Public Finance Manual*](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

96. NHS Shetland has an established Best Value framework which sets out the information and data sources used through the year to provide assurance to Board members on how the organisation is achieving Best Value. This includes annual reports from governance and other committees, outlining how they deliver Best Value through their work. Following completion of October business cycle, a summary report on the outputs from committees and service areas will be presented to the Board by the end of the calendar year (see **b/f recommendation 11** in [Appendix 1](#)).

Appendix 1. Action plan 2023/24

2023/24 recommendations

| Issue/risk | Recommendation | Agreed management action/timing |
|--|--|--|
| <p>1. Cash Flow Statement Adjustments</p> <p>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.</p> <p>Risk – This could result in a misclassification within the cash flow statement.</p> | <p>Closedown procedures should be updated to review, identify and adjust for capital items relating to debtors and creditors.</p> <p>Exhibit 3</p> | <p>Accepted</p> <p>The cause of the issue was discussed with External Audit and lesson learnt will now be in to the procedure notes for completing annual accounts spreadsheet template where the cash flow statement is created.</p> <p>Responsible officer: Head of Finance and Procurement</p> <p>Agreed date: August 2024</p> |
| <p>2. SPPA CETV Calculator</p> <p>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)</p> | <p>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</p> | <p>Accepted</p> <p>Accounts procedures to be updated to ensure correct figures are used.</p> <p>Responsible officer Head of Finance and Procurement</p> <p>Agreed date: March 2025</p> |

| Issue/risk | Recommendation | Agreed management action/timing |
|---|---|---|
| <p>incorrectly disclosed the opening balance adjusted for inflation. These figures were subsequently corrected.</p> <p>Risk – This can result in incorrect disclosure if the figures are not checked prior to inclusion in the draft accounts.</p> | <p>checking that the correct figures from the SPPA calculation are disclosed in the Remuneration Report.</p> <p>Exhibit 3</p> | |
| <p>3. Related Party Transactions review and disclosure</p> <p>Our work identified two improvement areas:</p> <ul style="list-style-type: none"> • Related party transactions disclosure doesn't include a materiality explanation. • The register of interest (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. <p>Risk – this can result in incomplete disclosure.</p> | <p>Including a specific explanation regarding materiality threshold used by the body when assessing related party transactions will improve the quality of the disclosure and is recognised good practice.</p> <p>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.</p> <p>Exhibit 3</p> | <p>Accepted</p> <p>Accounts procedures to be updated to address this recommendation.</p> <p>Responsible officer Head of Finance and Procurement</p> <p>Agreed date: March 2025</p> |
| <p>4. Evidence of budget monitoring</p> <p>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</p> | <p>To demonstrate appropriate scrutiny of budgets, regular scrutiny meetings with departments should be held and outcomes documented.</p> <p>Paragraph 21</p> | <p>Partially Accepted</p> <p>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.</p> |

| Issue/risk | Recommendation | Agreed management action/timing |
|--|---|---|
| <p>and limited documentary evidence of the meetings held.</p> | | <p>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.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: 30 September 2024</p> |
| <p>5. Controls documentation</p> <p>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:</p> <ul style="list-style-type: none"> • Management review of reasonableness of indexation provided by the management expert, Gerald Eve • Reconciliation between feeder systems (FHS and JAC Pharmacy) | <p>Control checks performed by officers should be documented and the evidence retained to maintain a clear audit trail.</p> <p>Paragraph 30</p> | <p>Partially accepted:</p> <p>Valuation/Indexation checklist is in place following prior year audit recommendation.</p> <p>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.</p> <p>Responsible officer: Head of Finance and Procurement</p> <p>Agreed date:</p> |

| Issue/risk | Recommendation | Agreed management action/timing |
|--|---|---|
| <p>6. Review of key documents</p> <p>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.</p> <p>Risk – The lack of regular review presents a risk that these key documents may be outdated and not fit for purpose.</p> | <p>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</p> <p>Paragraph 40</p> | <p>September 2024</p> <p>Partially accepted</p> <p>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.</p> <p>The Standing Financial instruction 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.</p> <p>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.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: 30 November 2024</p> |
| <p>7. Review of secondment arrangements</p> <p>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.</p> | <p>The Board should review secondees 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.</p> | <p>Partially accepted</p> <p>Service Level Agreements (SLAs) exists with Scottish Government as that is their preferred method to contract the services from colleagues.</p> <p>From Employment Law perspective these contracts should be treated as Fixed term and not Secondment.</p> |

| Issue/risk | Recommendation | Agreed management action/timing |
|--|---|--|
| <p>The Board remains exposed to any risk related to seconded staff during the period of secondment.</p> | <p>Paragraph 46</p> | <p>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.</p> <p>This is reported via the Workforce Report to the Staff Governance Committee and therefore this action point is already in place.</p> <p>Responsible officer:</p> <p>Director of Human Resources and Support Services</p> <p>Agreed date:</p> <p>Already actioned and will be reviewed on a continuous basis.</p> |
| <p>8. Low completion of mandatory staff training</p> <p>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.</p> <p>Risk – of an information governance breach, reputational damage, regulatory action</p> | <p>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.</p> <p>Paragraph 79</p> | <p>Accepted</p> <p>All members of the Executive Management Team have in their objectives the issue of tackling the Boards systemic issue in increasing staff participation in completing their Statutory and Mandatory Training obligations.</p> <p>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.</p> <p>Staff Governance committee will have overall lead upon seeking reporting and assurance on behalf of the Board. Other committees will also manage specific risks.</p> |

| Issue/risk | Recommendation | Agreed management action/timing |
|--|---|---|
| (including financial penalty) and potentially harm to patients. | | Responsible officer: Chief Executive Agreed date: 31 March 2025 |
| <p>9. NIS testing compliance</p> <p>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.</p> <p>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.</p> | <p>NHS Shetland need 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.</p> <p>Paragraph 80</p> | <p>Accepted</p> <p>Finance and Performance Committee received a redacted version of the NISR report in November 2023.</p> <p>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.</p> <p>Responsible officer: Director of Human Resources and Support Services</p> <p>Agreed date: Ongoing</p> |

Follow-up of prior year recommendations

| Issue/risk | Recommendation and Agreed Action | Progress |
|--|--|---|
| <p>b/f 1. Capitalisation of expenditure items</p> | <p>All asset addition forms should be provided to finance by year end, with clear and complete information. If necessary, finance should consult with the submitting departments to clarify the nature of expenditure. This will</p> | <p>Implemented</p> <p>Capital orders now routed to Head of Finance for review and pre-approval.</p> <p>Asset Addition Form procedures reviewed with clear deadlines set for the relevant officers to submit.</p> <p>Register held on dedicated share Teams channel for capital to allow identification</p> |

| Issue/risk | Recommendation and Agreed Action | Progress |
|---|--|---|
| | <p>ensure only allowable expenditure is capitalised.</p> <p>Original date March 2024</p> | <p>transparently in respect of outstanding addition forms.</p> <p>Audit testing in this area in 2023/24 did not highlight any issues.</p> |
| <p>b/f 2. Assets useful lives</p> | <p>The useful lives should be reviewed and updated in line with the valuer's report.</p> <p>Original date August 2023</p> | <p>Implemented</p> <p>Asset Lives reviewed and updated at each valuation report.</p> <p>This was confirmed through testing during financial statements audit.</p> |
| <p>b/f 3. Streamlining project</p> | <p>NHS Shetland should have a streamlining project going forward which will include cutting out lines and notes that are not relevant and reducing the narrative to the accounts.</p> <p>Original date May 2024</p> | <p>Implemented</p> <p>A short life working group for internal review of this year's report was established and considered the feedback received from Board members. The group reviewed and compared other Boards' accounts for 2022-23 and feedback was reflected in this year's report.</p> |
| <p>b/f 4. Capital – single user dependency</p> | <p>There should be additional users added to RAM and trained to provide contingency cover.</p> <p>Original date August 2023</p> | <p>Implemented</p> <p>Additional user was identified and undertook appropriate training for the system.</p> |
| <p>b/f 5. Capital validation checks</p> | <p>A checklist should be put in place to evidence the checks completed on capital revaluations.</p> <p>Original date August 2023</p> | <p>Implemented</p> <p>Documented procedure implemented for all future valuation reports.</p> <p>Procedures tested satisfactorily during financial statements audit.</p> |

| Issue/risk | Recommendation and Agreed Action | Progress |
|---|--|---|
| b/f 6. PoP Accruals – exception reporting | <p>Exception reporting over POP accruals listings should be completed and a review evidenced.</p> <p>Original date 30 September 2023</p> | <p>Implemented</p> <p>Process put in place to complete the loop to allow the evidencing of the close-off of items that are removed from the PoP accrual.</p> |
| b/f 7. Minutes of estates budget review meetings | <p>It is recommended that formal minutes are produced for all budget review meetings to ensure that NHS Shetland can demonstrate adequate scrutiny of budgets.</p> <p>Original date 30 September 2023</p> | <p>Superseded</p> <p>Summaries of action points and plans were created by Management Accounts and shared with budget holders to evidence key issues and actions to be completed.</p> <p>However audit review during 2023/24 identified deficiencies across other service areas – see paragraph 21 and Recommendation 4 (Appendix 1)</p> |
| b/f 8. Payroll services provided by NHS Grampian | <p>The annual assurance arrangements for the payroll services provided by NHS Grampian should be re-introduced.</p> <p>Original date April 2024</p> | <p>Work in progress</p> <p>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.</p> <p>SLA review meeting was held in February 2024 and revised version received from NHS Grampian. Currently under review for agreement and signoff.</p> <p>Responsible officer Director of Finance</p> <p>Revised date July 2024</p> |
| b/f 9. IT strategy and disaster recovery plan | <p>The IT strategy and disaster recovery plans should be updated.</p> <p>Original date</p> | <p>Implemented</p> <p>Disaster Recovery plan was shared with External Audit as part of the 2023-24 review process. NISR audit process also sought and reviewed the IT strategy and the disaster recovery plan. FPC received a</p> |

| Issue/risk | Recommendation and Agreed Action | Progress |
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| | 30 November 2023 | <p>redacted version of the NISR report in November 2023. Due to sensitive nature of the Disaster Recovery the Disaster Recovery Plan was not shared with FPC. Disaster recovery plan is continually reviewed and updated as not a static document as risks are continually evolving.</p> <p>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.</p> |
| <p>b/f 10. Review of policies</p> | <p>NHS Shetland should ensure more robust management of the policies register to ensure reviews are conducted on a timely basis.</p> <p>Original date</p> <p>30 September 2023</p> | <p>Work in progress</p> <p>Revised action:</p> <p>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.</p> <p>The policy register lists the lead individual, director and Governance committee.</p> <p>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.</p> <p>Project Management Office were last to attempt to capture the complete list that Quarterly reporting of IGG review.</p> <p>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.</p> <p>Responsible officer:</p> <p>Executive Management Team.</p> |

| Issue/risk | Recommendation and Agreed Action | Progress |
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| | | <p>Revised date</p> <p>Ongoing actions required.</p> |
| <p>b/f 11. Best value framework</p> | <p>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.</p> <p>Original date</p> <p>30 April 2024</p> | <p>Work in progress</p> <p>Revised action</p> <p>As part of the Governance Committee, other committees and various annual service reports these are asked to illustrate best value.</p> <p>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.</p> <p>Responsible officer</p> <p>Director of Finance</p> <p>Revised date</p> <p>December 2024</p> |
| <p>b/f 12. Financial Sustainability: Transformational change</p> | <p>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</p> | <p>Work in progress</p> <p>Revised action</p> <p>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.</p> <p>A Finance and Sustainability Group has now been established to oversee Transformational Change. This group will report to the Finance & Performance</p> |

| Issue/risk | Recommendation and Agreed Action | Progress |
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| | <p>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.</p> <p>Original date</p> <p>Previous auditor's recommendation</p> | <p>Committee to ensure appropriate governance is in place.</p> <p>Responsible officer</p> <p>Chief Executive</p> <p>Revised date</p> <p>March 2025</p> |
| <p>b/f 13. Financial Sustainability: savings plans</p> | <p>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.</p> | <p>Work in progress</p> <p>Revised action</p> <p>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'.</p> <p>Executive Management Team still has corporate ownership of the Board's financial plan including addressing the gap.</p> <p>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.</p> <p>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.</p> <p>Responsible officer</p> |

| Issue/risk | Recommendation and Agreed Action | Progress |
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| | <p>Original date</p> <p>Previous auditor's recommendation</p> | <p>Director of Finance</p> <p>Revised date</p> <p>Will always be on going as quality circle principles apply.</p> <p>Further efficiency savings will be perpetual in the public sector.</p> |
| <p>b/f 14. Financial sustainability: Medium term financial planning</p> | <p>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.</p> <p>Original date</p> <p>Previous auditor's recommendation</p> | <p>Work in progress</p> <p>Revised action</p> <p>Current financial plan meets the Scottish Government requirement and has been approved for 2024-25.</p> <p>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.</p> <p>New out-come measures may be developed in the future that will need incorporated into all aspects of the ADP.</p> <p>This group will report to the Finance & Performance Committee to ensure appropriate governance is in place.</p> <p>Responsible officer</p> <p>Director of Finance</p> <p>Revised date</p> <p>February 2025</p> |
| <p>b/f 15. Financial sustainability: workforce planning</p> | <p>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</p> | <p>Work in progress</p> <p>Revised action</p> <p>Chief Executive and all members of the Executive Management Team (EMT) 2024-25 objectives includes creation of workforce plan.</p> <p>A Finance and Sustainability Group has now been established to oversee</p> |

| Issue/risk | Recommendation and Agreed Action | Progress |
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| | <p>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.</p> <p>Original date</p> <p>Previous auditor's recommendation</p> | <p>Workforce Planning across the Board. The group reports to the Finance & Performance Committee to ensure appropriate governance is in place.</p> <p>The groups work more routinely will be reviewed with EMT to ensure sense check and corporate ownership.</p> <p>Responsible officer</p> <p>Chief Executive</p> <p>Revised date</p> <p>March 2025</p> |

NHS Shetland

2023/24 Annual Audit Report

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