

Contents

01 Our final report

Introduction	3
Our audit explained	6
<i>Financial statements audit</i>	
Significant risks	8
Other significant findings/ internal control	12
Our audit report	14
Your annual report	15
<i>Audit dimensions</i>	
Overview	18
Financial sustainability	19
Financial management	25
Governance and transparency	29
Value for money	35
Specific risks	38

02 Appendices

Purpose of our report and responsibility statement	41
Audit adjustments	42
Action plan	43
Fraud responsibilities and representations	55
Independence and fees	56

Introduction

The key messages in this report

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

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

I have pleasure in presenting our final report to the Audit Committee of NHS Shetland for the 2018/19 audit. The scope of our audit was set out within our planning report presented to the Audit Committee in November 2018.

This report summarises our findings and conclusions in relation to:

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



Introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date we expect to issue an unmodified audit opinion.

Following a number of amendments made as a result of our audit, the performance report and accountability report comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Board.

The auditable parts of the remuneration and staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 8. The Board met its financial targets for 2018/19, however this was only after receiving additional funding of £1.200m from the Scottish Government in January 2019. This funding was received to address a disparity raised by NHS Shetland in funding for Primary Care services compared to the other Island Boards.

There have been no misstatements in the year in excess of our reporting threshold of £65,000. We have identified a number of disclosure deficiencies which have been corrected by management as disclosed on page 42.

Status of the financial statements audit

Outstanding matters to conclude the audit include:

- Finalisation of internal quality control procedures;
- Receipt of final financial statements;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2019.

Conclusions on audit dimensions

As set out on page 3, our audit work covered the four audit dimensions. This incorporated the specific risks highlighted by Audit Scotland, in particular, the impact of EU withdrawal, the changing landscape for public financial management, dependency on key suppliers and increased focus on openness and transparency.

Our overall conclusion on each dimension is summarised on page 5.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial sustainability – In common with many health boards across Scotland, NHS Shetland is not in a financially sustainable position. While the Board is aware of its funding gap in the short-to-medium term, it is taking action to address this however it has not identified the necessary savings to address the £9.671m funding gap to 2023/24 and is increasingly reliant on non-recurring measures to breakeven. The Board needs to prioritise and progress transformational change, considering alternative methods of service delivery or taking difficult decisions such as changes to the level of service provided in order to reach a financially sustainable position in the medium-to-longer term.

Financial management – NHS Shetland has effective financial management processes in place. However, there is room for improvement in the budget setting process and the reporting of progress against and changes to the budget in year. The Board needs to consider whether there is sufficient capacity in its finance function, particularly in relation to the dual role of the Head of Finance & Procurement and Chief Financial Officer of the Integration Joint Board (IJB) given the increasing expectations and workload of the latter.

Governance and transparency – The Board promotes a culture of openness and transparency, although there is room for improvement and NHS Shetland needs to adopt an approach of always 'striving for more' in this regard. Scrutiny arrangements could be improved through the developing of tailored personal development plans for Board members, with the uptake and effectiveness of training monitored on an ongoing basis.

Although there have been a number of changes in senior positions in the year, we are satisfied that NHS Shetland has strong leadership in place. It is important that the change in leadership is appropriately managed to ensure that performance is not impacted and NHS Shetland needs to be aware of and work to mitigate the impact that changes in its leadership can have on other bodies it works with (particularly the IJB).

Value for money – The Board has identified that it has an inconsistent approach to continuous improvement, which undermines the achievement of Best Value. In addressing this issue, NHS Shetland needs to improve the robustness and use of business cases to evidence value for money in decision making.

While NHS Shetland's performance continues to fare well against the national average, performance against target has declined in 2018/19. Given the current financial position, the Board needs to consider the targets it sets and outline what it considers acceptable performance in lower-priority areas, ensuring such decisions are made through engagement with the wider community.

Our detailed findings and conclusions are included on pages 17 to 39 of this report.

Next steps

An agreed Action Plan is included at Appendix 43 of this report. We will consider progress with the agreed actions as part of our 2019/20 audit.

Added value

Our aim is to add value to the Board by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Board promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report, and in particular we have added value through our recommendations on workforce planning and agency spend, sharing best practice in this area. We also believe that our input has encouraged a constructive discussion of the Board's approach to openness and transparency and how it works to improve health and social care integration to improve outcomes for local residents.

We have also provided our separate 'Sector Developments' report, where we have shared our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to the NHS. We would encourage the Board to consider this as part of review of transformational change.

Our audit explained

Area dimensions

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

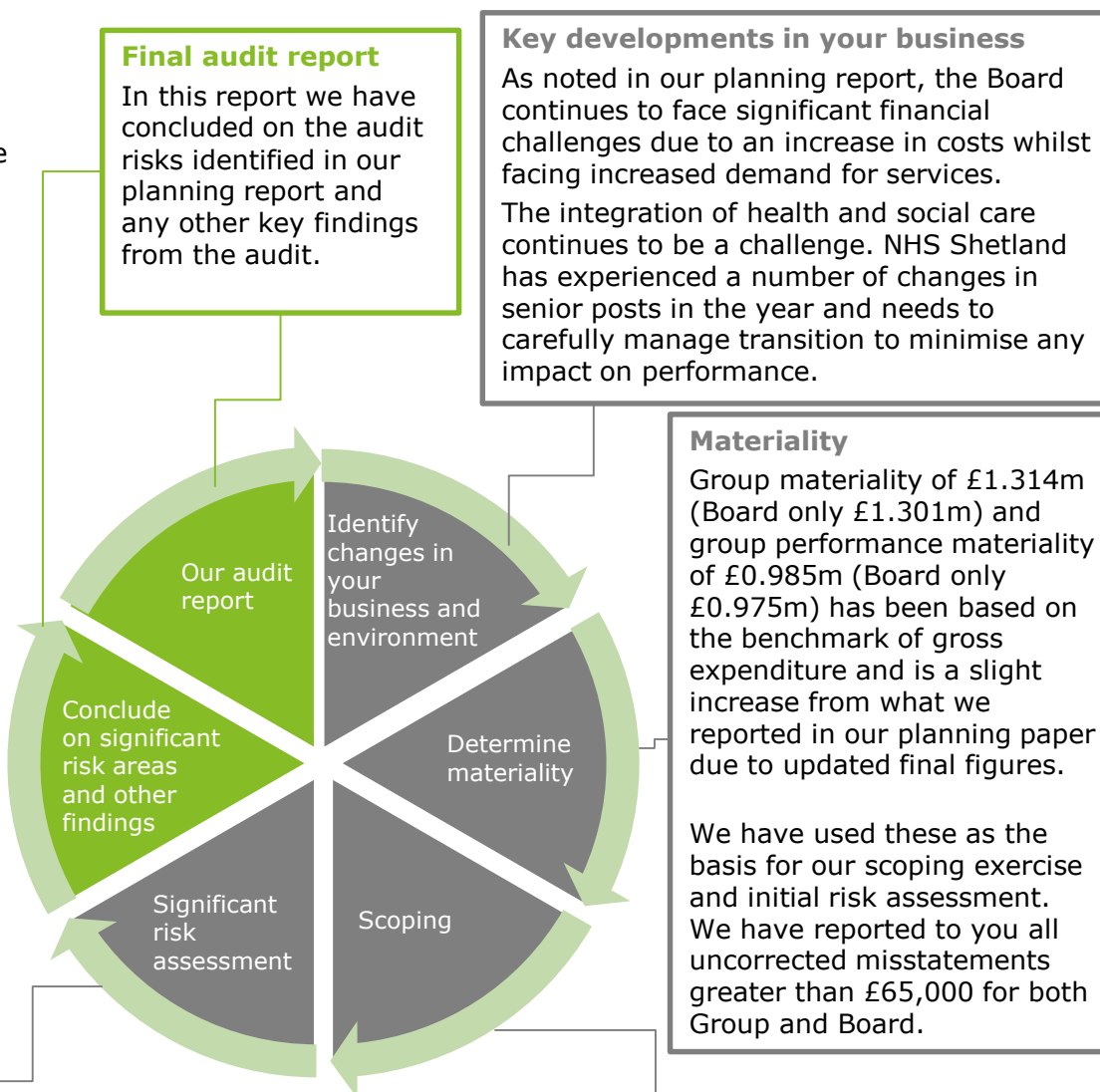
- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

Significant risks

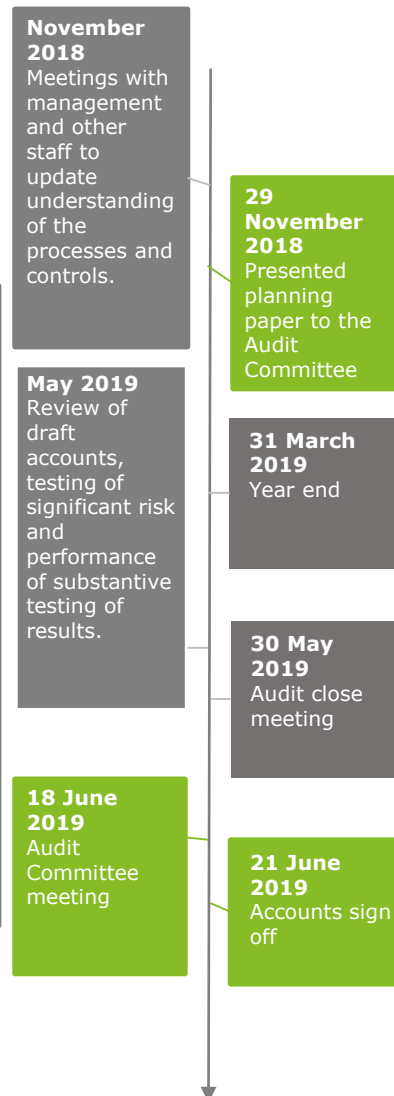
Our risk assessment process is a continuous cycle throughout the year. Page 8 provides a summary of our risk assessment of your significant risks.

Quality and Independence

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









Timeline 2018/19



Financial statements audit



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Achievement of expenditure resource limit			D+I	Satisfactory		Satisfactory	9
Management override of controls			D+I	Satisfactory		Satisfactory	10 - 11

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Risk 1 – Achievement of expenditure resource limits

Risk identified

There is a key financial duty for NHS Shetland to comply with the Revenue Resource Limit set by the Scottish Government Health and Social Care Directorate (SGHSCD).

There is a risk that the Board could materially misstate expenditure in relation to year-end transactions, in an attempt to align with its tolerance target or achieve a breakeven position or reduce the level of brokerage required. The significant risk is therefore pinpointed to accruals and prepayments made by management at the year-end and invoices processed around the year-end as this is the area where there is scope to manipulate the final results.



Key judgements and our challenge of them

Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.

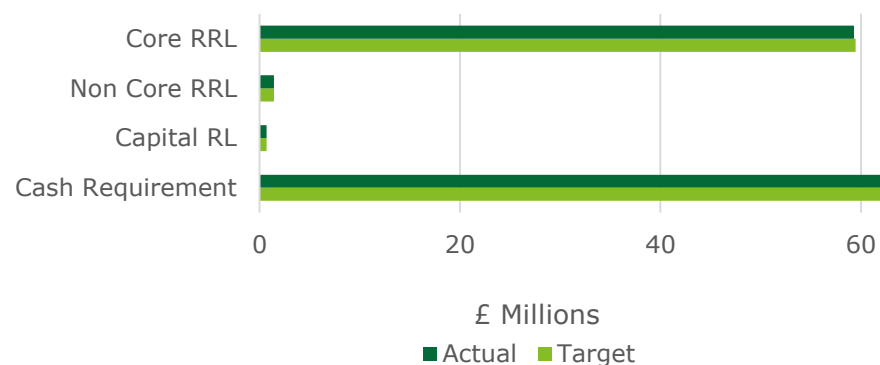


Deloitte response

We have evaluated the results of our audit testing in the context of the achievement of the target set by the Scottish Government. Our work in this area included the following:

- evaluating the design and implementation of controls around monthly monitoring of financial performance;
- obtaining independent confirmation of the resource limits allocated to NHS Shetland by the Scottish Government;
- performing focused testing of accruals and prepayments made at the year end; and
- performing focused cut-off testing of invoices received and paid post year end, given the increased risk of management delaying the recording of expenditure to meet the resource limit.

2018/19 Revenue Resource Limit Budget v Actual



Deloitte view

We have concluded that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers.

We confirm that NHS Shetland has performed within the limits set by SGHSCD and therefore is in compliance with the financial targets in the year. This was achieved due to additional funding of £1.200m from the Scottish Government. This brought direct funding NHS Shetland received for Primary Care in-line with other Island Boards.

NHS Shetland reported an underspend of £0.161m at the year-end, this was achieved by the carry forward of the prior year underspend of £0.088m, and therefore had an in-year underspend of £0.073m.

Significant risks (continued)

Risk 2 - Management override of controls

Risk identified

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



Deloitte response

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

- The Board's results throughout the year were projecting overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood and regular discussions were held with Scottish Government; and
- Senior management's remuneration is not tied to particular financial results.

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

Significant and unusual transactions

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

Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Accounting estimates

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud – we have included a summary on page 11. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements (including property valuations, accruals, consideration of any adjustments required for the transition to the new standards (IFRS 15 Revenues from contracts with customers and IFRS 9 Financial Instruments), provisions and any other one-off accruals), focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

No misstatement was identified through the work performed.

Deloitte view

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

We have not identified any instances of management override of controls in relation to the specific transactions tested.

Significant risks (continued)

Risk 2 - Management override of controls (continued)

Key judgements The key judgments in the financial statements are those which we have selected to be the significant audit risks around the achievement of expenditure resource limits. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

As part of our work on this risk, we reviewed and challenge management's key estimates and judgements including:

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Property, Plant and Equipment (PPE)	The value of PPE is based on valuations provided by a professional valuer. The full revaluation of PPE occurs every three years and assets are measured subsequently at fair value.	<p>PPE revaluations are carried out by professional valuers every three years. The next revaluation exercise for NHS Shetland is due to take place during 2019/20. In order to ensure there is no indication of a material change in valuation of PPE in the years where no is revaluation performed, the Board has a Capital Management Group (CMG) which is responsible for managing the capital maintenance priorities of the Board. The CMG is chaired by the Head of Estates and includes four executive Directors including the Chief Executive. The CMG meets quarterly and the Head of Estates also attends Board meetings quarterly to update members on the Capital Plan and other relevant material issues. The Board and CMG are not aware of any material change in the valuation of PPE in the year.</p> <p>Based on the procedures performed, no issues were identified and we are satisfied that the estimate is reasonable.</p>
Clinical Negligence and Other Risks Indemnity Scheme ('CNORIS') provision	<p>NHS bodies in Scotland are responsible for meeting negligence costs up to a threshold per claim. Costs above this threshold are reimbursed from the CNORIS scheme by the Scottish Government. NHS Shetland provide 100% for Category three claims and 50% for all Category two claims notified by the NHS Central Legal Office, according to the value of the claim. As at 31 March 2019, there were four claims specific to NHS Shetland included in the provision.</p> <p>NHS Shetland also provides for its liability from participating in the scheme. This provision recognises NHS Shetland's respective share of the total liability of NHS Scotland as advised by the Scottish Government, based on information from NHS Boards and the Central Legal Office.</p>	<p>The provision is valued by the Central Legal Office (CLO) based on the information on claims and historical experience. The value of claims is notified to NHS Shetland by the CLO. In 2018/19, this amount is £85,000 based upon the cases meeting Category three and Category two risk status. We have obtained independent confirmation directly from the CLO of all outstanding claims at 31 March 2019 and reconciled this to the amount recognise and challenged managements provision policy and concluded that it is reasonable.</p> <p>The other element of the provision – contribution to the national pool – is material. It is advised by the Scottish Government (SG) and we receive direct confirmation from the Scottish Government of the balance which has been reconciled to the amount recognised.</p> <p>We have also obtained assurance from Audit Scotland on the methodology used in the preparation of these figures and the relevance and reliability of the information provided by the CLO. This concluded that there were no issues with the methodology adopted by the Scottish Government and the CLO is objective, has sufficient expertise and the capability, time and resources to deliver reliable information.</p>

Other significant findings/ internal controls

Implementation of IFRS 9 and IFRS 15

Matter identified NHS Shetland is required to adopt the new accounting standards IFRS 9 *Financial Instruments* and IFRS 15 *Revenues from contracts with customers* in the year ended 31 March 2019. In both cases, NHS Shetland is using a modified retrospective approach to implementation where effectively the cumulative impact of transition to 1 April 2018 is posted as an adjustment to reserves. No opening adjustments were posted with regards to the adoption of either IFRS 9 or IFRS 15.

Response Following requests during the audit, management prepared a memorandum on IFRS 9 and IFRS 15, setting out the key areas of impact of both of these standards. These memorandums and discussions with management confirmed no transitional issues with respect to either IFRS 9 or IFRS 15.

The key element impacted by IFRS 9 is the accounting for the bad debt provision, which must move to a methodology of expected credit losses – a practical expedient available for portfolios of debt such as that at NHS Shetland, is to use a matrix based on past experience, and modified in specific cases where more information is available, in order to provide at a suitable percentage. This method has been adopted by NHS Shetland and has resulted in no provision being recorded, given that receivables are immaterial and primarily consist of amounts owing by other public sector bodies.

There is a presumption that NHS debts will not require a credit loss provision as these are effectively guaranteed by the State as last resort. We reviewed the revised calculation methodology and considered the assumptions in light of past experience. We noted that whilst the revised methodology was in use, NHS Shetland's policies with regards to providing for bad debt have not yet been updated. We have highlighted this to management.

Regarding IFRS 15, management was satisfied that no transitional adjustments would be required due to the Board's sources of material income. The vast majority of income received is passed on from Scottish Government and is recognised in line with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. The Board also recognises a significant level of income received from the IJB. This income falls under the scope of IFRS 15, however this income is already recognised as performance obligations are met in the form of commissioned services, therefore no adjustment to recognition is required.

We have reviewed and challenged management's assumptions in light of the Board's contractual arrangements with no issues noted.

Deloitte recommendation

There is minimal impact from transition to IFRS 9 and IFRS 15. However, management should review and update their internal policies and procedures accordingly to reflect the revised accounting standards.

Other significant findings/ internal controls (continued)

Implementation of IFRS 16

Matter identified The implementation of IFRS 16, Leases, for 2020/21 is expected to have a greater and more complex impact upon most NHS bodies than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage than has been the case for IFRS 9 and 15 to allow for financial reporting timetables to be met.

Response We recommend the Board targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Board's underlying accounting systems.

Deloitte recommendation and insight

The impact of IFRS 16 is expected to have a greater and more complex impact than IFRS 9 and 15. Management should carry out its analysis of IFRS 16 during 2019/20 and consider the actions required to embed IFRS 16 accounting in the Board's underlying accounting systems.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.

Material uncertainty related to going concern

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

While NHS Shetland is faced with financial sustainability issues (as discussed on page 20) and received additional funding of £1.200m from the Scottish Government to meet its financial targets in the year, there is a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) that no part of the NHS will be allowed to cease operation, therefore will continue as a going concern

Emphasis of matter and other matter paragraphs

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

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

Other reporting responsibilities

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

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 15.

Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines NHS Shetland's performance, both financial and non-financial. It also sets out the key risks and uncertainty as set out in the Five Year Financial Plan.	<p>We have assessed whether the performance report has been prepared in accordance with the accounts direction.</p> <p>We have also read the performance report and following a number of amendments made as a result of our audit, we confirmed that the information contained within the performance report is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. There is, however, scope to tailor the level of performance detail disclosed to demonstrate how this links to the achievement of national outcomes. Areas for improvement are discussed further on page 16.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the Financial Reporting Manual (FRoM), comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the governance statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. The governance statement has disclosed the key issues for 2018/19 including the Cyber Security deficiencies as outlined by internal audit in their annual report, as discussed on page 27.</p> <p>There is scope for improvement as the Board should include an action plan in the governance statement to outline how they will address the significant risks and uncertainties facing NHS Shetland.</p> <p>We have also read the accountability report and following a number of amendments made as a result of our audit, we confirmed that the information contained within the accountability report is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We have also audited the auditable parts of the remuneration and staff report and confirmed that it has been prepared in accordance with the accounts direction.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	<p>The Board approved its budget for 2019/20 at its meeting on 16 April 2019. The 2019/20 budget identified a funding gap of £3.312m for the year to be met by £1.463m of recurring savings and 1.849m of non-recurring savings. We have concluded that although it is challenging (as discussed further on page 14) the plan is sufficiently robust to demonstrate that NHS Shetland will be a going concern for 12 months from signing the accounts.</p> <p>While there is uncertainty around the achievement of savings to balance future year budgets, the Scottish Government has committed to ongoing funding of the Board. Accordingly, the accounts have been prepared on the going concern basis. These facts have been appropriately disclosed within the Performance Report.</p>

Your annual report (continued)

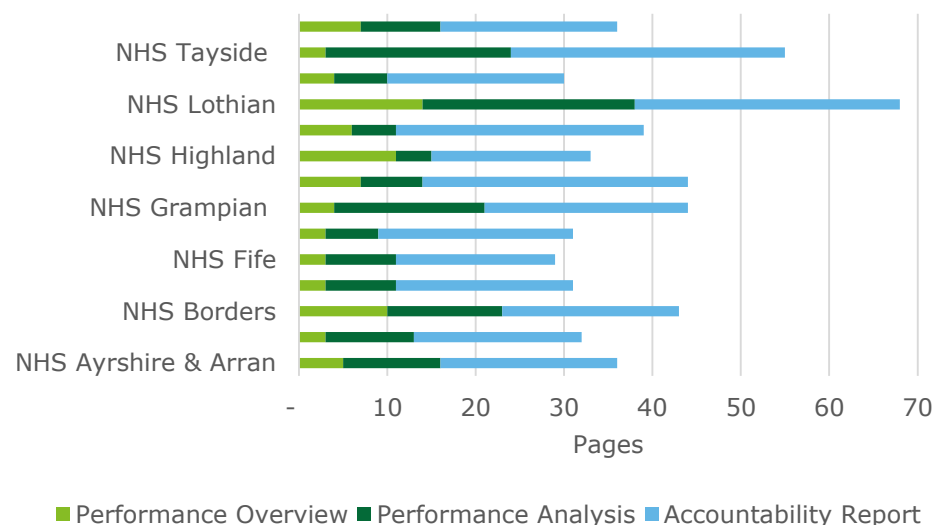
Audit Scotland have issued a series of Good Practice notes to highlight where Annual Reports can be improved. Our 2017/18 report to the Audit Committee highlighted that the Board had considered our recommendations made in 2016/17 and taken into account the good practice notes published by Audit Scotland as part of drafting the 2017/18 annual report. We have provided below some extracts which should be considered further by NHS Shetland in drafting future Annual Reports. We have also benchmarked the length of the Annual Report against other NHS bodies.

Areas for improvement

The following areas for improvement were identified when reviewing NHS Shetland Performance Report and Accountability Report:

- Ensure that all the requirements of the FReM are included prior to review by audit.
- Sense check all of the information disclosed in the performance report to ensure it is consistent with information disclosed elsewhere in the annual report and accounts.
- Reconsider the layout and structure of the information presented in the performance report to be more user friendly.
- Tailor the level of information disclosed and remove any information which does not add value or aid the understanding of the user of the performance report.
- Provide information relevant to the current financial year and ensure all comparative information is disclosed where applicable.
- Include an action plan in the governance statement to outline how the Board will address the significant risks and uncertainties facing NHS Shetland.
- Remove columns and rows that have nil balances presented for both current year and prior year.

Territorial Boards - Length by section of 'Front Half' of Annual Report (2017/18)

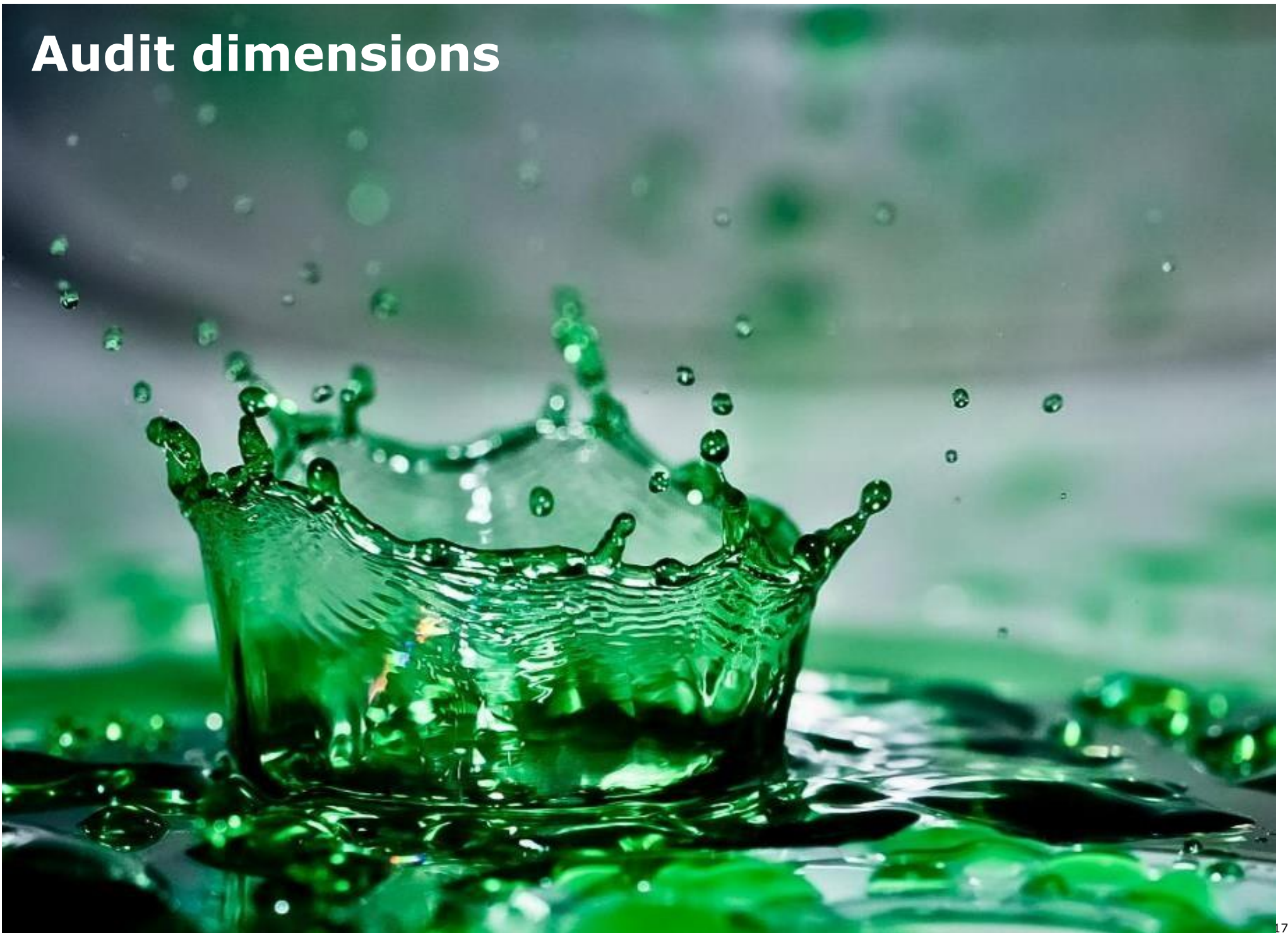


A checklist of the items which are required to be included in the Performance Report and Accountability Report is outlined in the Technical Guidance Note provided to management in early 2019. Going forward, management should review the Performance Report and Accountability Report against these requirements to ensure it includes everything required.

A list of comments for improvement, including the above, have been provided to management with a recommendation that these be implemented for 2019/20. However, it should be noted that a number of improvements have been made during 2018/19 including the use of graphics/pictures and signposting to webpages, but there is still room for improvement. We accepted that the timescale for applying all the improvements in the current year was not achievable but we are satisfied that the accounts are FReM compliant and all FReM required changes have been made.

We have reviewed NHS Shetland Annual Report against comparable NHS bodies. This shows that NHS Shetland is at the lower end – with the performance report 24% shorter than the average, and the accountability report 17% shorter. Despite this, we note that the level of information provided is sufficient to enable users to understand the operations of the Board and the Annual Report is compliant with regulations.

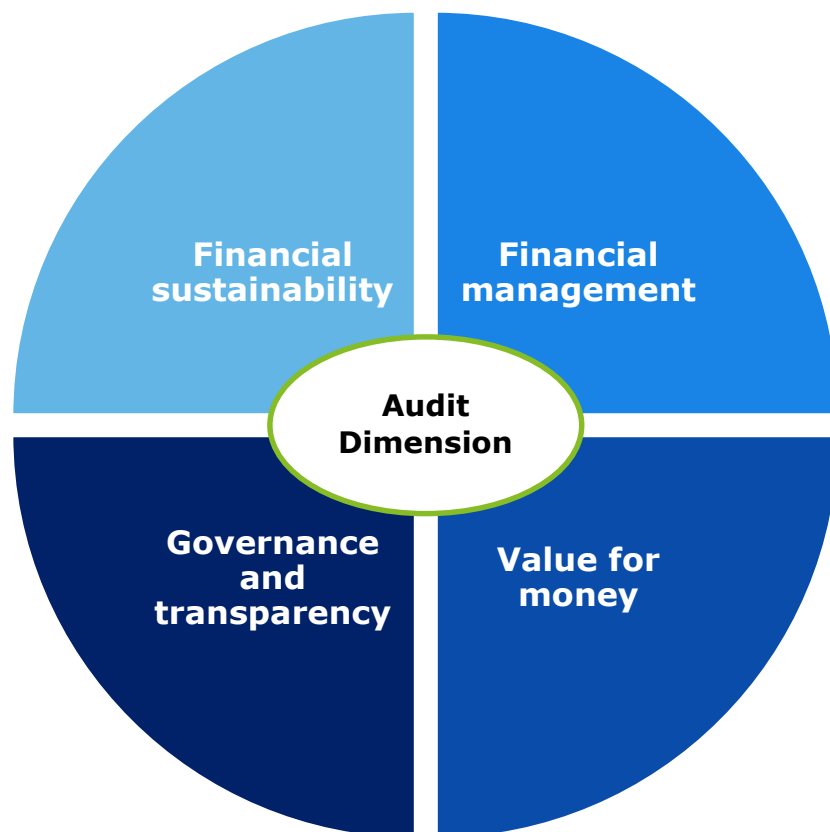
Audit dimensions



Audit dimensions

Overview

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



Best Value (BV)

The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

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

Specific risks (SR)

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

SR 1 – EU Withdrawal

SR 2 – Changing landscape for public financial management

SR 3 – Dependency on key suppliers

SR 4 – Openness and transparency

Audit dimensions (continued)

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.



Audit risks

Within our audit plan we identified a number of risks as follows:

- Plans for efficiency savings and service redesign required to achieve financial balance are not sufficiently robust to allow the benefits to be realised; and
- The Board's long-term financial planning could be inconsistent with the Scottish Government's five-year plan.

Audit dimensions (continued)

Financial sustainability (continued)

Short-to-medium-term financial balance

NHS Shetland achieved a year-end breakeven position compared to budget. It should be noted that this was only achieved due to additional funding of £1.200m from the Scottish Government, however, this brought direct funding the Board received for Primary Care in-line with other Island Boards.

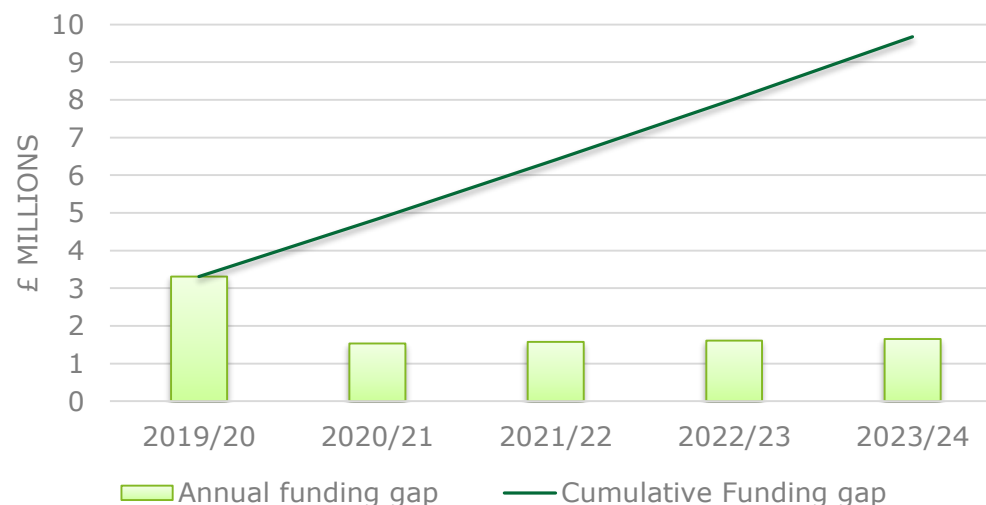
NHS Shetland has identified that it will need to make £9.671m (3.9%) worth of savings in the coming five years in order to be in a breakeven position, on a no-change basis. While this is less than has been achieved in the past five years, it remains a difficult task, particularly given that NHS Shetland is increasingly reliant on non-recurring savings.

The 2019/20 budget noted a funding gap of £3.312m (5.2%) to be met by £1.463m of recurring savings and £1.849m of non-recurring, it is questionable how realistic it is to assume that the required savings over the coming five years can be achieved, and causes concern over whether even short term financial balance can be achieved. NHS Shetland are projecting to breakeven over three years – using the 1% flexibility now available – although this is based on unidentified savings, as with the five year financial plan.

These concerns are shared by the majority of Board members, per their responses in the Audit Scotland NHS checklist for Non-Executive Directors in February 2019. In this checklist, Board members confirmed that they do not have sufficient assurance that they will meet their targets in 2018/19 nor that they will meet the three-year breakeven requirement going forward.

As is outlined in its five year financial plan, NHS Shetland suggests that as it has achieved the required savings in the past, it can be assumed it will do so into the future. The approach to savings in NHS Shetland is blunt and not sustainable, simply allocating a proportionate amount of the required NHS-wide savings to each department dependent on their proportion of the budget, rather than through a critical consideration of what areas can produce the most savings and deliver the best value for money. While Directorates are aware of their savings' targets, they lack any clear plans for how these savings will be achieved. There is a serious risk of optimism bias being built into the budget and longer term plans as the NHS has always broken even, that there is now an assumption that it will continue to do so, rather than a plan in place to ensure that it does.

As NHS Shetland lacks any clear savings' plans and Transformational Change is not sufficiently robust or progressed to demonstrate that service delivery changes will deliver the required savings, we have significant concerns with this approach, and about the financial sustainability of NHS Shetland overall.



Audit dimensions (continued)

Financial sustainability (continued)

Achievement of savings

The level of savings achieved by NHS Shetland increased by 83% between 2014/15 and 2017/18, from £2.511m to £4.607m. However, the majority of this increase has been from non-recurring means. Between 2014/15 and 2017/18, recurring savings increased by 53%, whereas non-recurring savings have increased by 132%. As has been highlighted in every external audit annual report since 2014/15, the reliance on non-recurring savings is not sustainable in the longer term. It is concerning that despite these warnings, the reliance on non-recurring savings has in fact increased. Non-recurring savings in 2014/15 accounted for 38% of savings achieved - this increased to 48% in 2017/18, much in line with the national average (50%).

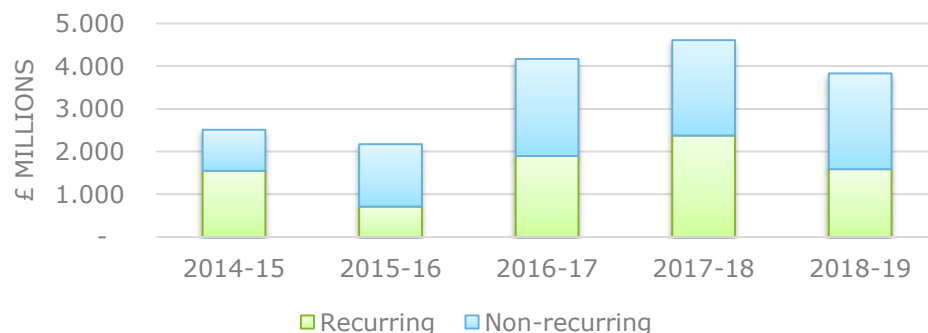
The savings achieved in 2018/19 demonstrate the relevance of these concerns: the overall level of savings achieved dropped by 17% in the year, due to an inability to identify recurring savings. In 2018/19, the level of savings generated from non-recurring means increased further to 58% of total savings. Given the repeatedly highlighted unsustainability of the reliance on non-recurring savings, this situation is unsurprising. As Audit Scotland highlighted in their national review, it is becoming increasingly difficult to identify one-off savings, and it simply pushes the problem into future years by increasing the recurring savings target and fails to address the fundamental question on how the NHS does and should deliver its services.

Medium-term planning

While NHS Shetland has a five year financial plan, it is high-level in nature and does not consider some of the key elements which it ought to consider, nor is it linked to other key documents which are pivotal to the delivery of the plan. For example, the plan outlines the level of savings required over the coming five years, and makes clear that transformational change is an important factor in this. However, it does not quantify the anticipated impact transformational change will have nor are targets included. There remains in the plan an implication that NHS Shetland can continue as at present through achieving non-recurring savings. This should not be accepted, particularly given the need for longer-term thinking which is inherently linked to recurring, rather than non-recurring, savings.

NHS Shetland recently revised its five year financial plan, with the Scottish Government's Medium Term Financial Strategy (MTFS) being considered as a 'key factor' within that plan. The assumptions used in the plan - in terms of funding uplifts and cost increases - are consistent with the Scottish Government MTFS. However, there is room for improvement in outlining how the anticipated spend over the medium term aligns with the key themes on public service reform (prevention, performance, partnership, people) and demonstrating a focus on improving outcomes.

Savings Analysis 2014/15 to 2018/19



Audit dimensions (continued)

Financial sustainability (continued)

Transformational change

Despite audit recommendations made in 2017/18, there has been no change in the approach to transformation, and there remains a fundamental lack of appropriate infrastructure in place to deliver the required transformational change. Internally, there is no officer who is primarily responsible for driving transformational change and ensuring a consistent approach is taken across the organisation. The general lack of progress on transformation in recent years is evidence of the importance of having this infrastructure in place.

From review of the Transformational Change Board's action plan and meeting papers, there is evidence that there is a lack of awareness of what transformational change actually means. Many of the areas being considered by the Transformational Change Board relate to simple service improvements which should be undertaken on an ongoing basis within teams throughout the NHS, but which themselves are not transformational and so should not be taking the attention of the Transformational Change Board away from items which are truly transformational in nature.

The importance of transformational change in ensuring the longer-term sustainability and viability of NHS Shetland does not appear to be fully understood and appreciated by management (collectively). With changes in leadership - both in the Chair and the Chief Executive of the organisation - it is imperative that this is driven from the top, giving it the clear priority (and associated resources) that it deserves, with a clear focus on community engagement to drive transformational change to deliver better outcomes for the local community.

Scenario planning

While the scenario planning exercise was welcomed and held up as an example of good practice, it has not achieved the outcomes expected from the exercise. Various items were put 'on hold' while the scenario planning exercise was underway, and there is limited progress against these in the year. Scenario planning was an excellent way to identify what the future healthcare system in Shetland should and would look like and there are clear strategic indicators, targets for 2021 and targets for 2028 laid out - however, there are no plans in place to actually achieve these. It is now pivotal that clear delivery plans are produced, with sufficient resource and infrastructure in place to deliver them per our recommendations on transformational change, to take NHS Shetland from the present to that future.

As these plans are developed, Board Members want to be - and ought to be - more involved, taking ownership of specific plans to act as 'lead member' of the Board on each plan, helping to provide strategic direction in line with the Strategic Plan and keep the Board up-to-date on progress.

Workforce planning

NHS Shetland has a workforce plan in place and is currently involved in innovative approaches to improving recruitment and retention. However, the current workforce plan only appears to look at the forthcoming year, rather than covering a longer timeframe, as is necessary given the longer-term changes to the workforce which are required. Whilst the plan is comprehensive in terms of breadth, it includes only high-level statements of what the commitment of NHS Shetland is, rather than any actual detail on how these will be delivered. It is concerning that the 2018/19 update, which should be projecting for 2018/19 and beyond, only includes 2015/16 actuals and projections for 2016/17 (when, presumably, actuals are available). It is not clear how these are relevant in 2018/19, or how changes between 2016/17 and the present time (and anticipated future changes) have been considered. There is also no documentation of how historical projections have measured against actual performance.

Audit dimensions (continued)

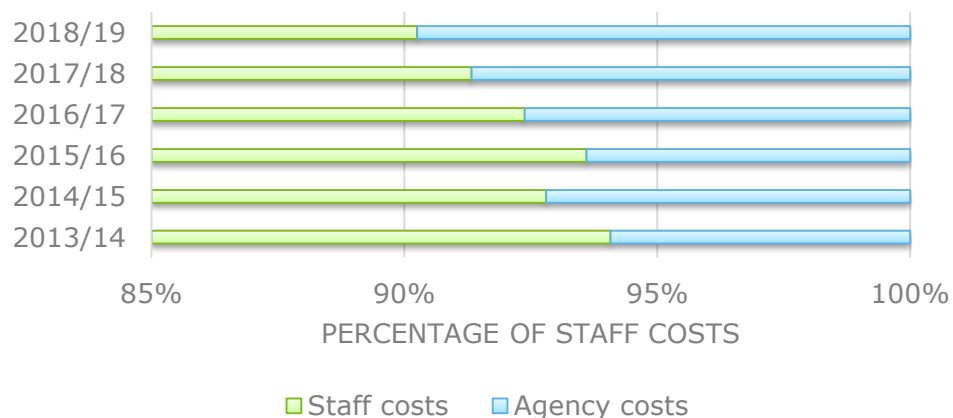
Financial sustainability (continued)

Workforce planning (continued)

While the current plan is a useful starting point, it is important that NHS Shetland develops this further, taking into account Audit Scotland's recommendations that plans be 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. When considering agency spend, NHS Shetland should consider whether its operating model for temporary staff management is delivering effectively, or whether it should consider a 'master vendor' or 'managed service provider' approach.

We have included examples of good practice in our separate 'Sector Developments' paper.

Staff Costs 2013/14 to 2018/19



Agency spend

Between 2013/14 and 2018/19, agency spend has increased by 120%, while overall staff costs have only increased by 28%. Simply put, spend on agency staff has risen at a rate four times faster than spend on staff overall. In the same period, agency spend has increased from accounting for 6.3% to 10.8% of staff costs. The impact on the financial sustainability of NHS Shetland must not be understated: while agency staff costs between 2013/14 and 2018/19 accounted for an average of 8% of staff costs, they have accounted for 27% of the overall increase in staff costs.

While this is a national issue, it is important to understand the Shetland-specific difficulties: spend on agency staff has increased in Shetland by more than twice the national average in the past five years. Nationally, agency spend has decreased in recent years, whereas it has continued to increase in Shetland - the rate of increase has sped up in recent years. From a financial point of view, simply being in line with the national average would have saved NHS Shetland £2.300m per annum by 2018/19. NHS Shetland should look to other Boards to identify how agency costs have been reduced, for example through the introduction of a Workforce Scrutiny Group to constructively challenge recruitment processes in place.

A specific cost to Shetland is the provision of locum consultant psychiatric services, representing a cost of £0.625m in 2018/19 (up from £0.350m in 2017/18), with locum cover in place for 17 months as at March 2019. Agency staff should be used only for genuinely short-term staffing shortages, rather than as a method of filling a long-term gap. It is unclear how long the current position will need to be maintained as a permanent consultant has not been recruited by the desired timeframe (April 2019), and it is unclear to what extent, if any, there has been other planning and actions in place to address this specific, substantial spend.

Audit dimensions (continued)

Financial sustainability (continued)

Deloitte View – Financial sustainability

As discussed on page 20, NHS Shetland achieved financial balance in 2018/19 due to additional funding of £1.200m from the Scottish Government. However, it has been unable to identify the required savings to achieve short-term financial balance in 2019/20 and has a budgeted funding gap of £3.312m (5.2%). The position over the medium term is more serious, with the Board identifying a funding gap of £9.671m (3.9%) to 2023/24. As NHS Shetland lacks any clear savings plans, is increasingly reliant on non-recurring savings and Transformational Change is not sufficiently robust or progressed, **we have significant concerns about the financial sustainability of NHS Shetland.**

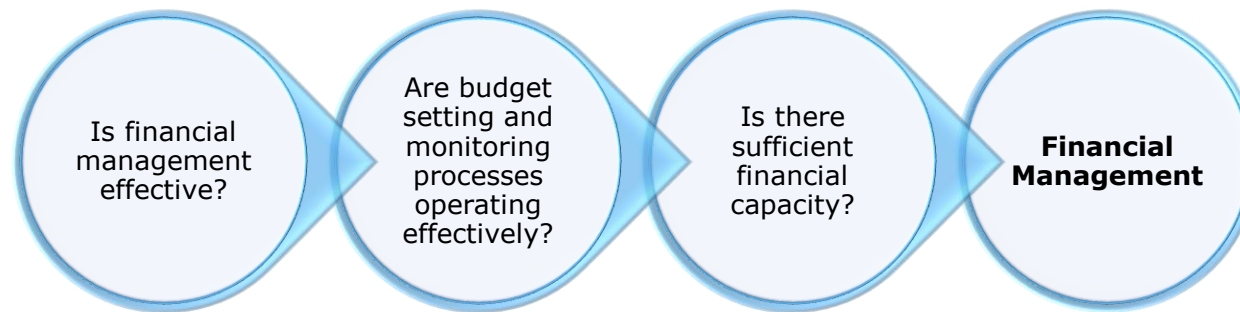
Given the increasing divergence between NHS Shetland and the Scottish average in terms of spend on agency staff, and the financial impact that that is having on NHS Shetland, the Board needs to place particular focus on its approach to workforce planning, taking into account the national report on NHS workforce planning issued by Audit Scotland and our separate 'Sector Developments' report, where we have shared our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to NHS Boards.

The assumptions in NHS Shetland's five year financial plan are consistent with the Scottish Government's MTFS. However, there is room for improvement in outlining how the anticipated spend over the medium term aligns with the key themes on public service reform (prevention, performance, partnership, people) and demonstrating a focus on improving outcomes.

Audit dimensions (continued)

Financial management

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



Audit risks

Within our audit plan we identified a number of risks as follows:

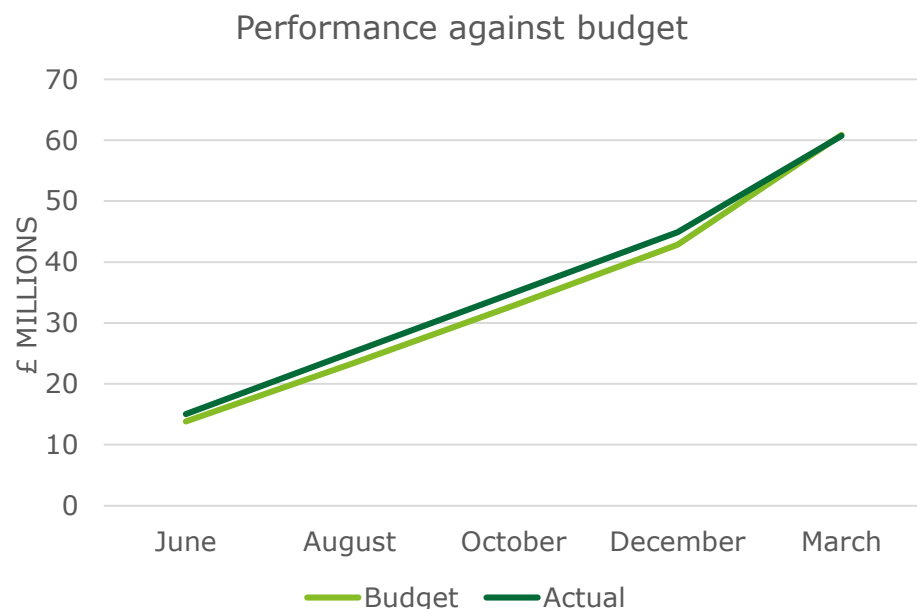
- The underlying financial performance of the Board is not transparently reported; and
- A lack of appropriate financial management could result in the Board not achieving its financial targets and breakeven position over the three year benchmark as set by the Scottish Government.

Audit dimensions (continued)

Financial management (continued)

2018/19 financial performance

The Board achieved a year-end breakeven position compared to budget. This has been reported to members throughout the year as illustrated below:



As at 30 June 2018, NHS Shetland reported an overspend of 9% against budget. By 31 December 2018, this had decreased to 4.7%, with a breakeven position achieved at the year-end. The positive improvement in budgeted performance is due to the receipt of additional funding from the Scottish Government - £1.200m for primary care, confirmed in January 2019, rather than internal actions.

The overspend as at 31 December 2018 relates to the use of supplemental or locum staffing, with workforce management therefore arguably presenting the biggest challenge for financial management at the Board.

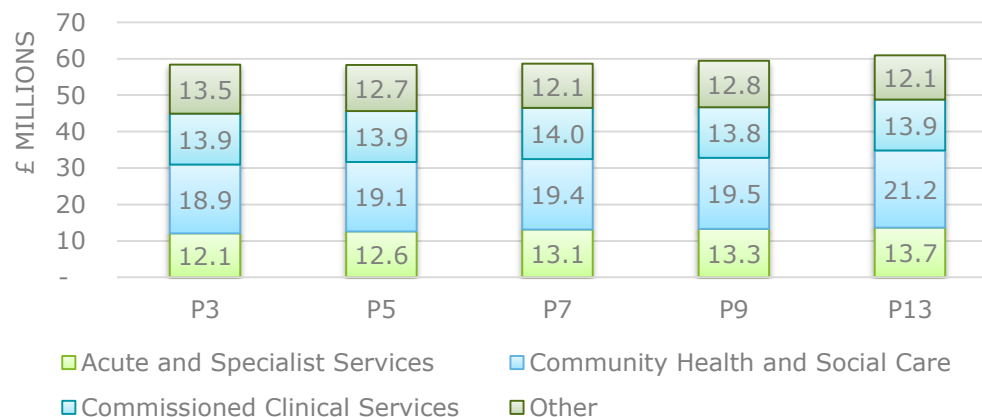
Financial reporting

Amendments to the budget are made throughout the year – shown below - to take account of changing circumstances and events which were not foreseen when the budget was agreed. While overall changes to funding allocations received by NHS Shetland are clearly disclosed, there is a lack of clarity in the financial monitoring reports as to why the budgeted amount for each category of spend has changed in the year - a basic level of narrative would address this issue.

The change to the overall budget in 2018/19 is material – a 4% movement, approximately £2.469m – and is mainly related to a 13% increase in acute and specialist services and a 12% increase in community health and social care offset by a 11% reduction in various other budget lines. It is important to note that in 2017/18, it was also within acute and specialist services and community health and social care that the largest changes to budget were noted.

Compared against the 2017/18 budget, the 2018/19 budget for these categories increased by 13% and 0% respectively. However, compared to the 2017/18 actual, they decreased by 3% and 9% respectively. It is questionable how reasonable it was to assume in the budget that the budget allocation to these groupings would be in line with the 2017/18 budget, rather than the 2017/18 actuals (which could be determined at the time of developing the budget by projecting the period 9 results to the rest of the year).

Budget Movements in the year



Audit dimensions (continued)

Financial management (continued)

Internal audit

We have completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings with no significant issues noted.

The internal audit function continued to be provided by Scott Moncrieff during 2018/19. It aims to provide assurance over the adequacy, efficiency and effectiveness of the local governance, risk management and internal control framework. The audit plan was agreed by the Audit Committee at the start of the year, and regular progress reports have been provided to the Committee throughout the year.

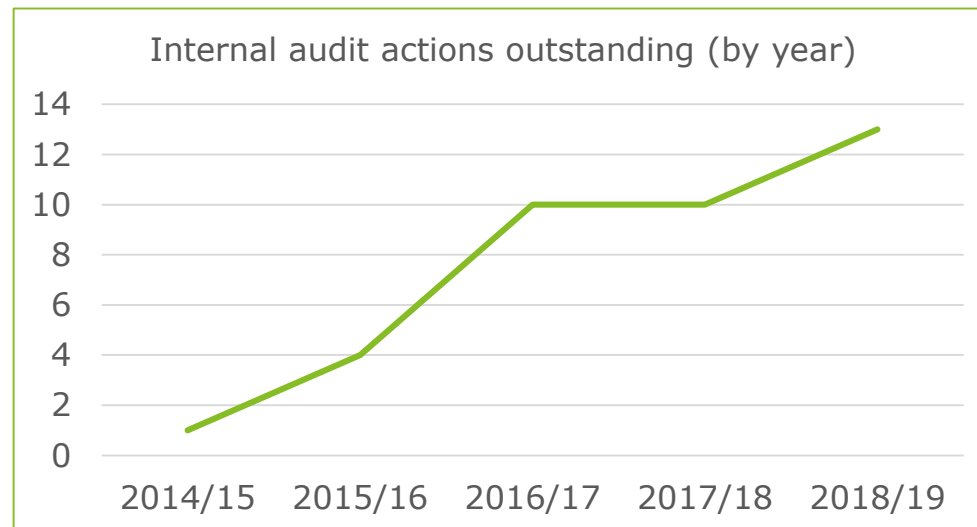
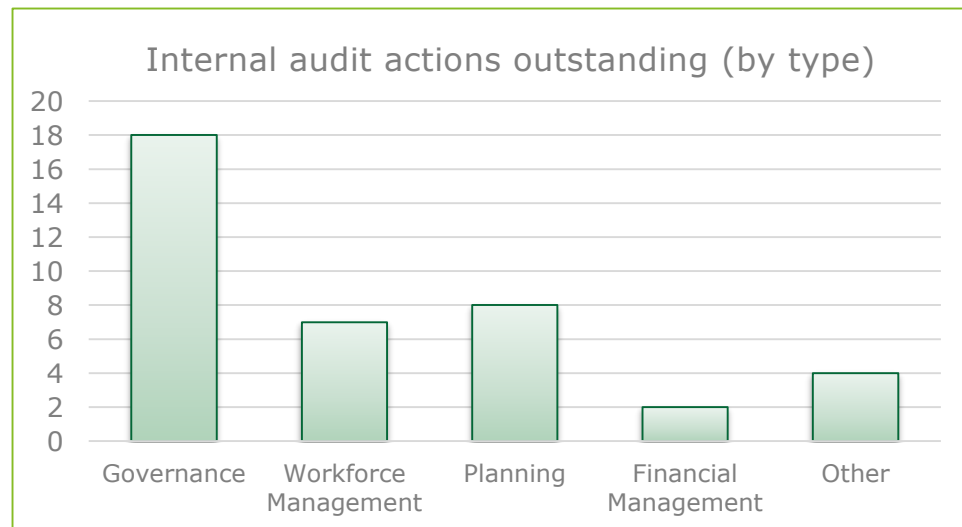
The 2018/19 internal audit annual report provided reasonable assurance regarding the organisation's governance and internal control framework, the effective and efficient achievement of objectives and the management of key risks, except in respect of Cyber Security where improvements are required as disclosed on page 15.

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

While our conclusions regarding the control environment and internal audit system in place from 2017/18 remain unchanged, we are concerned that the rate of implementation of audit recommendations has declined from 2017/18. Currently, against actions due to be completed by year end, only 56% of management actions have been completed. This is significantly below NHS Shetland's internal target of 70%.

The issue has recently deteriorated, with concerns raised by the Chair of the Audit Committee with the Chair of the Board, particularly as not only are actions not being implemented, but for the entirety of 2018/19, there were instances where internal audit and the Audit Committee were simply not provided with any update by action owners for certain actions.

While resourcing is undoubtedly an issue, prioritisation must also be considered here. Management and the Board must set an appropriate 'tone at the top' that makes clear that the implementation of audit recommendations is a high priority, with failure to implement recommendations not being accepted.



Audit dimensions (continued)

Financial management (continued)

Financial capacity

From our audit work over the past number of years, we are satisfied that there are suitably qualified and experienced staff leading the finance team within NHS Shetland. We note that there have been no changes in the leadership of the finance function (either Director of Finance or Head of Finance & Procurement) in the year. The timeliness and quality of reporting is appropriate.

However, NHS Shetland needs to consider the capacity of the finance function given the dual role being completed by the Head of Finance & Procurement also acting as Chief Financial Officer of the Integration Joint Board. While we are aware that capacity is an ongoing consideration, we note the dual role of this position has not been specifically considered. This should be specifically considered given the changes in the Chief Officer of the Integration Joint Board and Chief Executive of NHS Shetland positions in April 2019.

National Fraud Initiative (NFI)

In accordance with Audit Scotland planning guidance, we are required to monitor the Board's participation and progress in the NFI during 2018/19. An NFI audit questionnaire was completed and submitted to Audit Scotland by 30 June 2019, which concluded that the Board was fully engaged in the exercise. While a number of matches still need to be processed, sufficient priority is being given to high risk matches. It is important that the Board continue to progress its review of high risk matches to identify whether any are indications of fraud.

A summary of the matches reported in the NFI system is provided in the table below:

	Total
Total matches flagged	401
Total matches flagged as high risk	27
Total high risk matches processed	27
Remaining high risk matches to be processed	0

Deloitte view – Financial management

NHS Shetland achieved a breakeven position in 2018/19. Throughout the year, the Board was forecasting an overspend, until additional funding was allocated by the Scottish Government. Performance against the budget and amendments made to the budget in the year were transparently and regularly reported to the Board. However, there is a lack of clarity in the financial monitoring reports as to why the budgeted amount for each category of spend has changed in the year.

The reasonableness of the approach to budgeting – taking prior year budgeted figures as opposed to prior year actual spend as the starting point – is not suitable for an entity of this size and complexity, particularly when there are significant overspends at a Directorate level against budget in the prior year. This approach should be reconsidered going forward.

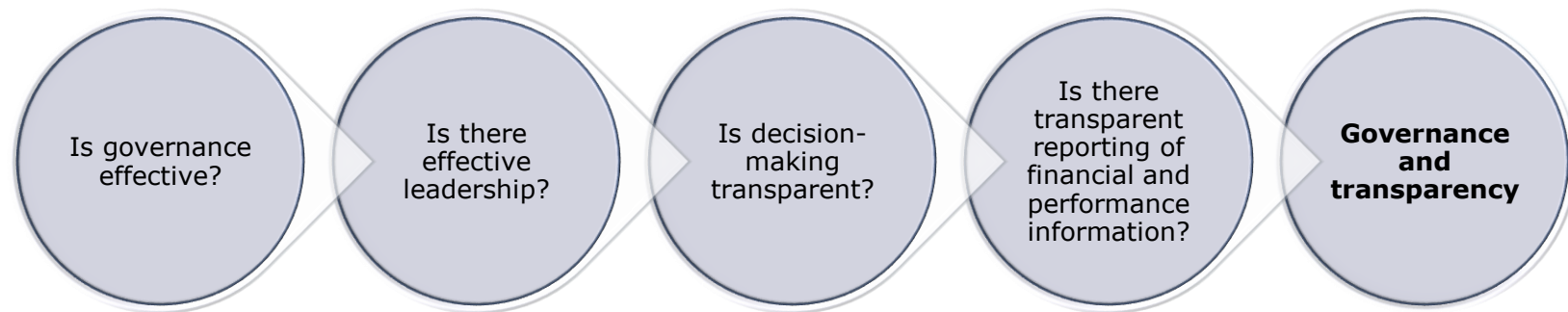
The Board needs to ensure that it appropriately prioritises the completion of internal audit actions. Failure to address the points raised by internal audit exposes the Board to unnecessary risk.

While we are satisfied with the experience and dedication of finance personnel, the Board needs to consider whether there is sufficient capacity in the team given the increasing workload on the Head of Finance & Procurement as they are fulfilling a dual role, acting as Chief Financial Officer of the IJB. The responsibilities of the Chief Financial Officer of the IJB are increasing – with the role now being seen as both operational and strategic – and the impact that this change has on the ability to fulfil both roles effectively needs to be considered.

Audit dimensions (continued)

Governance and transparency

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



Audit risks

Within our audit plan we identified a number of risks as follows:

- There is a risk that the unavailability of information to the public and other stakeholders results in the Board not being sufficiently transparent;
- There is a risk that the governance arrangements between the NHS Board and the Integration Joint Board are not effective; and
- There is a risk that the Board's approach to openness and transparency is not keeping pace with public expectations and good practice.

Audit dimensions (continued)

Governance and transparency (continued)

Openness and transparency

Taking an **open approach** to business can support good governance.

It is about behaviours, centred on a preference for sharing information about how and why decisions are made. In the public sector, this is based on the recognition that public services are delivered for the public good using public money.



Transparency can be seen as a process. Access to information provides insight into decision-making and how the organisation work. Transparency in the public sector is supported by statutory requirements and regulations. These are minimum requirements and it is for individual organisations to decide whether the content and volume (in terms of quantity and amount of detail) of the information that they make available contributes to increased understanding. There are judgements to be made, and an approach designed to increase transparency rather than comply with minimum standards is more likely to satisfied the good governance test.

Openness and transparency are individually important, and working well together they help demonstrate that public organisations are acting in the public interest.

In general, NHS Shetland has a good attitude to openness and transparency and there is a supportive culture that underpins this. Despite this, there has been minimal action to improve the extent of openness and transparency at the organisation, and we note that the recent Audit Scotland guidance on openness and transparency has not been considered by the Board.

There is no evidence that any regular review of NHS Shetland's position on openness and transparency, nor any benchmarking of their approach with other health boards or other public bodies have taken place. For example, we note that the Standing Orders - which require all Committee meetings to be held in private - have not been updated since 2015.

Although corporate governance has been deemed to be generally effective following an internal audit review, there is evidence that where problems emerge there is often some failure in openness and transparency, and NHS Shetland needs to be aware of this risk. In the coming year, NHS Shetland should consider the issues surrounding openness and transparency at a Board level, reaching a reasonable position on how to be increasingly open and transparent through a process of consultation (including discussion with wider stakeholders). This is particularly important given that the Board identified in its self-assessment that communication of the priorities of the NHS to staff and stakeholders is one of its key weaknesses.

When reviewing its approach, we would urge NHS Shetland to be mindful that there is a presumption that all key decisions are debated and made in public and that the material that is prepared supporting those decisions should be public. Where discussions and decisions need to be made in private, clear statements as to why that is the case itself contributes to openness and transparency.



Audit dimensions (continued)

Governance and transparency (continued)

Openness and transparency (continued)

Sufficient information on the plans, policies and performance of NHS Shetland is publicly disclosed. As discussed on page 30, the Board should consider the level of information it makes publicly available through a review of its overall approach to openness and transparency.

From our review, in general, commentary in papers on the issues faced by NHS Shetland are fair and balanced. However, there is an inherent element of judgement involved in determining what these 'key' issues are. This is important given the amount and length of papers received. Where Board members receive a paper and feel that the commentary fails to identify key issues in the report or does not include the information they consider necessary to inform decision-making, this should be communicated to management to enable ongoing improvements to information which is provided. This is particularly important given that half of the Board confirmed in the Audit Scotland checklist for Non-Executive Directors in February 2019 that they are not confident that they receive sufficient information to make informed decisions and scrutinise performance.

Linked with the recommendations above, when considering how it can become increasingly open and transparent, the Board should:

1. Identify specific actions which will lead to improvements in openness and transparency; and
2. identify improvements that will help stakeholders and the public understand how decisions are made and how they can engage with NHS Shetland.

Governance and scrutiny arrangements

We reviewed the Board's governance and accountability arrangements which included:

- Confirming that the governance framework and governance arrangements, including decision-making and scrutiny, are regularly reviewed and updated to ensure they remain effective.
- Assessing the effectiveness of decision-making to ensure it is balanced by effective scrutiny and challenge by those independent of the body.
- Confirming that there is effective scrutiny and challenge in place over policy decisions, service performance and programme management.
- Confirming that decision-makers have the information they need to scrutinise, challenge and make best value and transparent decisions.
- Ensuring that it is clear what decisions have been made, who makes them and the rationale supporting the decisions.

Each of these points is addressed in more detail on the following pages.

Audit dimensions (continued)

Governance and transparency (continued)

Decision-making

The minutes of Committee and Board meetings are generally well documented and sufficiently detailed, making it clear what decisions were made and why.

Ideally, Committee papers and minutes should be made publicly available on NHS Shetland's website, as discussed in openness and transparency on page 30. We are pleased to note that the improvements in this area have been identified as an action point in the plan agreed by NHS Shetland following their self assessment in March 2019. We will monitor progress on this point throughout 2019/20.

Effectiveness of scrutiny

Three quarters of Board members, when completing the Audit Scotland NHS checklist for Non-Executive Directors in February 2019, confirmed that their induction and ongoing training is inappropriate and inadequate to their needs. This undermines the ability of the Board to provide effective scrutiny of performance.

A dedicated training manager should be appointed to assume responsibility for identifying the training needs of Board members, arranging for them to attend that training, and assessing the effectiveness of training.

All Board members receive induction training when they join the Board. However, we note that there is a feeling across the organisation that training has been inadequate for Board members, with this being highlighted through the self-assessment carried out in March 2019. There is a lack of tailored training for Board members on specific Committees or with specific roles and a lack of tailored training to address skills' gaps in key areas. Given the lack of regular annual appraisals of Board members, annual effectiveness reviews or wider evaluations of Board performance and the governance framework, these gaps have not been formally identified.

As part of the appraisal process (to be carried out in early 2019/20), we would encourage Board members to critically consider their skills' gaps and training needs and to communicate these to the Chair. A personal development plan for each Board member should be created and actioned in the year, with progress against the plan and the appropriateness of it (whether any training requirements need to be added or removed) considered on an annual basis when the appraisal is conducted. Where training needs are identified, uptake of that training should be monitored by the Chair and considered in the annual appraisal of the Board member.

Leadership

There have been a number of changes in leadership at NHS Shetland in the year. In August 2018, a new Chairman was appointed. In February 2019, it was announced that the Chief Executive would be leaving his post in early 2019/20. This post will be filled on an interim basis by the Chief Officer of the IJB, creating a corresponding vacancy in the IJB.

It was noted by internal audit that the change in Chairmanship of NHS Shetland was the reason for some failings in corporate governance, such as a failure to carry out appraisals and self-assessments. The NHS needs to ensure that it has appropriate transitional arrangements and handovers in place to enable functions which need to be carried out to be carried out regardless of changes in the leadership.

While changes in leadership provide opportunities for changes in direction, the NHS must be particularly aware of the potential impact on its partner organisation - the IJB - as a result of the vacancy in the Chief Officer role created by the appointment of the current Chief Officer to the Interim CEO role at the NHS.

Despite the financial challenges facing the Board, we are satisfied that NHS Shetland has strong leadership and, with its partners, has a clear vision for what it wants to achieve for the people of Shetland. From our work, it is clear that both the Board and staff support the vision.

Audit dimensions (continued)

Governance and transparency (continued)

Governance arrangements

We are pleased to note that NHS Shetland has carried out a self assessment in 2018/19 of Board performance, and of Audit Committee performance. This process of self-assessment should be rolled out to all standing Committees.

Internal audit noted in October 2018 that Board Member appraisals and a Board self-assessment have not been completed since 2016, despite the requirement for these to be completed annually. The reason provided for this was the appointment of a new Chair in August 2018, with NHS Shetland confirming at that time it had plans to address these issues.

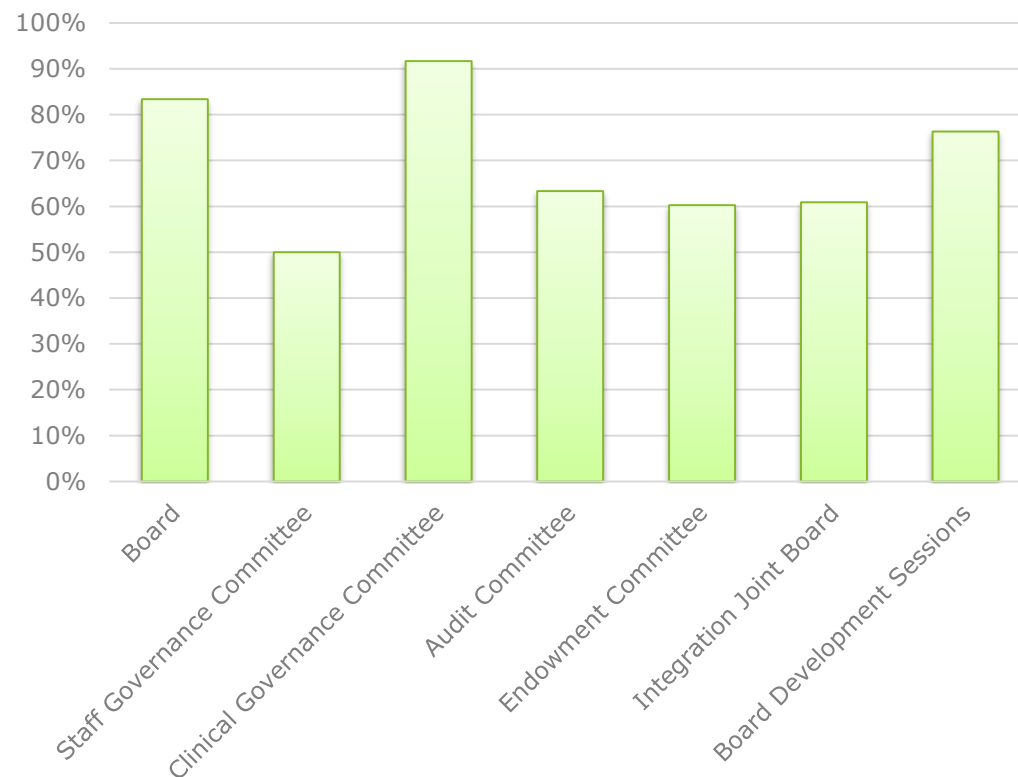
We note that appraisals are planned for June 2019, and that the need for appraisals has been highlighted in the action plan produced by NHS Shetland following its self assessment in March 2019. It is important that these are carried out annually, and compliance with the requirements are checked by management - a specific officer should have designated responsibility for this.

There has been no documented consideration by NHS Shetland of whether the Board and its Committees have the right skills, knowledge and expertise. Following the annual appraisal process, a skills gap analysis should be carried out for the Board and Committees to ensure that all benefit from an appropriate level of expertise. This is particularly important given the changes in the makeup of the Board in recent years.

Where gaps are identified, clear plans should be put in place to remedy these - either through changes in membership or enhanced training. This is particularly important given that the Board identified three of its five key weaknesses as being the quality of induction training, the skills and confidence of Board members in challenging information, and the ability of the Board to provide constructive challenge and advice.

There are a number of Committees where member attendance is below expectation. In performing appraisals and assessing performance, the Board needs to consider if those on the Board and on the various Committees have the capacity to carry out their duties effectively.

Attendance at Committee & Board meetings



Audit dimensions (continued)

Governance and transparency (continued)

Health and social care integration

Financial planning is not integrated, long term or outcome focused. This severely limits the ability of the IJB to change the way the system operates. NHS Shetland can work with its partners to improve this by following up on recommendations made in 2017/18 to treat the budget allocation as 'IJB money' rather than 'Council' and 'NHS' money. The development of a Medium-Term Financial Plan (MTFP) and Long-Term Financial Plan (LTFP) are also necessary to help drive this change. While we note that a high-level MTFP has been prepared in 2018/19, this needs to be significantly improved in terms of robustness of the plan and the NHS needs to work closely with the IJB in this. Currently, the MTFP simply quantifies the problem.

The NHS should work with the Council to ensure that the IJB has the resources and capacity needed to develop strategic thinking and deliver transformational change. The NHS needs to make sure that it involves the IJB in the development of the NHS workforce plans, as recommended on pages 22-23, to ensure the IJB's needs are met.

The IJB needs to seriously consider if leadership are appropriately resourced and supported by enough personnel and other services (e.g. HR, Legal, Accountancy) to deliver the strategic change necessary. The NHS needs to work with the IJB on this point, particularly given the potential issues of financial capacity highlighted on page 28. While staff may be 'assigned' to the IJB to provide these services, this is on top of their current roles and the IJB, NHS and Council need to critically evaluate whether this is appropriate and actually working in practice – if it is not, the IJB needs to be clear what is missing that would enable improved outcomes.

Cultural differences are identified as being a single, key issue undermining progress, as there are issues of trust and understanding which impede progress. It is incumbent upon Board members who sit on the IJB to see themselves as 'the IJB' rather than the NHS and for officers to make clear where they are blurring these roles. Only by having these issues pointed out will members and officers begin to instinctively understand over time and change behaviours.

The NHS, IJB and Council need to work together to clearly set out roles and responsibilities of each of the parties - in greater detail than currently set out in the Integration Scheme - ensuring consistency across the partner organisations and ensuring that delegation of responsibilities is carried out effectively. We are aware of work being piloted nationally, through NHS Ayrshire and Arran, to develop an exemplar set of Directions to make commissioning more transparent. Shetland IJB should ensure it is an early adopter of these when developed.

Deloitte view – Governance and transparency

In general, NHS Shetland has a good attitude to openness and transparency. However, NHS Shetland has not taken specific actions in the year to improve its approach to openness and transparency in line with good practice. This is caused to a degree by the lack of any formal review of the Board's approach to openness and transparency. NHS Shetland should review its approach to openness and transparency in 2019/20, developing an action plan in conjunction with the Board and wider stakeholders, monitoring improvements in openness and transparency on an ongoing basis thereafter.

Board members have highlighted poor induction and ongoing training as a weakness in the organisation, with this previously going unchecked due to a lack of a formalised self-assessment and appraisal process and due to no skills gap analysis being performed. Going forward, NHS Shetland should appoint a dedicated training manager responsible for ensuring that training needs are identified early, appropriate training is provided, uptake of training is monitored and effectiveness of training is assessed.

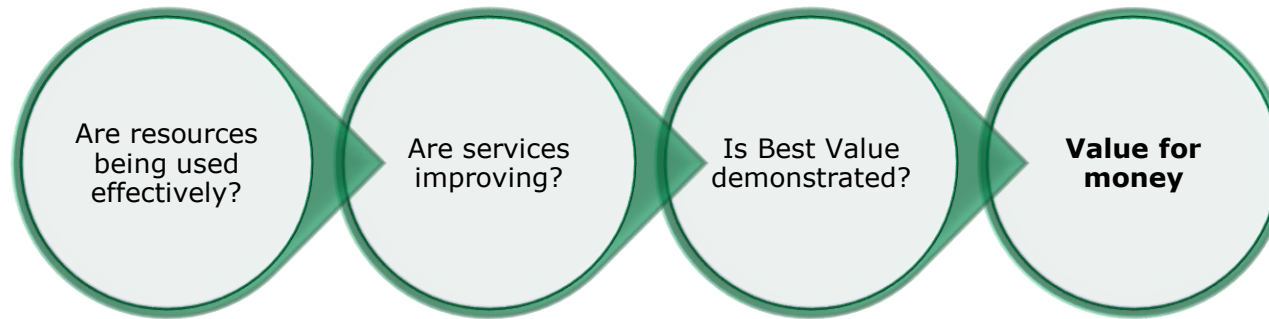
We are satisfied that NHS Shetland has strong leadership. However, there have been a number of changes in senior positions in the year and the NHS needs to ensure that it has appropriate transitional arrangements in place for these, including consideration of the impact of the change on the IJB.

While we accept that the workload of a Board member is increasing, there is an unacceptably low attendance rate at some Committee meetings. In light of this, the Board needs to assess whether it has the capacity to carry out its role effectively.

Audit dimensions (continued)

Value for money

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



Audit risks

Within our audit plan we identified a number of risks as follows:

- Insufficient resources may be targeted to areas of underperformance; and
- The Board may not clearly report on its contribution towards the national outcomes.

Audit dimensions (continued)

Value for money (continued)

Best value (BV)

The Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure BV.

We have considered the arrangements in place in this regard as part of our planning and reporting on the audit dimensions.

We note from the Board's self-assessment that of the Executive Directors who completed the self-assessment, all three noted 'inconsistency' in whether "continuous improvement is embedded in all aspects of service delivery". The Accountable Officer needs to work with Executive Directors - and the wider Board - to identify areas where continuous improvement is not embedded and drive continuous improvement across the organisation.

Performance management

The Board has a well established performance management framework in place to monitor performance. Board members have access to the performance management system and are able to look at details where required.

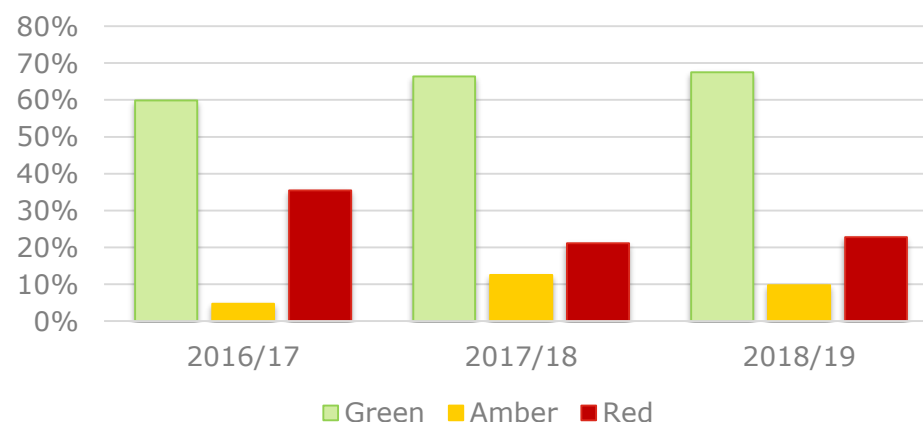
Performance has improved considerably between 2016/17 and 2018/19, with the level of 'achieved' targets increasing from 60% to 67%, with those more than 5% off target decreasing from 35% to 23%. This improvement in performance was highlighted in Audit Scotland's national reports on the NHS in 2017 and 2018, noting that Shetland had achieved 4 of the 8 key national targets in 2018, up from 3 in 2017. It is important to note that performance still lags behind comparable island boards - Orkney achieved 5 of the targets, while the Western Isles achieved 6.

To enable appropriate comparison, it is important to note that a new performance reporting framework was introduced in 2017/18, which significantly reduced the level of indicators monitored and reported against. Against this new framework, 72% of targets were achieved in 2017/18, with 13% being more than 5% off target. On this basis, performance in 2018/19 has declined substantially, with the level of indicators being more than 5% off target increasing by 76% and the level of indicators achieved decreasing by 6%.

Significant declines in performance have been identified in the referral time for psychological therapies, which is a key national indicator. Performance has declined from approximately 75% within 18 weeks in 2016/17, to 55% in 2017/18, to 30% in Q3 2018/19 (the most recent data available). We note that management have earmarked funding for an additional therapist, with alternatives being provided to some on the waiting list.

Management and the Board need to work together to identify resource needs and where resources can be reallocated from to address the declining performance. Alternatively, given the difficult financial position facing NHS Shetland, the Board may need to make difficult decisions and accept 'average' performance - amending targets and KPIs as appropriate - in some areas, whilst focusing resources on deemed priority areas. Through adopting alternative delivery models and driving transformational change and service redesign, improved models of care should enable maintained or improved performance and improved finances. However, until NHS Shetland makes more progress in these areas, the Board needs to recognise and accept that given the current financial position, balancing finances and performance may mean it is not possible to maintain current performance levels.

Performance against target: 2016/17 to 2018/19



Audit dimensions (continued)

Value for money (continued)

Performance reporting

We note that as recommended in 2017/18, risk registers make clear links to outcomes and objectives when presented to the Board. This needs to be taken further, with performance reports establishing links between actions and outcomes. Currently, it is not clear from performance reports how successful historical management actions to address performance issues have been.

NHS Shetland amended its performance reporting framework in 2017/18 to better align with national indicators and to demonstrate contribution to national outcomes. This should help to address this recommendation, but in itself does not fully deal with the issue.

Use of business cases

We note that bed capacity was reduced by 6 from January to April 2019, due to recruitment difficulties. Despite the reduction, all planned surgery and emergency care was provided. The decision to re-open the beds will require the use of additional agency staff. No business case was prepared for re-opening the beds. Given the lack of any impact on patient care, consideration must be given as to whether this capacity - and the associated use of agency staff - is required and really represents an effective use of resources. When taking decisions on changes to service delivery, the Board should develop business cases to underpin the decision and to ensure that value for money is demonstrated.

Focus on improvement

Through its self assessment, the Board identified issues with the resourcing of priorities identified by NHS Shetland, noting that progress is inadequately reviewed and refreshed during each planning and performance cycle. This makes it difficult for the Board to satisfy itself as to the pace and progress with service improvement. From the Board's self assessment, we note that of the 53 questions asked, 33 noted improvements from 2017/18, 18 noted drops in performance and two noted no movement.

There has been a significant drop (21%) in those who feel that Board members receive sufficient high quality information to enable the Board to make effective decisions. An even larger drop (37%) was noted on the presentation of financial performance and the ability of the Board to adjust medium and long term projections based on current performance. These are two of the key responsibilities of the Board and management should work with the Board to identify the reasons for the decline and how information - and the ability of the Board to effectively monitor and challenge performance - can be enhanced.

Deloitte view – Value for money

The Board notes that it has an 'inconsistent' approach to continuous improvement, and there is a clear need for the Accountable Officer to work with the Board and wider stakeholders in NHS Shetland to ensure that continuous improvement is appropriately prioritised and progressed. A focus on continuous improvement can be driven by the regular use of business cases to inform decision-making, transformational change and service redesign, which NHS Shetland does not make use of at present.

Performance at NHS Shetland continues to compare favourably against the national average, although performance against targets has declined locally in 2018/19. There is a need to recognise and accept that given the current financial position, balancing finances and performance may mean it is not possible to maintain current performance levels until and unless NHS Shetland makes changes to its methods of service delivery, adopting alternative models of care which maintain or improve performance while also improving the finances of NHS Shetland. These changes need to be driven by management and the Board working together to deliver real progress on transformational change and service redesign.

NHS Shetland needs to identify and appropriately resource its priority areas and communicate changes to accepted performance levels not only internally, but through engagement with the wider community.

Audit dimensions (continued)

Specific risks

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

Risk	Areas considered	Conclusion
EU Withdrawal	We have assessed what work the Board has done to prepare for the impact of EU withdrawal, specifically considering people and skills; finance; and rules and regulations.	<p>We have considered whether NHS Shetland was under-prepared, partly prepared or well prepared against each of the areas highlighted.</p> <p>People and skills: NHS Shetland is communicating with staff regularly on the potential implications of EU Withdrawal for the organisation, the services it delivers and people's roles. The Board has taken action to support staff who may be affected by EU Withdrawal, including communication of relevant information and provision of tailored advice. However, while NHS Shetland's workforce plan makes reference to EU Withdrawal, it does not quantify any anticipated impact. NHS Shetland is aware at a high-level of areas which may be impacted and has assessed the risk to the workforce and while it is developing actions to mitigate them, these are not currently at a detailed level.</p> <p>Conclusion: Partly prepared.</p> <p>Finance: NHS Shetland understands the level of EU funding it and its key partners receive and has concluded that this area will not be majorly impacted. The Annual Operating Plan highlights the uncertainties facing the Board, given the ongoing lack of clarity around EU Withdrawal, and at a high level discusses the risks to the Board's long-term financial planning as a result of this. However, plans to respond are at a national level rather than done locally and as such, finance risks are not regularly considered by the Executive Management Team or Board, with discussion focusing more on areas which can be addressed locally.</p> <p>Conclusion: Well prepared.</p> <p>Rules and regulations: NHS Shetland confirmed that it receives products and services primarily on the National Procurement Framework and has worked closely with the Scottish Government to ensure sufficient work has been done to ensure the continuing flow of vital products and services which are sourced from the EU. There is contingency and emergency planning carried out at both a local and national level. NHS Shetland has identified which regulatory and legislative changes will impact it as a result of EU Withdrawal and has identified the impact as being primarily on the potential loss of legal protection for medicines which are currently authorised through the EU. Work is being done at a national level to address any risk arising from this, with NHS Shetland playing an active part. While NHS Shetland has identified and prioritised the key risks to the organisation as a result of a 'no deal' withdrawal from the EU, contingency plans for this scenario are still in development and work on this must continue to be progressed.</p> <p>Conclusion: Well prepared.</p>

Audit dimensions (continued)

Specific risks (continued)

Risk	Areas considered	Conclusion
Changing landscape for public financial management	As part of our audit work on financial sustainability (see page 21) we have considered how the Board have reviewed the potential implications of the Scottish Government's MTFS for its own finances, including long term planning.	<p>NHS Shetland recently revised its Five Year Financial Plan, with the Scottish Government's MTFS being considered as a 'key factor' within that plan. The assumptions used in the plan - in terms of funding uplifts and cost increases - are consistent with the Scottish Government's MTFS. However, there is room for improvement in outlining how the anticipated spend over the medium term aligns with the key themes on public service reform (prevention, performance, partnership, people) and demonstrating a focus on improving outcomes.</p> <p>NHS Shetland amended its performance reporting framework in 2017/18 to better align with national indicators and to demonstrate contribution to national outcomes.</p>
Dependency on key suppliers	We obtained a detailed breakdown of expenditure by supplier and performed an analysis to identify if there were any risks of dependency on key suppliers.	<p>No specific risks around dependency on key suppliers have been identified. While NHS Shetland has a number of key suppliers - such as NHS Grampian and Shetland Islands Council - these are public bodies providing services to NHS Shetland and their functions would be assumed by another public body if they ceased to exist.</p> <p>NHS Shetland has a key relationship with Loganair, which accounted for 5% of its supplier spend in 2018/19 (2017/18: 3%). We are satisfied that the relationship with Loganair does not present a risk, with sufficient contingency planning in place and alternative options available to deliver services in the event of supplier failure. We are pleased to note that NHS Shetland have been working with Loganair to assess their preparedness for EU Withdrawal and the impact that that could have on the Board.</p>
Openness and transparency	We have considered the Board's approach to openness and transparency as part of our audit work on governance and transparency (see page 30).	NHS Shetland has a good attitude to openness and transparency. However, there is room for improvement and the Board needs to ensure its approach to openness and transparency keeps pace with public and regulatory expectations. NHS Shetland should review its approach to openness and transparency, considering wider expectations, developing an action plan in conjunction with the Board and wider stakeholders to ensure that the Board is always striving for more.

Appendices



Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

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

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

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



Pat Kenny

for and on behalf of Deloitte LLP
Glasgow

11 June 2019

Audit adjustments

Summary of corrected and uncorrected misstatements and disclosure deficiencies

Corrected misstatements

No corrected misstatements have been identified from our audit work performed to date.

Uncorrected misstatements

No uncorrected misstatements have been identified from our audit work performed to date.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable the Audit Committee to evaluate the impact of those matters on the financial statements. While we have identified a number of disclosure deficiencies in relation to the performance report and accountability report FReM requirements, these have been corrected by management. We have noted no uncorrected material disclosure deficiencies in the course of our audit work to date.

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial Sustainability: Transformational change</i>	<p>As recommended in 2017/18, 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.</p> <p>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.</p> <p>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>(See page 22 for more information.)</p>	<p>The Executive Management Team (EMT) meetings are being reformatted so that there is a very clear ownership of Transformational Change. The Transformational Change Board (TCB) will be discontinued as a standalone meeting.</p> <p>Each Director has clear objectives linked to the redesign projects detailed in the Strategic Commissioning Plan and through EMT and line management these directors will be held accountable for the delivery of change.</p> <p>The EMT Business Plan and Action Tracker will record decisions and progress.</p> <p>The Head of Planning and Modernisation is a dedicated officer who can support the redesign agenda and ensure a consistent approach is taken across the organisation.</p>	Chief Executive	31/3/2020	High
<i>Governance & Transparency: Health and social care integration</i>	<p>The NHS needs to work closely with the Council and IJB in improving the robustness of the IJB's MTFP. The NHS should work with the Council to ensure that the IJB has the resources and capacity needed to develop strategic thinking and deliver transformational change. Further, the NHS needs to make sure that it involves the IJB in the development of the NHS workforce plans, to ensure the IJB's needs are met.</p> <p>The NHS needs to work with the IJB in assessing the capacity of health and social care integration. The IJB, NHS and Council need to critically evaluate whether current mechanisms are working in practice.</p> <p>The NHS, IJB and Council need to work together to clearly set out roles and responsibilities of each of the parties - in greater detail than currently set out in the Integration Scheme - ensuring consistency across the partner organisations and ensuring that delegation of responsibilities is carried out effectively.</p> <p>(See page 34 for more information.)</p>	<p>The Integration Scheme, roles and responsibilities will be reviewed as part of the work emanating from the Self Evaluation for the Review of Progress with Integration of Health and Social Care.</p> <p>Each of the three partners – the IJB, NHS Shetland and Shetland Islands Council will complete the assessment and ultimately produce one aligned Development Plan for Shetland.</p> <p>This development plan will include a range of actions across many dimensions which will support and enhance our integrated working in Shetland.</p>	Head of Finance & Procurement	31/3/2020	High

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial Sustainability: Savings plans</i>	<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.</p> <p>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>(See page 21 for more information.)</p>	<p>Board management view is the current process allocates savings across the various Directorates in a proportionate manner.</p> <p>Each Director can align savings schemes within their own directorates to the agreed change projects detailed in the Strategic Commissioning Plan, realistic medicine lead initiatives of best practice or the NHS shared services initiatives.</p> <p>The savings they generate from their actions do not necessary come from their own Directorate, as evidence by the repatriation of services savings that are credited to Acute and Specialist Services target rather than treated as a saving in Patient Travel.</p> <p>The financial reports to the Board highlights "Current models of services that have continuing difficulty in recruiting permanent staff may require to consider redesign options to identify alternative best practice service models."</p>	Director of Finance	System are already in place however in-line with continuous quality improvement these will be reviewed	High
<i>Financial Sustainability: Scenario planning</i>	<p>NHS Shetland needs to prepare clear delivery plans aligned to the Strategic Commissioning Plan and the targets laid out within it, with sufficient resource and infrastructure in place to deliver the plans,</p> <p>As these plans are developed, Board Members should be more involved, taking ownership of specific plans to act as 'lead member' of the Board on each plan, helping to provide strategic direction in line with the Strategic Commissioning Plan and keep the Board up-to-date on progress.</p> <p>(See page 22 for more information.)</p>	<p>Clear delivery plans, aligned to the Strategic Commissioning Plan, are owned by the Executive Directors who are held accountable through EMT and line management. The Board will have clear line of sight to change plans and their effect, both through Board meetings and their respective roles on Committees. Some projects will be the responsibility of the IJB to oversee delivery.</p>	Chief Executive	31/3/2020	Medium

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial Sustainability: Medium-term financial planning</i>	<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>(See page 21 for more information.)</p>	<p>In-line with continuous quality improvement this will be reviewed to determine how workforce planning, transformational change, Scottish Government policy theme, objectives set out in the Annual Operating Plan and the Strategic Commissioning Plan influence resource allocation. However at present the inter-relationship between resources and specific outcomes requires further academic research on cause and affect especially as impact can be more than 10 years after investment.</p>	Director of Finance	31/3/2020	Medium
<i>Financial Sustainability: Workforce planning</i>	<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 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>(See pages 22-23 for more information.)</p>	<p>Workforce Plan should be aligned to the Strategic Commissioning Plan and Medium Term Financial Plan. Whilst the overall recommendation has been placed under the Director of Human Resources – All Directors of Service need to ensure that they have enabled the production of the required workforce narrative from each of their teams to the timeframe requested from HR.</p>	Director of Human Resources	31/12/2020	Medium
<i>Financial Management: Internal audit</i>	<p>Management and the Board must make clear that the implementation of audit recommendations is a high priority, with failure to implement recommendations not being accepted. Implementation of audit recommendations need to be improved in the coming year.</p> <p>(See page 27 for more information.)</p>	<p>EMT will include an Agenda Item on outstanding audit recommendations so those nearing their target date can be discussed and prioritised.</p>	Chief Executive	31/3/2020	Medium

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial Management: Budget setting</i>	<p>When preparing the budget, management should consider actual performance in the year-to-date as the starting point, rather than the prior year budget, in order to ensure that the most up-to-date information is used when making budget decisions.</p> <p>(See page 26 for more information.)</p>	<p>Current annual budget setting process considered adequate. Service managers submit cost pressures which are considered by EMT and Finance prior to approval by Board. Pay budgets are zero based each year on approved workforce establishment.</p>	Director of Finance	31/1/2020	Medium
<i>Financial Management: Budget transparency</i>	<p>Narrative should accompany financial monitoring reports, outlining amendments to the budget which have been made and the reason for them, clearly explaining why the amendments were not foreseen at the time the original budget was prepared.</p> <p>(See page 26 for more information.)</p>	<p>Budgets are currently managed in line with the Board's Standing Financial Instructions. However, any material adjustments to budgets will be clearly outlined in the Financial Monitoring Reports.</p> <p>The Scottish Government current allocation practice normally results in new allocations every month.</p> <p>Board's practises for some demand led costs are to fund from a central reserve on a monthly basis to ensure impact is neutral.</p>	Director of Finance	31/3/2020	Medium
<i>Governance & Transparency: Openness and transparency</i>	<p>NHS Shetland should consider the issues surrounding openness and transparency at a Board level, reaching a position on how to be increasingly open and transparent through a process of consultation.</p> <p>(See page 30 for more information.)</p>	<p>Standing Orders of the Board were actually updated in April 2019.</p> <p>During 2019-20 national guidance on best practice for all NHS Boards is being issued by the short live working group the Scottish Government established. The best practice recommendations in the report will be incorporated in to the Board's Standing Orders.</p>	Corporate Services Manager	31/3/2020	Medium

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Governance & Transparency: Board capacity</i>	<p>While performing appraisals and assessing performance, the Board needs to consider if those on the Board and on the various Committees have the capacity to carry out their duties effectively.</p> <p>(See page 33 for more information.)</p>	<p>This will be incorporated into the objective setting and appraisal process for Board members.</p>	Chairman	31/3/2020	Medium
<i>Governance & Transparency: Board training</i>	<p>A dedicated training manager should be appointed to assume responsibility for identifying the training needs of Board members, arranging for them to attend training, monitoring uptake and assessing the effectiveness of training.</p> <p>A personal development plan for each Board member should be created and actioned in the year, with progress against the plan and the appropriateness of it considered on an annual basis when their appraisal is conducted. These personal development plans should be collated to inform a skills gap analysis for the Board as a whole, with this analysis informing Board-wide action to be taken to address identified gaps.</p> <p>(See page 32 for more information.)</p>	<p>Board members objective setting and appraisal process will identify and monitor training needs on a continuous basis.</p> <p>Each Governance Committee Chair will also identify and monitor the training needs of their members.</p> <p>All training will be supported by the Board's Staff Development Team.</p>	Chairman	31/3/2020	Medium
<i>Value for Money: Best Value</i>	<p>The Accountable Officer needs to work with Executive Directors and the wider Board to identify areas where continuous improvement is not embedded and drive continuous improvement across the organisation.</p> <p>(See page 36 for more information.)</p>	<p>The Accountable Officer will work with the Executive Management Team to ensure all areas are engaged in continuous improvement activity. Potential support to be sourced from the iHub.</p>	Chief Executive	31/3/2020	Medium

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Value for Money: Performance management</i>	<p>Management and the Board need to work together to identify resource needs and where resources can be reallocated from to address areas of declining performance. Alternatively, given the difficult financial position facing NHS Shetland, the Board may need to make difficult decisions and accept 'average' performance - amending targets and KPIs as appropriate - in some areas, whilst focusing resources on deemed priority areas until transformational change and service redesign are sufficiently progressed to enable NHS Shetland to adopt alternative models of care that maintain performance whilst also improving finances.</p> <p>(See page 36 for more information.)</p>	<p>EMT will scrutinise performance and pressures and where necessary will recommend shifts in resources / KPIs for the Board to make decisions on.</p>	Chief Executive	31/3/2020	Medium
<i>Value for Money: Performance reporting</i>	<p>Performance reports need to establish links between actions and outcomes. Performance reports also need to make clear how successful historical management actions to address performance issues have been.</p> <p>(See page 37 for more information.)</p>	<p>There will be an opportunity to reconsider the Board's approach to reporting on performance when the updated Performance Management Framework is considered by the Board (June 2019).</p> <p>NHS Shetland may follow the format currently used by the IJB which links actions and outcomes.</p>	Head of Planning & Modernisation	31/3/2020	Medium
<i>Value for Money: Business cases</i>	<p>NHS Shetland needs to develop a culture where the use of robust business cases to underpin decision-making is the norm, demonstrating value for money and assessing the impact on outcomes and service users of Board decisions.</p> <p>(See page 37 for more information.)</p>	<p>A revised more robust business case template and process will be developed and consulted upon for use in all projects considered during 2019/20 and beyond.</p>	Director of Finance	31/3/2020	Medium

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Governance & Transparency: Leadership</i>	<p>The NHS needs to ensure that it has appropriate transitional arrangements and handovers in place to enable functions which need to be carried out to be carried out regardless of changes in the leadership, and to ensure any impact on the Board's partner organisations and wider stakeholders is identified and mitigated.</p> <p>(See page 32 for more information.)</p>	<p>The recent transitional arrangements have been effectively managed and key personnel are now in place.</p>	Chief Executive	31/3/2020	Low
<i>Financial Management: Financial capacity</i>	<p>NHS Shetland needs to consider the capacity of the finance function, particularly given the dual role being completed by the Head of Finance & Procurement also acting as Chief Financial Officer of the Integration Joint Board. This should be specifically considered given the changes in the Chief Officer of the Integration Joint Board and Chief Executive of NHS Shetland positions in April 2019.</p> <p>(See page 28 for more information.)</p>	<p>The arrangement is considered adequate for the size of the Shetland health and social care system. An additional management accountant has been recruited in June 2019 which will release capacity to participate and support various redesign projects across the Board.</p>	Chief Executive	31/3/2020	Low

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial Statements: Annual Report</i>	<p>NHS Shetland needs to improve the detail and quality of its Annual Report. This should include:</p> <ul style="list-style-type: none"> Ensuring all the requirements per the FReM are included in the performance report prior to review by audit; Sense checking all of the information disclosed in the performance report to ensure it is consistent with information disclosed elsewhere in the annual report and accounts; Revising the layout and structure of the information presented in the performance report to be more user friendly; Tailoring the level of information disclosed and the removal of any information which does not add value or aid the understanding of the user of the performance report; Providing information relevant to the current financial year and ensure all comparative information is disclosed where applicable; Inclusion of an action plan in the governance statement to outline how the Board will address the significant risks and uncertainties facing NHS Shetland; Removal of columns and rows that have nil balances presented for both current year and prior year. <p>(See page 16 for more information.)</p>	<p>If Audit Scotland do not update their good practice guide with developments implemented since 2016/17 audit cycle NHS Shetland will review other Boards annual accounts to review how other NHS Annual Reports and Financial Accounts have been changed to reflect practice and to keep report concise.</p> <p>Recently appointed Communication Officer post will be consulted on the narrative section layout and format.</p> <p>Complete proof reading can be added however that will cause a delay in the date that External Audit receive the narrative section of the accounts.</p> <p>In respect of some of the Public Health data the time delay in publication of the statistics is such that data relates to the prior financial year. The relevance of the inclusion of this data will be reviewed by the Board.</p> <p>In respect of the Scottish Government official statistics on GP access against the two standards this is only measured every two years.</p>	Director of Finance	31/3/2020	Medium

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial Statements: IFRS 16 Leases</i>	<p>NHS Shetland should target the completion of its IFRS 16 impact analysis during 2019/20 and calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. Following the outcome of the impact analysis, early consideration should be given to the actions required to embed IFRS 16 accounting in the Board's underlying accounting systems.</p> <p>(See page 13 for more information)</p>	The impact of IFRS 16 will be analysed during 2019/20.	Head of Finance & Procurement	31/3/2020	Medium
<i>Financial Statements: IFRS 9 Financial Instruments</i>	<p>There is minimal impact from transition to IFRS 9 and IFRS 15 for NHS Shetland. However, management should review and update their internal policies and procedures accordingly to reflect the revised accounting standards.</p> <p>(See page 12 for more information)</p>	Internal policies and procedures will be updated to reflect these revised accounting standards.	Head of Finance & Procurement	31/3/2020	Medium

Action plan (continued)

Follow-up 2017/18 action plan

We have followed up the recommendations made in our 2017/18 annual report in relation to the wider scope areas and note that only 1 of the total 6 recommendations made have been fully implemented. We are pleased to note the remaining action from 2016/17 has been fully implemented in 2018/19. The following recommendations have either not been implemented or are only partially implemented. We will continue to monitor these as part of our audit work and provide an update in our Annual Report to the Committee in June 2020.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
<i>Financial Sustainability: Scenario planning</i>	The outcome of the scenario demand pressures and resulting costs in a no change environment. This will be a key input in identifying the required level of transformational change.	The next steps in scenario planning process are currently being defined. The outputs from this will include assessment of required level of transformational change.	Chief Executive	1/9/2018	High	<p><i>Partially implemented:</i> This recommendation will be monitored alongside the updated recommendation on scenario planning from 2018/19, on page 44.</p> <p>Updated management response: Progress has not been as fast as planned. EMT have reviewed potential areas of change as part of work on the five year financial plan and information on planned savings are built into the draft five year financial plan.</p>
<i>Financial Sustainability: Transformational Change</i>	<p>Given the complexity of the changes required, the TCB needs to consider the supporting infrastructure required to deliver the required savings, such as:</p> <ul style="list-style-type: none"> • A programme management office (PMO) • Its change management approach • Tools and templates to assess whether intended benefits of change have been achieved • Whether it requires external specialist support for any aspects of its Plan. 	<p>The Board internally has set aside £250k in resources as a catalyst for change and is also seeking North of Scotland funds. The scenario planning process is expected to clarify the direction of strategic change and required level of transformational change. Although the process is circular in nature the outcome from scenario planning will lead to a review of processes and support required to implement change.</p>	Chief Executive	1/8/2018	High	<p><i>Partially implemented:</i> This recommendation will be monitored alongside the updated recommendation on transformational change from 2018/19, on page 43.</p> <p>Updated management response: High level strategic change required has been set out in the updated Joint Strategic Commissioning Plan. Additional capacity has been identified and funded in 18/19 and 19/20 to support change programmes. The TCB process continues to be reviewed and developed.</p>

Action plan (continued)

Follow-up 2017/18 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
<i>Governance Transparency: Integration Joint Board</i>	Operationally, the NHS, Council and IJB work effectively together, with evidence of improvements in service & delivery, for example through the Intermediate Care Team. There is, however, scope for the governance arrangements between the NHS Board and the IJB to be improved to ensure that respective roles and responsibilities are clear.	Work is already underway to improve clarity of roles of Clinical Care and Professional Governance Committee. Chief Executive started work with Shetland Island Council counterpart to review future options for development of joint arrangements and clarifying how the boundaries with IJB are clear and consistent with respective roles and responsibilities.	Chief Executive	1/3/2018	Medium	<p><i>Partially implemented:</i> This recommendation will be monitored alongside the updated recommendation on health and social care integration from 2018/19, on page 43.</p> <p>Updated management response: Progress has been delayed as a result of changes in the Chair of the Board and Council Chief Executive. Work has been undertaken to explore options for future development. Options and appetite for change were discussed at the Liaison Group meeting in February 2019. Follow up Liaison Group meeting is being arranged and a self assessment of IJB arrangements will shortly be completed.</p>
<i>Financial Sustainability: Savings plans</i>	Saving plans should be agreed early to ensure the Board has sufficient lead in time to implement the changes required.	All the Executive Directors have the delivery of savings plans in their personal annual objectives. The Board has identified that £9.3m of savings are required over the next 5 years and these have been allocated to Directors to achieve. Significant redesign proposal will be an outcome from scenario planning.	Chief Executive	1/3/2019	Medium	<p><i>Partially implemented:</i> This recommendation will be monitored alongside the updated recommendation on savings plans from 2018/19, on page 44.</p> <p>Updated management response: Savings plans are identified as early as possible. The 18/19 savings plans were delivered (although not all recurring savings) and plans for 19/20 were in place in advance of the start of the financial year. Further work is required to identify more medium-term savings.</p>

Action plan (continued)

Follow-up 2017/18 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
<i>Financial Management: Financial planning</i>	Financial plans should be linked to priorities and other developments and show how spending makes a difference to these areas	Will review as on-going continual development of Board's financial planning process. This will aim to include local investment decisions being based upon strategic priorities and show and development. Although Board has considered previously programme budgeting for investment, lack of robust outcome measurement is a current restraint.	Director of Finance	1/2/2018	Medium	<i>Partially implemented:</i> This recommendation will be monitored alongside the updated recommendation on medium-term financial planning from 2018/19, on page 45. Updated management response: The annual and five year financial plan aims to link with the Joint Strategic Commissioning Plan, however, further work is needed to improve this.
<i>Risk management</i>	In aligning with Scottish Government recommendations to the Datix Management become more priority focused. We recommend that risks are linked to corporate objectives or priorities.	NHS Shetland's organisational risks are linked to corporate objectives or priorities in the Datix Management Information system. The next scheduled report to the Board is in October and this will be amended to incorporate links to the corporate objectives or priorities.	Clinical Governance Risk Lead	& 1/10/18	Medium	<i>Implemented.</i> Updated management response: Corporate risks are now all aligned to NHS Shetland's corporate objectives.
<i>Recurring savings</i>	NHS Shetland should focus on identifying and implementing recurring saving opportunities, to reduce its savings deficit and become a more cost effective organisation	A Transformational Change Board has been set up to co-ordinate delivery of the 2017/18 Strategic Programme	Transformational Change Board	Ongoing	High	<i>Implemented.</i> Updated management response: The Transformational Change Board is focused on identifying recurring savings, although this remains an ongoing problem for NHS Shetland. Improvements have been made in the identification of recurring savings in recent years, although the level achieved remains lower than required to maintain recurrent balance.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

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



Required representations:

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

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



Audit work performed:

In our planning we identified the achievement of expenditure resource limits and management override of controls as key audit risks for your organisation.

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

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

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

Concerns:

No concerns have been identified regarding fraud.



Independence and fees

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

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.												
Fees	<p>The audit fee for 2018/19, in line with the fee range provided by Audit Scotland, is £73,460 as broken down below:</p> <table><thead><tr><th></th><th>£</th></tr></thead><tbody><tr><td>Auditor remuneration</td><td>62,410</td></tr><tr><td>Audit Scotland fixed charges:</td><td></td></tr><tr><td> Pooled costs</td><td>7,300</td></tr><tr><td> Audit support costs</td><td>3,750</td></tr><tr><td>Total proposed fee</td><td>73,460</td></tr></tbody></table> <p>No non-audit fees have been charged by Deloitte in the period.</p>		£	Auditor remuneration	62,410	Audit Scotland fixed charges:		Pooled costs	7,300	Audit support costs	3,750	Total proposed fee	73,460
	£												
Auditor remuneration	62,410												
Audit Scotland fixed charges:													
Pooled costs	7,300												
Audit support costs	3,750												
Total proposed fee	73,460												
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.												
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>												





Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.