

NHS Shetland

Report to the Audit Committee, the Board and the Auditor General for Scotland,
on the 2020/21 audit

Issued on 16 June for the meeting on 23 June 2021 (updated final 21 July 2021)

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Introduction

The key messages in this report

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

- A robust challenge of the key judgements taken in the preparation of the annual report and accounts.
- 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 ('the Committee') of NHS Shetland ('the Board') for the year ending 31 March 2021 audit. The scope of our audit was set out within our planning report presented to the Committee in January 2021.

This report summarises our findings and conclusions in relation to:

- The audit of the **annual report and accounts**; 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 the completion of our audit work we have issued an unmodified audit opinion.

The performance report and accountability report comply with the statutory guidance and proper practice and are consistent with the accounts and our knowledge of the Board. As part of the audit process we identified a significant number of changes that required to be made to ensure full compliance. While management have agreed to make the majority of those changes, improvements are required to the Board's internal quality review processes to prevent similar issues arising in future years.

Based on our audit of the remuneration and staff report, following changes for two adjustments identified during our audit (page 47), we are satisfied that it has been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 10. The Board met its financial target for 2020/21, achieving a small surplus of £0.063m.

One uncorrected misstatement in excess of our reporting threshold of £66k has been identified up to the date of this report which is included on page 45. This has no impact on the final results of the Board.

Status of the annual report and accounts audit

Our audit is complete.

Conclusions on audit dimensions

As set out on page 3, our audit work covered the four audit dimensions. Our audit work was risk based and proportionate, covering each of the four dimensions. As discussed in our audit plan, the risk profile of public bodies for the 2020/21 audits is significant affected by the COVID-19 pandemic. Our audit work across each dimension has therefore been specifically focussed on how the Board has responded to these risks.

Our overall conclusions on each dimension are summarised below, with full details provided in the main body of the report:

Financial Management

The Board continues to have effective financial planning and management arrangements in place, with a slight surplus of £0.063m achieved in the year. NHS Shetland has continued to monitor its financial position throughout the pandemic and have disclosed the impact the pandemic is having on their financial position, which is a net nil impact due to cost pressures being offset by increases in funding from the Scottish Government.

However, the Board continues to face challenges in achieving the savings required. In line with our 2019/20 conclusions, in order to ensure future financial sustainability, it is critical that the Board set realistic targets, setting out clear plans, and ensuring there is sufficient lead time to implement the changes required.

While we have concluded that there are suitably qualified and experienced staff leading the finance team, a number of issues have been identified throughout this report and through internal audit reporting which question whether there is sufficient and appropriate capacity. We therefore recommend that management undertake a review to assess whether the team structure currently meets the requirement to support the financial management of the Board.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial sustainability

Whilst a balanced budget has been set and the Board has a history of breaking even, due to the unidentified savings targets and continued reliance on non-recurring savings, the Board continues to face a significant risk of not achieving short-term financial balance. While the full impact of COVID-19 is not yet known, the Board has assumed that any incidental costs from COVID-19 will continue to be fully funded from the Scottish Government.

The Board has updated its medium term plan during the year which identifies a cumulative gap of £7.3m by 2024/25. The Board is therefore unable to demonstrate that it is financially sustainable in the medium and longer term. It is therefore critical that the Board consider how services will be delivered in the future in a financially sustainable way. In line with best practice, scenario planning should also be undertaken to ensure that the Board has sufficient information to be able to plan accordingly.

There has been some progress with transformation in the year despite the impact of COVID-19 and the development of the Project Management Office ('PMO') is a positive step. Management have identified lessons to be learned from the new ways of working that have been progressed during the pandemic. More work is, however, still required, to fully develop a transformation plan, building on the good ideas that have been set out in the Remobilisation Plan 3 ('RMP3'), including digital transformation.

It is positive to see that efforts have been taken during the year to respond to the pressures experienced by the workforce as a result of the pandemic, prioritising the wellbeing of staff and that the Board has been actively listening to what the workforce has had to say. COVID-19 has had a significant financial impact on staff costs, which has included significant amounts of overtime and untaken leave. It is important that the Interim Workforce Plan is developed into a longer-term workforce plan to ensure the long-term viability of the workforce and that this is closely aligned to the work being carried out as part of transformation.

Governance and transparency

The Board continues to have strong and effective leadership in place and the transition of the Chief Executive post to being split with NHS Orkney has been well managed. The Board should continue to monitor this as the Board moves into a recovery phase to ensure that there is sufficient capacity within the EMT. The Board continues to be open and transparent.

Appropriate arrangements were put in place in response to the COVID-19 pandemic with normal governance arrangements having now returned. However, further work is required to review the governance and meeting structure as well as the capacity of individual Board members. Improvements are also required to the level of scrutiny and challenge by the Board, as discussed elsewhere within this report in relation to the budget setting process, transformational change and the implementation of external and internal audit recommendations.

NHS Shetland also continues to exercise sufficient oversight and scrutiny of the Health and Social Care Partnership's ('HSCP') activity. We welcome the review performed of the Integration Scheme ensuring that Shetland Islands Integration Joint Board ('the IJB'), Shetland Islands Council ('the Council') and NHS Shetland are compliant with the IJB's governing legislation. The cross partnership working during the pandemic is to be commended and will be a key area in the recovery phase from the pandemic.

Value for money

The Board continues to have well established performance management arrangements, although the Annual Operating Plan ('AOP') measures for 2020/21 were largely put on hold to allow full resources to be dedicated to the management of COVID-19.

Whilst the Board's performance is improving in some areas, the focus over the past year has primarily been the management of COVID-19. As part of re-mobilisation and recovery, management should continue to focus on improving performance across the Board. We also acknowledge the steps that are being taken to address the performance issues in the area of psychological therapies which are not yet demonstrated in the performance data. We will continue to monitor this as part of the 2021/22 audit.

The Board has a clear focus on improving equality outcomes and recognises the impact that COVID-19 is expected to have and is actively working with partners towards addressing this.

Introduction (continued)

The key messages in this report (continued)

Best Value

The Board has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development. However, as noted within the report, significant work is required to achieve medium to longer term financial sustainability and transformational change.

Emerging issues

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. We have provided a summary of those most relevant to the Board on pages 38 to 43 of this report.

In addition, we have provided a high level assessment of where the Board is in its response to the Climate Change Agenda, discussed on page 35.

Next steps

An agreed Action Plan is included on pages 47 to 59 of this report, including a follow-up of progress against prior year actions. We will consider progress with the agreed actions as part of our 2021/22 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. In addition, we have included our "sector developments" on pages 38 to 43 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 Board. We have also shared invites to relevant Deloitte-led webinars with the Board.

Pat Kenny
Audit Director








Annual report and accounts audit



Quality indicators

Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements		Documentation in relation to key areas of judgement in relation to accruals and provisions was provided early in the audit process.
Adherence to deliverables timetable		The audit of the annual report and accounts progressed largely in line with the original timescale, with the excel version of the annual report and accounts and associated notes provided in line with the agreed timeline at the start of the audit on 5 May 2021. However, the full draft of the annual report and accounts was received on 18 May 2021. Improvements are therefore required in future years to ensure there is clarity on both the timetable and expectations for the submission of the annual report and accounts.
Access to finance team and other key personnel		Deloitte and NHS Shetland have worked together to facilitate remote communication during the audit which has been successful.
Quality and accuracy of management accounting papers		On the whole documentation provided has been a good standard.
Quality of draft annual report and accounts		A full draft of the annual report and accounts was received for audit on 18 May 2021. A significant number of changes were identified as part of the audit process to ensure full compliance with the Government Financial Reporting Manual ('the FReM'). These are discussed further on page 16. Improvements are therefore required in the Board's drafting and internal review process, prior to these being passed for audit.
Response to control deficiencies identified		No significant control deficiencies identified.
Volume and magnitude of identified errors		We identified three misstatements above our reporting threshold. Further details of both uncorrected and corrected misstatements can be found on pages 45 and 46 of this report. We also identified two disclosure misstatements, as set out on page 47. These have been corrected by management.



Lagging



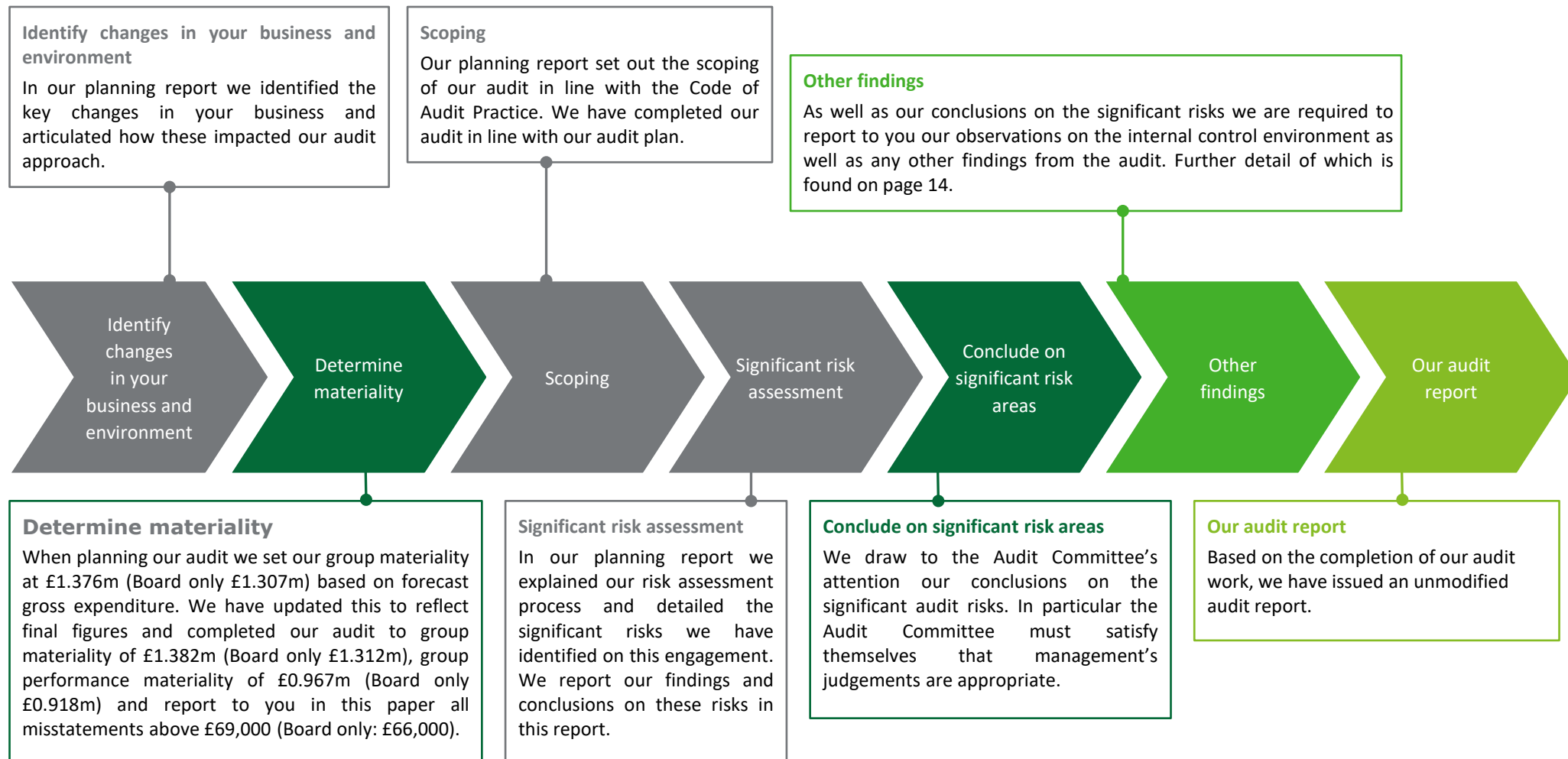
Developing



Mature







Our audit explained

We tailor our audit to your business and your strategy



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.
Operating within the expenditure resource limits			D+I	Satisfactory		Satisfactory	11
Management override of controls			D+I	Satisfactory		Satisfactory	12

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Operating within the expenditure resource limits



Risk identified and key judgements

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In line with previous years, we do not consider this to be a significant risk for NHS Shetland as there is little incentive to manipulate revenue recognition with the majority of revenue being from the Scottish Government which can be agreed to confirmations supplied.

We therefore considered the fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Government. There is a risk is 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.

The significant risk is therefore pinpointed to the completeness of accruals and the existence of 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. 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.

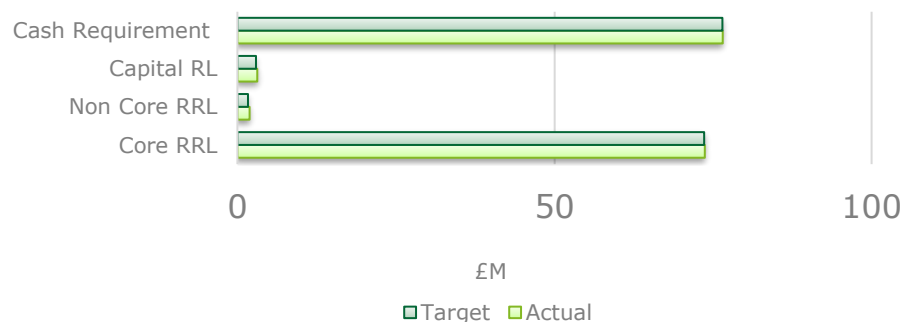


Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the achievement of the limits set by the Scottish Government (which are illustrated in the graph below). 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 around the year end.

2020/21: Actuals vs Resource Limits



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 the Board has performed within the limits set by Scottish Government Health and Social Care Directorate, achieving a small surplus of £0.063m, and therefore is in compliance with the financial targets in the year.

Significant risks (continued)

Management override of controls



Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent annual report and accounts by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the annual report and accounts and accounting records.



Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the annual report and accounts. In designing and performing audit procedures for such tests, we have:

- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. A summary of the key estimates and judgements considered is provided on the next page; and
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the annual report and accounts of the prior year.

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.

Deloitte view

We have not identified any instances of management override of controls during our journal entry testing and our testing of estimates. On this basis, our testing in this area is satisfactory.

Significant risks (continued)

Management override of controls (continued)

Key estimates and judgements The key estimates and judgments in the annual report and accounts includes those which we have selected to be significant audit risks around achievement of expenditure resource limits (page 11) and accounting estimates (page 12). These are inherently the areas in which management has the potential to use their judgement to influence the annual report and accounts. 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
<p>Clinical Negligence and Other Risks Indemnity Scheme (‘CNORIS’) provision</p>	<p>NHS bodies in Scotland are responsible for meeting negligence costs up to a threshold of £25,000 per claim. Costs above this threshold are reimbursed from the CNORIS scheme by the Scottish Government. The Board 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 2021, there were 6 claims specific to NHS Shetland included in the provision (£116,000).</p> <p>The Board 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. As at 31 March 2021, the provision for participation in CNORIS was £1.659m.</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. We have obtained independent confirmation directly from the CLO of all outstanding claims at 31 March 2021 and reconciled this to the amount recognise and challenged managements provision policy and concluded that it is reasonable.</p> <p>The provision for NHS Shetland’s share of the national liability is calculated by the Scottish Government based on information from the CLO in relation to all Boards. We have received direct confirmation from the Scottish Government of the balance which has been reconciled to the amount recognised.</p> <p>We have received 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.</p>
<p>Property valuations</p>	<p>Land and buildings are fully revalued by an independent valuer every three years. The last full revaluation was at 31 March 2020. As at 31 March 2021, management assessed the need for an impairment review and concluded that there were no indicators of impairment.</p>	<p>We have challenged management’s assessment and consulted with our internal property experts. For those assets valued at Existing Use Value on a market comparable basis, our property experts have confirmed that minimal changes in the market value would be expected in 2020/21. For those valued on a Depreciated Replacement Cost basis, which would be impacted by changes in build costs during the year, we have performed an analysis of changes in the Build Costs Information Service (‘BCIS’) index and concluded that no material movement would be expected. We are therefore satisfied that there is no indication of a material movement in assets not formally revalued during the year.</p>

Other significant findings

Financial reporting findings

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

Qualitative aspects of your accounting practices:

NHS Shetland's annual report and accounts have been prepared in accordance with the FReM. Following our audit work, we are satisfied that the accounting policies are appropriate.

Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

Significant matters discussed with management:

Throughout the audit, we have held ongoing discussions with management on NHS Shetland's response to COVID-19 and future plans, in order to assess the adequacy of disclosures in the annual report and accounts and to update our understanding of the entity and risk assessment.

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

Our audit report

Other matters relating to the form and content of our report

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



Our opinion on the annual report and accounts

Our opinion on the annual report and accounts is expected to be 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.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is more relevant to the assessment than the continued existence of a particular body.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the annual report and accounts 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 annual report and accounts 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 annual report and accounts were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

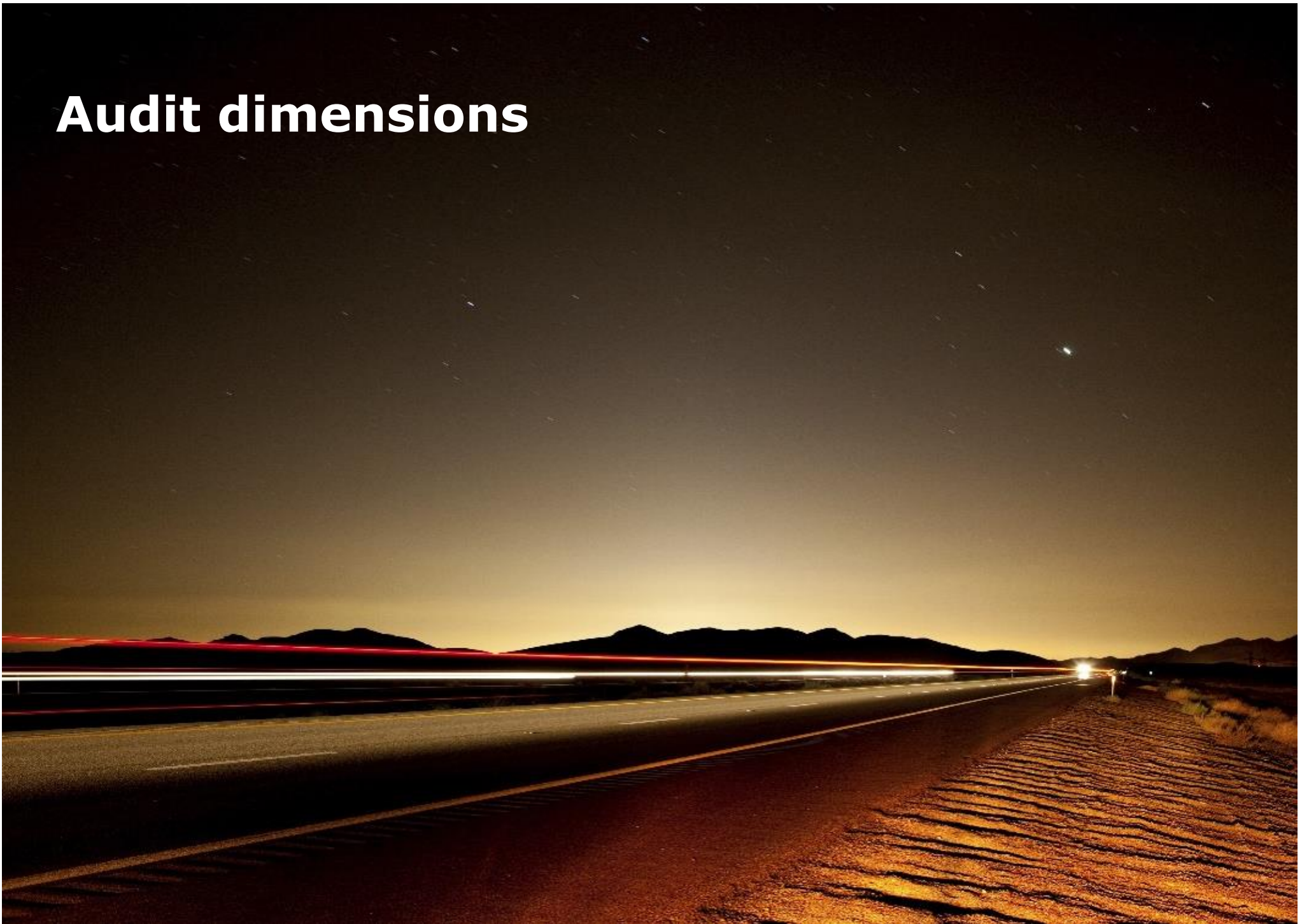
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 16.

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 performance report is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines the Board's performance, both financial and non-financial. It also sets out the key risks and uncertainty as set out in the Annual Operating Plan.	<p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. A number of areas for improvement were identified relating to the structure, length and content of the performance report to ensure full compliance. Management have agreed to make these changes in the final version of the annual report.</p> <p>We have also read the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provided management with comments and suggested changes which management have agreed to make.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, 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 annual report and accounts and has been prepared in accordance with the accounts direction. No exceptions have been noted.</p> <p>We have also read the accountability report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provided management with comments and suggested changes which management have agreed to make.</p> <p>We have also audited the auditable parts of the remuneration and staff report to ensure that it has been prepared in accordance with the accounts direction. Two adjustments have been identified, regarding headcount and higher paid employees' remuneration, as set out on page 47. These have been corrected by management.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	<p>The going concern disclosure and auditing requirements for NHS bodies have changed for 2020/21. In accordance with the FReM, the Board has prepared its accounts on a going concern basis, applying the 'continuing provision of services' approach. Under this approach, the FReM indicate that the going concern assessment is not subject to material uncertainties, and no additional disclosures need to be considered.</p> <p>Under the 2020 revisions to Practice Note 10 "Audit of Financial Statements of Public Sector Bodies in the United Kingdom", our work has therefore focused upon confirming the use of the "continued provision of service" approach is appropriate. We have no matters to report in respect of this.</p> <p>The Board's arrangements to secure financial sustainability are considered as part of our audit dimensions work on pages 23-26.</p>

Audit dimensions

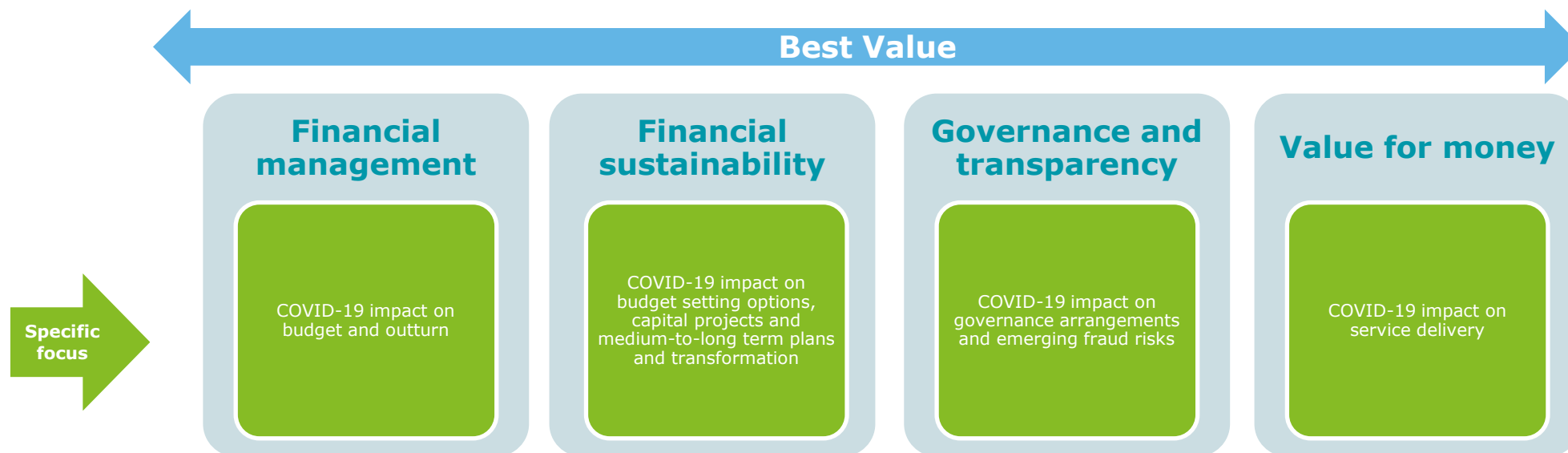


Audit dimensions

Overview

As set out in our audit plan, public audit in Scotland is wider in scope than financial audits. This section of the report sets out our findings and conclusions on our audit work covering the following areas.

The risk profile of public bodies for the 2020/21 audits is significantly affected by the COVID-19 pandemic. Our audit work across each dimension has therefore been specifically focussed on how the Board has responded to these risks.



Financial management

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



Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we confirmed that while there was no specific risk in relation to financial management, we would continue to review the Board’s financial management arrangements. In addition, we also identified the following risk:

“Since the start of the pandemic, the risk of fraud and error has increased as the control environment and internal control change. In accordance with Audit Scotland planning guidance, we will consider fraud as a particular focus area in 2020/21.”

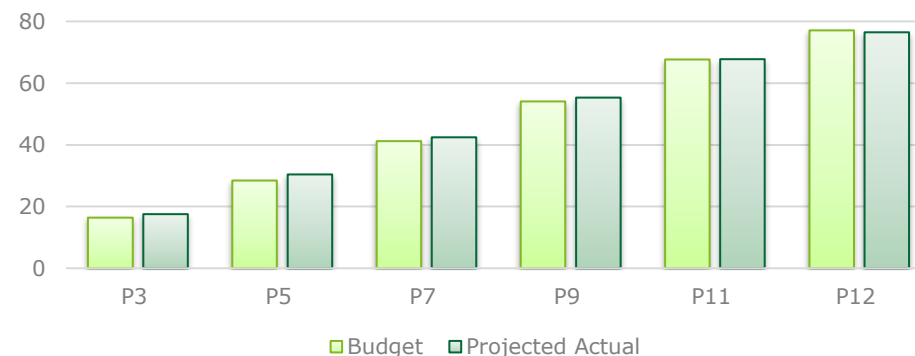
Current year financial performance

2019/20 conclusion: NHS Shetland ultimately achieved an underspend against its resource limit of 0.1%, and therefore operated within its expenditure limits for the year.

2020/21 update: At the end of period 3, NHS Shetland reported an overspend of £1.6m (9%) against budget. By period 9, this had increased to £2.1m (3.9%). As set out in the annual report and accounts, NHS Shetland ultimately achieved an underspend against its resource limit of £0.063m (0.1%) This includes the carry forward of the 2019/20 underspend of £0.038m, i.e. without this, the final outturn for the year would have been £0.025m.

The Board has continued reporting on its financial position throughout the year and has disclosed the impact COVID-19 has had on its financial position, both in terms of additional costs and funding. Due to the impact of COVID-19, no financial monitoring reports were presented to the Board between February and July 2020 with the financial monitoring report for Q1 being presented in August 2020.

Year to date budget vs actuals (£m)



Variations against budget in the year mainly related to the impact that the COVID-19 pandemic has had on the Board, either through additional costs pressures, such as additional health and safety costs, or a reduction in operating activity income. Similar to previous years, the Board is still facing substantial staff cost pressures, separate from COVID-19, due to the use of locum staffing. NHS Shetland acknowledges that the reliance on locum staff and the associated costs are not sustainable.

The additional cost pressures incurred by the Board due to the COVID-19 pandemic were £5.8m, which was offset by a reduction in travel costs (£1.2m) and additional funding of £4.6m received from the Scottish Government.

Financial management (continued)

Current year financial performance (continued)

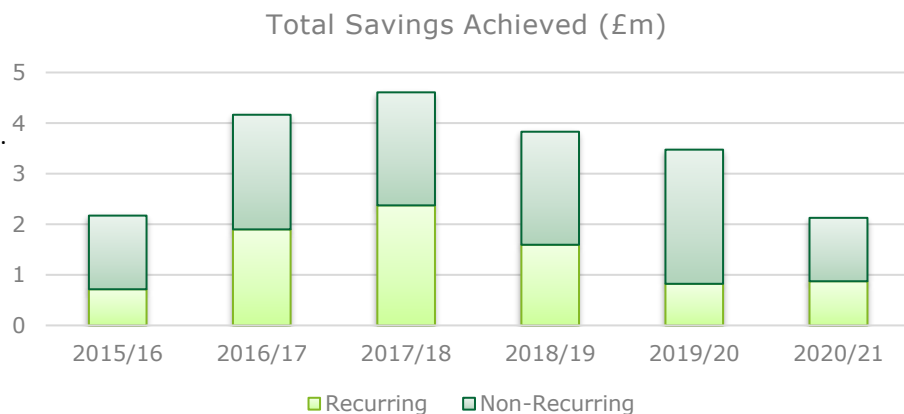
2020/21 conclusion: The Board continues to have effective financial planning and management arrangements in place, with a slight surplus of £0.063m achieved in the year. The Board has continued to monitor its financial position throughout the year including the impact the pandemic has had on its financial position. The Scottish Government has provided full non-recurring funding for all COVID-19 related costs in 2020/21.

Savings plans

2019/20 conclusion: NHS Shetland continued to face significant challenges in achieving the savings required. In order to ensure future financial sustainability, it is critical that realistic targets with clear plans are set, ensuring there is sufficient lead time to implement the changes required.

2020/21 update: The revised 2020/21 budget identified a need to make savings of £2.012m (3.7% of the baseline funding). Progress against this target was closely monitored and reported to the Board through Financial Monitoring Reports throughout the year. The final outturn reported that £2.127m (105.7%) of the targeted savings were achieved, a surplus of £0.115m from the original target.

As illustrated in the graph below, the savings achieved in 2020/21 have declined in comparison with previous years. The level of recurring savings achieved in the year was £0.873m (43.7% of the target). This is an improvement on the prior year where only £0.818m (23.6% of target savings) were recurring.



The average percentage of recurring savings achieved from 2016/17 to 2020/21 is 41.7% of the targeted savings, which is below the national average of 47%.

2020/21 conclusion: Our conclusion in 2019/20 remains valid. NHS Shetland continues to face significant challenges in achieving the savings required. In order to ensure future financial sustainability, it is critical that realistic targets are set, setting out clear plans and ensuring there is sufficient lead time to implement the changes required to reduce the reliance on non-recurring savings.

Financial reporting

2019/20 conclusion: As with 2018/19, improvements were required in the accuracy of forecasting within NHS Shetland. Between 2017/18 and 2019/20, NHS Shetland under-budgeted for acute and specialist services by 15% on average, and 14% on average for community health and social care. This increased the difficulty of planning, and resulted in reductions needing to be made in other areas during the year to offset the increased costs in these areas which were not, but should have been, foreseen. Management, the finance function and the Board should review the style of reporting and agree revisions to the financial monitoring reports to ensure they meet the needs of the Board. As part of a revised approach, the Board should ensure that financial monitoring reports link with performance monitoring reports, in line with good practice as set out in the Audit Scotland Best Value Toolkit on Financial Management, in order to demonstrate the effectiveness and impact of NHS Shetland's use of its financial resources.

2020/21 update: The initial impact COVID-19 had on NHS Shetland meant that the budget setting process was delayed in 2020/21, with the final budget being presented to the Board in August 2020.

As part of their 2020/21 work programme, internal audit performed a review of Financial Management and Reporting. They concluded that reports are overly technical, lengthy and contain a substantial amount of narrative, which results in key messages, assumptions, risk adjustments and risks for achieving financial balance being less clear than they could be. We have made the same observations during our 2017/18, 2018/19 and 2019/20 audit work. The impact of COVID-19 has highlighted the importance of informed and effective decision making.

Financial management (continued)

Financial reporting (continued)

Performance against the budget is monitored on a monthly basis. Amendments are made to the budget throughout the year to take account of changing circumstances and events which were not foreseen when the budget was agreed. Although the change to the overall budget is immaterial – 1% movement, £0.56m – similar to prior years, the movement within categories is more substantial, particularly within acute and specialist services and community health and social care.

2020/21 conclusion: In line with prior year recommendations and the recommendations made by internal audit in the current year, significant improvements are required in the financial reporting process. Management, the finance function and the Board should review the style of reporting and agree revisions to the financial monitoring reports to ensure they meet the needs of the Board. As this has been a recurring issue in our reporting since 2017/18 and has also been raised by the Board's internal auditors, it is critical that this is reviewed as a priority.

Financial capacity

2019/20 conclusion: NHS Shetland had suitably qualified and experienced staff leading the finance team.

2020/21 update: The leadership of the finance team has remained consistent throughout the year. Finance staff have dealt well with the additional demands of COVID-19, which includes adapting the financial monitoring reports to include the impact of COVID-19 on services, and the additional mobilisation plan reporting requirements to the Scottish Government.

In previous years we concluded that NHS Shetland had suitably qualified and experienced staff leading the finance team. While that conclusion still remains valid, given the outstanding recommendations in relation to financial management and reporting discussed above, management should re-assess whether there is sufficient and appropriate capacity within the finance team to fulfil its role and support the financial management of the Board.

2020/21 conclusion: While we have concluded that there are suitably qualified and experienced staff leading the finance team, a number of issues have been identified throughout this report and through internal audit reporting which question whether there is sufficient and appropriate capacity. We therefore recommend that management undertake a review to assess whether the team structure currently meets the requirement to support the financial management of the Board.

Internal audit

2019/20 conclusion: We welcomed the significant improvement in the year in implementing internal audit recommendations, however, we shared the concerns of the Committee in this area. While we accepted that resourcing is an issue, prioritisation must also be considered here. Management and the Board must make clear that the implementation of audit recommendations is a high priority, and should consider including this in the appraisal of relevant members of management. In order to progress this, the Board and Chief Executive should ensure that relevant management are present at Audit Committee meetings which are considering performance in areas for which they are responsible.

2020/21 update: We have assessed the internal audit function, including its nature, organisational status and activities performed. We have also carried out a review of the internal audit reports published during 2020/21. The conclusions have helped inform our audit work, although no specific reliance has been placed on this work.

The 2020/21 Plan was approved by the Committee in August 2020. The plan comprised of Internal Audit³ planned audits. During the year regular progress updates have been issued to the Committee communicating progress against the plan, which has included the impact of COVID-19 restrictions.

The internal audit function has not been negatively impacted by the COVID-19 pandemic and have managed to complete the 2020/21 audit plan within the original timescales provided.

The rate of implementation of audit recommendations continues to be regularly reported by internal audit. At the end of March 2021, 17 actions were outstanding, 12 of which were not yet due, 1 was no longer applicable and 4 were awaiting a management response.

Financial management (continued)

Internal audit (continued)

Over the year internal audit provided assurance on Procurement, Statutory and Mandatory Training and Financial Management and Reporting. They reported a “Very High Risk” with regards to staff not completing statutory and mandatory training.

The lack of training of staff had been also highlighted in their review of the Procurement process (it should be noted that management now offer specific procurement training following internal audit’s recommendation). It is vital that the Board monitors and reviews staff training due to the financial and reputational damage it can have on the organisation.

Internal audit have not identified any control deficiencies as a result of COVID-19 in their work.

The conclusions made by internal audit with regard to their audits of Financial Management and Reporting and Procurement are in line with the conclusions we have made in our 2019/20 annual audit report. This also highlights the lack of progress in implementing previously agreed recommendations.

2020/21 conclusion: The internal audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

We have also considered the work of internal audit as part of our audit work on the Annual Governance Statement (see page 16).

Overall, we are satisfied with NHS Shetland’s internal audit function but would highlight the duplication of findings raised by us in previous years and the lack of progress in implementing these.

Standards of conduct for prevention and detection of fraud and error

We have assessed the arrangements for prevention and detection of fraud and error, including specific considerations in response to the increased risk of fraud as a result of COVID-19. Overall we found the Board’s arrangements to be to be designed and implemented appropriately.

The Committee receives regular reporting from the NHS Counter Fraud Service summarising any ongoing fraud cases.

Our responsibilities under International Standards of Auditing have changed in the year and require specific reporting on irregularities. We have monitored the effectiveness of the Board’s arrangements in place ensuring they are designed and implemented effectively, and have reported on this in our independent auditor’s report in the annual report and accounts.

Deloitte view – Financial management

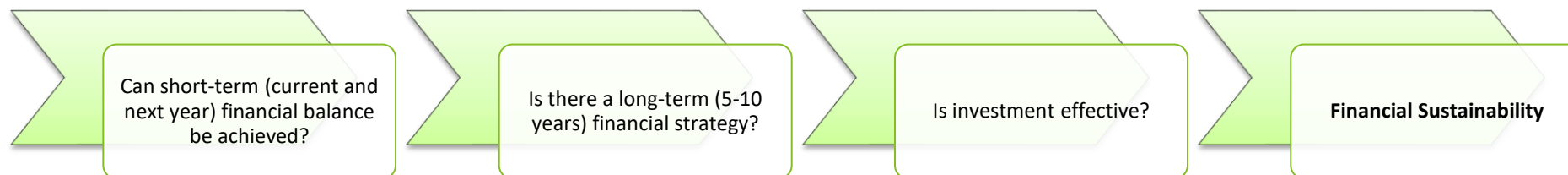
The Board continues to have effective financial planning and management arrangements in place, with a slight surplus of £0.063m achieved in the year. NHS Shetland has continued to monitor its financial position throughout the pandemic and have disclosed the impact the pandemic is having on their financial position, which is a net £nil impact due to cost pressures being offset by increases in funding from the Scottish Government.

However, the Board continues to face challenges in achieving the savings required. In line with our 2019/20 conclusions, in order to ensure future financial sustainability, it is critical that the Board set realistic targets, setting out clear plans, and ensuring there is sufficient lead time to implemented the changes required.

While we have concluded that there are suitably qualified and experienced staff leading the finance team, a number of issues have been identified throughout this report and through internal reporting which question whether there is sufficient and appropriate capacity. We therefore recommend that management undertake a review to assess whether the team structure currently meets the requirement to support the financial management of the Board.

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.



Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we identified the following risk:

“There remains a significant risk that robust medium to long term planning arrangements are not in place to ensure that the Board can manage its finances sustainably and deliver services effectively, identify issues and challenges early and act on them promptly”

Budget setting

2019/20 conclusion: Not specifically considered on as part of our 2019/20 audit.

2020/21 update: The budget setting process began in October 2020 with an initial budget paper being presented to the Board on 15 December 2020 and the final being presented to the Board on 27 April 2021. Board member involvement in the budget preparation process during this intervening time was limited and solely relates to the scrutiny of the presented documents at Board meetings. There was no wider engagement during the budget setting process.

The final budget presented to the Board identifies the need to make £2m savings (3.8% of baseline), plus an additional £0.367m of savings not built into the budget. These £0.367m of additional savings relate to a gap caused by some of the underlying key assumptions used in the original budget being outdated following the announcement of the Scottish Government budget on 28 January 2021. These additional savings have not been identified and built into the budget presented to the Board.

The plans to achieve the £2.367m in savings have not been fully established. The draft financial plan submitted to the Scottish Government reported £0.5m as being identified of which £0.1m were deemed non-recurrent. This still leaves £1.5m where there are no detailed plans in place. As discussed on page 20, the Board has a history of making the required savings to break even. However, there is an over-reliance on non-recurring savings.

The 2021/22 budget separately reports the COVID-19 financial impact on the Board. The additional COVID-19 costs budgeted for (including additional costs due to the HSCP) are £7.7m in 2021/22. It is expected that the Scottish Government will fund these costs.

The Board has considered the key assumptions and risks in the budget setting process such as a change in funding received or an increase in costs. In addition the Board has considered the impact of the exit from the EU as part of the 2021/22 budget, however has concluded that the impact is expected to be minimal. It has recognised that price increases and availability of goods and services impact has been greater from the consequences of the COVID-19 pandemic.

2020/21 conclusion: Whilst a balanced budget has been set and the Board has a history of breaking even, due to the unidentified savings targets and continued reliance on non-recurring savings, the Board continues to face a significant risk of not achieving short-term financial balance. While the full impact of COVID-19 is not yet known, the Board has assumed that any incidental costs from COVID-19 will continue to be fully funded from the Scottish Government. Improvements can be made to the level of Board member engagement as part of the budget process.

Financial sustainability (continued)

Medium-to long-term financial planning

2019/20 conclusion: While NHS Shetland had a history of making necessary savings, there remained a significant risk about the achievability of these savings targets without transformational change, particularly given that NHS Shetland was increasingly reliant on non-recurring savings and that it was likely to face more difficulties in light of the COVID-19 pandemic.

NHS Shetland needed to ensure it appropriately revised its medium-term financial plan to account for the significant changes that have occurred since the plan was originally prepared in February 2020. Given the level of savings identified before considering the impact of COVID-19, NHS Shetland's history of not achieving savings targets and the budget deficit position, NHS Shetland continued to face a significant and increasing risk to achieving financial sustainability.

2020/21 update: Under normal circumstances, the Scottish Government require Health Boards to demonstrate financial balance over a medium-term three-year period, via submission of a three-year financial plan. This requirement has been put on hold for 2020/21 due to the impact of COVID-19.

A 5-year financial plan covering the period 2020/21 to 2024/25 was presented to the Board on 18 August 2020. This identified a cumulative projected funding gap of £7.3m (11%) to be addressed by 2024/25 and plans need to be developed to identify how the Board will reduce this gap. These latest projections show a slight improvement in the Board's position since 2019/20 when £8.3m of savings were expected to be required by 2023/24.

This estimated funding gap does not currently consider the impact that COVID-19 or the UK's exit from the EU will have on the Board's medium-term position. The Board has assumed that any COVID-19 costs are to be funded on a non-recurrent basis by the Scottish Government based upon mobilisation and remobilisation plan submissions for the actual costs incurred.

We have reviewed the Board's latest COVID-19 Remobilisation Plan for 2021/22, which was developed in partnership with the Scottish Government and the IJB. The plan aims to remobilise, recover and redesign the services provided by the Board in the post COVID-19 environment. The net financial impact of remobilisation on the Board in 2021/22 is £6.426m. The Scottish Government have indicated they will fund these costs.

There is currently a lack of scenario planning in the medium-term plan. While the assumptions used by the Board are based on the best available evidence to the Board at the time of drafting, any significant changes in these assumptions could result in a significantly different position for the Board. In line with best practice, we recommend that the Board incorporate scenario planning to highlight the impact on changes in assumptions to allow the Board see a "best case" and "worst case" scenarios to allow it to then plan accordingly.

2020/21 conclusion: The requirements for a three-year financial plan have been put on hold due to the ongoing pressures of dealing with COVID-19. There is currently no set date for when this requirement will resume. Despite this, the Board has updated its medium-term plan during the year, which is positive. This identifies a cumulative gap of £7.3m by 2024/25. The Board is therefore unable to demonstrate that it is financially sustainable in the medium and longer term. It is therefore critical that the Board consider how services will be delivered in the future in a financially sustainable way. In line with best practice, scenario planning should also be undertaken to ensure that the Board has sufficient information to be able to plan accordingly.

Transformation Strategy

2019/20 conclusion: We welcomed planned changes to the infrastructure in place to support transformational change. NHS Shetland needed to ensure that good practice is shared across the organisation and rolled out further. In our view, there needed to be improved reporting to the Committee or Board on progress against transformational change in the year. Significant work was still required to make the level of transformational change needed based on the current financial forecasts, with COVID-19 likely to impact on original timelines.

2020/21 update: NHS Shetland has established a PMO function in the year. Due to the change in structure in the year there has been no transformation reporting to Board or Committee. A Development Session was held with the Board on 25 May 2021 to provide an update on the revised approach to transformation.

In response to COVID-19, various remobilisation plans have been submitted to the Scottish Government over the past year, with the latest being the RMP3, a draft of which was approved by the Board. RMP3 sets out the Board's plans for 2021/22 for renewal and recovery, in line with the NHS Scotland COVID-19 Framework for Decision Making of Remobilise, Recover and Re-design and the subsequent correspondence received from the Scottish Government regarding remobilisation.

Financial sustainability (continued)

Transformation Strategy (continued)

The Board acknowledges that the COVID-19 pandemic has had an impact of the organisations ability to undertake strategic redesign with public consultation in 2020/21, but realise how essential transformation of services is for the long term financial sustainability of the organisation, as evidenced from the RMP3.

While COVID-19 has had a negative impact on the NHS across the UK, it has also highlighted the opportunities for service redesign. There has been a change in how service users receive healthcare, including the increased use of digital. This represents an opportunity for the Board in terms of the options available to them in redesigning and transforming services.

Examples of targeted areas of transformational service redesign identified in the RMP3 include:

- Redesign of urgent care;
- A whole system approach to mental health and wellbeing; and
- Addressing inequalities and embedding innovation.

2020/21 conclusion: There has been some progress made in the year despite the impact of COVID-19 where management priorities have been to respond to the pandemic. The development of the PMO is a positive step and it is important that this is fully implemented to drive forward transformational change. Management have identified lessons to be learned from the new ways of working that have been progressed during the pandemic. More work is, however, still required, to fully develop a transformation plan, building on the good ideas that have been set out in the RMP3 including digital transformation.

Workforce Planning

2019/20 conclusion: While we welcomed the improvements made in the year, as with 2018/19, we encouraged further improvements in line with good practice based on national reports, with clear projections of the future workforce, taking into account estimated changes in demographics and health factors, setting out detailed plans for how NHS Shetland expects to move from its current workforce to the workforce required over the medium term. NHS Shetland should also ensure that its workforce plan links with the plans of the Integration Joint Board. We were encouraged that one of the key priorities in 2020/21 expressed by the new Chief Executive was the development of improved workforce plans, and we will continue to monitor progress in this area.

2020/21 update: The Scottish Government required all Boards to submit an Interim Workforce Plan by 30 April 2021. We have reviewed the draft of this plan, which has still to be considered by the Board. The plan builds on the RMP3 which briefly covered the impact of COVID-19 on the workforce. Comments have been received from the Scottish Government which will be considered before the plan is finalised.

The plan acknowledges the continued impact of the pandemic on demand for services and the importance of continuing to focus on the physical and mental wellbeing of all staff. The demands of COVID-19 have resulted in an increase in the workforce including, for example, additional staff for COVID-19-specific services such as test and protect and the vaccination programme. The plan also sets out the short to medium term workforce requirements of the Board and sets out the required skills and capacity the Board will need to deliver planned services and makes links to the transformation required at the Board.

The Board has monitored staff feedback during 2020/21 through the use of Pulse surveys and wellbeing feedback sessions. The pulse survey was completed by 46% of recipients and asked questions about staff wellbeing and their experience over the during the COVID-19 period. Of the members of staff who completed the survey, 74% felt that their direct managers cared about their health and wellbeing and 65% would recommend NHS Shetland as a good place to work. Overall, respondents rated working at NHS Shetland a 7.19 out of 10 and noted it as being a “very good experience”.

Financial sustainability (continued)

Workforce Planning (continued)

Between June 2020 and August 2020, the Executive Management Team ('EMT') reached out to managers across the organisation to have conversations around wellbeing. A total of 76% of managers who were offered the sessions took them up. The sessions had a number of questions to prompt the direction of the session, however the session was led by the manager and they could discuss any issues they wanted. The key issues identified have been drafted into a report to be presented to the Board.

As reported in the annual report and accounts, NHS Shetlands absence rate was 2.9% for 2020/21, much lower than the national target of 4% and the Scottish average of 5.18%. The Board has monitored COVID-19 related sickness absence separately and has seen a drop since March 2020, where the absence rate was 4.63%, to December 2020, where the absence rate is 0.63%.

Staff have adapted well to remote working, adopting digital technologies to adapt to different ways of working. This has included use of technology to facilitate continued communications during lockdown. COVID-19 has also accelerated the adoption of technology in service delivery. This has included the use of digital technology such as "askmyGP", to enable more services to be delivered at home or in the community.

2020/21 conclusion: It is positive to see that efforts have been taken during the year to respond to the pressures experienced by the workforce as a result of the pandemic, prioritising the wellbeing of staff and that the Board has been actively listening to what the workforce has had to say.

An Interim Workforce plan has been submitted to the Scottish Government which highlights the skills and capacity required to deliver planned services in the future. It is important that the Interim Workforce Plan is developed into a longer-term workforce plan to ensure the long-term viability of the workforce and that this is closely aligned to the work being carried out as part of transformation.

Deloitte view – Financial sustainability

Whilst a balanced budget has been set and the Board has a history of breaking even, due to the unidentified savings targets and continued reliance on non-recurring savings, the Board continues to face a significant risk of not achieving short-term financial balance. While the full impact of COVID-19 is not yet known, the Board has assumed that any incidental costs from COVID-19 will continue to be fully funded from the Scottish Government.

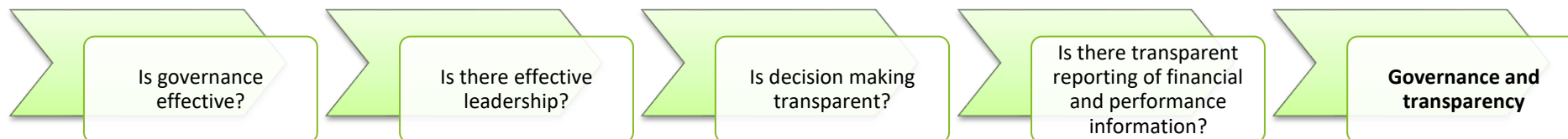
The Board has updated its medium term plan during the year which identifies a cumulative gap of £7.3m by 2024/25. The Board is therefore unable to demonstrate that it is financially sustainable in the medium and longer term. It is therefore critical that the Board consider how services will be delivered in the future in a financially sustainable way. In line with best practice, scenario planning should also be undertaken to ensure that the Board has sufficient information to be able to plan accordingly.

There has been some progress with transformation in the year despite the impact of COVID-19 and the development of the PMO is a positive step. Management have identified lessons to be learned from the new ways of working that have been progressed during the pandemic. More work is, however, still required, to fully develop a transformation plan, building on the good ideas that have been set out in the RMP3 including digital transformation.

It is positive to see that efforts have been taken during the year to respond to the pressures experienced by the workforce as a result of the pandemic, prioritising the wellbeing of staff and that the Board has been actively listening to what the workforce has had to say. COVID-19 has had a significant financial impact on staff costs, which has included significant amounts of overtime and untaken leave. It is important that the Interim Workforce Plan is developed into a longer-term workforce plan to ensure the long-term viability of the workforce and that this is closely aligned to the work being carried out as part of transformation.

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



Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we identified the following risks:

“The changes made to the governance arrangements in response to the pandemic including the use of teleconference rather than face to face meetings, there is a risk that revised arrangements are not appropriate or operating effectively.”

“The governance arrangements for health and social care integration is an area of particular interest to the Accounts Commission. There is a risk that the arrangements are not operating effectively (including services delivered by, or in partnership with, others).”

“In 2020/21, the CEO of NHS Shetland also assumed the same role in NHS Orkney. There is a risk that the additional workload as a result of assuming dual roles will impact on the robustness of leadership within NHS Shetland. This risk is heightened by the already increased workloads as a result of the COVID-19 pandemic.”

“While risk management processes are in place, the likelihood and impact of existing risks and the emergence of new risks will need to be monitored carefully. There is a risk that officers and Committee members have not considered how sustainable any changes to the risk appetite will be in the longer term.”

Leadership

2019/20 conclusion: From our meetings with management and review of handover documentation, we were satisfied that there were effective processes in place to ensure continuity of leadership and to mitigate any risks posed by changes in senior positions. We welcomed the improvements driven in integration and openness and transparency as a result of leadership changes in the year. We remained of the view that NHS Shetland had strong leadership and a clear vision.

2020/21 update: The EMT has remained relatively consistent during the year, with a change in the Medical Director post in July. As reported in our audit plan, the CEO has assumed the same role in NHS Orkney from 8 July 2020 with his time split 50/50 between the two Boards. From our audit work including review of reporting, interviews with staff and Board members and attendance at Audit Committees, we are satisfied that this transition has been well managed and the workload is being managed. This has been particularly evident in the response to the COVID-19 pandemic.

The Non-Executive Board members have remained consistent during the year.

2020/21 conclusion: The Board continues to have strong and effective leadership in place and the transition of the Chief Executive post to being split with NHS Orkney has been well managed. The Board should continue to monitor this as the Board moves into a recovery phase to ensure that there is sufficient capacity within the EMT.

Governance and transparency (continued)

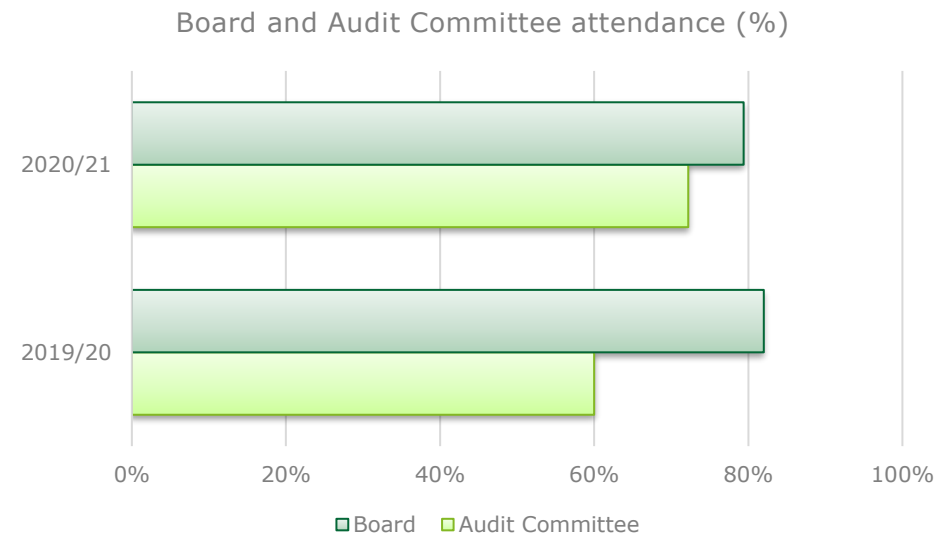
Governance and scrutiny arrangements

2019/20 conclusion: We welcomed the improvements in the year. We were pleased to note that in May 2020, a paper was presented to the Board, highlighting that COVID-19 has afforded NHS Shetland the opportunity to review its governance and meeting structure, enabling it to improve in areas identified in previous audits, and establish a governance structure that reflects the needs of the organisation. The paper included examples of governance frameworks at other NHS bodies, and encouraged Board members to reconsider the Blueprint for Good Governance, how they could improve engagement both within and out with the organisation, and how they could be better supported by the organisation to be fully effective in their roles. This is an ongoing process and we committed to assess the effectiveness of any changes made in our audit in 2020/21.

2020/21 update: In response to the challenges arising as a result of COVID-19, the Board agreed some temporary changes to its corporate governance arrangements in March 2020. The Board have met regularly during the year, making use of teleconferencing facilities, which has ensured that sufficient governance arrangements continued to operate during the initial outbreak of COVID-19.

There were plans in early 2020/21 to look at the governance and meeting structure for the organisation, with an initial paper presented to the Board in May 2020 and follow-up discussions during the June 2020 Board meeting. Due to the impact of COVID-19 this work has not progressed.

Average Board and Audit Committee member attendance (as shown by the graph opposite) was 79% and 72% respectively (82% and 60% respectively for 2019/20). In 2019/20 there were a number of members whose attendance at required committees was less than 50%. Through analysis of member attendance for 2020/21, two members of the Board and three members of the Audit Committee had less than 50% attendance. In line with our prior year recommendations, the Board should consider whether members have the capacity to perform their role effectively.



Regular Risk Management Reports are provided to the Audit Committee throughout the year. The Committee has also considered Audit Scotland's guide on the emerging fraud risks arising from COVID-19 and the guide to Audit and Risk Committees during the year. The Counter Fraud Service highlighted the fraud risks of procurement, as well as theft and fraud risks around personal protective equipment ('PPE'), which was also considered at the September 2020 Committee meeting.

2020/21 conclusion: Appropriate arrangements were put in place in response to the COVID-19 pandemic with normal governance arrangements having now returned. However, further work is required to review the governance and meeting structure as well as the capacity of individual Board members. Improvements are also required to the level of scrutiny and challenge by the Board, as discussed elsewhere within this report in relation to the budget setting process, transformational change and the implementation of external and internal audit recommendations.

Governance and transparency (continued)

Openness and transparency

2019/20 conclusion: We were impressed by the community spirit shown by the local Shetland community and NHS Shetland in the response to the COVID-19 pandemic, for example through NHS Shetland's request for 'homemade' scrubs and the community's response to that. We were particularly impressed by the CEO using his personal Facebook page to host weekly 'Facebook Live' meetings throughout the pandemic, providing visible leadership and reassurance to the community during those unprecedented times. Not only were those events hosted by the CEO, but they were arranged at times that suit the community - based on polling - as opposed to what necessarily suited the CEO. We were aware that those events were evolving to include other senior staff within NHS Shetland to provide a deeper insight for the community into the operation of the organisation. This was an excellent example of good practice in openness and transparency, demonstrating a real personal commitment, and utilising technology in an innovative way to drive continuous improvement in that area.

2020/21 update: The Board has continued to be open and transparent with its decision making. It has remained in communication with the public through continued accessibility to Board agendas and minutes on the NHS Shetland website. Following the update to the governance arrangements in March, when meetings initially moved to virtual via Microsoft Teams, there wasn't a facility for members of the press to join. This has now been addressed with access available from August 2020 for members of the press and public to join online meetings.

The CEO has continued his 'Facebook Live' meetings throughout the year, which provides visible leadership. There have been 'phone-ins' conducted with BBC Radio Shetland during the year to answer questions the local community had about the COVID-19 pandemic and the Board's response. The level of communication from the organisation to the public has not eased up towards the end of the national lockdown, with the organisation running a virtual workshop for community engagement on NHS Shetland's Clinical Care Strategy and NHS Shetland's way forward post pandemic.

Working with a team from the Digital Health and Care Innovation Centre, the aim of the Clinical Care Strategy review project is to produce a refreshed plan for health and care services in Shetland that ensures it has a clearly articulated strategic vision for the next five years. Three workshops were held across October 2020, December 2020 and March 2021 to ensure that the Board was talking to as many of its stakeholders as it could.

2020/21 conclusion: In line with our previous year's conclusions, the Board continues to be open and transparent. This includes making the Board's meetings accessible to members of the public through Microsoft Teams and a comprehensive series of community engagement on the Clinical Care Strategy.

Governance and transparency (continued)

Health and Social Care Partnership

2019/20 conclusion: NHS Shetland needed to work with the Board and IJB as a matter of priority to review the Integration Scheme, as required by law. A focus on shifting the balance of care through integration and transformational change is pivotal not only to improving outcomes for patients, but for the financial sustainability of NHS Shetland.

2020/21 update: A review has been undertaken in 2020/21 of the Shetland Islands Health and Social Care Partnership Integration Scheme, which will be submitted to the Scottish Minister for final endorsement. On approval, NHS Shetland will no longer be non-compliant under the IJB's governing legislation.

The IJB have set a balanced budget for 2021/22 and have refreshed their Medium Term Financial Plan ('MTFP') for the period 2020/21 to 2025/26. The revised MTFP does not outline options available to address the identified funding gap and there are no savings plans in place.

In response to the pandemic, partnership working has improved with there being a clear focus on response and recovery. An example of this has been the success of the vaccination programme.

2020/21 conclusion: NHS Shetland continues to exercise sufficient oversight and scrutiny of the HSCP's activity. We welcome the review performed of the Integration Scheme ensuring that the IJB, Council and NHS Shetland are compliant with the IJB's governing legislation.

The cross partnership working during the pandemic is to be commended and will be a key area in the recovery phase from the pandemic.

The risks of COVID-19 on both the financial position and financial sustainability of the services will remain ongoing, however, we are pleased to note that the IJB has developed a MTFP, and will deliver a health and social care workforce plan to the Scottish Government in 2022.

Deloitte view – Governance and transparency

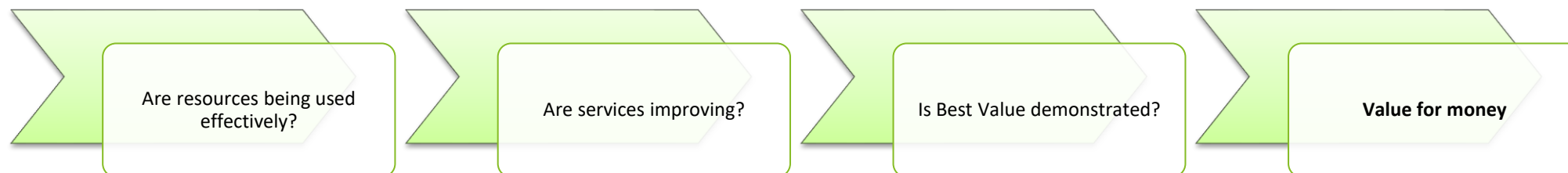
The Board continues to have strong and effective leadership in place and the transition of the Chief Executive post to being split with NHS Orkney has been well managed. The Board should continue to monitor this as the Board moves into a recovery phase to ensure that there is sufficient capacity within the EMT. The Board continues to be open and transparent.

Appropriate arrangements were put in place in response to the COVID-19 pandemic with normal governance arrangements having now returned. However, further work is required to review the governance and meeting structure as well as the capacity of individual Board members. Improvements are also required to the level of scrutiny and challenge by the Board, as discussed elsewhere within this report in relation to the budget setting process, transformational change and the implementation of external and internal audit recommendations.

NHS Shetland also continues to exercise sufficient oversight and scrutiny of the HSCP's activity. We welcome the review performed of the Integration Scheme ensuring that the IJB, Council and NHS Shetland are compliant with the IJB's governing legislation. The cross partnership working during the pandemic is to be commended and will be a key area in the recovery phase from the pandemic.

Value for money

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



Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we identified the following risks:

“There is a risk that performance reporting has not been sufficiently timely and comprehensive, with issues consequently not identified or addressed in an appropriate manner”

“In 2019/20, we highlighted concerns about the ability of NHS Shetland to provide appropriate levels of service in the area of psychological therapies given deteriorating performance over a number of years. There is a risk that as NHS Shetland has prioritised the response to COVID-19 that service levels in this area will continue to decline.”

Performance management framework

2019/20 conclusion: The Board continued to have well established performance reporting arrangements, but they were on hold due to the focus on the management of COVID-19. Understanding the effectiveness of previous management actions is key to obtaining assurance about planned management actions to address poor performance.

We reaffirmed our view that where performance was not meeting targets, management should follow up on previous updates in future performance reporting to set out whether planned actions had the anticipated impact and what lessons had been learned and mitigating actions planned if not. NHS Shetland should ensure that it assesses on an annual basis whether the targets it sets for its performance are reasonable and driving continuous improvement at the organisation. We reiterated our view expressed in 2018/19 that 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. We recognised and accepted that given the current financial position, balancing finances and performance may mean it is not possible to maintain current performance levels or methods of service delivery.

2020/21 update: The Board’s approach to performance management has remained consistent during 2020/21. The Board’s AOP includes detailed planning assumptions and expected levels of operational performance to support the delivery of key priorities on improving elective, cancer and mental health waiting times, and unscheduled care performance.

NHS Shetland’s performance reporting was on hold at the start of 2020/21, due to the focus on the management of the COVID-19 pandemic. A combined report, covering the period from April to September, was presented to the Board in December 2020. The performance report presented to the Board in December 2020, set out NHS Shetland’s progress against the 2020/21 AOP and the mobilisation/remobilisation plans. The annual performance report will be considered in June 2021.

2020/21 conclusion: The Board continues to have well established performance management arrangements, although the AOP measures for 2020/21 were largely put on hold to allow full resources to be dedicated to the management of COVID-19. This has been facilitated by updated performance reporting arrangements to include reporting on the impact of COVID-19.

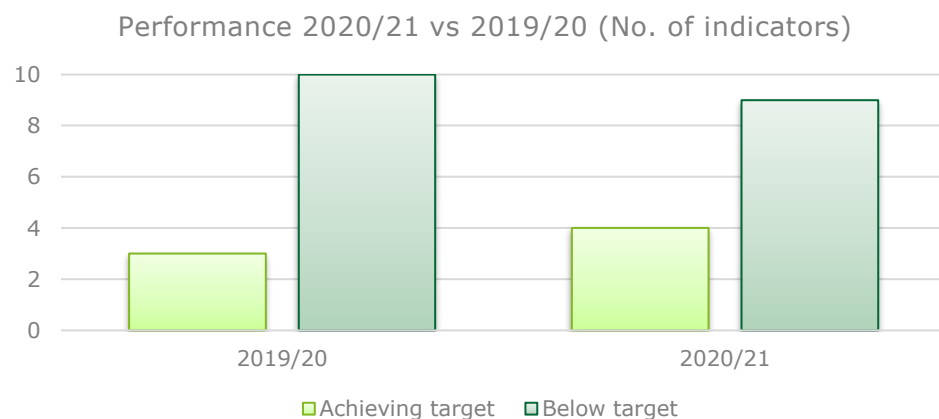
Value for money (continued)

Performance data

2019/20 conclusion: Given the long-running nature of the performance issues in the area of psychological therapies and the trend of declining performance, we had serious concerns about the ability of NHS Shetland to provide appropriate levels of service in relation to psychological therapies. We reported that we would monitor changes in performance in this area closely in 2020/21. Prior to the COVID-19 pandemic, while actions were identified to address area of poor performance, the impact was not yet evidenced in the performance data. Management should continue to focus on improving performance across NHS Shetland in relation to those measures that have consistently underperformed compared to national targets. We did, however, recognise that resources were focused on managing the impact of COVID-19.

2020/21 update: At the outset of the COVID-19 pandemic, the Board was required to re-prioritise its services, with all elective surgery paused and the Gilbert Bain Hospital was adapted to meet the challenges. The Board continued to treat urgent care.

A summary of the performance against target is provided in the chart below. When comparing key performance report indicators for 2019/20 and 2020/21, there has been an improvement in seven areas such as cancer referral times, A&E discharge times and staff absence levels and a decline in four other areas, notably the waiting times for mental health treatments.



In 2019/20 we noted significant declines in performance in ‘18 week’s referral treatment for psychological therapies’, which has a national target of 90%. Performance in this area declined from 58.5% in 2018/19 to 29% in 2019/20.

NHS Shetland has made progress in the year to address the issue, with the appointment of a new Consultant Clinical Psychologist in October 2020 and the development of a psychological services waiting times improvement plan.

From the reporting to the Committee in the year, including the “psychological services waiting times improvement plan”, it is evident that the issues that caused a significant decline in performance were avoidable had better training and performance management been in place. This further highlights the importance of staff training (as highlighted in internal audit’s review discussed on page 21). This has now been addressed with operational guidance being issued across NHS Shetland for the relevant pathways for psychological therapy services for patients. At the end of 2020/21 the performance indicator has declined further to 19%, however we recognise that this service has been impacted by COVID-19. It is important to put the performance in context – in 2020/21, 13 patients had been waiting more than one year, with the longest wait at 163 days. This compares to 2019/20 where 25 patients were waiting more than one year, with the longest wait at 102 weeks.

Board members have received regular reporting on the impact of COVID-19, including updates on remobilisation plans. The remobilisation plan reporting includes details on the Board’s overall response to various issues such as care homes, public protection, mental health, primary care, urgent care and the impact on finance. In addition, the Board reports publicly on the impact of COVID-19 primarily through its COVID-19 information service online. This is aimed to inform the public of what services have been halted as a result of the pandemic.

2020/21 conclusion: Whilst the Board’s performance is improving in some areas, the focus over the past year has primarily been the management of COVID-19. As part of re-mobilisation and recovery, management should continue to focus on improving performance across the Board. We also acknowledge the steps that are being taken to address the performance issues in the area of psychological therapies which are not yet demonstrated in the performance data. We will continue to monitor this as part of the 2021/22 audit.

Value for money (continued)

Equalities

2019/20 conclusion: Not specifically considered on as part of our 2019/20 audit.

2020/21 update: The Board recently published its “Mainstreaming Report” in April 2021, which is its fourth report since the inception of the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012. This sets out how NHS Shetland, as an organisation, has worked towards ensuring that equalities are being mainstreamed into the functions and activities of the organisation. It also provides information on its employees, reported by their protected characteristics, and demonstrates the ways in which the organisation is meeting the general and specific duties as set out in the Equality Act 2010.

Through the development of the Remobilisation Plan, the Board has acknowledged how COVID-19 has exposed and exacerbated health inequalities throughout the local community. The Board intends to consider inequalities as a vital theme in the core of its planning process during remobilisation. This includes developing a revised framework and implementation plan for tackling inequalities in health across the local community.

We note the Board has already performed some actions in this regard – such as delivery of the Child Poverty Action Plan, shifting priority to focus on mental health and wellbeing, and targeting those living in poverty disproportionately.

2020/21 conclusion: The Board has a clear focus on improving equality outcomes and recognises the impact that COVID-19 is expected to have and is actively working with partners towards addressing this.

Deloitte view – Value for money

The Board continues to have well established performance management arrangements, although the AOP measures for 2020/21 were largely put on hold to allow full resources to be dedicated to the management of COVID-19.

Whilst the Board’s performance is improving in some areas, the focus over the past year has primarily been the management of COVID-19. As part of re-mobilisation and recovery, management should continue to focus on improving performance across the Board. We also acknowledge the steps that are being taken to address the performance issues in the area of psychological therapies which are not yet demonstrated in the performance data. We will continue to monitor this as part of the 2021/22 audit.

The Board has a clear focus on improving equality outcomes and recognises the impact that COVID-19 is expected to have and is actively working with partners towards addressing this.

Best Value

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

The duty of Best Value, as set out in the SPFM

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance.
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirement and to contribute to the achievement of sustainable development.

The SPFM sets out nine characteristics of Best Value which public bodies are expected to demonstrate. The refreshed guidance issued by the Scottish Government in 2011 focused on 5 generic themes and 2 cross-cutting themes, which now define the expectations placed on Accountable Officers by the duty of Best Value.

Five themes:

1. Vision and Leadership
2. Effective Partnerships
3. Governance and Accountability
4. Use of Resources
5. Performance Management

Cross-cutting themes:

1. Equality
2. Sustainability

Best Value arrangements

NHS Shetland has a number of arrangements in place to secure Best Value. This is evidenced through NHS Shetland's performance monitoring arrangements.

As noted elsewhere within this report, NHS Shetland has an established governance framework and strong leadership and partnership working. Transformational change is, however, still at an early stage and has been impacted by the COVID-19 pandemic. We expect efforts to resume in transformation of services as part of remobilisation and recovery activities identified in the RMP3.

As part of NHS Shetland's year-end process, the Accountable Officer obtains written assurances against the Best Value framework from the Chairs of the various committees within NHS Shetland and from the Executive Management Team, which is used to inform his opinion on whether arrangements to secure Best Value are in place.

NHS Shetland recognises that it must deliver services within the financial resources available and, as noted elsewhere in this report, further work is required to achieve medium to longer term financial sustainability.

Deloitte view – Best Value

The Board has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development. However, as noted within the report, significant work is required to achieve medium to longer term financial sustainability and transformational change.

Emerging issues

Climate change

Background

As noted in our audit plan, climate change is likely to drive some of the most profound changes to businesses in our lifetime. The global response to the COVID-19 pandemic could inform the fight against climate change and advantages taken of the inevitable response, such as less unnecessary air travel for business meetings and more home working, supported by better videoconferencing facilities. In collaboration with the ICAEW, Deloitte have launched a site to support considering what climate change means for finance professionals, accessible at: www.deloitte.co.uk/climatechange

Board preparedness

As part of our audit work in 2020/21, we have performed a high level assessment of the work that the Board has done in relation to preparing for the impact of climate change and concluded as follows:

Baseline expectations

Governance: Climate change is a strategic issue and should be on the Board's agenda. Explain how you assess climate change risk as a strategic issue.

NHS Shetland position

Climate change is clearly on NHS Shetland's agenda. The Board has committed to creating a Net Zero Route map as part of a pilot project, towards the aim of achieving the Scottish Government and NHS Scotland's commitment to be net-zero for greenhouse gas emissions by 2045. The Board is one of three Boards to have been signed up to this pilot by NHS Scotland, the other two being NHS Ayrshire and Arran and NHS Education Scotland.

It is currently not referred to within the Public Health Ten Year Strategy or the Annual Operating Plan. It is also not included in the strategic risk register. As these plans are updated to take into account the RMP, consideration should be given to incorporating climate change risk and how the Board is planning to address this.

Targets and metrics: If targets and metrics are disclosed, explain how those targets or metrics fit into strategic targets/approach.

The Climate Change (Scotland) Act 2009 set a long-term target to reduce emissions of greenhouse gases by at least 80% in 2050. These are currently not considered in the Board's plans and is something that should be considered in future updates.

Reporting/annual report and accounts: Transparency in the annual report and accounts.

Narrative included in the 2020/21 annual report and accounts briefly touches on measures adopted by the Scottish Government to reduce emissions in Scotland by at least 80% by 2050, including how the Board complies with the requirements of the Climate Change (Scotland) Act 2009 by submitting an annual report to the Sustainable Scotland Network detailing compliance with the climate change duties imposed by the Act.

The Board may want to consider including more narrative within future annual report and accounts to set out what work the Board is doing to address this climate change risk.

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 Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 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 and accounts;
- Our internal control observations; and
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the annual report and accounts.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for the 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.


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 procedures performed in fulfilling our audit plan.

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



Pat Kenny, CPFA
For and on behalf of Deloitte LLP
Glasgow | 21 July 2021

Sector developments



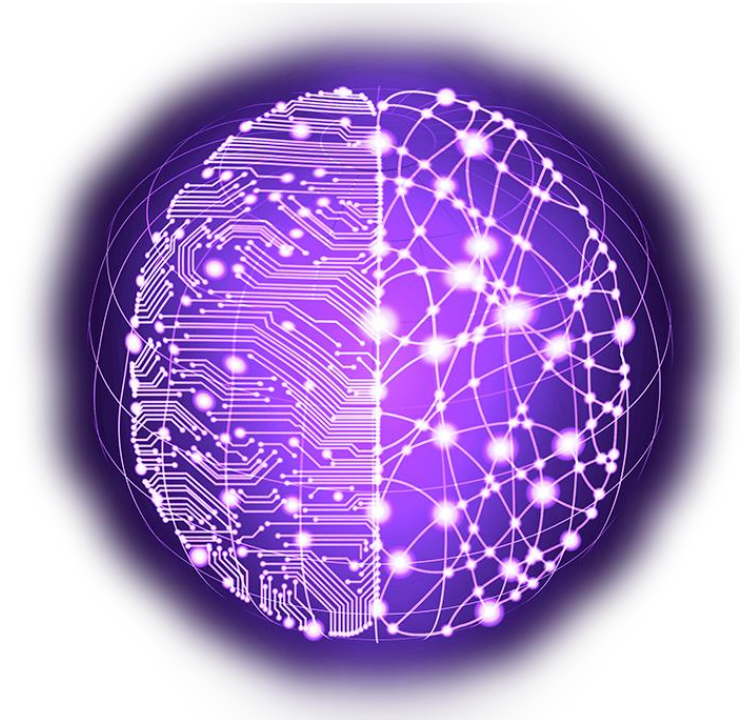
Digital transformation

Shaping the future of European healthcare

Background and overview

Digital technologies are crucial enablers for bridging the gap between demand for healthcare and the capacity of healthcare services to meet demand. Leveraging the opportunities and efficiencies offered by digital transformation is key for any organisation to remain viable and fit for the future, but for Europe's healthcare services, which are made up of multiple services and organisations, across a range of geographies and jurisdictions, the challenges and solutions are complex.

This is the third report from Deloitte UK's Centre for Health Solution's 'Shaping the future of healthcare' series. While our first two reports focused on the UK, this report surveyed 1,800 clinicians to explore the potential for digital transformation to address the current and future challenges facing healthcare systems in Europe.



Next steps

A summary of the key conclusions are provided on the following pages. The full report is available at:

<https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/life-sciences-health-care/deloitte-uk-shaping-the-future-of-european-healthcare.pdf>

Digital transformation (continued)

Shaping the future of European healthcare (continued)

The drivers of digital transformation in healthcare

Healthcare systems across Europe are facing unprecedented pressure. While the quantity and quality of care has improved, the scale and complexity of healthcare needs have grown, together with public expectations of more personalised and convenient services.

At the same time, healthcare staff and resources have become increasingly constrained and the gap between supply and demand has grown. Most countries are looking to digital transformation to close this gap but progress has been slow and the digital maturity of providers, both within and between countries, varies widely.

Over the past six months, the need to respond swiftly to the COVID-19 pandemic has accelerated the use of digital health technologies, but more remains to be done to ensure the equity and sustainability of healthcare.

Perspectives of our survey of clinicians on digital transformation

To explore further, we launched a survey of 1,800 clinicians to assess the use of digital technologies across seven European countries. Its aim was to understand the views of frontline clinicians working across primary and secondary care about the challenges they face and the benefits they are seeing from technology adoption.

When asked about the current state of digitalisation in their country, the most frequently mentioned negative words were 'Slow, Complex and Bureaucratic'. The three most frequently mentioned positive words were 'Fast, Innovative and Efficient'.

Overall, those surveyed were hopeful about the future. The majority of European clinicians feel that it will take less than five years from now to achieve a fully digital healthcare system. Their expectations are also largely positive. The top three words they hope to use to describe the system in five years from now are 'Fast, Efficient, Simple'.

Digital transformation (continued)

Shaping the future of European healthcare (continued)

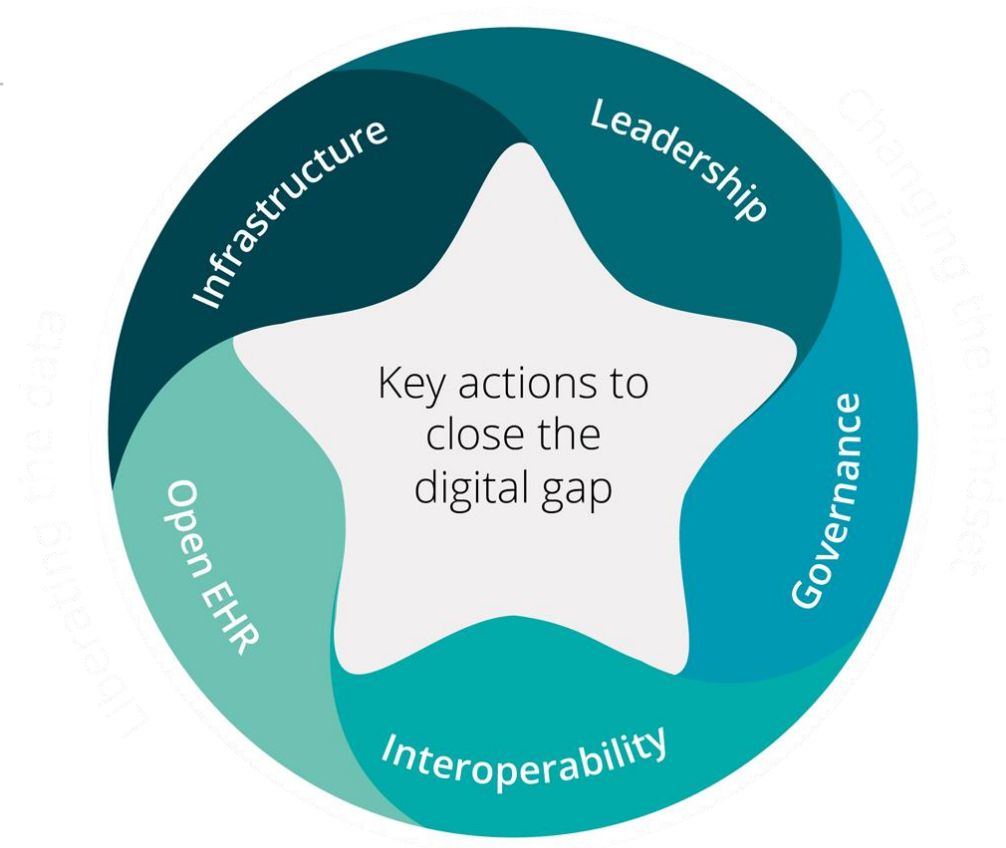
Challenges to digital transformation

Our primary research shows that the benefits from digital transformation adoption vary widely. To realise the benefits, infrastructure, cultural and operational changes are needed including improvements in the education and training of clinicians. They also need to adapt to the fact that patients are becoming better informed and more demanding than in the past.

Responses to the survey identified the top three challenges organisations face in implementing digital technologies as: bureaucracy in healthcare (57.4 per cent), the cost of technologies (50.3 per cent) and finding the right technologies (49.0 per cent).

While the responses were broadly similar across the seven countries, the top three challenges included training staff to use technology among clinicians in Italy and Portugal, and sharing patient data among those in the Netherlands.

Furthermore, the majority of clinicians across Europe said that their organisation is 'very well' or 'reasonably well prepared' to adopt digital technologies, with Denmark being most prepared and Germany the least.



Independent Review of Adult Social Care

Feeley report

Background and overview

On 1 September 2020 the First Minister announced that there would be an Independent Review of Adult Social Care in Scotland as part of the Programme for Government. The Review was chaired by Derek Feeley, a former Scottish Government Director General for Health and Social Care and Chief Executive of NHS Scotland. Mr Feeley was supported by an Advisory Panel of Scottish and international experts.

The principal aim of the review was to recommend improvements to adult social care in Scotland, primarily in terms of the outcomes achieved by and with people who use services, their carers and families, and the experience of people who work in adult social care. The review took a human-rights based approach.

The Independent Review concluded at the end of January 2021 and its report, together with an accompanying short film, was published on 3 February 2021.

Next steps

The review concluded that there are three things that must change in order to secure better outcomes:

1. Shift the paradigm;
2. Strengthen the foundations; and
3. Redesign the system.

A summary of the key themes of the recommendations is on the following page. The full report is available at:

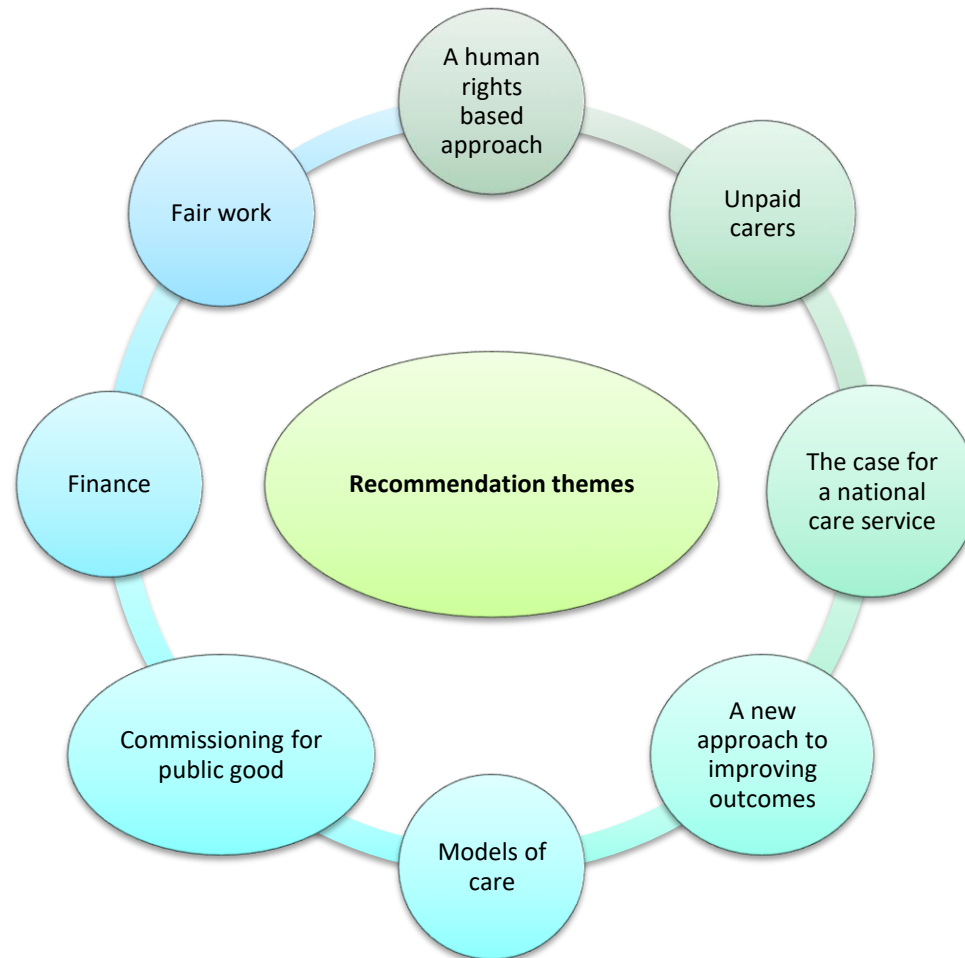
<https://www.gov.scot/publications/independent-review-adult-social-care-scotland/>



Independent Review of Adult Social Care (continued)

Feeley report (continued)

The recommendations within the report cover the following key themes



Scottish Futures Trust - New Frontiers for Smarter Working, Work and Workplace post COVID-19

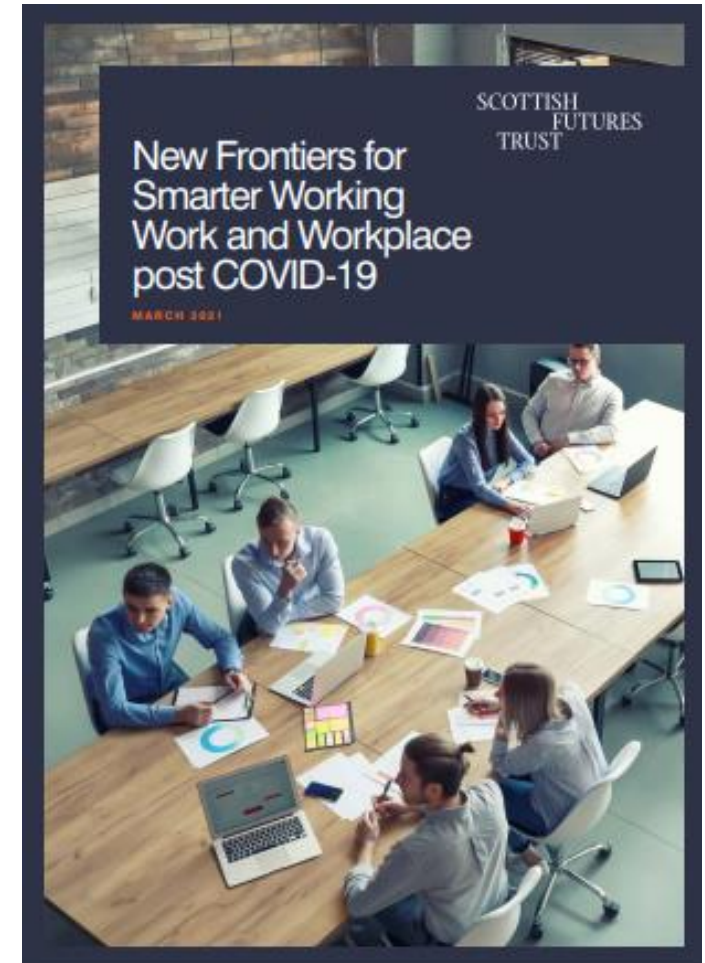
Background and overview

COVID-19 has fast-tracked a social revolution where a wider range of working choices could be on the horizon for hundreds of thousands of workers.

A new report by infrastructure experts, the Scottish Futures Trust reveals that the workforce of the future - predominantly those who have been office based - will want to make informed choices of where and how to work most productively and more beneficially for their wellbeing.

Post the pandemic, organisations should consider the three 'Hs' of working - from Home, a nearby hub or local location, where employees can meet clients or have time to concentrate on projects, or the HQ and head office, where people can gather to socialise, brainstorm ideas or collaborate face-to-face.

The "New Frontiers for Smarter Working, Work and Workplace Report" also finds that this new blended future will depend on how employers gauge the benefits from the improved working set up while ensuring the wellbeing of employees.



Next steps

The report reveals a new future for best work, productivity and wellbeing. The full report is available at:

https://www.scottishfuturestrust.org.uk/storage/uploads/new_frontiers_report_march2021.pdf

Appendices



Audit adjustments

Uncorrected misstatements

The following uncorrected misstatements have been identified up to the date of this report. The overall impact on the Statement of Comprehensive Net Expenditure and Net Assets is £nil.

	Debit/ (Credit) Statement of Comprehensive Net Expenditure £m	Debit/ (Credit) in Net Assets £m	Debit/ (Credit) prior year Taxpayer's Equity £m	Debit/ (Credit) in Income £m	If applicable, control deficiency identified
Misstatements identified in current year					
Trade and other Payables - Accruals [1]					
- Factual error		0.106			
- Extrapolated error		0.257			
Trade and other Payables – Trade Payables [1]					
- Factual error		(0.106)			
- Extrapolated error		(0.257)			
Total	-	-	-	-	
Misstatements identified in prior years					
None noted to date.					

[1]. During our audit testing we identified a number of invoices within accruals where the invoice was received but not matched by year end and an accrual was made. However this classification is incorrect. If an invoice has been received but not matched it still represents a payable rather than an accrual at the year end date. The factual error of this classification adjustment is to decrease accruals by £106,857 and increase payables by £106,857, which management have corrected. When extrapolated across the balance of the accruals balance not tested, this could result in a further error of £256,990. As this is not quantitatively material and doesn't impact on the results of the Board, no adjustment has been made.

Audit adjustments (continued)

Corrected misstatements

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

	Debit/ (Credit) Statement of Comprehensive Income £m	Debit/ (Credit) in Net Assets £m	Debit/ (Credit) Taxpayer's Equity £m	Debit/ (Credit) in Income £m	If applicable, control deficiency identified
Misstatements identified in current year					
Other Staff Costs [1]	(1.483)				
Other Operating Expenditure [1]	1.483				
Other Operating Expenditure [2]	[3]	0.881			
Donation income [2]	(0.204)				
General fund [2]			(0.677)		
Total	0.677		(0.677)		
Misstatements identified in prior years					
None noted to date.					

[1] This relates to an adjustment to reclassify expenditure relating to IJB underspends owed by the Health Board from other staff costs to other operating expenditure.

[2] This is a late adjustment for the cost of personal protective equipment and testing kits. This adjustment arose following discussions between Audit Scotland and the Scottish Government about the accounting treatment for these items. The initial treatment by the Board followed the guidance available at the time the draft accounts were prepared. A similar adjustment was required at health boards across Scotland.

Audit adjustments (continued)

Disclosures

Disclosure misstatements

The following disclosure misstatements have been identified up to the date of this report which management have corrected as required by ISAs (UK).

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<i>Remuneration & Staff Report – Headcount</i>		
<p>The headcount figure included in the draft annual report and accounts was calculated as at 1 April 2021, rather than 31 March 2021. Due to contract changes occurring on 1 April, this resulted in the figure included in the headcount in the draft annual report and accounts being understated by three. Following correction, the headcount figure in the annual report and accounts has been revised upwards from 660 to 663.</p>	<p>FReM 6.5.16 – Entities are required to provide an analysis of staff costs and numbers, in addition to information on staff composition.</p>	<p>Qualitatively material – Important for the users' understanding of movement in the payroll costs.</p>
<i>Remuneration & Staff Report – Higher paid employees' remuneration</i>		
<p>When we recalculated the higher paid earnings disclosure we identified three errors within the bandings reported. Two of the three errors were due to members of staff full time equivalent remuneration being reported rather than their actual remuneration in line with the NHS annual accounts manual. The remaining error was due to a member of staff performing multiple roles and the remuneration for those roles not being fully collated when calculating their banding.</p>	<p>FReM 6.5.16 – Entities are required to provide an analysis of staff costs and numbers, in addition to information on staff composition</p>	<p>Qualitatively material – Important for the users' understanding of payroll costs.</p>

Action plan

Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	<i>Financial management – finance team capacity</i>	Management should re-assess whether there is sufficient and appropriate capacity within the finance team to fulfil its role and support the financial management of the Board.	A review of the finance department capacity will be undertaken.	Director of Finance	31/12/2021	Medium
2	<i>Financial sustainability – budget setting</i>	Board members should have earlier input into the budget setting process (for example, discussion and challenge on proposed savings and links between the proposals and the Board’s priorities).	COVID-19 pandemic impact upon when both UK and Scottish Government held their respective budgets and the management of local COVID-19 wave 2 outbreak directly impacted upon extended discussions during 2021-22 budget setting process. Board Development / Briefing Sessions as previously occurred prior to COVID-19 are planned to be reinstated during the 2022/23 budget setting process.	Director of Finance	31/03/2022	Medium
3	<i>Financial sustainability – medium term planning</i>	The Board should incorporate scenario planning into its medium term planning to highlight the impact on changes in assumptions to allow the Board see a “best case” and “worst case” scenarios to allow it to then plan accordingly.	The AOP only allows one scenario for submission to the Scottish Government. However, scenario planning will be incorporated for internal review by management.	Director of Finance	31/03/2022	Medium

Action plan (continued)

Follow-up 2019/20 action plan

We have followed up the recommendations made in our 2019/20 annual report and are pleased to note that 3 of the total 13 recommendations made have been fully implemented. We will continue to monitor those partially or not implemented as part of our audit work. Where a recommendation from 2018/19 was not fully implemented in 2019/20, we have followed up again in 2020/21. We have included an updated management response where this was provided, or included the initial response where the subsequent response referred back to the original response.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2020/21 Update
Financial management	<p><u>2019/20 Recommendation:</u> NHS Shetland should review the procurement process in the year, ensuring that sufficient training arrangements and controls are in place. NHS Shetland should consider engaging internal audit to assess the effectiveness of the processes in place.</p>	<p><u>2019/20 Response:</u> Chief Internal Auditor’s plan for 2020-21 already includes an assignment on procurement that commences on 12 October 2020.</p>				<p>Implemented: This recommendation has been appropriately addressed through the action plan developed.</p>
		<p>Board currently engage National Procurement under a SLA to provide expert support and to ensure compliance with all relevant laws and regulations.</p> <p>Also at present collaboratively working in partnership with North and East Scotland Boards on procurement shared services and joint working to ensure best practice across NHS.</p> <p>Procurement training needs assessment will be completed for staff involved in procurement both within and outside supplies.</p>	Director of Finance	31/3/2021	Medium	<p>Updated management response: Internal Audit report on Procurement received in December 2020 and Action Plan developed.</p> <p>NHS National Services Scotland are still engaged as a key partner under a Service Level Agreement to assist in strategic procurement. They were involved in the CT Scanner procurement and developing the service specification for the MRI Scanner.</p> <p>North and East Board's partnership work on exploring a shared procurement model is progressing, it was in abeyance due to COVID-19 pandemic, and moved to workshop events on key issues.</p>

Action plan (continued)

Follow-up 2019/20 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2020/21 Update
Governance and transparency	<p><u>2019/20 Recommendation:</u> In order to improve the accountability arrangements in place at NHS Shetland and continue progress in addressing areas of poor performance and audit actions, the Board and Chief Executive should ensure that relevant management personnel attend Audit Committee meetings when performance or audits in their areas of responsibility are being discussed.</p> <p>The Audit Committee should report on an annual basis to the Board on the number of times each member of management was requested to attend, and their rate of attendance, to enable monitoring of this.</p>	<p><u>2019/20 Response:</u> The lead officer for internal audits reports is routinely asked to attend the audit committee that their report is presented to.</p> <p>The Audit Committee under its terms of reference to call any officer of the Board to the committee to hold to account.</p> <p>The Audit Committee annual governance report will include from 2020-21 a register to record relevant management personnel attendance alongside that of the Audit Committee members and Auditors' attendance.</p>	Director of Finance	31/03/2021	Medium	<p>Implemented: We are satisfied with managements response to the recommendation.</p> <p>Updated management response: Audit Committee annual report includes an attendance log for members, Internal Audit, External Audit and other individual in attendances.</p> <p>The Audit Committee during 2020-21 at three meetings requested attendance by those responsible for Management Actions to attend the Audit Committee to update the Committee on their actions. However work is ongoing to streamline the Management Action feedback process and encourage staff to complete updates at key points in to the online internal audit portal as e-mail correspondence has not always been fully reflected in update reports.</p>

Action plan (continued)

Follow-up 2019/20 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2020/21 Update
<p><i>Financial Sustainability: Transformational change</i></p>	<p><u>2018/19 Recommendation:</u> 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><u>2019/20 Update:</u> EMT business programme in place which covers reporting on redesign and transformation. The Primary Care Redesign project board has been reinvigorated. There is extended facilitation for Professional Alliance which is focusing on unscheduled care and out of hours. The staff development team are building a database of all redesign projects across the organisation, so EMT will be able to track progress and outcomes.</p> <p>To enhance this further a project management support office (PMO) is being established in 2020-21 to enhance support to and the co-ordination delivery of redesign of services and pathways.</p>	Chief Executive	31/03/2020	Medium	<p>Partially Implemented: We will continue to monitor the progress against this recommendation in our 2021/22 audit.</p> <p>Updated management response: The PMO has been established, albeit early days as yet. The focus of 2020/21 has been COVID-19 and therefore the focus has had to shift accordingly.</p> <p>Updated target date: 31/12/2022</p>

Action plan (continued)

Follow-up 2019/20 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2020/21 Update
Governance & Transparency: Health and social care integration	<p><u>2018/19 Recommendation:</u> 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><u>2019/20 Update:</u> The Council, NHS and IJB will work together to refresh the Integration Scheme and MTFP following a refresh of the Council's MTFP in September 2020.</p>	Head of Finance and Procurement	31/03/2021	High	<p>Implemented: The Integration Scheme has been reviewed and MTFP refreshed in the year.</p> <p>Updated management response: The Integration Scheme has now been recommended for submission to the Scottish Government for final endorsement.</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 Board's financial planning assumptions is being updated for August 2020.</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>					

Action plan (continued)

Follow-up 2019/20 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2020/21 Update
Financial Sustainability: Savings plans	<p><u>2018/19 Recommendation:</u> 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><u>2019/20 Update:</u> Detailed savings plans can only be achieved when the redesign programme and the subsequent Strategic Commissioning Plan have been further developed.</p>	Director of Finance	31/3/2022	High	<p>Not Implemented: There has been no progress in the year against this recommendation.</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>To facilitate this process a project management office (PMO) is being established in 2020-21 to support and assist in the delivery of the redesign projects whilst complying with access performance targets.</p>				<p>Updated management response: Savings target identified and programmes of work will be developed with the support of the PMO. Projects will be developed, in line with strategic priorities identified in the new Clinical Strategy. These will detail the proposal and how this matches with the vision contained in strategies and the improvement plans based upon quality service delivering best value. Over the last 5 years though the efforts of staff we have seen progress in reducing the underlying financial gap from £1.805 to £1.133m which is an overall reduction of 37.2%.</p> <p>Recognised achieving the joint IJB and NHS priority for sustainable financial balance by 2023 though will be a challenging task. Repatriation savings in 2020/21 were still taken on a non-recurring basis and in 2021/22 there will be a reclassification to reflect those services that have now occurred over more than 1 year to be recurrent.</p>
						<p>Updated target date: 31/12/2022</p>

Action plan (continued)

Follow-up 2019/20 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2020/21 Update
<i>Financial Sustainability: Medium-term financial planning</i>	<p><u>2018/19 Recommendation:</u> 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><u>2018/19 Response:</u> 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 And Director of Public Health	31/03/2021	Medium	<p>Not Implemented: There has been no progress in the year against this recommendation.</p> <p>Updated management response: No Public Health Annual Report published in 2019/20 due to the pandemic. Joint working with Community Planning partners was focused on Emergency Planning response during the pandemic and is just in the process of re-establishing momentum. We recognise a need to link public service reform and Shetland Partnership outcomes to NHS Shetland strategic outcomes.</p> <p>Updated target date: 31/12/2022</p>
<i>Financial Sustainability: Scenario planning</i>	<p><u>2018/19 Recommendation:</u> 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><u>2018/19 Response:</u> 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	<p>Not Implemented: There has been no progress in the year against this recommendation.</p> <p>Updated management response: As per the Scottish Government requirements we remain on an emergency footing therefore our remobilisation plan addresses the key areas for development moving forward. Additionally the refreshed Clinical Strategy will be used to develop the Strategic Commissioning Plan by the IJB so a clear alignment will evident in our strategic plans.</p> <p>Updated target date: 31/12/2022</p>

Action plan (continued)

Follow-up 2019/20 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2020/21 Update
<i>Financial Sustainability: Workforce planning</i>	<p><u>2018/19 Recommendation:</u> 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><u>2019/20 Update:</u> A revised workforce plan was prepared in August 2019.</p> <p>The staff budget was zero based in 2020-21 budget setting and future workforce plans will be linked to this establishment base.</p>	Director of Human Resources	31/01/2021	Medium	<p>Partially Implemented: We will continue to monitor the progress against this recommendation in our 2021/22 audit.</p> <p>Updated management response: The workforce plan is progressing to deadline set by Scottish Government. The HR Services Manager who leads on this work has attended a meeting with her counterpart in the Council and is reviewing the workforce service needs from the remobilisation plan. Management believe this action can be closed as it is part of business as usual.</p> <p>Updated target date: 31/12/2022</p>

Action plan (continued)

Follow-up 2019/20 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2020/21 Update
<i>Financial Management: Budget setting</i>	<p><u>2018/19 Recommendation:</u> 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><u>2019/20 Update:</u> The staff budget was zero based in 2020-21 budget setting and future workforce plans will be linked to this establishment base.</p> <p>As part of the budget setting process managers have the opportunity to flag non-pay cost pressures and submit business cases for new services. IT upgrade funding and HEPMA were examples of this in 2020-21 process. Full Non-pay zero base in 2021--22 process plan.</p>	Director of Finance	31/03/2021	Medium	<p>Partially Implemented: We will continue to monitor the progress against this recommendation in our 2021/22 audit.</p> <p>Updated management response: Management believe that the current budget setting process addresses this recommendation as staff posts are zero based to the agreed staff establishment. This process differentiates between the agreed recurring funded workforce plan and non recurring staff issues that may cause an in year variance on the budget.</p> <p>Those areas that have had workforce issues for more than 1 year are looking at alternative sustainable models to the status quo. The models on the Obstetrics Service and General Surgery as examples of such reviews and plans to address existing issues or future proof for potential retirements.</p> <p>In setting the Board's budget there is a central contingency reserve held. The basis for setting this reserve matches the best practice principles set out by NHS England in guidance issued to Clinical Commissioning Groups.</p> <p>Updated target date: 31/12/2022</p>

Action plan (continued)

Follow-up 2019/20 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2020/21 Update
Financial Management: Budget transparency	<p><u>2018/19 Recommendation:</u></p> <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><u>2018/19 Response:</u></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	31/03/2021	Medium	<p>Not Implemented:</p> <p>There has been no progress in the year against this recommendation.</p> <p>Updated management response:</p> <p>Budgets are currently managed in line with the Board's Standing Financial Instructions with any material adjustments to budgets clearly outlined in the Financial Monitoring Reports. The report to the Board advises new allocations received by Scottish Government. The exact value of the majority of these allocations are not advised to Board's at the same time the Scottish Government advises the RRL or at the time general expenditure commitments may be made in Parliament or to the media.</p> <p>The Scottish Government current allocation practice normally results in new allocations every month.</p> <p>Updated target date:</p> <p>31/12/2022</p>

Action plan (continued)

Follow-up 2019/20 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2020/21 Update
<i>Value for Money: Business cases</i>	<u>2018/19 Recommendation:</u> 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.	<u>2019/20 Update:</u> In 2020-21 the Board will be establishing a Project Management Support Office that take forward Board processes and recommend a standard monitoring process and business case template for consistency in processes.	Director of Finance	31/03/2021	Medium	Partially Implemented: We will continue to monitor the progress against this recommendation in our 2021/22 audit. Updated management response: The new PMO will develop a consistent suite of documents, including a Business Case Template, for project management. Updated target date: 31/12/2022

Action plan (continued)

Follow-up 2019/20 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2020/21 Update
<i>Value for Money: Performance management</i>	<p><u>2018/19 Recommendation:</u></p> <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><u>2019/20 Update:</u></p> <p>EMT meets at least 3 times a week, and performance variation and challenges are discussed as hot topics. Governance is in place to scrutinise waiting times on a weekly basis.</p> <p>Cascading to involvement of “silver” command and briefings will also take forward issues constructively across services to assist delivering sustainable improvements.</p>	Chief Executive	31/03/2021	Medium	<p>Partially Implemented:</p> <p>We will continue to monitor the progress against this recommendation in our 2021/22 audit.</p> <p>Updated management response:</p> <p>The Scottish government have yet to outline what the future of performance will be, however it is unlikely that moving to an average performance would address the costs incurred in the delivery of services. There are moves to establish a Finance and Performance Committee to consider these issues together but the route to achieving financial balance will not be found in reducing performance down by X%.</p> <p>Updated target date:</p> <p>31/12/2022</p>

Action plan (continued)

Follow-up 2019/20 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2020/21 Update
<i>Value for Money: Performance reporting</i>	<p><u>2018/19 Recommendation:</u> 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><u>2019/20 Update:</u> The NHS Board approved the Planning and Performance Schedule in 2020/21. EMT will reconsider their corporate objectives and develop key performance indicators to clearly demonstrate progress.</p> <p>Involvement of “silver” command and briefings will take this forward constructively across services to deliver sustainable improvements.</p>	Head of Planning and Modernisation	31/03/2021	Medium	<p>Partially Implemented: We will continue to monitor the progress against this recommendation in our 2021/22 audit.</p> <p>Updated management response: Work to update the Corporate Objectives continues, through the forthcoming review of the Joint Health and Social Care Strategic Commissioning Plan 2022-24 and the Clinical and Care Strategy update. The Planning and Performance timetable includes a refresh of the Corporate Priorities and Objectives by June 2021.</p> <p>Staff time and resources to deploy on this type of development work is limited due to NHS Shetland’s continued response to the emergency pandemic so delivery of the Performance Management Framework objectives is later than originally planned. Some development work is progressing through the IJB, using a Logic Model approach (March 2021) and the learning from that ‘Test of Change’ will be shared with NHS Shetland. It is expected that development work will progress in June 2021, with a target implementation for enhanced performance reports of September 2021.</p> <p>Updated target date: 31/12/2022</p>

Our other responsibilities explained

Fraud responsibilities and representations



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 annual report and accounts as a whole are free from material misstatement, whether caused by fraud or error.



Audit work performed:

In our planning we identified the risk of fraud in relation to operating within the expenditure resource limit and management override of controls as a key audit risk for your organisation.

During 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 annual report and accounts.



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 annual report and accounts may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and 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.

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 the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Board and our objectivity is not compromised.

Fees The audit fee for 2020/21, in line with the expected fee range provided by Audit Scotland, is £76,530, as analysed below:

	£
Auditor remuneration	65,780
Audit Scotland fixed charges:	
Pooled costs	7,370
Audit support costs	3,380
Total fee	76,530

We have still to assess any impact the additional testing as a result of COVID-19. Once completed, we will discuss any impact on the fee with management.

No non-audit services fees have been charged for the period.

Non-audit services In our opinion there are no inconsistencies between the FRC's Ethical Standard 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 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.

We are not aware of any relationships which are required to be disclosed.



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