



## NHS Shetland

Report to the Audit Committee, the Board and the Auditor General for Scotland  
on the 2021/22 audit

Issued on 13 June for the meeting on 16 June 2022 (updated for Board meeting 23 June 2022)

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# Key messages

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

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

I have pleasure in presenting our final report to the Audit Committee (“the Committee”) of NHS Shetland (“the Board”) for the year ending 31 March 2022 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2022.

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.



# Key messages (continued)

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

## **Conclusions from our testing**

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

The performance report and accountability report comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Board. We provide management with comments and suggested changes based on review of the first draft and an update has been received confirming compliance.

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

A summary of our work on the significant risks is provided in the dashboard on page 10. The Board met its financial targets for 2021/22, achieving a small surplus of £45,000.

No material errors have been identified to date. Two corrected and no uncorrected misstatements in excess of our reporting threshold of £70,000 have been identified up to the date of this report which is included within the Appendix to this report. This has no impact on the final results of the Board.

## **Status of the Annual Report and Accounts audit**

Outstanding matters to conclude the audit include:

- Receipt of final signed Annual Report and Accounts;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2022.

# Key messages (continued)

As set out in our audit plan, the Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. Our audit work has considered how the Board is addressing these and our conclusions are set out within this report, with the report structured in accordance with the four dimensions. Our responsibilities in relation to Best Value ('BV') have all been incorporated into this audit work.

## *Financial management*

The Board continues to have effective budget setting and monitoring arrangements in place, which has been enhanced in the year with revisions to the format of monitoring reports. This is supported by an experienced finance team, which has also been enhanced in the year with the creation of an additional post.

## *Financial sustainability*

Given the lack of an approved balanced budget for 2022/23 and the projected funding gap of £7.046m by 2026/27, the Board is at risk of not achieving financial balance in both the short and the medium term and therefore remains financially unsustainable. We are pleased to note the further developments of the Programme Management Office (PMO) during the year and the Transformation for Primary Care Programme. It is important that this is fully developed including the projected financial implications to demonstrate how they will address the projected funding gap. A benefits realisation tool also needs to be implemented to ensure that the Board can monitor the impact across the organisation to assess the success of the projects.

**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 financial sustainability as well as the long standing governance issues reported by internal audit.

## *Governance and transparency*

The Board continues to have strong and effective leadership in place along with appropriate governance arrangements, with the changes made as a result of the pandemic being well managed. Further work is however required to ensure internal audit recommendations are implemented timeously, and in particular the long outstanding recommendations in relation to Business Continuity planning and completion of statutory and mandatory training.

The Board continues to be open and transparent. It has also implemented the National Whistleblowing Standards.

## *Value for money*

The Board continues to have a clear and robust performance management framework in place which analyses data, tracks progress and identifies actions. Regular reporting on performance is provided to the Board, with a focus on continuous improvement and closely working with partners. Performance continues to be impacted by the ongoing response and recovery from the COVID-19 pandemic.

# Key messages (continued)

## Next steps

An agreed Action Plan is included on pages 50 to 58 of this report, including a follow-up of progress against prior year actions.

## 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.

We have also included our “sector developments” on pages 41 to 44 where we have shared Audit Scotland’s national reporting and our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to the NHS.

## Managing transition to 2022/23 audits

2021/22 is the final year of the current audit appointments. We will minimise disruption to all parties, and maximise the transfer of knowledge of the Board, by working in partnership with Audit Scotland and the incoming auditors.

We would like to put on record our thanks to the Board, management and staff for the good working relationship over the period of our appointment.






















# Annual Report and Accounts Audit



# Quality Indicators

## Impact on the execution of our audit

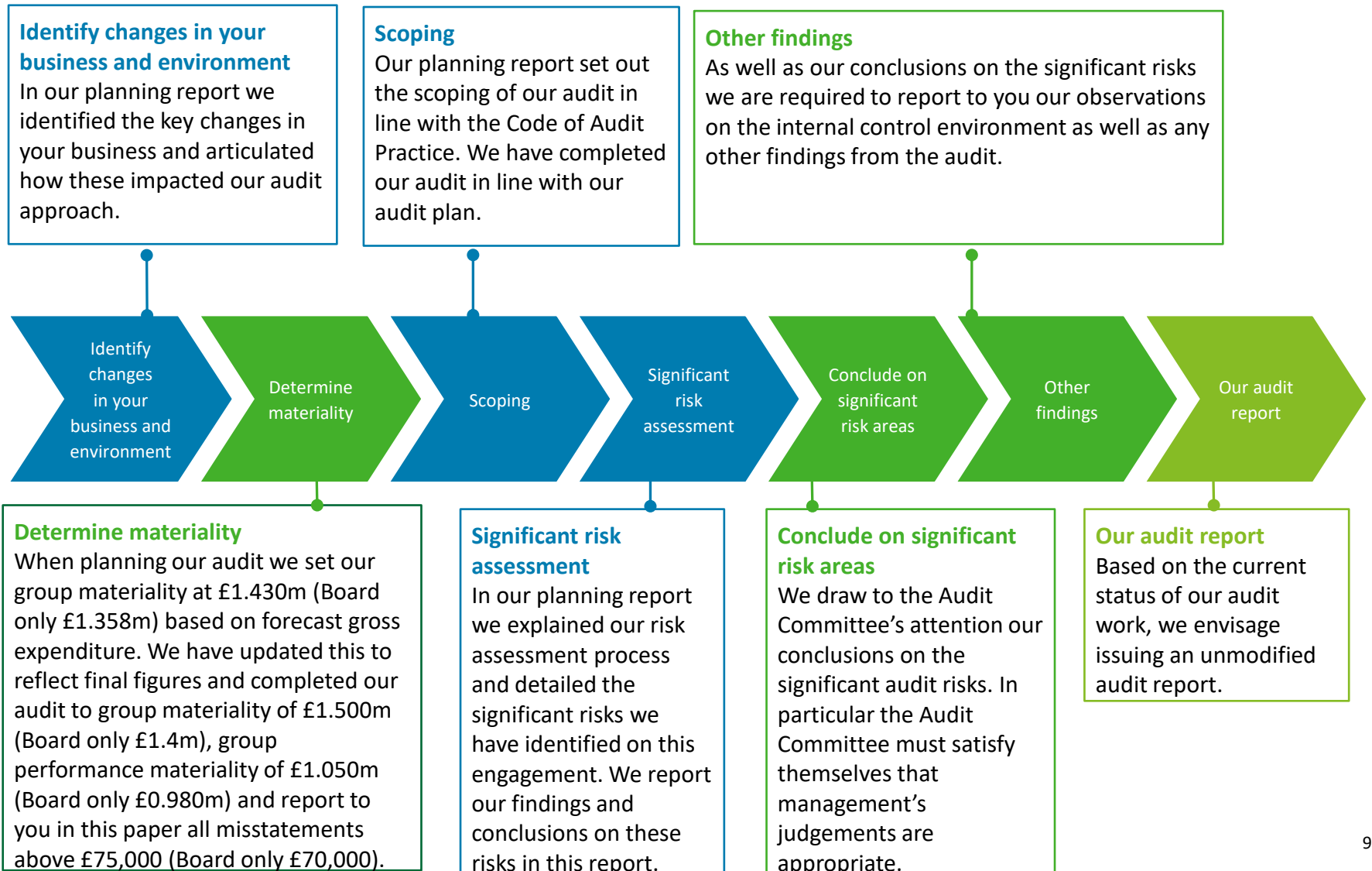
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to 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
	FY22	FY21	FY20	
Timing of key accounting judgements				Documentation in relation to key areas of judgement in relation to property valuations and provisions was provided early in the audit process.
Adherence to deliverables timetable				The audit of the annual accounts progressed largely in line with the original timescale. The receipt of the first draft of the annual accounts, notes to the accounts and annual report were provided on 10 May 2022. Group figures were included in the original submission.
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 & Accounts				Whilst a number of changes have had to be made to full draft of the Annual Report and Accounts, several of these changes arose due to changes to information provide by third-parties to NHS Shetland, with the document otherwise being completed to a good standard.
Response to control deficiencies identified				No significant control deficiencies were identified.
Volume and magnitude of identified errors				We have not identified any significant financial adjustments to date.









# 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. 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.

#### 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.

Based on our testing to date, we confirm that the Board has performed within the limits set by Scottish Government and therefore is in compliance with the financial targets in the year, reporting a small surplus against the core Revenue Resource Limit of £45,000, a £1,000 underspend of Core Capital Resource Limit, with no variances reported on non-Core Revenue Resource Limit or cash requirements.

# 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 financial statements 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 and 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 expenditure recognition (see page 11). This is inherently the area 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
Property valuations	<p>Land and buildings are fully revalued by an independent valuer every three years. The last full revaluation was at 31 March 2020.</p> <p>As at 31 March 2022, management assessed the need for an impairment review and concluded that there were no indicators of impairment. Buildings were, however, subject to a proposed indexation charge of 8%, based on advice from managements expert.</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 confirmed minimal changes in the market value would be expected in 2021/22.</p> <p>For those valued on a Depreciated Replacement Cost (‘DRC’) 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. Our analysis identified that management applied indexation at 8% to all assets within buildings &amp; dwellings, whereas indexation should only have been applied to DRC assets, and did not factor in either obsolescence or the cumulative impact of negative BCIS indexes the previous year when indexation had not been applied. This resulted in a reduction of £857k to the indexation charge applied by management which has been corrected by management as discussed on page 46.</p> <p>Management have corrected for the above overstatement. We are therefore satisfied that the indexation adjustment ensures that the assets are held at fair value. We recommend that management introduce a process to challenge information provided by its’s experts to ensure that it meets their requirements and is compliant with the FReM.</p>

# Significant Risks (continued)

## Management override of controls (continued)

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.</p> <p>The provision is valued by the Central Legal Office (CLO) based on the information on claims and historical experience. The Board provide 100% for Category three claims and 50% for all Category two claims. As at 31 March 2022, there were 4 claims specific to NHS Shetland included in the provision.</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 CLO.</p>	<p>We have obtained independent confirmation directly from the CLO of all outstanding claims for NHS Shetland at 31 March 2022 and reconciled this to the amount recognised 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 obtained assurance from Audit Scotland on the methodology used in the preparation of these figures and the relevance and reliability of the information provided by the CLO. As a result of Audit Scotland's review, an error was identified in the initial data provided by the Scottish Government and as a result, an adjustment of £17k was required, reducing the provision from £1.701m to £1.684m as discussed further on page 46. While this amount is below our reporting threshold, management has chosen to correct to ensure consistency across all NHS Scotland Boards.</p>

# Significant Risks (continued)

## Management override of controls (continued)

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Accruals	Management have accrued for expenditure based on the estimated liabilities due from the information that it has available.	We have tested the underlying evidence to support a sample of accruals. From this testing, we noted that there are a number of accruals which relate to liabilities which date back more than 5 years for which invoices have not yet been received by the Board. While we agree that it is prudent for the Board to recognise these liabilities, we recommend that the Board review these and follow-up to determine whether the liabilities continue to be due and look to settle the final amounts.

# 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.

### Regulatory change

IFRS 16, Leases, came into effect on 1 April 2022, therefore will be first implemented in financial year 2022/23. This will require adjustments to recognise on balance sheet arrangements currently treated as operating leases. We have considered the preparatory work carried out by management and the disclosures made in the 2021/22 Annual Report and Accounts and satisfied that the new standard has been appropriately considered and disclosed within Note 1 of the Annual Report and Accounts.

### 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 also discuss the application of indexation, discussed further on page 13.

### Other matters relevant to financial reporting:

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

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 was 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 financial statements**

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 that 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 financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

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



### **Other reporting responsibilities**

The Annual Report is reviewed in its entirety for material consistency with the Annual 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 financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 18.

# 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 updated 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 updated in the revised draft. In line with good practice, the performance report presents a good link between the Board's performance, its objectives and the targeting of resources to address areas of under performance.</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 Annual Governance Statement is consistent with the Annual Report and Accounts and has been prepared in accordance with the accounts direction. No exceptions 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 provide management with comments and suggested changes and have received an updated version reflecting these changes.</p>

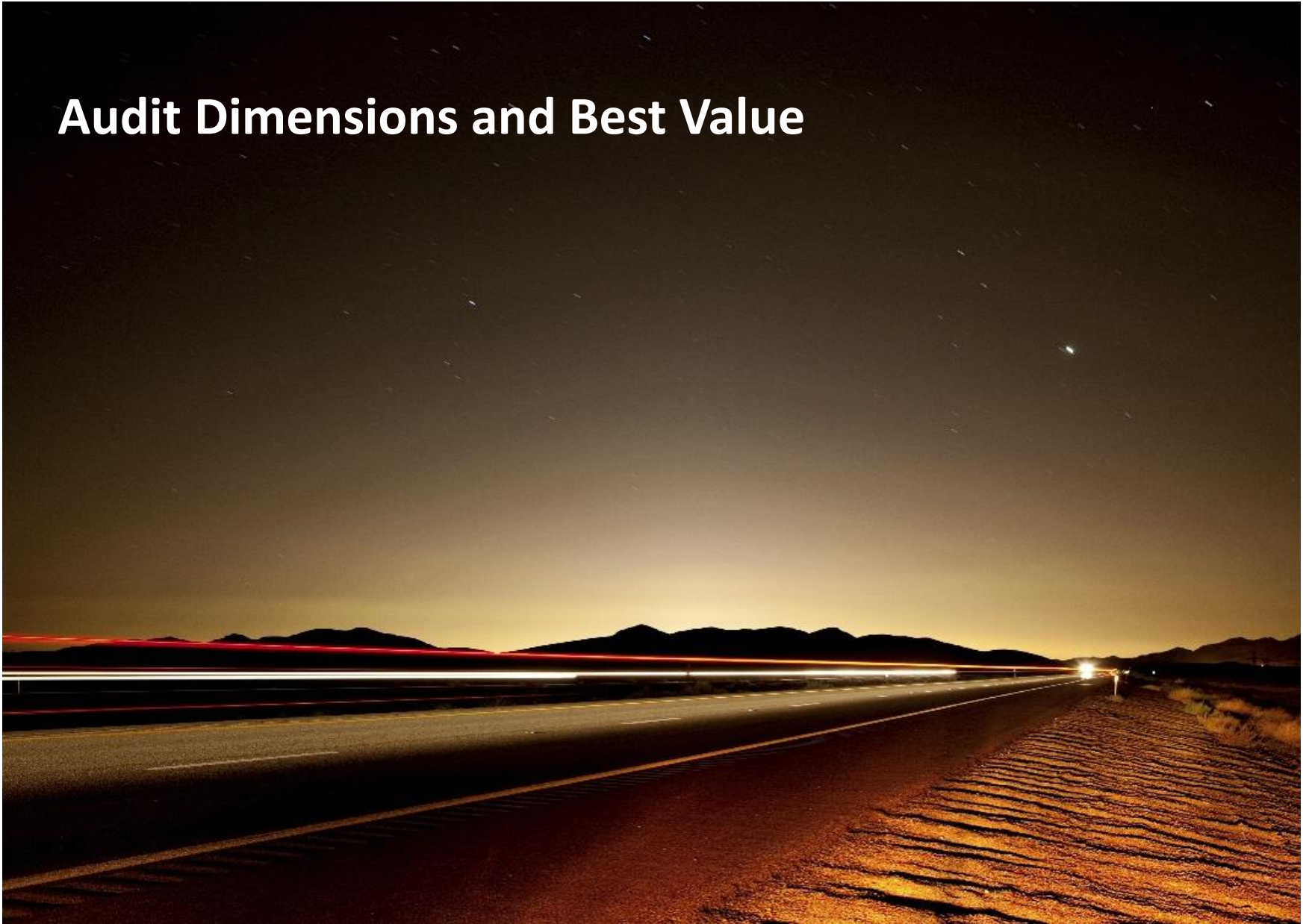
# Your Annual Report and Accounts (continued)

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Requirement	Deloitte response
The Accountability Report (continued)	<p>We have also audited the auditable parts of the Remuneration and Staff Report and confirmed that it has been prepared in accordance with the accounts direction. A number of changes were required to the new Fair Pay Disclosure, as discussed further on page 53. Management have corrected these in the final draft of the Annual Report and Accounts.</p> <p>The pay ratio and other disclosures are required to be calculated including agency staff. Due to the availability of data on some individuals working on an agency or bank basis, the Board needed to make assumptions and judgements in calculating the disclosures, and concluded that these not expected to have a significant impact on the values reported. This judgement has been appropriately disclosed.</p>

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# Audit Dimensions and Best Value



# Financial management

Is financial management effective?



Are budget setting and monitoring processes operating effectively?



Is there sufficient financial capacity?



Financial Management

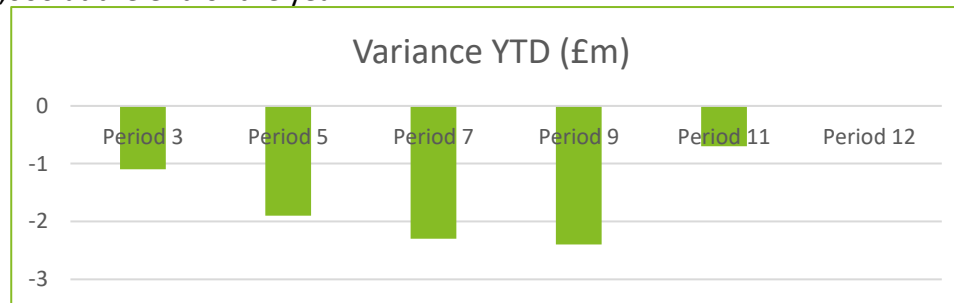
## Significant risks identified in Audit Plan

In previous years we have concluded that the Board had effective financial management arrangements in place and a sufficiently qualified and experienced finance team. We therefore did not identify any significant risks in relation to financial management during our planning. We have continued to review the arrangements in place as summarised on the following pages.

## Current year financial performance

The 2021/22 revenue budget was approved by the Board in April 2021, projecting a breakeven position. This was subject to a number of key assumptions including the delivery of the identifies savings schemes and receiving additional support of £1.2m to reflect the Board's primary care funding gap.

The budget has been updated throughout the year to include in year movements and additional funding received from the Scottish Government to support the remobilisation of services. Overspends have been reported against the budget throughout the year, as illustrated below. This was largely as a result of additional cost of locums and non-achievement of efficiency savings. During the year, the Scottish Government confirmed that funding would be provided to all NHS Boards to allow a breakeven position. The Board has reported a small surplus of £44,000 at the end of the year.



The approved revenue budget includes cash releasing efficiency savings (CRES) of £2.417m. The actual savings achieved were £1.555m, meaning a shortfall of £0.862m. The Board has continued to rely on non recurring savings. The impact of COVID-19 has been a contributing factor to not achieving recurring savings, however, funding has been received from the Scottish Government to cover the shortfall in 2021/22.

# Financial management (continued)

## Current year financial performance (continued)

As part of the response to the COVID-19 pandemic, the Board developed a mobilisation plan detailing the additional activities to support its response, alongside the estimated financial impact. Financial returns have continued to be submitted during 2021/22, which incorporated both NHS and Health and Social Care Partnership (HSCP) costs. The final COVID-19 costs reported to the Board amounted to £8.7m, of which £3.3m relates to the NHS, £1.8m to the NHS side of the HSCP and £2.1m relates to the Council side of the HSCP.

The Executive Management Team (EMT) and Board members regularly review progress against budget throughout the year, with quarterly reporting to the Board. We are pleased to note that following recommendations made in our previous years audits, and similar recommendations made by internal audit, management has reviewed and revised the style of reporting during the year, and now provide a much clearer picture of the financial position and key risks faced by the Board.

## Finance capacity

The finance team has remained consistent throughout the year. Whilst COVID-19 has created additional work for the team, including the additional reporting requirements to the Scottish Government, this is being well managed.

In line with our recommendation made in our 2020/21 report, management undertook a review of the finance team during 2021/22, and the EMT agreed to an additional Accountant within the team as a development role. This is in recognition of the increasing need to support the PMO in sustainable transformational change, with clear finance business partnering to provide the financial expertise to inform the portfolio of projects. This additional post is designed to free up the senior finance team to support the PMO. This is a positive step and demonstrates the Board's commitment to transformational change (which is discussed further on page 28).

# Financial management (continued)

## Internal audit

We have assessed the internal audit function, including its nature, organisational status and activities performed. We have reviewed all internal audit reports published throughout 2021/22. The conclusions have helped inform our audit work, although no specific reliance has been placed on this work.

The 2021/22 Internal Audit Plan was approved by the Audit Committee in May 2021. Regular updates have been provided to the Audit and Risk Committee, with the overall internal audit opinion reported to the Joint Audit and Committee Chairs meeting in May 2022. This concluded *“NHS Shetland’s framework of governance, risk management and controls has a number of weaknesses, particularly in relation to the current Business Continuity Planning and the completion of statutory and mandatory training. Both areas were reviewed in the current year, and we identified a number of weaknesses that had previously been raised in audit reports but are not yet satisfactorily addressed”*.

The rate of implementation of audit recommendations has continued to be regularly reported by internal audit during 2021/22. Management have made progress in completing actions during 2021/22, with 49% reported as complete. However, internal audit has continued to highlight that managements completion of actions continues to take a substantial length of time to address, and half the current open actions are aged, having been raised prior to 2021/22.

It is important that management dedicate sufficient resource into addressing the recommendations made by internal audit to ensure that its overall governance, risk management and controls framework is not open to risk.

Due to external audit appointment being extended by one-year as a result of the pandemic, the Board approved the extension of the internal audit appointment by a further year to March 2023. Once the external audit appointment for 2022/23 onwards is confirmed, the Board plan to take part in a joint process to appoint an internal auditor through a consortium with three other NHS Boards in the second half of 2022.

We have considered the work of internal audit as part of our audit work on the Annual Governance Statement as discussed further on page 18, and are satisfied that the issues and weaknesses highlighted by internal audit have been appropriately disclosed.

# Financial management (continued)

## **Standards of conduct for prevention and detection of fraud and error**

We have assessed the Board's arrangements for the prevention and detection of fraud and irregularities. This has included 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.

## **National Fraud Initiative (NFI)**

All NHS Boards are participating in the most recent NFI exercise which commenced in 2020/21. We have continued to monitor the Board's participation and progress in the NFI during 2021/22 and submitted an assessment of the Board's participation to Audit Scotland in February 2022. The information submitted will be used by Audit Scotland in its next national NFI report which is due to be published in the summer of 2022. We concluded that the Board was fully engaged in the exercise.

## **Deloitte view – financial management**

The Board continues to have effective budget setting and monitoring arrangements in place, which has been enhanced in the year with revisions to the format of monitoring reports. This is supported by an experienced finance team, which has also been enhanced in the year with the creation of an additional post.

The Board also has a robust internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error. However, significant improvement is still required in the managements response to internal audit recommendations, which has been considered further under "governance arrangement" on page 31.



# Financial sustainability



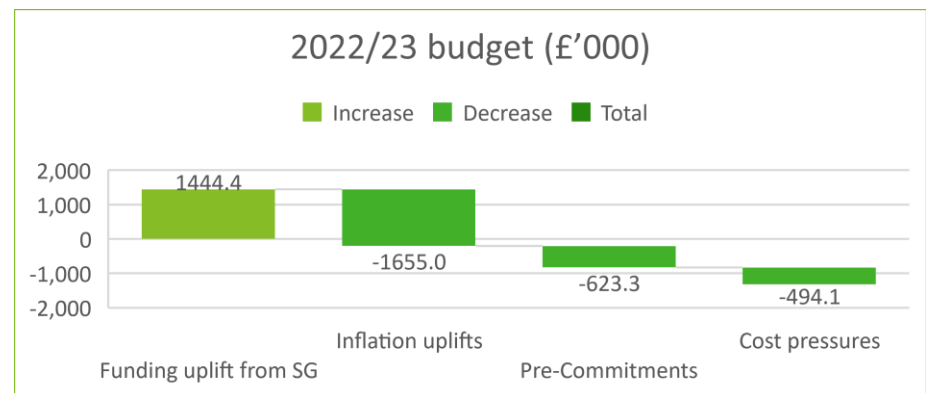
## Significant risks identified in Audit Plan

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 delivery services effectively. This risk pre-dates the pandemic, with action required being impacted by the continued need to respond to the pandemic. We have therefore considered the 2022/23 budget setting process and the implementation of the Remobilisation Plan and the implications for the medium to longer term planning arrangements.

## 2022/23 budget setting

In line with the approach taken in previous years, the budget process began in October 2021 with discussions with all budget holders. The outcome of these discussions were presented to EMT and the Board in December 2021 and considered by the Board in February 2022. In our previous audit report, we recommended that Board members should have earlier input into the budget setting process. Due to the pandemic, there was no joint IJB and Board member discussion, with the February 2022 Board meeting used to discuss the budget setting issues in detail, including the need for savings plans to be developed. We would continue to encourage earlier engagement with Board members, potentially through a budget workshop, to ensure that they are fully involved in the development of the budget.

While the Scottish Government has confirmed a funding uplift, this is not sufficient to offset the increased costs from inflation, commitments and cost pressures as illustrated opposite, with the Board identifying a need to make savings of £1.328m.



# Financial sustainability (continued)

## 2022/23 budget setting (continued)

Prior to the Board agreeing to the budget, the EMT were tasked with two specific actions to then be able to produce a more robust plan on how the financial gap will be closed during 2022/23. These actions considered:

1. How recruitment plans and processes can be put in place to successfully recruit into key vacant posts. This is in response to the cost pressures forecast from vacant posts that continue to be temporarily filled via bank, locum or agency staff.
2. Identify projects to address the recurring savings targets public bodies are expected to achieve each year, using the skills of the PMO and other key staff (which is discussed further on page 28).

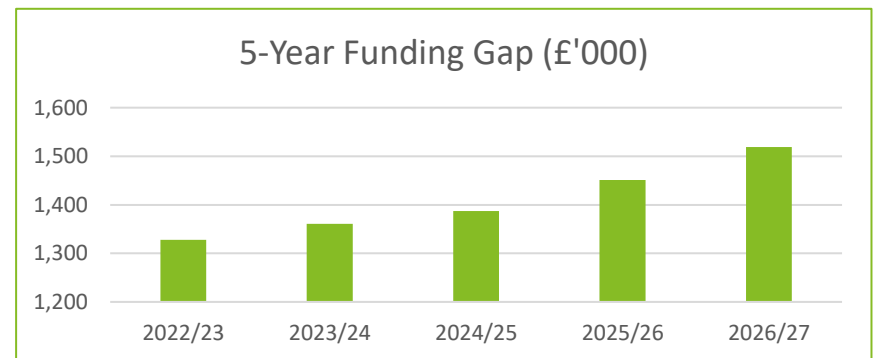
Following the completion of the above, a finalised budget is expected to be considered for approval by the Board in June 2022. In future years, it is critical that detailed savings plans are developed earlier in the process to allow them to be approved in advance of the start of the financial year. By not having these in place until June, there is insufficient lead in time to be able to make the changes required to see the full year benefit.

In considering its budget the Board has recognised that the key risk to the financial sustainability of the Board is having sustainable models of care, with sustainable staffing that ensure sufficient organisational capacity and resilience within the available resources.

## Medium-to-long term financial planning

Under normal circumstances, the Scottish Government require NHS Boards to demonstrate financial balance over a medium-term three-year period, via submission of a three-year financial plan. This requirement was put on hold in 2021/22 due to the impact of COVID-19, and the Scottish Government has advised that it is only expecting a one-year Annual Operating Plan for 2022/23.

Whilst there is no Scottish Government requirement for a three-year financial plan, it is positive to see that NHS Shetland has continued to include a high-level estimate of the funding gap over the next 5 years within its budget papers. As illustrated below, this is showing an increasing gap that require recurring savings to be identified, with a cumulative gap of £7.046m by 2026/27. There are currently no plans in place to demonstrate how the Board will bridge this gap, although some work is progressing through the PMO as discussed on page 28.



# Financial sustainability (continued)

## Medium-to-long term financial planning (continued)

In our previous years audits we have recommended that the medium term planning could be enhanced by including scenario planning to help highlight the impact on changes in assumptions to allow the Board to see a “best case” and “worst case” scenario to help with planning. Due to competing priorities in responding to the COVID-19 pandemic, this has not been taken forward in 2022/23. However, as part of the Board discussion on the draft budget in February 2022, the paper presented considered both local and Scottish Government planning and assumptions and highlighted that they are likely to change as further information becomes clearer. In particular, the following assumptions are expected to impact on the future financial position of the Board:

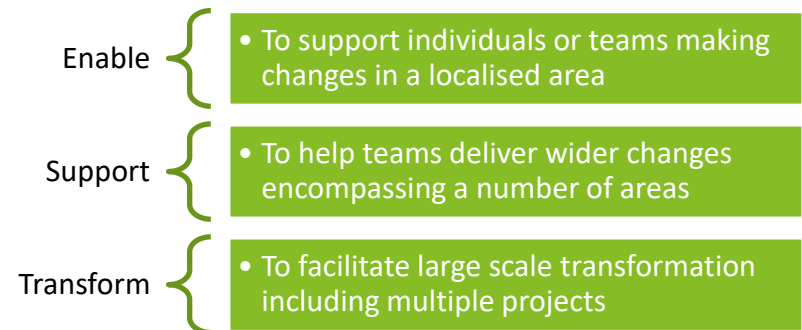
- the longer term impact of the recovery from COVID-19;
- the impact of pay awards;
- the Scottish Government’s medium term planning assumptions; and
- sustainable workforce plans.

Given the estimated funding gaps over the next 5 years, it is important that the Board continues to look to the future, particularly with regards to how it can transform service delivery to identify long-lasting recurring savings for future year financial sustainability.

## Transformational change and remobilisation

In our 2020/21 audit report, we highlighted the development of the PMO as a positive step and emphasised that it was important that this was fully implemented to drive forward transformational change.

The Board was provided with an update on the developing portfolio for the PMO in June 2021. The PMO was established as a one-year Test of Change to support strategic and operational improvements across the organisation. There are three types of support summarised below:



In terms of Transformation, the EMT agreed that the PMO would focus on developing a Transformation Programme for Primary Care as its priority. Workforce and Digital were also identified as further potential areas, both of which are integral to the Transformation of Primary Care and included in the programme.

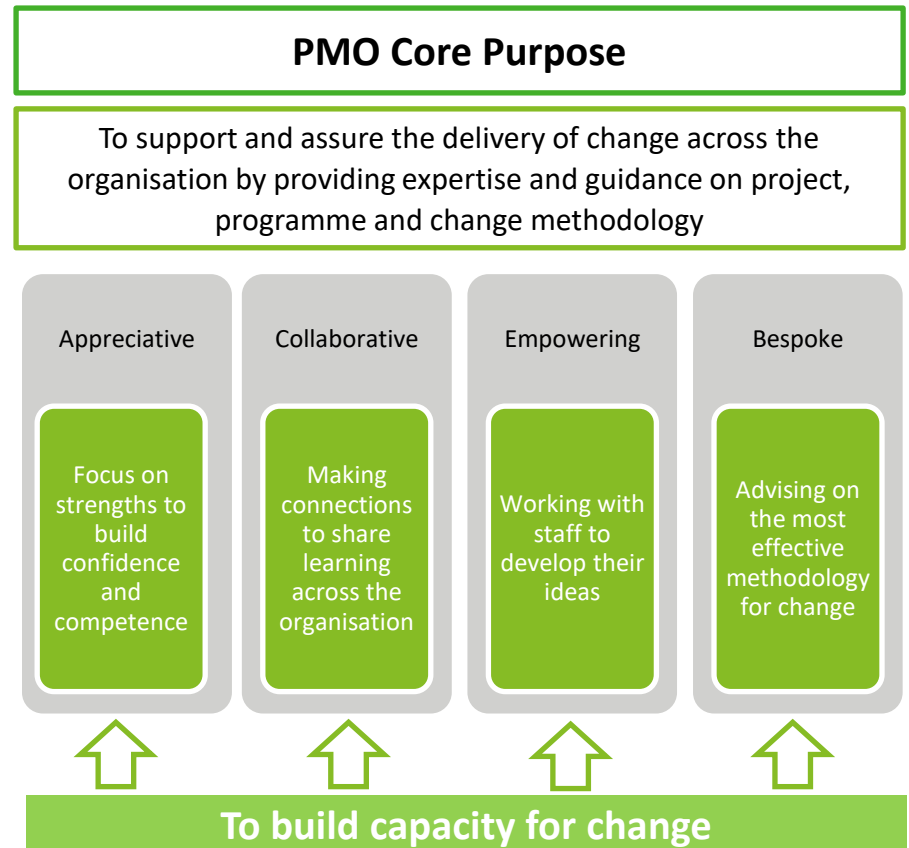
# Financial sustainability (continued)

## Transformational change and remobilisation (continued)

Due to capacity issues with the inability to fully fill a Project Support Officer post, the Board were advised that any future transformation priorities could only be considered if capacity allows. This is being kept under review. An update paper was considered by the EMT in April 2022 which confirmed recurring funding for 3 posts is in place.

During the year the PMO Function has been further developed, with its Core Purpose, Responsibilities and Functions now clearly defined.

The Transformation for Primary Care programme has also been developed, with twelve specific projects identified with expected outcomes and timescales for delivery. The programme does not currently contain any financial data therefore it is difficult to see whether these projects are sufficient to meet the financial challenges that the Board faces. These programmes are being supported by the PMO and are at various stages of development from pipeline, in development and in delivery. It is important that as these projects progress, a benefits realisation tool is implemented to ensure that the Board can monitor the impact across the organisation to assess the success of the projects. This should include the financial impact and any savings achieved, workforce implications and impact on outcomes for the public.



# Financial sustainability (continued)

## Transformational change and remobilisation (continued)

The Board, in collaboration with its partners, has prepared a Remobilisation Plan (RMP4) which was submitted to the Scottish Government. It focused on the public health agenda, safety, delivery and financial sustainability as the core pillars of the remobilisation process. The plan notes that building capacity to fully re-mobilise service while at the same time retaining capacity to respond to the continuing threat of COVID-19 is challenging. Specific focus has been given to building on the positive changes that took place during the pandemic, for example the use of “Near Me” technology and blurring of boundaries between acute and community services.

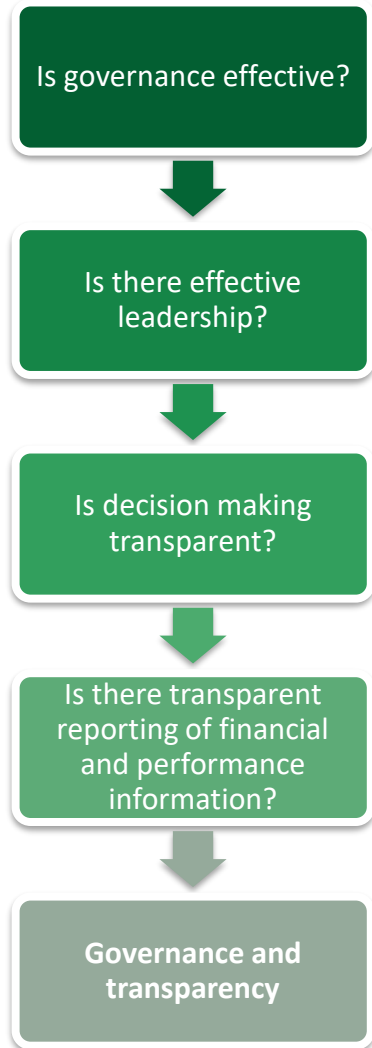
The RMP4 sits alongside the Shetland’s Health and Care Vision that by 2025 everyone will be supported in their community to live longer, healthier lives and will have reduced health inequalities.

## Deloitte view – Financial sustainability

Given the lack of an approved balanced budget for 2022/23, the Board is at risk of not achieving short term financial balance. Whilst the Scottish Government has provided funding over the last two years to allow a breakeven position, this is not expected in 2022/23.

The requirements for a three-year financial plan have been put on hold due to the ongoing pressures of dealing with COVID-19. The Board has, however, prepared a high-level analysis, showing an increasing projected funding gap over the next 5 years with a cumulative gap of £7.046m by 2026/27. It is therefore unable to demonstrate that it is financially sustainable in the medium and longer term. We are pleased to note the development of the PMO during the year and the Transformation for Primary Care Programme. It is important that this is fully developed including the projected financial implications to demonstrate how they will address the funding gap. A benefits realisation tool also needs to be implemented to ensure that the Board can monitor the impact across the organisation to assess the success of the projects.

# Governance and transparency



## Significant risks identified in Audit Plan

In previous years we have concluded that the Board has strong and effective leadership. We did, however, conclude that improvements were required to the level of scrutiny and challenge by the Board. As a result of recent, temporary, changes to the governance arrangements in response to the continued challenges associated with the pandemic, we identified an increased risk around the effectiveness of the governance and leadership arrangements. We have therefore reviewed the work of the Board and its Committees, as summarised on the following pages.

### Leadership

The EMT has remained relatively consistent during the year, with the Chief Executive continuing to assume the same role in NHS Orkney, splitting his time 50/50. This has continued to work well during 2021/22. An Interim Director of Public Health has been in post since the start of May 2021.

The Non-Executive Board has also remained relatively consistent during the year with just two changes, although changes are expected in 2022/23 and the impact on Committees has been considered by the Board at its April 2022 meeting. Committee chairs and membership is generally reviewed holistically every second year, but this has not happened during the pandemic with vacancies filled as required. A full review of the committee membership and updating of the skills matrix is planned following the recruitment exercise for a Whistleblowing Non-Executive Director and the appointment of a new Shetland Islands Council Stakeholder representative following the local government elections.

# Governance and transparency (continued)

## Governance and scrutiny arrangements

We have reviewed meetings attendance from the past year and confirm that there has been adequate attendance. In addition, from attendance at Audit Committee meetings we can confirm that there is sufficient scrutiny and challenge exercised by members during the meetings. Further work is still required to ensure that internal audit recommendations are implemented timeously.

As a result of COVID-19 and associated pressures across the whole health and care system, at its meeting in December 2021 the Board agreed a temporary revised approach to its governance arrangements. This included the continued use of virtual meetings, amendments to the Board meeting cycle with meetings taking place fortnightly and the governance committees of the Board being temporarily stood down with the essential business of the committees being done by the Board. These arrangements were in place through January and February 2022.

The Audit Committee continues to be a key element of the governance arrangements in place. Its meetings have not been impacted by the temporary changes noted above.

In line with good practice, the Committee carried out an annual self assessment at its meeting in March 2022 and agreed its Business Plan and KPIs that will be used during 2022/23 to monitor its performance. As part of the 2021/22 assessment, it was agreed that Strategic Risks should be given oversight by the Audit Committee and the Strategic Risk Register is now presented to every meeting.

In line with good practice the Board Governance Committees' Terms of Reference are reviewed on annual basis, and were last updated and approved by the Board in April 2022. In addition, at its development session in May, the Board agreed to the creation of a Finance and Performance Committee for 2022/23 onwards, in addition to the existing committees.

As discussed further on page 23, internal audit has continued to highlight a number of weaknesses in the Board's framework of governance, risk management and controls, particularly in relation to the current Business Continuity Planning and the completion of statutory and mandatory training. Internal Audit has acknowledged that the Board continued to operate under emergency footing throughout the COVID-19 pandemic and steps have been taken to address Business Resilience, including the appointment of a Business Continuity and Resilience Manager, there continues to be significant risks related to NHS Shetland's Business Continuity Planning Arrangements. It is critical that the Board addresses this as a matter of priority.

# Governance and transparency (continued)

## Whistleblowing standards

The National Whistleblowing Standards and Once for Scotland whistleblowing policy (the Standards) were introduced on 1 April 2021. A Briefing Paper was presented to the Board in April 2021 setting out the requirements and how NHS Shetland will ensure compliance.

A small group was formed to create the processes required to meet the standards and meets on a regular basis to review learning and support managers in the organisation to embed the standards.

Jason Taylor, Non-Executive Whistleblowing Champion for NHS Orkney and Interim Whistleblowing Champion for NHS Shetland provides critical oversight, helping the organisation work towards a culture of openness. The Medical Director, as Whistleblowing Executive Lead, is responsible for ensuring the implementation of the standards.

## Openness and transparency

All Board agendas and minutes are publicly available through its website, along with minutes of all governance committee. Members of the public are able to watch Board meetings live via Microsoft Teams, thereby continues to demonstrate openness and transparency of decision making and performance information (which is considered further on page 34).

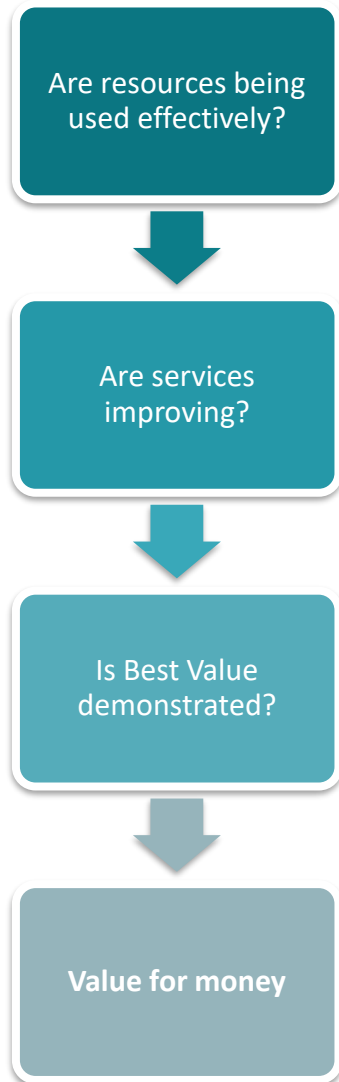
### **Deloitte view – Governance and transparency**

The Board continues to have strong and effective leadership in place along with appropriate governance arrangements, with the changes made as a result of the pandemic well managed. Further work is however required to ensure internal audit recommendations are implemented timeously, and in particular the long standing outstanding recommendations in relation to Business Continuity planning and completion of statutory and mandatory training.

The Board continues to be open and transparent. It has also implemented the National Whistleblowing Standards.



# Value for money



## Significant risks identified in Audit Plan

In previous years we have concluded that the Board had well established performance management arrangements in place. Whilst the Board’s performance was improving in some areas in 2020/21, prioritisation of COVID-19 continued to have an impact on a number of areas. Given the ongoing pressures across the health and care system, there remains a risk that performance reporting has not been timely, reliable, balanced and transparent. We have therefore reviewed the performance reports presented at the Board to assess the extent of openness and transparency during the year, as summarised on the following pages.

## Performance management framework

In previous years, the Board had reported against some of the aims and trajectories outlined in its Annual Operating Plan, however, from 2020/21, the focus moved to Remobilisation and understanding the corresponding impact of COVID-19 across the whole system. In recognition of the unprecedented demands through 2020, the Chief Executive developed a “2021/22 Plan on a Page”, aimed at ensuring that the organisation focus its efforts on a smaller set of priority areas.

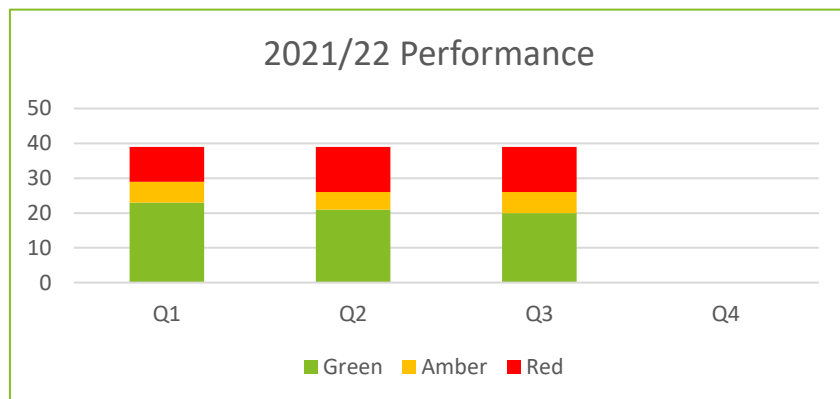
Through its Remobilisation Plans, the Board outlined how it would safely prioritise the resumption of some paused services, whilst also maintaining COVID-19 capacity and resilience. The Remobilisation Plan 3 (RMP3) highlighted the key priorities and actions for 2021/22, and this was approved by the Scottish Government in early April 2021. A mid-year update was provided to the Scottish Government in December 2021, known as RMP4, and reported on progress to date. A significant development in the year was the finalisation and publishing of the Clinical and Care Strategy for Shetland.

Regular detailed reporting has been provided to the Board throughout the year to provide an update on progress against performance measures. In January 2022, separate detailed reports were also provided to the Board to provide an update on the control of COVID-19 in Shetland.

# Value for money (continued)

## Performance data

A summary of the quarterly performance reporting is provided below:



The Board recognises that the COVID-19 pandemic has inevitably impacted on delivery of services. Progress has been made in several areas either in maintaining delivery of in 'catching up'. However, it has also recognised that there has been delayed or hidden need that is now coming to light, and this will continue to represent challenges over the coming months.

Performance has seen a decline in a number of the waiting time standard, with services being impacted by the COVID-19 pandemic as well as reliance on visiting services for a number of specialities. The exception to this is in relation to cancer treatment which continues to perform well.

While performance has significantly improved against access to Psychological Therapies, increasing from 19% in 2020/21 to 50% in 2021/22, it is still significantly below the performance standard. A performance and recovery plan was agreed in April 2021, which included recruitment of additional staff and embedding new technologies.

A&E discharge within 4 hrs remains high, at 97.6%. Delayed discharge has seen an increase in 2021/22, with 8 people waiting more than 14 days to be discharged compared to 1 in 2020/21.

The Board continue to closely monitor performance and there is evidence of resources being targeted to areas of underperformance.

### Deloitte view – Value for money

The Board continues to have a clear and robust performance management framework in place which analyses data, tracks progress and identifies actions. Regular reporting on performance is provided to the Board, with a focus on continuous improvement and closely working with partners. Performance continues to be impacted by the ongoing response and recovery from the COVID-19 pandemic.

# 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

The Board has a number of arrangements in place to secure best value. This is evidenced through the Remobilisation Plan and the Quarterly Performance Reporting.

As noted elsewhere within this report, the Board has an established governance framework and strong leadership, however, internal audit has continued to highlight a number of weaknesses in the Board's framework of governance, risk management and controls.

There is strong partnership working with the HSCP. This Transformation for Primary Care programme is a positive step however, the wider approach to transformation has been significantly impacted as the Board has focussed on responding to pandemic. This needs to be progressed at pace to achieve medium to longer term financial sustainability. The Board recognises that it must deliver services within the financial resources available and, as noted elsewhere in this report, significant work is required to achieve this.

## **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 financial sustainability as well as the long standing governance issues reported by internal audit.

# Emerging issues

## Climate change

### Background

In our 2020/21 report, we set out a high-level assessment of the work that the Board has done in relation to preparing for the impact of climate change against our baseline expectations. This concluded that climate change is clearly on the Board's agenda. NHS Shetland has committed to creating a Net Zero Route Map towards the aim of achieving the Scottish Government and NHS Scotland's commitment to be net zero of greenhouse gas emissions by 2045. Work is progressing in partnership with Shetland Islands Council and other partner bodies. A comprehensive update was provided to the Audit Committee in March 2022. The Board's delivery of its sustainability targets is contingent on a replacement health campus for the Gilbert Bain Hospital. A strategic assessment report was approved by the Board in December 2021 and submitted to NHS Scotland Capital Investment Group for consideration.

In March 2022, Audit Scotland published a report [Addressing climate change in Scotland | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/reports/addressing-climate-change-in-scotland) drawing together the key themes identified across a range of published recommendations for Scotland and set out a high-level summary of the key improvements that need to be made across the public sector if Scotland is to reach its climate change ambitions of a just transition to net zero and adapting to improve resilience to the effects of the global warming we are already experiencing. We have summarised each of these key themes below, along with the suggested actions. We recommend that the Board carry out a self assessment against each of these points and develop an action plan to help focus on where further work is required.

### Key themes

### Suggested actions

**Leadership** – public bodies should make responding to climate change a core value and key outcome.

Public bodies can lead the way through developing procurement framework and contracts with economic, social and environmental requirements and with developing and maintaining standards and regulations.

**Governance** – climate change plans need to have robust governance arrangements to ensure a clear approach to delivery which allows collaboration and integration and can address and resolve any conflicts between partners, priorities and policies. It also needs to support fast-paced changes to plans, technologies and policies.

Good governance ensures accountability and transparency. It requires:

- Monitoring, evaluating, reporting and verifying plans with clear timeframes;
- Feedback mechanisms to review how things work as they are being implemented;
- Processes for how projects will be upscaled and alternatives proposed where projects are not delivering what is expected; and
- Effective scrutiny, oversight and challenge by elected members and non-executive board members.

# Emerging issues (continued)

## Climate change (continued)

Key themes	Suggested actions
<p><b>Community empowerment to develop local solutions</b> – actions to address climate change could potentially have an unequal impact on some people and communities. Climate change should become a priority issue that public bodies and their partners engage with local communities on.</p>	<p>Incorporating climate resilience and net zero targets into existing local plans and initiatives, such as city and regional deals and participatory budgeting, will make it easier for public bodies to work with communities and support faster progress,</p>
<p><b>Behavioural change</b> – clearer information on the environmental impact of people’s choices is needed for all of us to make informed decisions, particularly around sustainable diet, waste and travel.</p>	<p>There is a need for clear plans to influence societal change and help people adapt to climate change and smooth transition to net zero.. Greener options need to be attractive in terms of quality and affordability.</p> <p>Public bodies should make efforts to sustain some of the changes in behaviours beneficial to emission reduction that emerged in the COVID-19 lockdowns, such as remote working, replacing business travel with videoconferencing and online collaboration, and broader lifestyle choices including more walking and cycling.</p>
<p><b>Alignment of policy and spend</b> – the type of leadership outlined on the previous page, would support the alignment of all policy and funding decisions. However, the challenge is significant.</p>	<p><b>Policy alignment</b> – all policies should be reviewed individually and holistically to identify conflicts or incoherence with climate change ambitions and be amended as required. The complex landscape, and sheer number of strategies and plans that will play a part in delivering net zero and reducing the impacts of climate change makes this challenge harder at all levels of public sector.</p> <p><b>Alignment of spend</b> – budgets and spend (both capital and revenue) should align with climate change ambitions. Public bodies will also need to ensure all future funding and investment decisions are based on their contribution to climate change ambitions and an inclusive, net zero carbon economy.</p>

# Emerging issues (continued)

## Climate change (continued)

Key themes	Suggested actions
<p><b>Robust planning for net zero, mitigation and adaption</b> – robust cross-sector plans are essential, but experts recognise the challenge is colossal.</p>	<p>As urgent action is required, climate change plans need innovative thinking to address the inherent tensions between doing things thoroughly and doing things quickly. Lessons could be learnt from the public sector’s response to the COVID-19 pandemic. Climate change planning needs to happen collaboratively, with a range of private and public sector bodies, third sector organisations, and communities, as well as simultaneously in different geographical areas. Climate experts should also be involved in planning.</p> <p>Plans should provide clarity in delivery and implementation with sufficient detail and clear timelines.</p>

# Purpose of our Report and Responsibility Statement

Our report is designed to help you meet your governance duties

## What we report

Our report is designed to help the Audit Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (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

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 financial statements.

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**  
on behalf of Deloitte LLP  
Glasgow | 13 June 2022



# Sector developments





# NHS in Scotland 2021

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## Background and overview

The Auditor General for Scotland published his NHS in Scotland 2021 overview report in February 2022. This concluded that the Scottish Government must focus on transforming health and social care services to address the growing cost of the NHS and its recovery from COVID-19.

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## Key messages

- The NHS in Scotland is operating on an emergency footing and remains under severe pressure.
  - NHS and social care workforce planning has never been more important.
  - The NHS's ability to plan for recovery from COVID-19 remains hindered by a lack of robust and reliable data across several areas.
  - The NHS was not financially sustainable before the pandemic and responding to COVID-19 has increased those pressures.
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# NHS in Scotland (continued)

## 2021 (continued)

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### Recommendations (relevant to NHS boards)

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The report recommends that the Scottish Government and NHS Boards should:

- work with partners in the social care sector to develop a long-term, sustainable solution for reducing delayed discharges from hospital;
- publish data on performance against the clinical prioritisation categories, to enable transparency about how NHS boards are managing their waiting lists;
- work with patients on an ongoing basis to inform the priorities for service delivery, and be clear on how services are developed around patients' needs;
- take a cohesive approach to tackling health inequalities by working collaboratively with partners across the public sector and third sector, and be transparent on how it will do this;
- improve the availability, quality and use of workforce data to ensure workforce planning is based on accurate projections of need;
- monitor and manage risks around the impact of additional work outlined in the NHS recovery plan on the NHS workforce, to make sure recovery does not negatively affect staff wellbeing;
- communicate widely with the public on changes to how services are delivered so that people are aware of how best to access services, and monitor the effectiveness of that communication;
- prioritise the prevention and early intervention agenda as part of the recovery and redesign of NHS services, to enable the NHS to be sustainable into the future; and
- improve the availability, quality and use of data on primary, community and social care so that service planning is based on accurate measures of existing provision and demand.

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### Next steps

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The Board should consider each of the above recommendations and incorporate into plans where not already considered. The full report is available through the following link: [NHS in Scotland 2021 \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/nhs-in-scotland-2021)

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# The future of public health report series

## Building a fairer and sustainable system for the UK

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### Background and overview

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The **Deloitte Centre for Health Solutions** has produced a **series of six reports** on the crucial role of public health and the actions needed to optimise the link between health and productivity to drive economic recovery and positive societal impact.

Public health challenges are complex requiring cross functional targeted, approaches to tackle them, alongside a deep understanding of the needs of defined populations. COVID-19 has shown the UK to be an unequal society and has exposed a crisis in public health services, including inadequate funding, variations in workforce capability and capacity and a need for clarity over roles, responsibilities and accountabilities.

The pandemic has raised awareness of public health's role in health protection, ill health prevention as well as health promotion and prolonging healthy life years for all. As well as promoting and prolonging healthy live years for all, it has also demonstrated the potential of public health to use community assets and tackle local health issues effectively.

Despite unequivocal evidence that prevention is more cost effective than treatment, funding cuts and a lack of focus on prevention hinder progress in reducing health inequalities and addressing the impact of social determinants on the physical and mental health of the population.

The full reports are available here [The future of public health | Deloitte UK](#), with some key highlights summarised on the following pages.

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# The future of public health report series (continued)

## Building a fairer and sustainable system for the UK (continued)

Title	What the report explores
<b>Overview – Narrowing the gap:</b> establishing a fairer and more sustainable future public health	An executive overview of the key findings from the series, examining the current challenges and future requirements for a resilient public health system in the UK.
<b>Identifying the gap:</b> Understanding the drivers of inequality in public health	Evaluating the pre-existing and current challenges and solutions to tackling the ‘wicked problems’ affecting public health, including the impact of COVID-19.
<b>Bridging the gap:</b> Protecting the nation from public health threats	Examining the health protection policies and approaches in the UK, as well as the opportunities brought on by health reform and the creation of the new UK Health Security Agency.
<b>Negating the gap:</b> Preventing ill health and promoting healthy behaviours	Exploring how investment in prevention and health promotion can help increase healthy life years and reduce health inequalities.
<b>Removing the gap:</b> Galvanising community assets to improve health outcomes for all	Demonstrating the importance of asset-based, place-based solutions to improve public health, as well as of creating sustainable and systemic change to empower individuals and communities.
<b>The role of employers in reducing the UK’s public health gap:</b> Improving the health and productivity of employees.	Exploring how organisations can build a more resilient and productive workforce by supporting the health and wellbeing needs of their employees.

# Appendices



# Audit Adjustments

## Uncorrected misstatements

No uncorrected misstatements have been identified up to the date of this report.

## 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 Net Expenditure £	Debit/ (Credit) in Net Assets £	Debit/ (Credit) prior year Taxpayer's Equity £	Debit/ (Credit) in Income £	If applicable, control deficiency identified
Property Plant & Equipment – Indexation	[1]		943,000			N//A
Revaluation Reserve				(943,000)		
Participation in CNORIS Provision	[2]		(17,000)			N/A
Expenditure		17,000				
Holiday pay accrual	[3]		43,000			N/A
Expenditure		(43,000)				
Operating expenses	[4]	455,073				
Other income		(455,073)				
<b>Total</b>		<b>(26,000)</b>	<b>969,000</b>	<b>(943,000)</b>		

# Audit Adjustments (continued)

[1] Deloitte challenged the proposed indexation of 8% for Dwellings & Buildings and concluded that it did not account for obsolescence of assets or the negative movement in BCIS indicators in 2020/21 (the last revaluation taking place during 2019/20). Our estimate was that, accounting for obsolescence, the cumulative impact of BCIS indicators in 2020/21 and 2021/22, was that indexation at a figure around 5.25% was appropriate. Additionally, BCIS indicators should only have been applied to assets held under the DRC method of valuation, not all assets as indexation had originally been applied to by Management. Management have corrected based on 5% indexation on DRC valued assets only which we conclude is a reasonable estimate.

[2] The Participation in CNORIS provision in the first draft of the Annual Report and Accounts contained an error of £17,000. This was due to an error made by the Scottish Government and an adjustment was made to the final allocation to the Board to compensate for this. This has been corrected in the updated Annual Report and Accounts.

[3] An error was identified in the holiday pay accrual. While this was below our reporting threshold, at £43,000, management has chosen to correct therefore we have included here for completeness.

[4] A late adjustment was required as a result of information supplied by the Scottish Government in respect of testing kits donated by the UK Government. The deemed costs of these are offset by donated income and therefore have a nil impact on the results of the Board.

# 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
<b><i>Remuneration &amp; Staff Report – Pension Benefits</i></b> For one Director, an increase in the pension of -£344 and lump sum of £-1033 was disclosed within the “0-2.5” pension increase and “0-2.5” lump sum increase bandings. Disclosure should have been £0 for both.	FReM – 6.5.16	Qualitatively material – Important for the users’ understanding of payroll costs.
<b><i>Remuneration Report – Higher Paid Disclosure</i></b> From our testing we identified errors in the higher paid employees. This was raised with management and corrected with no issues.	FReM - 6.5.28	Qualitatively material – Important for the users’ understanding of payroll costs.
<b><i>Related Party Transactions</i></b> We identified the following missing disclosures from the draft Annual Report and Accounts: <ul style="list-style-type: none"><li>- NHS Orkney</li><li>- Lerwick Port Authority</li><li>- Scottish Government</li></ul> The disclosures in relation to Shetland Island Council also required expanding. This was raised with management and corrected with no issues.	IAS 24	Qualitatively material – important for the users’ understanding of related parties.



# Audit Adjustments (continued)

## Disclosures

### Other disclosure recommendations

Although the omission of the following disclosures does not materially impact the Annual Report and Accounts, we are drawing the omitted disclosures to your attention because we believe it would improve the Annual Report Accounts to include them or because you could be subject to challenge from regulators or other stakeholders as to why they were not included.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Remuneration Report – Fair Pay Disclosure	The pay ratio and other disclosures are required to be calculated including agency staff. Due to the availability of data on some individuals working on an agency or bank basis, the Board needed to make assumptions and judgements in calculating the disclosures, and concluded that these not expected to have a significant impact on the values reported. This judgement has been appropriately disclosed.	Qualitatively material

# Action Plan

The following recommendations have arisen from our 2021/22 audit work:

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<b>Recommendation</b>	<b>Management Response</b>	<b>Priority</b>	<b>Responsible Person</b>	<b>Target Date</b>
1. Management should introduce a process to challenge information provided by Management's experts to ensure that it meets their requirements and is compliant with the FReM.	The information received from Management's experts was accurate and compliant with the FReM. The learning point was the local interpretation of the indexation advice received. These lessons have been learned and will be applied in future years. A procedure note will be created to ensure the sustainability in future years of the lesson learnt. Never previously applied indexation prior to 2021/22. Periodically the estates was revalued so it was a new procedure for all concerned.	Medium	Director of Finance	31/03/2023
2. Management should review the accruals that date back a number of years to determine that they remain ongoing liabilities and settle the final payments.	Management aware of the date legal liabilities against these expire and following that date accruals no longer need to be recognised as a claim against the Board.	Low	Director of Finance	31/12/2022

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## Action Plan (continued)

We have followed up the recommendations made in our previous years audits. We are pleased to note that two recommendations have been fully implemented, and seven partially implemented.

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>1. Financial management – finance team capacity</b></p> <p>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.</p>	<p>A review of the finance department capacity will be undertaken.</p> <p><b>Responsible Person:</b> Director of Finance</p> <p><b>Target Date:</b>31/12/2021</p>	Medium	<p>A review of the NHS Finance Department has taken place in early 2022 with additional resources being agreed by EMT. This will free up more of the CFO and Senior Management Accountants time to focus on high value adding strategic priorities.</p> <p><b>Fully implemented</b></p>
<p><b>2. Financial sustainability – budget setting</b></p> <p>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).</p>	<p>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.</p> <p><b>Responsible Person:</b> Director of Finance</p> <p><b>Target Date:</b>31/03/2022</p>	Medium	<p>Due to Covid-19 there was no joint IJB and Board member discussions as part of the process for budget setting in 2022-23. The Board did discuss the budget setting issues in detail at the December 2021, February 2022 and April 2022 board meetings. They are aware the savings plans are still in development for 2022-23 and future years.</p> <p><b>Partially implemented</b></p> <p>Revised Target date: 31/03/2023</p>

## Action Plan (continued)

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Recommendation	Management Response	Priority	Management update 2021/22
<p><b>3 Financial sustainability – medium term planning</b></p> <p>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.</p>	<p>The AOP only allows one scenario for submission to the Scottish Government. However, scenario planning will be incorporated for internal review by management.</p> <p><b>Responsible Person:</b> Director of Finance</p> <p><b>Target Date:</b>31/03/2022</p>	Medium	<p>Due to Covid-19 multiple planning options has not been taken forward in 2022-23. Local and SG planning assumptions were shared at the last three Board meetings. It was clearly highlighted in the discussions planning assumptions are likely to change as information becomes clear on a multiple of issues such as Covid, Pay Awards, SG medium term planning assumptions, sustainable work force plans. Further detail on next 5 year planning assumptions are expected from SG following Cabinet Secretary statement on 31 May 2022 regarding tight budget settlements. Three year pay negotiations should also commence in 2022 which will aid planning.</p> <p><b>Partially implemented</b></p> <p>Revised Target date: 31 March 2022</p>

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## Action Plan (continued)

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Recommendation	Management Response	Priority	Management update 2021/22
<p><b>4 Financial Sustainability: Transformational change</b></p> <p>NHS Shetland needs to put appropriate infrastructure in place to deliver the required transformational change. This needs to include a dedicated officer who is primarily responsible for driving transformational change and ensuring a consistent approach is taken across the organisation.</p>	<p>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><b>Responsible Person:</b> Chief Executive</p> <p><b>Target Date:</b> 31/03/2020 (revised 31/03/2022)</p>	Medium	<p>PMO Portfolio of change (March 2022) provides an update of current position. This is discussed further on page 28.</p> <p><b>Partially implemented</b></p> <p>Revised Target date: 01/07/2022</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>			

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## Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>5 Financial sustainability – savings plans</b></p> <p>NHS Shetland needs to develop detailed savings plans to address identified funding gaps. The approach to savings needs to be made more robust, as opposed to the ‘salami slice’ approach currently adopted, with additional efforts made to move away from reliance on non-recurring savings.</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>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.</p> <p>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><b>Responsible Person:</b> Director of Finance</p> <p><b>Target Date:</b> 31/03/2022 (revised 31/12/2022)</p>	High	<p>PMO Portfolio of change (March 2022) provides an update of current position.</p> <p>This is discussed further on page 28.</p> <p><b>Partially implemented</b></p> <p>Revised Target date: 31/03/2023</p>

## Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>6 Financial sustainability: Medium term financial planning</b></p> <p>NHS Shetland needs to ensure that its Five Year Financial Plan outlines how anticipated spend over the medium term aligns with the key themes on public service reform (prevention, performance, partnership, people) and demonstrates a focus on improving outcomes.</p>	<p>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><b>Responsible Person:</b> Director of Finance and Director of Public Health</p> <p><b>Target Date:</b> 31/03/2021 (revised 31/12/202)</p>	Medium	<p>Following the Cabinet Secretary statement on 31 May 2022 on financial planning a refinement to Scottish Medium-Term planning on both policy and finance is expected in 2022-23. This along with recently agreed Board's Clinical Strategy and joint commission plan with local IJB will impact financial planning and budget for 2023-24 onward. Restructuring proposals in respect of the Public Health Team to deliver the reform agenda started in February 2021.</p> <p><b>Partially implemented</b></p> <p>Revised Target date: 31/03/2023</p>

## Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>7 Financial sustainability – scenario planning</b></p> <p>NHS Shetland needs to prepare clear delivery plans aligned to the Strategic Commissioning Plan and the targets laid out within it, with sufficient resource and infrastructure in place to deliver the plans.</p> <p>As these plans are developed, Board members should be more involved, taking ownership of specific plans to act as 'lead member' of the Board on each plan, helping to provide strategic direction in line with the Strategic Commissioning Plan and keep the Board up-to-date on progress.</p>	<p>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 be evident in our strategic plans.</p> <p><b>Responsible Person:</b> Chief Executive</p> <p><b>Target Date:</b> 31/03/2020 (revised 31/12/2022)</p>	<p>Medium</p>	<p>The Board is establishing a Finance and Performance Committee. The remit of this committee will include being responsible for overseeing the annual planning cycle which includes Annual Delivery Plan review which includes service planning and redesign, infrastructure planning and financial plans.</p> <p>The Board is expected to officially approve the change to the governance structure at the 23 June Board meeting.</p> <p><b>Partially implemented</b></p> <p>Revised Target date: 30/06/2022</p>



## Action Plan (continued)

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Recommendation	Management Response	Priority	Management update 2021/22
<p><b>8 Financial sustainability – workforce planning</b></p> <p>NHS Shetland needs to further develop its Workforce Planning, ensuring it is future-focused, projecting the workforce against estimated changes in demographics and health factors. Accompanying this 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>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><b>Responsible Person:</b> Director of Human Resources</p> <p><b>Target Date:</b>31/03/2021 (revised 31/12/2022)</p>	Medium	<p>Working is on-going in respect of updating workforce plan in light of the Board’s recently approved clinical strategy and joint strategic commissioning plan to reflect digitalisation agenda as part of ensuring right care, at the right time in the right place is available. Ensuring sustainable service models that reflect work force availability and training to develop skills is a key part of the service reviews to deliver these strategies that are currently taking place. However resources will be a limiting and constraining factor.</p> <p><b>Partially implemented</b></p> <p>Revised Targe date: 31/12/2022</p>

## Action Plan (continued)

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Recommendation	Management Response	Priority	Management update 2021/22
<p><b>9. Financial management – budget setting</b></p> <p>When preparing the budget, management should consider actual performance in the year-to-date as the starting point, rather than the prior year budget, in order to ensure that the most up-to-date information is used when making budget decisions.</p>	<p>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>	Medium	<b>Fully implemented</b>
	<p><b>Responsible Person:</b> Director of Finance</p>		
	<p><b>Target Date:</b>31/12/202</p>		

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# 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 financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you 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.



### 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 financial statements.

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

# 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:

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**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.

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**Fees** The audit fee for 2020/21, in line with the expected fee range provided by Audit Scotland, is £78,020, as analysed below:

	£
Auditor remuneration	67,180
Audit Scotland fixed charges:	
Pooled costs	7,530
Audit support costs	3,310
<b>Total fee</b>	<b>78,020</b>

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

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**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.

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**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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