



**NHS Shetland**

Report to the Audit Committee and Board and the Auditor General for Scotland on the 2017/18 audit

Issued on 14 June for the meetings on 21 June and 22 June 2018

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# Introduction

## The key messages in this report

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

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

I have pleasure in presenting our final report to the Audit Committee of NHS Shetland for the 2017/18 audit. The scope of our audit was set out within our planning report presented to the Committee in November 2017.

This report summarises our findings and conclusions in relation to:

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



# Introduction (continued)

## The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

### Conclusions from our testing

- The significant risks, as identified in our audit plan, relate to:
  - Achievement of expenditure resource limits; and
  - management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 9. The Board met all its financial targets for 2017/18 and therefore operated within its expenditure resource limits
- We have identified no audit adjustments from our procedures to date. A verbal update will be provided the Audit Committee.
- 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 are pleased to note that the Board has considered our recommendations made in 2016/17 and taken into account the good practice notes published by Audit Scotland as part of drafting the 2017/18 annual report.
- The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.
- Based on our audit work completed to date, we expect to issue an unmodified audit opinion.

### Insights

- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year to profile the journal population which has helped us identify journals of audit interest, such as journals posted on non-business days or journals with key words. No issues were noted from this testing.
- We have also used a publicly available Twitter analytics tool which has allowed us to gain an insight into NHS's Shetland's online presence and audience. A strong online presence allows instant and wide reaching communications with the community. An interesting result was that the most retweeted tweets were about recruitment events being held at Shetland school. Given the issues NHS Shetland has with recruitment, NHS Shetland's online presence could be considered as a tool to help tackle this particular issue.
- We have raised recommendations for improvement which have been identified throughout the course of the audit and are detailed on page 39.

### Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
  - Finalisation of our internal quality control procedures;
  - receipt of signed management representation letter; and
  - our review of events since 31 March 2018.

# Introduction (continued)

## The key messages in this report – audit dimensions

The following two pages set out the key messages of this paper in relation to the four audit dimensions:

### Financial sustainability

The Board continues to face an extremely challenging financial position, albeit met all of its financial targets in 2017/18. The Boards draft budget for 2018/19 has a £1.6m deficit forecast and has identified a funding gap of £6m over the period 2018-2023 that has to be closed. There are no specific plans in place as yet to close the gap. The Transformational Change Board (TCB) will be reviewing plans for further efficiency projects.

The Board has recently undertaken a scenario planning exercise, the outcome of which we would expected to quantify demand pressures and resulting costs in a no change environment. As a result of this exercise, the work of the Transformation Change Board (TCB) has not progressed over recent months. It is critical that the Board progress with the outcome of the scenario planning work and develop a detailed plan to demonstrate what transformational change is required to meet the medium to long term challenging financial environment.

<p><b>2017/18 final outturn position</b> reported an under spend against core RRL of <b>£88k (0.2%)</b></p> <p>Non-core RRL, Capital Resource Limit and cash flow targets for the year were met.</p>	<p>An <b>unbalanced budget for 2018/19</b> was presented to the Board in April 2018 as there a £1.6m unidentified savings gap. £1.9m of planned savings have been identified with £1.3m of this recurring.</p>	<p>The Board achieved <b>£16.3m of savings during the period 2013-2018</b> (£9.5m of this recurring) primarily by service productivity.</p>	<p>In 2017/18 49% of the total <b>savings</b> achieved have been delivered through non-recurrent measures (2016/17: 51%). As a result this has deferred the achievement of £1.6m in recurring savings in to 2018/19.</p>
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### Financial management

The Board has effective financial planning and management arrangements in place. It prepares medium term financial plans and senior management and board members regularly review progress. Board members challenge management where performance departs from plans. Progress is discussed at each Board meeting and there are regular presentations at members' seminars on both finances and wider developments. We recommend financial plans are more closely linked to priorities and other strategic developments and show that the spending makes a difference to these areas.

The Board has a counter fraud service which reports directly to the Audit Committee, and the Board also participates in the National Fraud Initiative (NFI). We are satisfied that NHS Shetland has appropriate arrangements in place for the prevention and detection of fraud and corruption.

From our review of the internal audit reports issued during 2017/18 and following our testing performed throughout the audit we are satisfied that the Board has adequate systems of internal control in place.

# Introduction (continued)

## The key messages in this report – audit dimensions (continued)

### Governance and transparency

The Board's governance framework and arrangements, including decision making and scrutiny, are appropriate and support good governance and accountability. The Board has strong executive leadership. The relationship between board members and officers is good, and there is evidence of effective challenge from board meetings. We noted a significant improvement in attendance at the Audit Committee throughout 2017/18 following our recommendation made in our 2016/17 annual report.

The Board is open and transparent in its decision making with all minutes available through the Board's website. NHS Shetland has strong links with the community, who are actively involved in decisions about services and spending public money.

NHS Shetland have well established partnerships via the Shetland Partnership Board and through the Integration Joint Board (IJB). As is the case across Scotland, the Board along with the IJB and the Council should continue to work to resolve funding issues around shifting the balance of care between hospitals and communities. We also identified scope for improvement in the governance arrangement between the IJB and its partners to ensure that respective roles and responsibilities are clear.

### Value for Money

The Scottish Government monitors how NHS Shetland performs against standards it sets in its national performance framework (LDP standards). These include targets and their trajectories (plans) as set out in the Board's LDP.

Overall, NHS Shetland performance is very good. There are a number of indicators in which Shetland is the top performer, such as end of life care. At December 2017 74% of performance indicators were on target, this compares with 58% in November 2016 which is a noticeable improvement.

The Board is kept well informed of performance across all areas. Performance is reported to the Board on a quarterly basis.

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**Pat Kenny**  
Audit Director

# Our audit explained

## Area dimensions

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

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

## Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 9 provides a summary of our risk assessment of your significant risks.

## Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

## Key developments in your business

As noted in our planning report, the Board continues to face significant financial challenges due to an increase in costs whilst facing increased demand for services. The integration of health and social care continues to be a challenge.

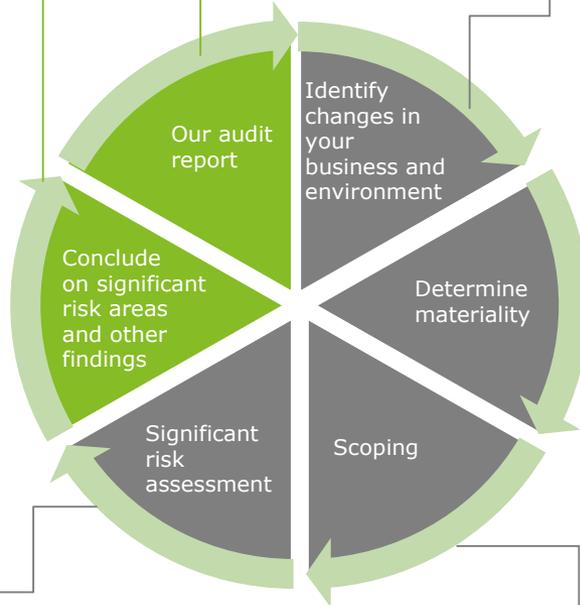
## Materiality

Group materiality of £1,236k and performance materiality of £927k has been based on the benchmark of gross expenditure and is a slight decrease from what we reported in our planning paper due to updated final figures.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £61.8k.

## Scope of the audit

We will audit the group financial statements for the year ended 31 March 2018 of NHS Shetland health board and Shetland IJB. This includes the health board and the IJB.



## Quality and Independence

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

## Timeline 2017/18

**November 2017 – February 2018**

Meetings with management and other staff to update understanding of the processes and controls.

**28 November 2017**

Presented planning paper to the Audit Committee

**May 2018**

Review of draft accounts, testing of significant risk and performance of substantive testing of results.

**31 March 2018**

Year end

**24 May 2018**

Audit close meeting

**21 June 2018**

Audit Committee meeting

**22 June 2018**

Accounts sign off

# Financial statements audit



# Significant risks Dashboard

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

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

# Significant risks (continued)

## Risk 1 – Achievement of expenditure resource limits

### Risk identified

There is a key financial duty for NHS Shetland to comply with the Revenue Resource Limit set by the Scottish Government.

The risk is that the Board could materially misstate expenditure in relation to year end transactions, in an attempt to achieve a breakeven position. The significant risk is therefore pinpointed to accruals made by management at the year end and invoices processed around the year end as this is the area where there is scope to manipulate the final results.



### Key judgements and our challenge of them

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

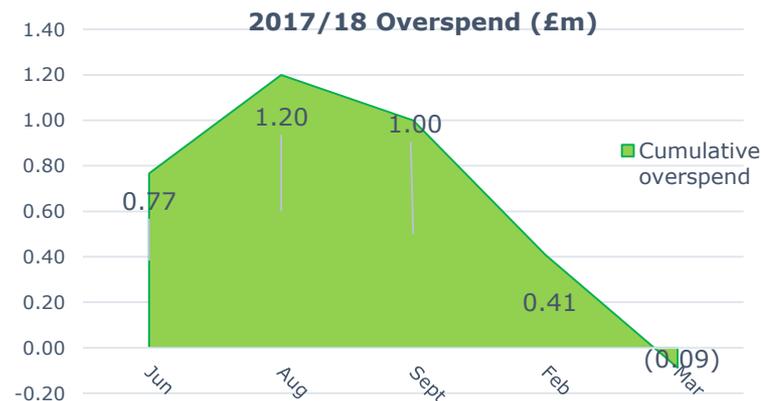


### Deloitte response

We have evaluated the results of our audit testing in the context of the achievement of the target set by the Scottish Government. We have monitored the Boards financial performance throughout the year, as illustrated in the chart on the right, which notes that the Board was reporting an overspend throughout the year, with a year-end underspend achieved through the release of funds from the general fund and the achievement of savings targets.

Our work in this area included the following:

- obtained independent confirmation of the resource limits allocated to NHS Shetland by the Scottish Government;
- performed focused testing of the year end accruals;
- performed focused cut-off testing of invoices received and paid post the year end; and
- performed design and implementation around the controls NHS Shetland has in place to ensure expenditure is within budget.



### Deloitte view

We have concluded through the performance of our year end procedures that the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and the expenditure is valid.

We confirm that NHS Shetland has performed within the limits set by the Scottish Government Health and Social Care Directorate (SGHSCD), therefore is in compliance with the financial targets in the year. NHS Shetland were £88k underspent, this was achieved by the carry forward of the prior year underspend of £312k, and therefore had an in year deficit of £224k.

# Significant risks (continued)

## Risk 2 - Management override of controls



### Risk identified

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

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

### Deloitte view

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

### Deloitte response

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

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

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

### Journals

We have 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.

We performed design and implementation testing of the controls in place for journal approval. We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. We have raised an insight in relation to journal authorisation limits but did not identify any issues with journal postings from our testing.

### Significant transactions

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

### Accounting estimates

In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements has been completed with no issues noted.

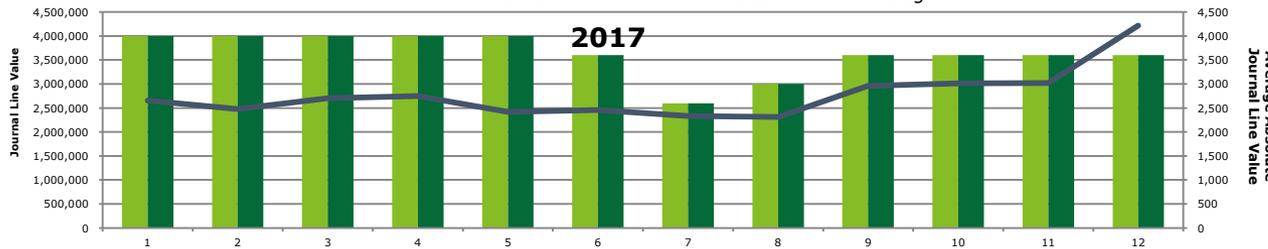
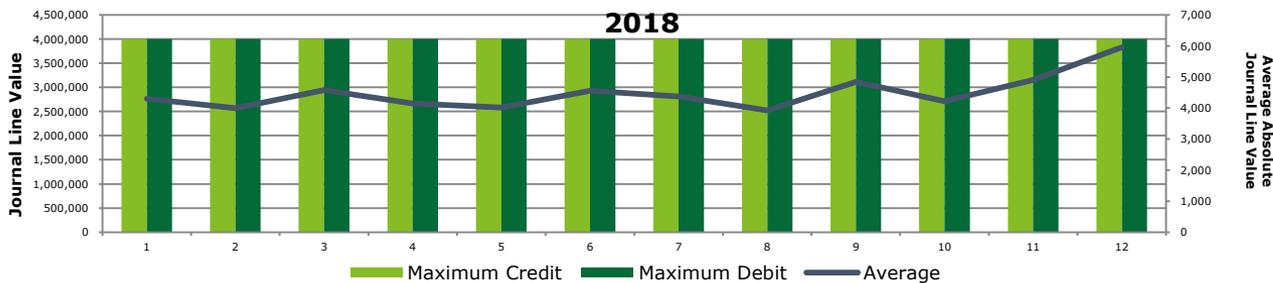
One key estimate in 2017/18 which we tested was the "Paid as if at work" accrual and provision, with a total value of £1.1m in the accounts. Employees received only their basic salary for annual leave rather than per PAIAW arrangements. This error backdates to 2008. A list of all employees that worked unsociable hours, weekends and nights and received enhanced pay from 2008 to 2017 was obtained. NHS Shetland will pay all current employees what is owed and ex-employees will need to make a claim. Due to the uncertainty as to whether ex-employees will make the claim, this portion of the calculation is a provision. The accrual and provision have been appropriately disclosed.

# Other significant findings

## Insights delivered

We have utilised Spotlight to perform analytics on all of the journal entries processed during the year. We have highlighted some key themes arising from this work for your consideration.

Journal Statistics	2018	2017
Number of journals	59,226	80,472
Dr value of largest journal	4,000,000.00	4,000,000.00
Total Dr value of journals	380,952,092.76	388,343,174.08
Avg Dr value of journals	6,432.18	4,825.82
Avg absolute value of journals	12,864.35	9,651.63
Number of zero Dr value journals	1,261	147



The number of journals posted compared to prior year has decreased significantly, this suggests an improvement in efficiency in posting journals. However the number of zero value journals has increased substantially compared to prior year. The reason behind this should be investigated, to ensure time is not being wasted.

These two graphs show the highest journal values for each month within the two years. These transactions are the cash which is received from the Scottish Government. In 2018 NHS Shetland received £4m each month, this consistent receipt reflects accurate forecasting and highlights that NHS Shetland didn't require any last minute top ups to breakeven, which is commendable in the current economic environment of public sector.

 **@sifshet** NHS Shetland  
 39 tweets 30 following 54 followers 0 listed

**Tweets most retweeted**

 **NHS Shetland @sifshet** 9:26 AM - 28 Feb 2018 via Twitter for iPad 🔄 8 ⭐ 19  
 Great meeting Shetland Senior School students considering a career in health. <https://t.co/ub7INwg4z1>

 **NHS Shetland @sifshet** 3:40 PM - 16 Nov 2016 via Twitter for iPad 🔄 3 ⭐ 5  
 Big shout out to the BHS and AHS senior students considering a career in health from the Staff Dev Team 😊 <https://t.co/786TYyb8Va>

Using publicly available software called Twitonomy we have analysed the online presence of NHS Shetland. NHS Shetland have a limited presence, caused by infrequent communication reflected in the small number of tweets. A strong online presence allows instant and wide reaching communications with the community. An interesting result was that the most retweeted tweets were about recruitment events being held at Shetland school. Given the issues NHS Shetland has with recruitment, NHS Shetland's online presence could be considered as a tool to help tackle this particular issue.

# 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. The revisions to ISA (UK) 700 have changed the form and content of audit report, including how different sections are presented.



### **Our opinion on the financial statements**

Our opinion on the financial statements is unmodified.



### **Material uncertainty related to going concern**

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



### **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.



### **Other reporting responsibilities**

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

### **Opinion on regularity**

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

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 14.

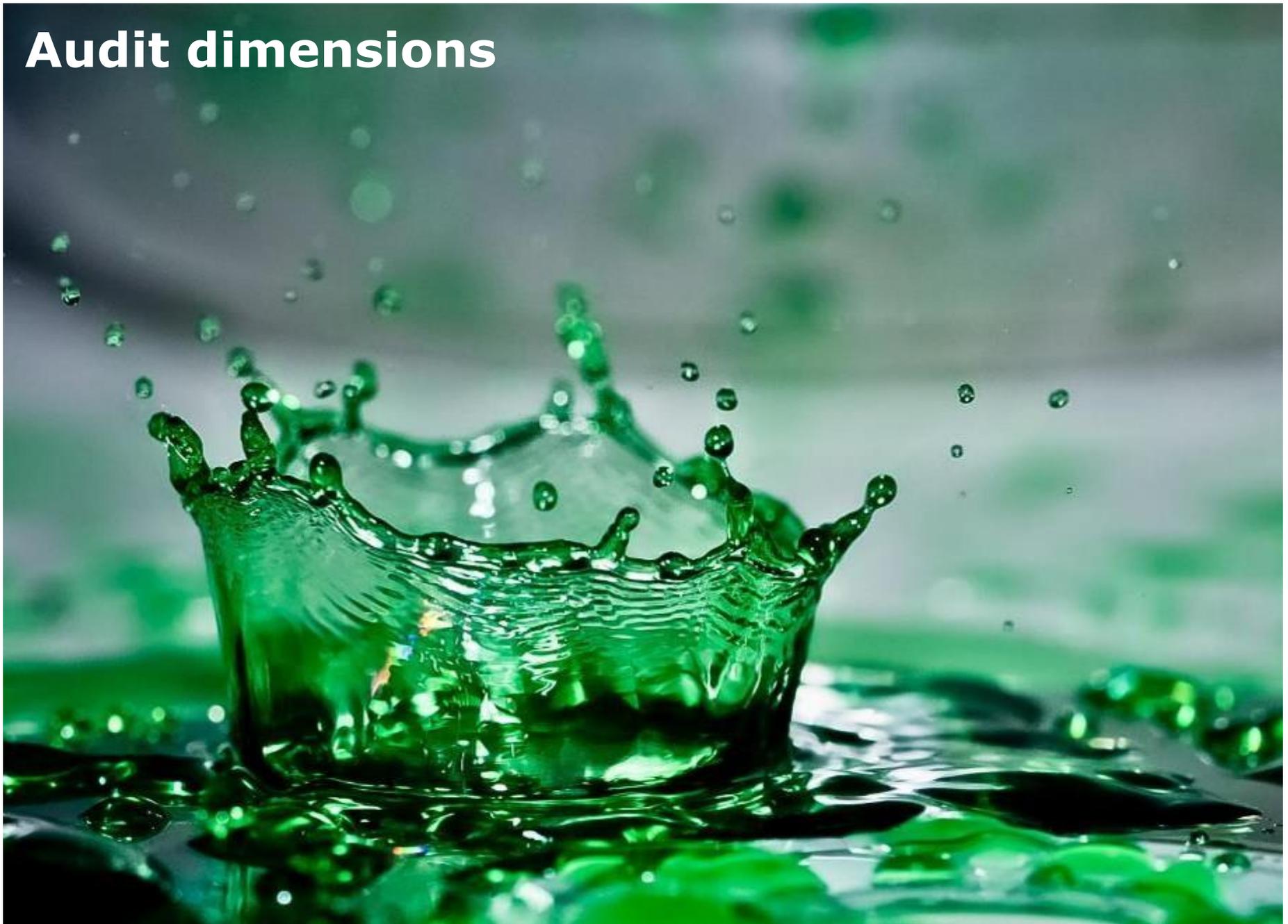


# Your annual report

We welcome this opportunity to set out for the Audit Committee our observations on the annual report. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines NHS Shetland's performance, both financial and non-financial. It also sets out the key risks and uncertainty as set out in the Local Delivery Plan (LDP).	<p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. No exceptions noted.</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.</p> <p>We are pleased to note that the Board has considered our recommendations made in 2016/17 and taken into account the good practice notes published by Audit Scotland as part of drafting the 2017/18 annual report.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the governance statement is consistent with the financial statements 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.</p> <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.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	We have confirmed that whilst the Board is yet to approve an annual budget for 2018/19, a draft budget was presented to the Board in February and April 2018 which identified a funding gap of £1.6m for the year and requires savings of £3.4m to be achieved. We have concluded that although it is challenging, the plan is sufficiently robust to demonstrate that NHS Shetland will be a going concern for 12 months from signing the accounts.

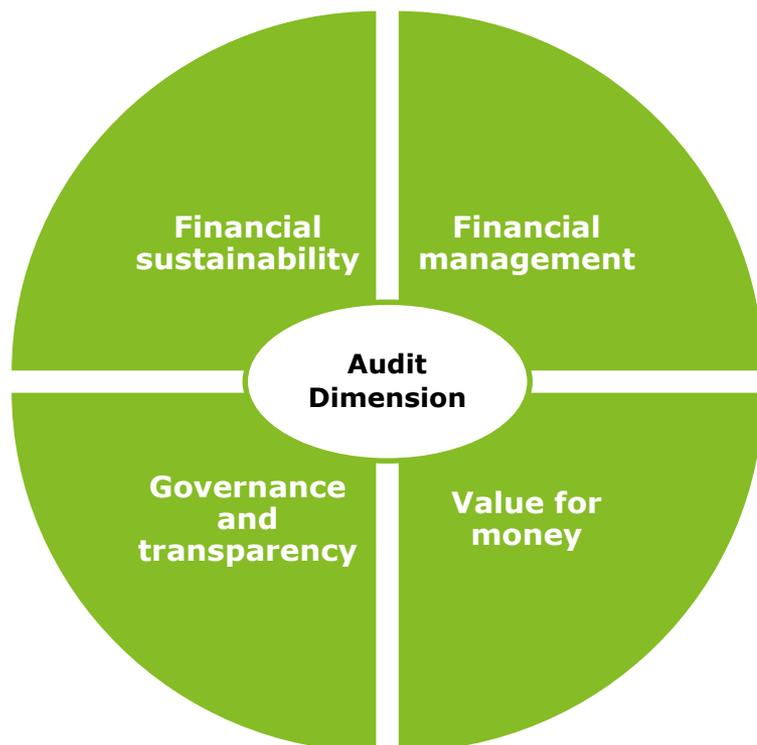
# Audit dimensions



# Audit dimensions

## Overview

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



### **Best Value (BV)**

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

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

### **Specific risks (SR)**

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

- SR 1** – EU Withdrawal
- SR 2** – New Financial Powers
- SR 3** – Ending public sector pay cap
- SR 4** – Cyber security risk
- SR 5** – Openness and transparency

# Audit dimensions (continued)

## Financial sustainability

### Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

#### Areas considered



- The financial planning systems in place across the shorter and longer terms.
- The arrangements to address any identified funding gaps.
- The affordability and effectiveness of funding and investment decisions made.
- Workforce planning.

#### Deloitte response



From our work in 2016/17 we made various recommendations to the Board around the development of detailed savings plans and review of the transformational change delivery infrastructure. This year we have assessed progress in relation to these recommendations.

Whilst progress has been made through the scenario planning exercise that has recently been undertaken, there is still a significant amount of work required to deliver the changes required.

#### Deloitte view

The Board continues to face an extremely challenging financial position. While the Board met all of its financial targets in 2017/18 this was due to a brought forward underspend from the prior year and non-recurring savings.

NHS Shetland's draft budget for 2018/19 is projecting £3.4m of savings that need to be achieved to break-even, £1.6m of which there are no plans in place. A funding gap of £6m has been identified over the period 2018-2023 and plans still need to be developed to demonstrate how this will be addressed. We note that in the past two years the Board has not approved the budget due to there being a funding gap between expected costs and income. It is important that the Board have saving plans agreed early to ensure that it has sufficient lead in time to implement the changes required.

The Board has recently undertaken a scenario planning exercise, the outcome of which we would expect to quantify demand pressures and resulting costs in a no change environment. As a result of this exercise, the work of the Transformation Change Board (TCB) has not progressed over recent months. It is critical that the Board progress with the outcome of the scenario planning work and develop a detailed plan to demonstrate what transformational change is required to meet the medium to long term challenging financial environment.

Given the complexity of the changes required, the TCB needs to consider the supporting infrastructure required to deliver the required savings.

# Audit dimensions (continued)

## Financial sustainability (continued)

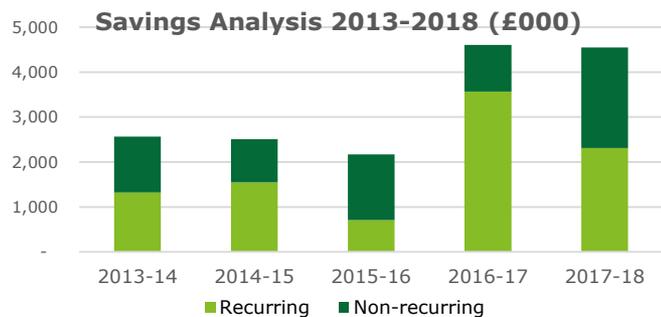
### Short term financial position

For **2017/18**, the Board noted a budget of £55.7m (2016/17: £54.8m), which included £4.7m of recurring savings (2016/17: £3.7m). The Board met all its financial targets in the year. An underspend of £88k against the Core RRL was reported for 2017/18, largely due to a brought forward underspend of £312k from the prior year. This is discussed further in page 22.

The **2018/19** budget was noted by the Board in February and April 2018. This budgeted total expenditure of £57.6m incorporates £3.4m of savings, £1.6m of which there are no saving plans identified to date.

In setting its budget the Board has recognised that a number of risks exist, such as demand and demographic changes. Medical staffing vacancies in both secondary and primary care have resulted in significant expenditure on locum costs and this will continue to be a significant risk to the board.

The budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018. The pay award for staff in 2018/19 is yet to be agreed and additional funding for any increase above 1% is still to be clarified.



### Medium to long term financial sustainability

The Board has achieved significant savings over the last 5 years, however due to increasing demand for services and the continuing restraint in relation to funding settlements, it will have to consider how it can fundamentally transform service delivery in order to continue to meet citizen needs with reducing budgets.

The Scottish Government has a 3% efficiency target for the public sector in the medium term. In addition, for 2018/19 the Board previously agreed the need for an additional local target of 1% on top of the national target to create a small investment fund for key priorities/improvements.

Over the next 5 years this gives a total savings target of £7.7m. In addition to these new targets, the shortfall in delivery of prior year recurring savings targets of £1.6m are carried forward in to 2018/19.

NHS Shetland recently undertook a scenario planning exercise. Workshops were held to discuss the challenges they will face over the next 5-10 years and the use of alternative approaches to address these. The results of this are currently being finalised in which detail will be put into the two most likely scenarios. The 2 scenarios are:

- '**Step down**' scenario' of less local access, more care being provided on the Scottish mainland, with a reduced focus on prevention and self care
- '**Step up**' scenario' provides more services on Shetland and reduced the need for patients to travel to the mainland, with an increased focus on prevention and self care

As part of the finalisation of the Scenario Planning exercise, we recommend the Board quantify the demand pressures and resulting costs and impacts in a "no change" environment. This will be a key input in identifying the required level of transformational change.

# Audit dimensions (continued)

## Financial sustainability (continued)

### Transformational Change Board

In March 2017, NHS Shetland, the IJB and Shetland Islands Council approved the Shetland Islands Health and Social Care Partnership Joint Strategic Commissioning Plan. The Plan included some significant change management projects, which come under the 3 strategic programmes (see below).

The TCB has been established to coordinate this work. It's a short-term group with a specific remit to oversee the delivery of the strategic programme.

It is chaired by the Chief Executive and the focus is on developing a 'whole system approach' to redesigning health and care services within the constraints of the financial plan. Membership comprises of Executive members and they meet on a monthly basis

Executive leads have been appointed to lead on each of the Strategic Programmes:

Director of Public Health	Whole Population
Director of Nursing and Acute Services	Sustainable Service Models
Director of Human Resources and Support Services	Organisational Issues

A transformational change fund has been established, with a budget of £250k that is managed by the Transformational Change Board to allocate non recurrent change funding to address identified critical capacity or equipment to take projects forward in-line with their identified critical pathways.

As mentioned in the previous page, NHS Shetland recently undertook a Scenario Planning exercise. The Transformational Change has stalled with no meetings being held the last few months whilst the results are being finalised. The last meeting was held in February 2018.

Given the complexity of the changes required, NHS Shetland needs to consider the supporting infrastructure required to deliver the strategy such as:

- A programme management office (PMO)
- Its change management approach
- Tools and templates to assess whether intended benefits of change have been achieved
- Whether it requires external specialist support for any aspects of its Plan.

Any projects that are considered by the TCB should have a clear business case to allow informed decisions to be made. Benefits of investment should be clearly articulated at the outset with progress and success monitored frequently.

### Best Practice examples

In our 2016/17 annual report, we provided the Board with some case study data where Deloitte has been involved in cost reduction work with a number of NHS bodies in England. We recommended that the Board reviews these case studies and considers them as opportunities for improvement going forward as potential areas for cost reduction.

From our experience, public sector bodies that have successfully delivered and sustained transformational change have tended to focus on six key requirements, which is discussed further on page 29 -31. The overarching aspect throughout a transformation programme is having strong leadership that believes in and can drive transformational change.

We have also provided some real life examples of work done in other health bodies to demonstrate how some of these six key requirements can be applied in practice, as discussed on page 29 - 31.

# Audit dimensions (continued)

## Financial sustainability (continued)

### Workforce strategy and plan

To achieve the Board's long term vision, managing workforce is vital. Staff development, training and education is key to creating and maintaining a robust and pro-active workforce and remains a high priority for NHS Shetland.

Shetland struggles to attract people to work. Furthermore recruitment issues have been enhanced due to the uncertainty of Brexit. This has contributed to the locum and agency staff spend of £3.5m in the year (2016/17: £2.4m).

These costs have increased consistently over the past 5 years and have more than doubled since 2013/14. Comparing this with total staff costs, agency costs have increased from 6.3% of total staff costs in 2013-14 to 10.9% in the current year.

Shetland has submitted bids to the National Recruitment & Retention Fund, and is working with other remote & rural Boards on a joint bid with a view to promoting the roles and opportunities of remote working and is continuing to seek innovative ways to attract staff to Shetland. Nonetheless, recruitment and retention of staff at all grades remains the greatest risk to delivery of the Strategic Commissioning Plan.



### Savings Targets

As with all NHS Boards, NHS Shetland has challenging savings targets to meet moving forward to continue to be financially sustainable. Historically, NHS Shetland has achieved its savings targets, however, this is largely as a result non-recurring funding.

In 2017/18 large recurring savings were realised due to the permanent closure of the Ronas Ward Rehabilitation unit, a 6 bed ward, within the Gilbert Bain Hospital. The closure of this ward achieves savings of around £0.5m a year. The Board acknowledges that this was a one off large recurring savings opportunity and it will be very difficult to identify similar large scale recurring savings opportunities going forward.

Despite this in 2017/18, 49% of the total savings achieved have been delivered through non-recurrent measures. As a result this a recurring savings target of £1,596k have been carried forward to 2018-19.

The 2018/19 budget requires savings of £3.4m to breakeven. This is 7% of the Baseline budget. £1.6m of which there are no identified savings plans to achieve. We would highlight that there is a risk the unidentified efficiency savings required in 2018/19 may not be achieved.

We note that in the past two years the Board has not approved the budget due to there being a funding gap that had not been closed. It is important that the Board has savings plans agreed early to ensure that it has sufficient lead in time to implement the changes required.

# Audit dimensions (continued)

## Financial management

### Audit dimension

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



### Areas considered

- Budgetary control system.
- Systems of internal control.
- Financial capacity and skills.
- Arrangements for the prevention and detection of fraud.



### Deloitte response

We have reviewed the budget and monitoring reporting to the Board during the year and the year-end position to assess whether financial management and budget setting is effective.

We have evaluated the key financial systems and internal control as part of our financial statements audit work and considered the work of internal audit.

We have considered the capacity and skills within the senior management of the finance team.

We have reviewed the Board's arrangements for the prevention and detection of fraud and irregularities.

### Deloitte view

The Board has effective financial planning and management arrangements in place.

It prepares medium and long-term financial plans and senior management and board members regularly review progress. Board members challenge management where performance departs from plans. Progress is discussed at each Board meeting and there are regular presentations at members' seminars on both finances and wider developments.

Financial plans should be linked to priorities and other strategic developments and show how spending makes a difference to these areas.

# Audit dimensions (continued)

## Financial management (continued)

### Budgetary control systems

The Board has effective financial planning and management arrangements in place. Senior management and board members regularly review progress. The Board review financial performance regularly.

The finance team is led by the Director of Finance and the Head of Finance and Procurement who are both experienced in local health finance roles for a number of years. The Head of Finance and Procurement is also the S95 officer for the IJB. This should be closely monitored to ensure sufficient capacity given financial challenges faced by both the NHS Board and the IJB.

We have not identified any issues with the financial skills, capacity and capability of the finance team. This is an area that the Board should monitor closely in view of the transformation programme and the IJB and key role that finance play.

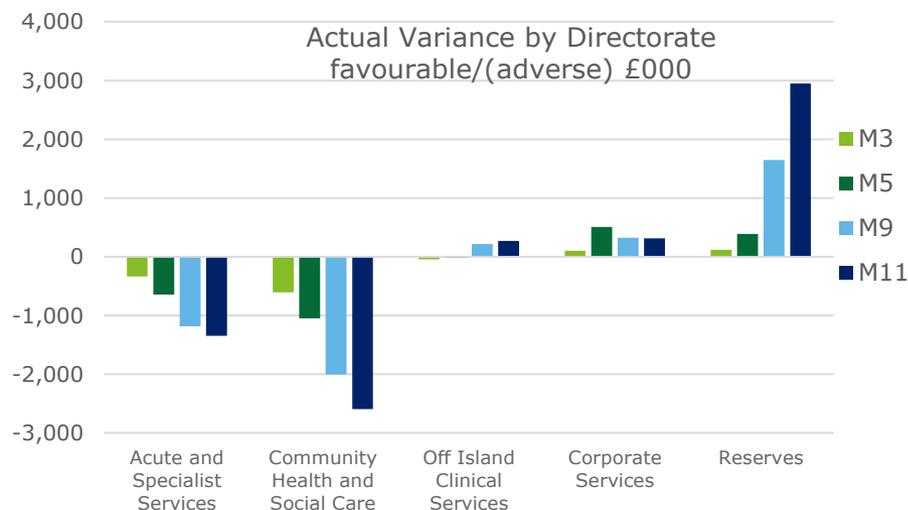
### Financial performance

The Statement of Comprehensive Net Expenditure (SOCNE) reported an underspend of £88k in 2017/18, largely as a result of a £312k underspend carried forward from prior year.

The Board's performance against resource limits set by the Scottish Government are as followings:

	Resource Limit (£m)	Actual (£m)	Var (£m)
Core Revenue Resource Limit (RRL)	56,854	56,766	88
Non-core RRL	1,901	1,901	0
Core Capital Resource Limit (CRL)	579	574	5
Cash Requirement	57,988	57,661	327

The variances to budget reported throughout the year are summarised below by Directorate:



Acute and Specialist Services and Community Health and Social Care reported increasing overspends throughout the year, due to unanticipated use of locums. This overspend was offset by the funds from the general fund throughout the year and the implementation of Board wide efficiency schemes. Increasing expenditure on locums is a cause for concern and has been considered further on page 20.

As discussed in page 20, having detailed savings plans in place prior to the year commencing should assist in achieving savings targets.

# Audit dimensions (continued)

## Financial management (continued)

### Systems of internal financial control

As discussed further on page 21, we have evaluated the Board's key financial systems and internal control to determine whether they are adequate to prevent misstatements in the annual accounts. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

No material weaknesses have been identified from our audit work performed. Insights have been made (see pages 39 to 40) where we have identified areas for improvement.

### *Fraud and irregularity*

We have reviewed the Board's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Board's arrangements to be operating effectively.

In accordance with Audit Scotland planning guidance, we are required to monitor the Board's participation and progress in the National Fraud Initiative (NFI) during 2016/17 and 2017/18. An NFI audit questionnaire was completed and submitted to Audit Scotland on 28 February 2018, which concluded that the Board was fully engaged in the exercise.

### Internal Audit

The audit team, has completed an assessment of the independence and competence of the internal audit service and reviewed their work and findings.

The internal audit function continued to be provided by Scott Moncrieff during 2017/18. It aims to provide assurance over the adequacy, efficiency and effectiveness of the local governance, risk management and internal control framework. The audit plan was agreed by the Audit Committee at the start of the year, and regular progress reports have been provided to the Committee throughout the year.

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

From our review of the internal audit reports issued during 2017/18, we have noted eleven "High Risk" graded recommendations. Seven within Business Continuity Management and three within the Workforce Management. Issues identified from internal audit were relating the absence of expected controls and compliance with existing procedures. Actions have been put on place to address the findings. No frauds have been identified as a result of these issues. These reports have been appropriately disclosed in the Governance Statement.

# Audit dimensions (continued)

## Governance and transparency

### Audit dimension

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

### Areas considered



- Governance arrangements.
- Scrutiny, challenge and transparency on decision making and financial and performance reports.
- Quality and timeliness of financial and performance reporting
- Accountable officers' duty to secure Best Value

### Deloitte response



We have reviewed the financial and performance reporting to the Board during the year as well as minutes of Committee meetings to assess the effectiveness of the governance arrangements. Our attending at Audit Committees has also informed our work in this area.

We have also reviewed the governance arrangements in relation to the IJB.

### Deloitte view

The Board's governance framework and arrangements, including decision making and scrutiny, are appropriate and support good governance and accountability. The Board has strong executive leadership. The relationship between board members and officers is good, and there is evidence of effective challenge from board meetings. Given the significant transformation work required, as discussed further on page 19, the Board needs to closely monitor the capacity and training requirement of Board members, given additional roles over the past few years in relation to the IJB and the TCB to ensure they have sufficient time and knowledge to perform their role effectively.

We noted a significant improvement in attendance at the Audit Committee throughout 2017/18 following our recommendation made in our 2016/17 annual report.

The Board is open and transparent in its decision making with all minutes available through the Board's website. The Board also encourages local people to get involved in decisions about services and spending public money.

Operationally, the NHS, Council and IJB work effectively together, with evidence of improvements in service delivery, for example through the Intermediate Care Team. There is, however, scope for the governance arrangements between the NHS Board and the IJB to be improved to ensure that respective roles and responsibilities are clear.

Whilst acknowledging NHS Shetland faces ongoing challenges and significant risk, we have concluded that risk management arrangements are satisfactory and appropriate. In aligning with Scottish Government recommendations to become more priority focused, we recommend that risks in the Board risk register should be linked to corporate objectives or priorities.

# Audit dimensions (continued)

## Governance and transparency (continued)

### Governance arrangements

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

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

No weaknesses in structure has been identified of the governance systems in place to oversee the transformational change. However the capacity of those who sit on the TCB should be closely monitored, to ensure they can effectively fulfil their roles.

We have concluded that overall the board's arrangements are appropriate and adequate in that they support good governance and accountability.

### Risk management

A developed and integrated approach to risk management is a key feature of a robust system of internal control.

The Risk Management Group (RMG) meet on a quarterly basis to review and update the risk register. The risk register is mapped by themes. Risks are assigned to an Executive Director who is responsible for that risk and its mitigation. The RMG report to the Board.

At the end of April 2018, 11 risks were highlighted as high risks. The highest ranked risks include:

- Inability to secure a sustainable workforce
- Provision of sustainable medical workforce
- Board performance against key targets
- Development of Business Continuity Plans

In aligning with Scottish Government Scottish Government recommendations to become more priority focused, the Board should ensure that risks are linked to corporate objectives or priorities.

Whilst acknowledging NHS Shetland faces ongoing challenges and significant risk, we have concluded that risk management arrangements are satisfactory and appropriate.

# Audit dimensions (continued)

## Governance and transparency (continued)

### Health and social care integration

NHS Shetland (NHSS) and the Shetland Islands Council (SIC) have a well established partnership, strengthened by the Shetland Integration Joint Board (IJB) which was established in June 2015. The IJB worked quickly to agree their plan, which reflect both national and local commitments.

For **2017/18**, the IJB noted the budget as summarised in the table below as at the time the budget was presented NHS Shetland had a £2,529k funding gap.

The final position for the IJB was an overspend of £2.3m. This comprised of a £2.8m overspend for NHS Shetland and a £0.5m underspend for SIC. A fortuitous under spend of £0.4m will be returned to SIC and NHSS will provide an additional one off additional payment of £2.9m.

The **2018/19** budget was noted by the IJB in February 2018. At that time there was a funding gap of £2.2m in respect of NHSS funded functions.

	2017/18				2018/19
	Budget (£000)	Revised budget (£000)	Actual (£000)	(Over)/ Under Spend (£000)	Budget (£000)
SIC managed budget	20,116	22,156	22,650	509	22,285
NHSS managed budget	24,749	21,624	24,462	(2,838)	21,814
<b>IJB Total</b>	<b>44,865</b>	<b>43,780</b>	<b>46,109</b>	<b>(2,329)</b>	<b>44,099</b>

As is the case across Scotland, the Board along with the IJB and the Council should continue to work to resolve funding issues around shifting the balance of care between hospitals and communities. At present, the IJB budget is still monitored against "SIC" and "NHSS" managed budgets, rather than a genuine pooled budget for the IJB as a whole.

We also identified scope for improvement in the governance arrangement between the IJB and its partners to ensure that respective roles and responsibilities are clear. Both partners recognise that increasing demand, less money and the need to make savings mean they need to think and work differently. A Medium Term Financial Plan (MTFP) has still to be developed for the IJB to clearly articulate the pressures and plans to address them.

Operationally, the NHS, Council and IJB work effectively together, with evidence of improvements in service delivery, for example through the Intermediate Care Team discussed below. There is, however, scope for the governance arrangements between the NHS Board and the IJB to be improved to ensure that respective roles and responsibilities are clear.

A good example of collaborative working and changing the way services are provided is the **Intermediate Care Team**. This service is designed to:

- prevent admissions to secondary care
- support early discharged from secondary care or a community care establishment

Additionally in 2017/18 there was a planned shift from a hospital based rehabilitation centre to a community based rehabilitation service. This has resulted in the closure of the Ronas Ward in the Gilbert Bain hospital, a 6 bed ward and as discussed in page 20 has resulted in the achievement of large recurring savings.

# Audit dimensions (continued)

## Value for money

### Audit dimension

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

### Areas considered



- Value for money in the use of resources.
- Link between money spent and outputs and the outcomes delivered.
- Improvement of outcomes.
- Focus on and pace of improvement.

### Deloitte response



From our 2016/17 audit work we concluded that the Board had a well established performance management framework in place with performance regularly considered by management, and the Board.

During 2017/18 we have reviewed how the Board is addressing areas where targets are not being met, and achieving Local Delivery Plan targets.

### Deloitte view

The performance of NHS Shetland is monitored by the Scottish Government against a number of targets and standards which support the delivery of the Scottish Government's national performance framework. These targets and their trajectories are set out in the Board's 2017/18 Local Delivery Plan (LDP).

Performance against LDP targets and standards is presented to each meeting of the Performance Governance Committee and subsequent Board meetings by exception. These performance reports also include progress against local performance indicators.

Overall, NHS Shetland performance is good. There are a number of indicators in which Shetland perform well including end of life care and delayed discharges.

At December 2017 74% of performance indicators were on target, this compares with 58% in November 2016 which is a noticeable improvement.

# Audit dimensions (continued)

## Value for money (continued)

### Overview of performance targets in 2017/18

The Board had a well established performance management framework in place. Overall the Board has reported a high number of areas on track against indicators and a slightly improved position is noted when benchmarked against prior year. A number of actions are in place to address areas where performance is either at risk or not on track.

The Board's performance against its key performance measures is summarised below:

There are a number of indicators in which Shetland is the top performer, such as end of life care.

Overall, there has been an improvement in performance compared to prior year. At December 2017 74% of performance indicators were on target, this compares with 58% in November 2016 which is a noticeable improvement.

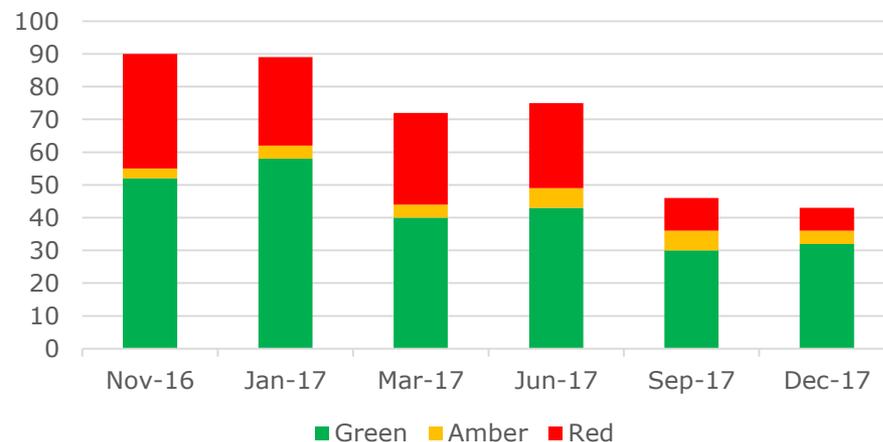
Performance targets were updated in September 2017 to ensure targets were relevant, appropriate and outcome focused.

Review of performance reports shows a general decrease in the number of red indicators over the year.

The Board has taken pro-active steps to address the areas where performance is underperforming. An example of this is Mental Health. Funding has been focused on this service through the implementation of service improvement initiatives and the recruitment of consultants and specialists to satisfy demand.

Via use of the Pentana Performance Management system, real time performance reporting and monitoring will allow quick identification of any decline in performance indicators.

### Performance Analysis



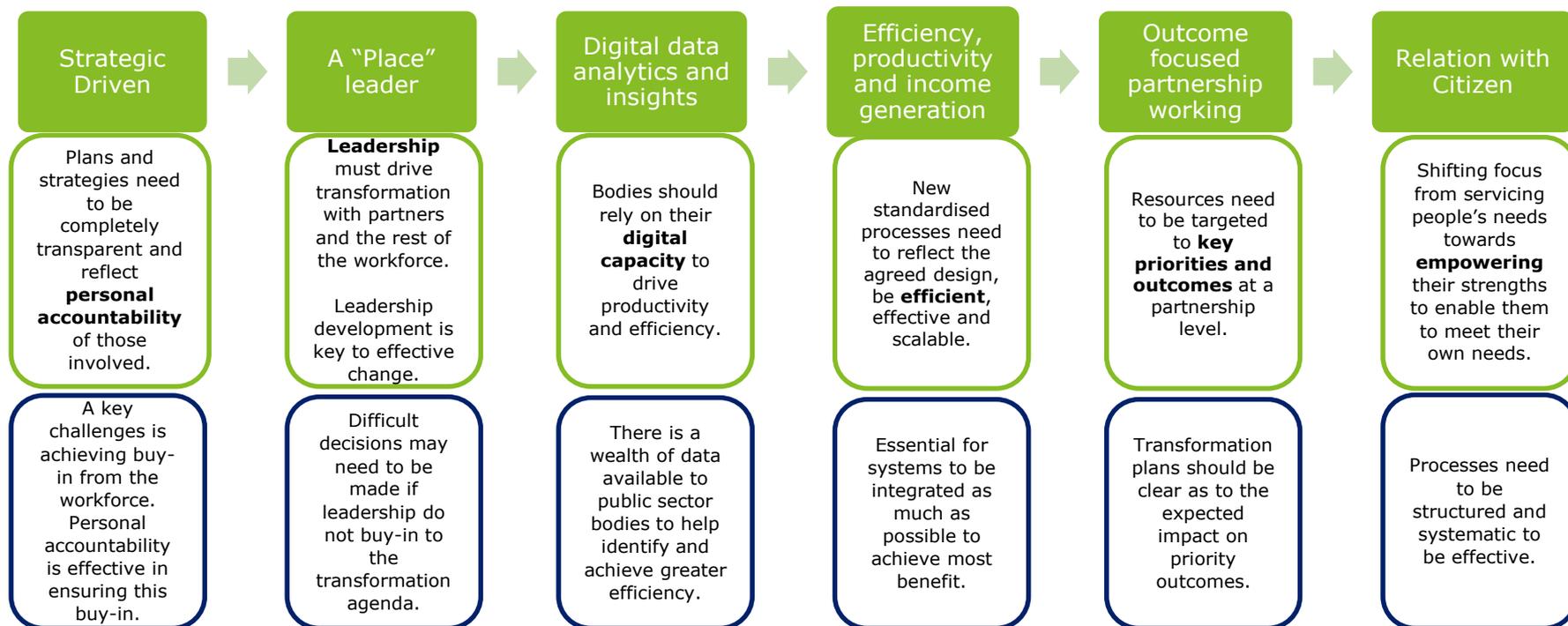
# Audit dimensions (continued)

## Sharing best practice

In our 2016/17 annual report, we provided the Board with some case study data where Deloitte has been involved in cost reduction work with a number of NHS bodies in England. We recommended that the Board reviews these case studies and considers them as opportunities for improvement going forward as potential areas for cost reduction.

During 2017/18, we have had some further discussion with NHS Shetland, to share areas of best practice around transformation and integration from our work in England.

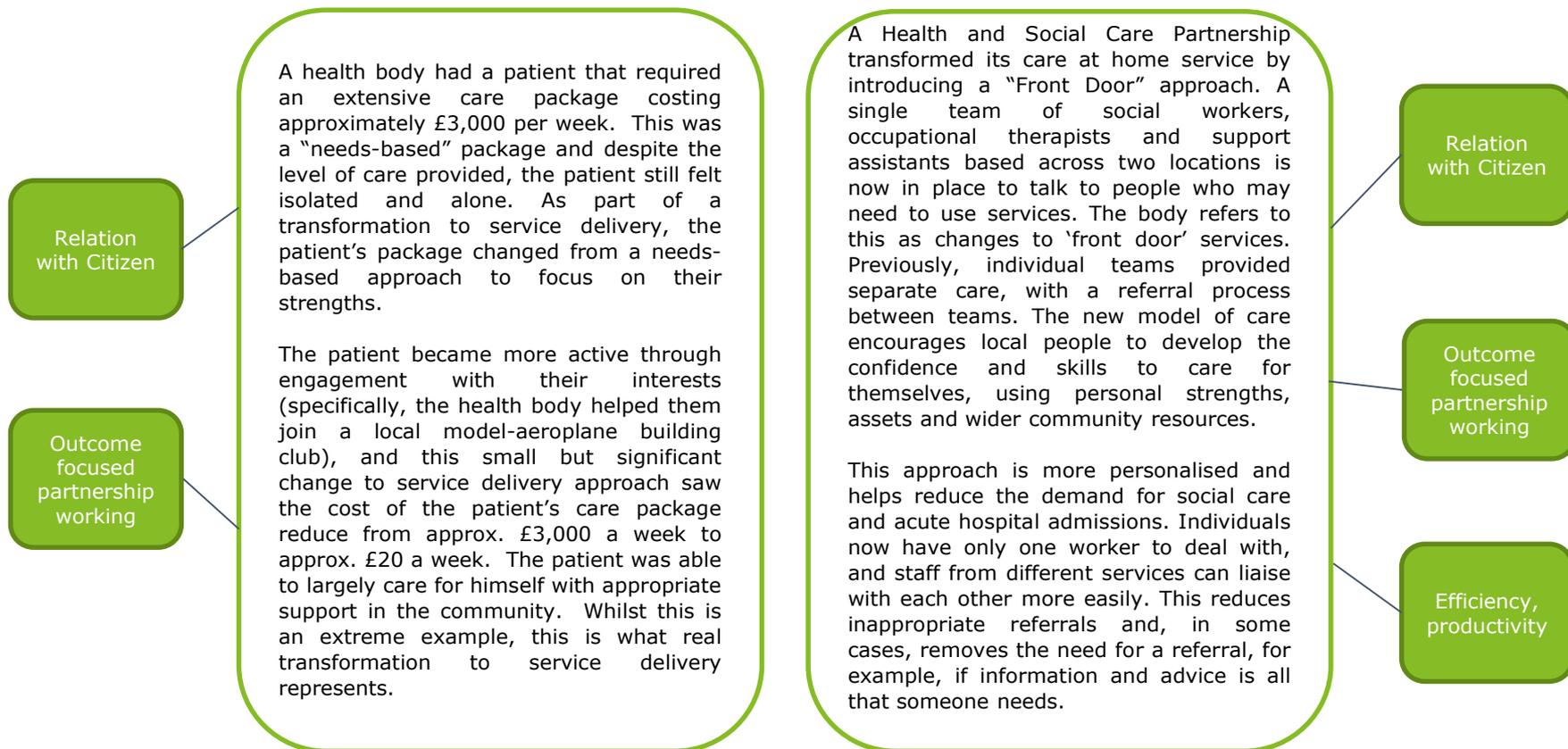
From our experience, public sector bodies that have successfully delivered and sustained transformational change have tended to focus on the following six key requirements. The overarching aspect throughout a transformation programme is having strong leadership that believes in and can drive transformational change.



# Audit dimensions (continued)

## Sharing best practice (continued)

Below are some real life examples of work done in other health bodies to demonstrate how some of these six key requirements can be applied in practice.



# Audit dimensions (continued)

## Sharing best practice (continued)

Strategic Driven – shift in culture.

Monetary incentives can help achieve a shift in culture. Currently, there are incentives and systems in place that result in money being funnelled towards hospitals. Investment in early detection and prevention requires a change. One example of such change took place in Spain in 1999 (known as the **Alzira Model**). They shifted towards long-term capitated budgets which incentivised the health care system to keep people out of hospital and to deliver effective services as cost-efficiently as possible. Reimbursement was only received by the healthcare system that provides the care to the patient, therefore the provider is incentivised to maintain and drive up the quality of care to encourage patient loyalty. Benefits which were evidenced from this model included a 27% decrease in cost per capita, 34% reduction in hospital readmissions within 3 days, 54% reduction in average A&E waiting times, average length of stay reduced by 20%, 91% patient satisfaction and 93% staff satisfaction.

A Health and Social Care Partnership invested in its digital capacity to collect and process data so it can better predict chronic health issues occurring amongst patients. This investment has allowed the partnership to reduce its acute care costs as less expensive and more effective health care can be provided upfront to address potential chronic health risks predicted by the data.

A police force, in partnership with its local health body, used data to reduce acquisitive crime rates. Data identified a pattern of acquisitive crime peaking on the weekends, and the police force determined that this was largely driven by the fact that methadone prescriptions in the area were issued every Friday. therefore led a programme to stagger the prescriptions throughout the week, leading the acquisitive crime rates levelling out and becoming more manageable.

Digital data analytics and insights

### Case study: Demand management

Numerous hospitals have taken steps to reduce referrals to hospitals following primary care consultations. Hospital de la Ribera recently attached a consultant physician to each health centre, working with the same patients as the GP. This is designed to implement clinical guidelines with the local GPs, resolve medical problems in the health centre, and reduce the number of inappropriate hospital referrals. Further innovations include enlarging health centres with on-site X-ray services, accident and emergency departments and medical specialist outpatient clinics. Hospital de Manises is integrating medical care pathways with the aim of streamlining the management of health problems, from primary prevention through to palliative care and including acute care, rehabilitation, secondary prevention and chronic care.

# Wider scope audit work (continued)

## Specific risks

In accordance with our Audit Plan, we have considered the specific risks identified by Audit Scotland as part of our audit as follows:

Risk identified	Response
<p><b>EU Withdrawal</b></p>	<p>The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved governments in Scotland and for Scottish public sector bodies.</p> <p>Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas:</p> <p><b>Workforce:</b> the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.</p> <p><b>Funding:</b> the extent to which potential changes to funding flows including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.</p> <p><b>Regulation:</b> the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activity of the organisation.</p> <p>NHS Shetland does not collect data on nationality or ethnicity and only use their data in the way in which they advised staff they would. Currently the Scottish Government are in the process of quantifying the potential impact.</p>
<p><b>New financial powers</b></p>	<p>The Scottish Parliament's new financial and social security powers and responsibilities from the 2012 and 2016 Scotland Acts are fundamentally changing the Scottish public financials. The Scottish Government will publish its medium-term financial strategy in 2018 in response to recommendations in the Budget Process Review Group final report, and has made a number of other commitments to improve financial management and help Parliamentary scrutiny of decisions.</p> <p>As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. NHS Boards should therefore use this as an opportunity to make comment within their annual reports beyond the compliance requirements to clearly articulate their achievements against outcomes and future plans.</p>
<p><b>Ending public sector pay cap</b></p>	<p>The 2018/19 budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018. It has been agreed by Scottish Government that any additional costs of the pay increase in excess of 1% will be met by central funding.</p>

# Wider scope audit work (continued)

## Specific risks (continued)

Risk identified	Response
<p><b>Cyber security risk</b></p>	<p>NHS Shetland has passed the Scottish Government’s Cyber Essential’s Pre-assessment. It contained some remedial action which were common across all Boards. These actions have been added to their local Security Improvement Plan.</p> <p>The Board does not currently have a distinct Cyber Security policy or strategy which is distinct from its Security and Information Governance Policy. The Board’s Security and Information Governance Policy is regularly reviewed and updated. The responsibility of IT services lies with the Director of HR and Support Services.</p> <p>NHS Shetland has compulsory training on Information Security. A regional approach is currently being developed with NHS Grampian on Information Security and Cyber Security. The uptake of this training is monitored.</p> <p>In light of the recent cyber incidents the Scottish Government has produced new guidance for public bodies. This builds on Scotland's cyber resilience strategy (Safe, Secure and Prosperous) and provides more concrete actions for bodies to take, and develops a monitoring framework for the Scottish Government.</p>
<p><b>Openness and transparency</b></p>	<p>From our audit work, we are satisfied that NHS Shetland is appropriately open and transparent in its operations and decision making.</p>

# Technical update



# Technical Update

## New accounting standards for 2018/19 and 2019/20

**IFRS 9, Financial instruments** and **IFRS 15, Revenue from contracts with customers**, have been adopted for the 2018/19 Government Financial reporting manual (FReM).

The effective date of **IFRS 16 Leases is 1 January 2019**, therefore will apply to NHS Boards from 2019/20, subject to both EU and HM Treasury adoption.

IFRS 16 removes the existing classifications of operating and finance leases under IAS 17 *Leases* for lessees.

It requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing the lessee's obligation to make lease payments for the asset.

Healthcare Financial Management Association (HMFA) published its updated briefing in February 2018 on the application of IFRS 16. It notes that it is widely expected that the application of this standard will be time consuming for lessees so NHS bodies cannot postpone work until HM Treasury and then the Department of Health and Social Care (DHSC) produce their guidance. Therefore, the briefing sets out the practical steps NHS bodies should be taking now as well as highlighting the issues that will need to be considered when applying the standard for the first time.

### **Potential impact on the Board**

IFRS 9 and IFRS 15 are not expected to have a significant impact on NHS Boards.

IFRS 16 will result in nearly all leases being brought on Balance Sheet as an asset with a corresponding liability. NHS Shetland has relatively few leases, primarily vehicles. Total obligations under operating leases as at 31 March 2018 was £242k. Therefore it is expected to be a relatively straightforward process for NHS Shetland. The Board should review the HMFA briefing on the application of IFRS 16 in preparation for its introduction.

# Appendices



# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

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

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

### What we don't report

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

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

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

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

### The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated separately.

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



**Pat Kenny, CPFA**

for and on behalf of Deloitte LLP

Glasgow

14 June 2018

# Action plan

## Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Scenario Planning	The outcome of the scenario planning exercise should quantify demand pressures and resulting costs in a no change environment. This will be a key input in identifying the required level of transformational change.	The next steps in scenario planning process are currently being defined. The outputs from this will include assessment of required level of transformational change.	Chief Executive	September 2018	
Transformational Change Board	Given the complexity of the changes required, the TCB needs to consider the supporting infrastructure required to deliver the required savings, such as: <ul style="list-style-type: none"> <li>• A programme management office (PMO)</li> <li>• Its change management approach</li> <li>• Tools and templates to assess whether intended benefits of change have been achieved</li> <li>• Whether it requires external specialist support for any aspects of its Plan.</li> </ul>	The Board internally has set aside £250k in resources as a catalyst for change and is also seeking North of Scotland funds. The scenario planning process is expected to clarify the direction of strategic change and required level of transformational change. Although the process is circular in nature the outcome from scenario planning will lead to a review of processes and support required to implement change.	Chief Executive	August 2018	
Risk management	In aligning with Scottish Government recommendations to become more priority focused. We recommend that risks are linked to corporate objectives or priorities.	The Board's Organisational Risks are all linked to corporate objectives or priorities in the Datix Management Information system. The next scheduled report to the Board is in October and this will be amended to incorporate links to the corporate objectives or priorities.	Clinical Governance and Risk Lead	October 2018	

### Key:



High Priority



Medium Priority



Low Priority

# Action plan

## Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
IJB	Operationally, the NHS, Council and IJB work effectively together, with evidence of improvements in service delivery, for example through the Intermediate Care Team. There is, however, scope for the governance arrangements between the NHS Board and the IJB to be improved to ensure that respective roles and responsibilities are clear.	Work is already underway to improve clarity of roles of Clinical Care and Professional Governance Committee. Chief Executive started work with Shetland Island Council counterpart to review future options for development of joint arrangements and clarifying how the boundaries with IJB are clear and consistent with respective roles and responsibilities.	Chief Executive	March 2019	
Savings	Saving plans should be agreed early to ensure the Board has sufficient lead in time to implement the changes required.	All the Executive Directors have the delivery of savings plans in their personal annual objectives. The Board has identified that £9.3m of savings are required over the next 5 years and these have been allocated to Directors to achieve. Significant redesign proposal will be an outcome from scenario planning.	Chief Executive	March 2019	
Financial Planning	Financial plans should be linked to priorities and other strategic developments and show how spending makes a difference to these areas	Will review as on-going continual development of Board's financial planning process. This will aim to include local investment decisions being based upon strategic priorities and development. Although Board has considered previously programme budgeting for investment lack of robust outcome measurement is a current restraint.	Director of Finance	February 2019	

# Action plan

## Follow up of 2016/17 recommendations

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Performance report	<p>To improve users understanding of NHS Shetland's performance in the year, we recommend including the following:</p> <ul style="list-style-type: none"> <li>• Link risks to strategic objective, include mitigating actions and how the risk has changed over time</li> <li>• Include a Governance Chart to show the governance arrangements in place</li> <li>• Tabularise/graph non-financial performance statistics</li> <li>• Include a pie chart which depicts the different types of expenditure in the year</li> <li>• Include employee satisfaction statistic</li> <li>• Include a glossary of commonly abbreviated terms</li> <li>• The Overview should provides sufficient information so that lay users have no need to go further to understand the board and its performance</li> </ul>	Will look to improve next years performance report	Colin Marsland (Director of Finance)	31 March 2018		Recommendation has been taken on board and improvements have been made in the Performance report.
Accountability Report	<p>To be in line with SPFM best practice, Deloitte recommend making the following updates to the Annual Governance Statement:</p> <ul style="list-style-type: none"> <li>• Provide a link to the 5 year plan, strategic documents and whistle blowing policy</li> <li>• Include tables, diagrams and graphs</li> </ul>	Will look to improve next years Accountability Report	Colin Marsland (Director of Finance)	31 March 2018		Recommendation has been taken on board and improvements have been made in the Accountability report.

### Key:



High Priority



Medium Priority



Low Priority

# Action plan

## Follow up of 2016/17 recommendations

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Related Parties	We recommend that the Board perform an annual review of Member's registered interests to determine whether there were any transactions with NHS Shetland, to ensure full disclosure of Related Party Transactions.	Will look to perform in 2017/18	Karl Williamson (Head of Finance)	31 March 2018		All material transactions have been appropriately disclosed.
Financial Reporting Period	We recommend that NHS Shetland look to reduce their Financial Close Period, and additionally the time it takes for the Financial Monitoring Report to be reviewed by the Board to increase the effectiveness of the Report.	Board meetings are not aligned to the Financial close. EMT meet every 2 weeks to discuss financial results.	Karl Williamson (Head of Finance)	31 March 2018		See management response, no changes expected to be made.
Audit Committee Attendance	We recommend there are increased efforts within the Audit Committee to improve attendance to improve scrutiny and oversight.	There are four non executive members of the Board appointed to the Audit Committee. A review of non executive director appointments to the Governance Committee will occur in August 2017. Once the new committee is confirmed the current meeting schedule will be reviewed in September to minimise the potential risk of non attendance	Colin Marsland (Director of Finance)	31 March 2018		Attendance at audit committees has significantly improved.

# Action plan

## Follow up of 2016/17 recommendations

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Audit Committee Effectiveness	We recommend that the Audit Committee refers to the Audit Committee effectiveness report issued by Deloitte which has previously been shared with the Director of Finance to perform an annual assessment of its effectiveness in accordance with best practice.	<p>With the changes in audit committee membership in 2016-17 and further changes in 2017-18 anticipated it has been identified that there is a training gap to address in the Audit Committee members in partnership with their independent advisers. Initial discussions have taken to place for Internal Audit to deliver a training session to Board members.</p> <p>The Board currently has no non executive Board Member that has atleast one competence in accounting or auditing, or both. Unless the current recruitment for two non executive directors selects an individual with those skills it is a continuing risk management issue for the Board. However some member of the Audit Committee do run their own successful local private business.</p>	Colin Marsland (Director of Finance)	31 Dec 2017		Audit Committee have taken on board comments and the Governance checklist has been completed
Recurring Savings	NHS Shetland should focus on identifying and implementing recurring saving opportunities, to reduce its savings deficit and become a more cost effective organisation	A Transformational Change Board has been set up to co-ordinate delivery of the 2017/18 Strategic Programme	Transformational Change Group	Ongoing		TCB is up an running, however identifying recurring savings is an ongoing issue for NHS Shetland

# Action plan

## Follow up of 2016/17 recommendations

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Transformational Change Board	The Transformational Change Board needs to be supported by very robust benefits realisation processes, including tools and templates, and programme management methodologies. A supporting people change management strategy will also be critical if the Board is to achieve recurring savings targets.	<p>The terms of reference for the Transformational Change Board has been agreed and strategic projects will be managed by individual project boards using the Prince 2 methodology.</p> <p>In setting the 2017-18 budget for the Board a specific transformational change fund was established with a budget of £250,000 that will be managed by the Transformational Change Board to allocate non recurrent change funding to address identified critical capacity or equipment to take projects forward in-line with their identified critical pathways. Organisational change policies will apply to the projects including partnership working with key external partners, the public and staff groups</p>	Colin Marsland (Director of Finance)	31 Dec 2017		Progress is still to be made in terms of the operations of the TCB, see further recommendation on page 38

# Fraud responsibilities and representations

## Responsibilities explained



### Responsibilities:

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



### Required representations:

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

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



### Audit work performed:

In our planning we identified the risk of fraud in achieving expenditure resource limits 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

### Concerns:

No concerns have been identified regarding fraud.



# Independence and fees

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

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**Independence confirmation** We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.

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**Fees** The audit fee for 2017/18 is £74,478 as analysed below:

	£
Auditor Remuneration	62,788
Audit Scotland Fixed Charges:	
Pooled Costs	8,250
Audit Support Costs	3,440
<b>Total Fee</b>	<b>74,478</b>

No non-audit services fees have been charged by Deloitte in the period.

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**Non-audit services** In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

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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.

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

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# Events and publications

## Our publications and insights to support the Board

### Publications

#### **The State of the State 2017-18**

Citizens, government and business

This year's report finds the UK government amid the complex challenge of leaving the EU. Inevitably, this early phase of EU exit is taking place under intense media scrutiny and passionate political debate. But while EU exit issues may dominate headlines, the public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.

The State of the State 2017-18 explores government through three lenses – the citizen lens, the public sector lens and the business lens.

Download a copy of our publication here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/state-of-the-state.html>



#### **Sharing our informed perspective**

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

#### **Perspectives: Do you have a digital mindset?**

##### **Accelerating health and care integration**

Digital technology is helping to transform the way citizens interact with service providers across all other service industries. The time is now ripe for changing the relationship between health and social care commissioners and providers and service users.

Read the full blog here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/do-you-have-a-digital-mindset.html>

#### **Article: Public sector transformation** **Five lessons from the private sector**

An analysis of private sector global companies, including high-tech start-ups, manufacturers, banks, retailers and insurance firms, reveal five valuable lessons for the public sector.

Read the full article here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-transformation.html>



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