



NHS Shetland

2015/16 Annual Audit
Report for the Board of
NHS Shetland and the
Auditor General for
Scotland

June 2016

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively (www.audit-scotland.gov.uk/about/).

David McConnell, Assistant Director, Audit Scotland is the appointed external auditor of NHS Shetland for the period 2011/12 to 2015/16.

This report has been prepared for the use of NHS Shetland and no responsibility to any member or officer in their individual capacity or any third party is accepted.

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Key messages

Audit of financial statements	<ul style="list-style-type: none">• An unqualified audit opinion on the financial statements has been issued. However, the conclusion on "Matters on which I am required to report by exception" has been modified to state that adequate accounting records have not been kept in relation to elements of property, plant and equipment assets.
Financial management & sustainability	<ul style="list-style-type: none">• The Board met all of its financial targets in the year.• A saving of £396,000 was achieved against core Revenue Resource Limit (RRL)• The Board achieved £710,000 of recurring savings against a target of £2.071 million.
Governance & transparency	<ul style="list-style-type: none">• The Board has well-established and appropriate governance arrangements in place• There was non-compliance with the Board's Standing Financial Instructions in relation to the disposal of assets• The Board's internal audit service complies with Public Internal Audit Standards
Best Value	<ul style="list-style-type: none">• The Board has a well developed performance management framework in place• The Strategy and Redesign Committee receives regular updates on all aspects of performance and the actions being taken to improve performance• The Board is making progress in addressing targets and standards
Outlook	<ul style="list-style-type: none">• NHS Shetland will continue to operate in a period of austerity increasing cost pressures and a growing demand for services. The Scottish Government's 2020 vision and the implementation of health and social care integration are intended to provide services on a more sustainable footing by shifting the balance of care from hospitals to community settings. These changes may take several years to have a noticeable impact.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of NHS Shetland. The report is divided into sections which reflect our public sector audit model.
2. The management of NHS Shetland is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of NHS Shetland, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at [appendix II](#) and [appendix III](#), include recommendations for improvements.
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that NHS Shetland understands its risks and has arrangements in place to manage these risks. The board should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of NHS Shetland will be Deloitte LLP. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

Audit of the 2015/16 financial statements

<p>Audit opinion</p>	<ul style="list-style-type: none"> • An unqualified opinion that the financial statements give a true and fair view has been issued. However, the conclusion on Other Matters has been modified to state that adequate accounting records have not been kept in relation to elements of property, plant and equipment assets.
<p>Regularity of income and expenditure</p>	<ul style="list-style-type: none"> • In our opinion, in all material respects the expenditure and income in the financial statements was incurred or applied in accordance with relevant legislation and guidance.
<p>Other information</p>	<ul style="list-style-type: none"> • We review and report on other information published with the financial statements notably the Performance Report and Accountability Report which include the Governance Statement and the Remuneration and Staff Report. We consider whether these reports have been properly prepared, comply with extant guidance and are consistent with the financial statements. • We report any material errors or omissions, any material inconsistencies with the financial statements or any otherwise misleading content. We have nothing to report in respect of the other information published as part of the annual report and accounts.
<p>Consolidation template</p>	<ul style="list-style-type: none"> • The Board's consolidation template has been audited to confirm that the figures are consistent with the audited financial statements.

Submission of financial statements for audit

10. We received the unaudited financial statements on 9 May, in accordance with the agreed timetable. With the exception of the Fixed Asset Register (FAR), the working papers were of an acceptable standard. Improvements are required by the Board to ensure that the finance department is provided with sufficient information so that the FAR is an accurate record of the Board's asset holdings. Significant additional time was necessary to complete the audit of Non-current Assets due to inaccuracies in these records. Finance staff, however, provided good support which was crucial to ensuring that the accounts sign-off deadline of 30 June 2016 was achieved.
11. The financial statements of the Board are prepared in accordance with the Government Financial Reporting Manual (FReM). Significant restructuring was made to the annual report to include a performance report (which has replaced the management commentary) and accountability report which includes the governance statement and the renamed remuneration and staff report. These changes have been reflected in the Board's accounts.
12. In 2015/16, for the first time, health boards' group accounts are required to include the financial results of Integration Joint Boards (IJBs) in their area, where material. Within Shetland there is one IJB which became operational in November 2015. Accordingly, the board consolidated the income and expenditure from this date to the

end of March 2016 and this meant that an additional £8.9 million was disclosed as income and expenditure.

13. The accounts reflect good practice as set out in the Audit Scotland publication 'Improving the Quality of NHS Annual Report and Accounts' (December 2014).

Overview of the scope of the audit of the financial statements

14. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 21 January 2016.
15. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
16. The concept of audit risk is central to our audit approach. We focus on those areas that are most at risk of causing material misstatement in the financial statements. In addition, we consider what risks are present in respect of our wider responsibility, as public sector auditors, under Audit Scotland's Code of Audit Practice.

17. During the planning phase of our audit we identified a number of risks and reported these to you in our Annual Audit Plan along with the work we proposed doing to obtain appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks identified and how we addressed each risk.
18. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

19. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
20. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically, with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
21. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of NHS Shetland, we set our planning materiality for 2015/16 at £535,000 (or 1% of gross expenditure). Performance materiality was

calculated at £270,000, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. Additionally, we set a misstatement threshold of £5,000. Amounts below this value are considered trivial.

22. On receipt of the financial statements and following completion of audit testing, we reviewed our materiality levels and increased overall materiality to £558,000 and performance materiality to £279,000.

Evaluation of misstatements

23. The audit identified 9 misstatements in the unaudited financial statements. Three of these – Assets held for sale (£6,000), Disposals of Non-current assets (£654,000) and IJB transactions (£441,000) have been adjusted by management in the audited accounts. None of these adjustments resulted in a change to the board's surplus.
24. The remaining 6 unadjusted items, taken individually and aggregated, did not have a material effect on the health board's reported financial outturn for the year. The net unadjusted error was £4,000 which would have reduced the board's surplus to £392,000. The adjustments primarily related to:
 - An over-accrual of £61,000 for the March 2016 payroll costs
 - Losses on disposals of £48,000 in respect of assets which could not be located

- An increase of £8,000 in the value of inventory due to the use of an incorrect valuation method
- An under-accrual of £6,000 for Pharmacy charges
- Reallocation of impairment of £18,000 to loss on disposal

Significant findings from the audit

25. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment are significant to the oversight of the financial reporting process.
26. Internal Audit had highlighted in the NHS Shetland Financial Systems Healthcheck report 2014/15 that no regular verification of fixed assets had been undertaken. This report stated that "the finance team attempted to conduct a verification in July 2014, however the asset owners did not engage with the exercise and it was ultimately unsuccessful.
27. In the 2015/16 financial year, to address Internal Audit concerns that assets included on the FAR and in the nominal ledger were no

longer in use or had been disposed of, the finance department decided to remove from the FAR all Plant and Machinery and IT assets which had been purchased more than 10 years earlier together with any assets of which the board had evidence of disposal. £2.093 million of assets at cost were removed from the FAR and were disclosed in Note 11 of the financial statements as "Disposals". An equal amount of Accumulated Depreciation was also eliminated. As the majority of these assets had zero book value, there was only a small loss on sale. This totalled £18,000 and was disclosed as an impairment.

28. External audit advised that the disclosures in relation to these assets should be improved and that the figure of £18,000 should be included as a loss on disposal.
29. External audit conducted further physical verification of the remaining Plant and Machinery and IT assets which had been purchased less than 10 years earlier. 21% of the sample of assets selected for testing could not be located by the board and external audit therefore concluded that there was a risk of material error in the financial statements.
30. In June 2016, the board performed a 100% physical verification of Plant and Machinery and IT assets. Following further external audit work to verify the board's findings, the final total cost of assets which could not be located by the board and which have been adjusted for in Note 11 of the accounts is £1.439 million. The total net book value of these assets, however, was around £46,000 which is below the level of materiality. The risk, therefore, of

material error in the financial statements following adjustments in respect of the verification work was assessed by external audit as low. It is essential, however, that the board immediately improves procedures to ensure that assets are tracked throughout their service and that the finance department is informed promptly of any changes to the asset base.

31. Paragraph 15.1.2 of the board's Standing Financial Instructions (SFIs) states "when it is decided to dispose of a Board asset, the head of department or authorised deputy will determine and advise the Director of Finance of the estimated market value of the item." Paragraph 15.1.3(b) states that all unserviceable articles shall be "recorded in a form approved by the Director of Finance which will indicate whether the articles are to be converted, destroyed or otherwise disposed of". The results of audit testing indicated that the SFIs had not been complied with and that the FAR was not kept fully up to date during the year and did not reflect the board's disposal of a number of assets. In the independent auditor's report, therefore, the conclusion on "Other Matters" has been modified to state that adequate accounting records have not been kept in respect of these assets.

Recommendation 1

Table 1 below details those issues or other audit judgements that, in our view require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260

Non-current assets

As detailed in paragraphs 27 to 30, during 2015/16, the board performed a fixed asset verification exercise to assess the accuracy of the fixed asset register. The board could not locate assets with a total cost of £2.093 million and accounted for this by removing them from the register and disclosing this amount as “Disposals” in Note 11 to the 2015/16 unaudited financial statements. Testing by external audit indicated a high risk of further inaccuracies in the Fixed Asset Register.

Resolution

Having acknowledged the problem, management performed a 100% verification exercise of plant and equipment and IT assets. The results of this meant that the final total cost of assets which could not be located was reduced to £1.439 million and the board has amended Note 11 to the accounts to disclose this as “Disposals”.

The NBV of these assets was £48,000, which is below the level of materiality and the risk of material error in the financial statements is therefore deemed to be low. The audit report, however, has been amended to state that inadequate accounting records have been kept for certain property, plant and equipment assets.

Significant findings from the audit in accordance with ISA260**Integrated Joint Board (IJB)**

The Shetland IJB became active in November 2015 and, to comply with the Manual, the health board's share of the IJB financial results were consolidated into NHS Shetland's 2015/16 group accounts. As draft IJB accounts were not available until 10 June, the health board used the information contained in the board's ledger which detailed the expenditure of the health board on services commissioned by the IJB. The ledger contained all healthcare costs from the 1 April 2015 up to 31 March 2016. The health board estimated the amount of expenditure incurred during the period that the IJB was live by applying a proportion of 20/52 to reflect the fact that the IJB was only in operation from 20 November 2015 to 31 March 2016. This resulted in additional costs of £9.372 million being added to Hospital and Community Costs with an equal amount being added to Hospital and Community Income as the IJB's view was that there had been no surplus or deficit during the financial period to 31 March 2016. The ledger figures were derived prior to adjustments required for accruals and there was therefore a risk of material error in the financial statements because of this. The 20 week calculation was also incorrect and required to be corrected to 19 weeks. This meant an adjustment of £468,000 to the financial statements.

Resolution

The draft IJB accounts were completed and submitted to us on 10 June. We requested that the health board's accounts were amended to agree with the draft accounts.

The health board corrected the error relating to the period of operation of the IJB and adjusted the figures to correctly represent 19 weeks.

Future accounting and auditing developments

Code of Audit Practice (the Code)

32. A new Code of Audit Practice has now been published and will apply to public sector audits for financial years starting on or after 1 April 2016. The Code is a key part of the overall framework for the conduct of public audit in Scotland. The new Code increases the transparency of public sector audit work by making more outputs available on Audit Scotland's website. In addition to publishing all Annual Audit Reports, Annual Audit Plans and other significant audit outputs will be included on Audit Scotland's website.

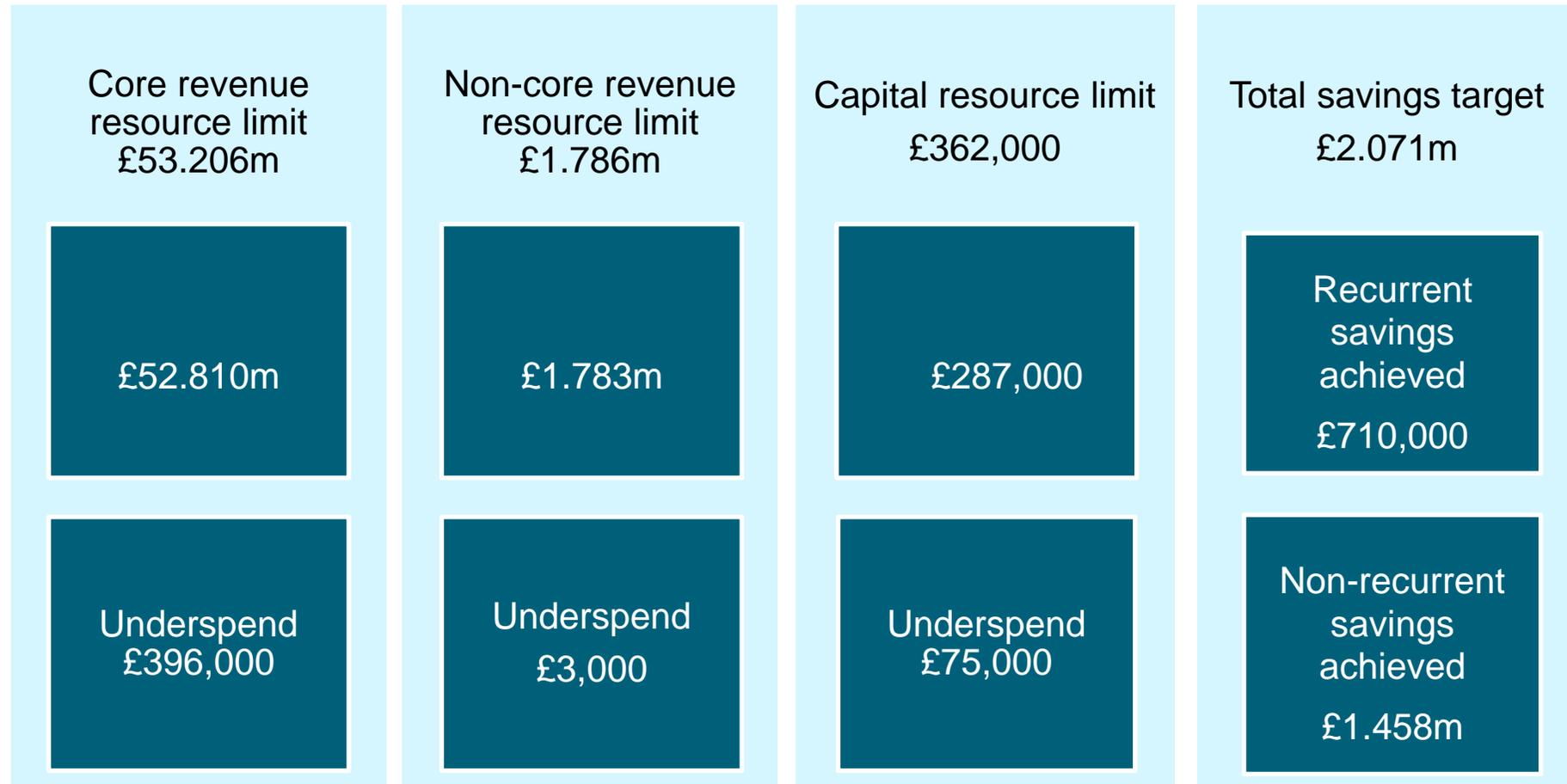
Audit appointment from 2016/17

33. The Auditor General for Scotland is responsible for the appointment of external auditors to Scottish health bodies. External auditors are appointed for a five year term either from

Audit Scotland's Audit Services Group or private firms of accountants. The financial year 2015/16 is the last year of the current audit appointment round.

34. The procurement process for the new round of audit appointments was completed in March 2016. From next year (2016/17) Deloitte LLP will be the appointed auditor for NHS Shetland.
35. We would like to thank board members, audit committee members, executive directors and other staff particularly those in finance for their co-operation and assistance over the last five years.

Financial management and sustainability



Financial management

36. In this section we comment on the NHS Shetland financial performance and assess the Board's financial management arrangements.
37. The Board, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorate (SGHSCD). The budget for revenue expenditure is termed the Revenue Resource Limit (RRL) and consists of core and non-core elements. The budget for capital expenditure is termed Capital Resource Limit (CRL). Both funding streams are agreed annually with the SGHSCD.
38. The Board must ensure that expenditure is held within the resource limits set by the SGHSCD. Regular monitoring of expenditure and income against these budget limits is central to effective financial management and keeping expenditure within agreed limits

Financial performance 2015/16

39. The Board's final RRL (£54.992 million) and CRL (£362,000) were agreed with the SGHSCD on 13 May 2016.
40. The Board achieved its financial targets for 2015/16 as illustrated above. The Board had budgeted to break-even against its RRL in 2015/2016. The actual out-turn position for the year was an underspend of £396,000 helped in part by a gain on sale of Brevik House of £310,000 and a brought forward surplus of £44,000.
41. The board's net operating costs for the year to 31 March 2016 were £1.3 million (2.4%) higher than in the previous year and the board received a 2.9% uplift to the core revenue resource allocation. The main reasons for the increase in costs between years was:
 - higher pay costs of £1.2 million due to the 1% pay award, increased locum and hospital ward staffing costs
 - an increase of £235,000 in drug expenditure, due mainly to the Hep C drug which accounted for £164,000 of this rise
 - increase of £319,000 in costs of SLA with NHS Grampian
 - reduction of £627,000 in costs of off-island patient treatments.
42. NHS Shetland, in common with other territorial health boards, was required to make efficiency savings totalling 5% of its baseline RRL in 2015/16. This equated to a recurring savings target of £2.071 million. Although the overall savings target was met, only £710,000 (33%) of recurring savings was achieved with the balance reached through non-recurring savings. As a result, a recurring savings target of £1.461 million has been carried forward in the ongoing financial plan. Achieving the required levels of recurring savings will therefore be particularly challenging going forward for the board.
43. Due to the tight financial settlement for 2016/17, the Board is required to deliver 8.9% (£3.7million) savings next year. Savings of this magnitude present a considerable challenge. Moreover, it will be important to deliver savings on a recurrent basis as non-recurring savings put pressure on future years' budgets.

Efficiency savings

Capital resource limit 2015/16

44. The Board remained within its Capital Resource Limit of £362,000 which is net of the sale of Brevik House and recorded an underspend of £75,000. The allocation was spent on medical equipment and IT projects.

Financial management arrangements

45. As auditors, we need to consider whether health bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the Director of Finance has sufficient status to be able to deliver good financial management
 - standing financial instructions and standing orders are comprehensive, current and promoted within the Board
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - Members provide a good level of challenge and question budget holders on significant variances.
46. We reviewed the Board's standing financial instructions and standing orders, which are updated annually, and concluded that, given the issues identified in the capital accounting system, there is scope for the SFIs to be updated. The Board's standing financial

instructions and standing orders are readily available to all staff on NHS Shetland's intranet.

Recommendation 2

47. Financial monitoring reports (both revenue and capital) are submitted to meetings of both the board and the Strategy and Redesign Committee. The board continues to develop the financial monitoring reports to ensure that members are provided with all necessary information to support the decision-making process.

Conclusion on financial management

48. We have concluded that, whilst overall arrangements for financial management are effective, these should be strengthened by improvements to the board's arrangements relating to the recording of non-current assets.

Financial sustainability

49. Financial sustainability is concerned with whether the Board has the capacity to meet the current and future healthcare needs of the communities it serves. In assessing financial sustainability we are concerned with the Board's financial performance, financial planning and its use of resources principally asset management and workforce management.

Financial planning

50. The Board's Local Delivery Plan (LDP) for 2016 to 2019 aligns strategic priorities with financial plans, workforce plans and service

plans. The financial plan is a key component of the LDP which sets out how the Board plans to achieve financial balance over the five year period 2016/17 to 2020/21.

51. The five year financial plan states that the board will not be in recurring financial balance until 2018/19. The main reasons for this are the £1.4 million carry-forward of unachieved nonrecurring savings from 2015/16 and the future efficiency targets. The plan also recognises the significant cost pressures facing the Board going forward notably staff pay costs, the growing costs of drugs, new technologies and rising pension costs.
52. The Board recognises that the level of risk associated with the plan is higher than in previous years and a number of areas of higher risk have been highlighted including:
- the rehabilitation service redesign from a hospital to community-based service supporting patients at home or at an intermediate facility
 - the redesign of the community nursing service to ensure sustainability of staff skills and an equitable service provision model
 - NHS Shetland currently spends £206 per head of population compared an average £138 for Scotland. The redesign of services is required to create a sustainable service which utilises other staff to support the work of GPs in the community as part of an integrated team.
 - There is a risk of sustainability of a number of single-handed GP practices leading to unplanned gaps in service.
53. Savings will play a significant part in maintaining financial balance over the 5-year period. NHS Shetland has, for a number of years, needed to make efficiency improvements over and above the national 3% target, to allow the board to return to recurrent balance, provide investment to sustain local services and to address ongoing pressures, such as short-term locum cover associated with delivering services in a remote and rural setting. However, achieving efficiency improvements on a recurrent basis continues to be a challenge, especially in clinical areas where a number of services operate on de minimis staffing levels.
54. Over the next 5 years, £9.5 million of efficiency savings are required for the board to achieve recurring balance. In 2016/17, £3.7 million of efficiency savings, representing 8.7% of the board's core funding, is included in the financial plan with £2.3 million to be achieved recurrently. The board is planning to carry forward the balance of £1.4 million of unachieved savings to 2017/18. These are challenging targets for the board which recognises that further recurrent investment in the local service improvement team is critical to achieving financial balance. The board is investing in training local staff to utilise national toolkits and local information to deliver evidence based change. The board has also established an Efficiency & Redesign programme which is managed through the Executive Management Team and reported to the Strategy and Redesign committee. However, there remains a risk that the Board may not achieve its savings targets in 2016/17.

Recommendation 3

Asset management

55. Asset management is essential to ensure the board has the buildings and equipment needed to deliver services in the future. The board has a Property Asset and Management Strategy (PAMS) covering the period 2015 to 2025. The strategy is updated annually and requires an annual assessment of the current condition and performance of the estate including physical condition, functional suitability, space utilisation and statutory standards.
56. Backlog maintenance is estimated to be around £2.3 million of which £1.6 million is assessed by the board as “Significant” or “High” and relates to the Gilbert Bain Hospital. This level of backlog maintenance is a considerable challenge for the board.

Recommendation 4

57. The physical asset verification performed by external audit highlighted that action by the board is required to ensure that assets are appropriately tagged where practicable. A large number of the sample of assets reviewed by the audit team did not have tags on the asset. This increases the risk of assets being misappropriated.

Recommendation 5

58. Audit testing also highlighted that improving the detail recorded on the Fixed Asset Register (FAR) is necessary. It was difficult to locate a number of assets due to the fact that the description of the asset on the FAR was not clear enough. In addition, serial numbers are not always included on the FAR and this would have helped to identify assets.

Recommendation 6

Workforce Management

59. Workforce planning is a statutory requirement and essential to ensure the board has the right people and skills to deliver services in the future. It is a key element of the board’s strategic planning process as set out in the LDP.
60. We carried out a high level review of the board’s workforce planning arrangements using a questionnaire based on the main findings in Audit Scotland’s public sector workforce report (November 2013). Apart from improvements being required in the area of long-term succession planning, we found that, in general, appropriate workforce management arrangements were in place and these were consistent with the guidance issued by the Scottish Government.
61. The board’s corporate risk register recognises the risk of maintaining a sustainable workforce as high due to the challenges of attracting staff to working and living in Shetland because of local and national demographics. Staff turnover levels are higher than in mainland boards and numbers of applicants for posts are fewer. Lerwick health centre has GP training status and it is hoped that this will help increase the supply of GPs locating to Shetland.
62. The board’s workforce plan 2015/16 recognises that NHS Shetland has an ageing workforce. Currently, 38% of the workforce is aged 50 or over and this is expected to continue to rise. The board has increased the number of employees under the age of 20 years. Although some of these posts are fixed-term, the board hopes that

this will encourage young people to return to Shetland following further education on the mainland.

63. Although there has been a reduction of £32,000 in GP locum costs since last year, the figures incurred by the board are still high at £617,000 in 2015/16 which indicates the level of difficulty in recruiting medical staff at General Practitioner level.
64. As with other health boards, NHS Shetland is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence. The sickness absence rate at 31 March 2016 was 5.2% which is better than the Scottish average of 5.37% but higher than the board's figure of 4.6% in 2014/15. The board is committed to managing sickness absence levels downwards through a range of measures.

67. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years and this makes it more challenging for the board to deliver balanced budgets in future. £710,000 of recurring savings were achieved in 2015/16 against a target of £1.445 million. It will be challenging for the board to achieve future targets.

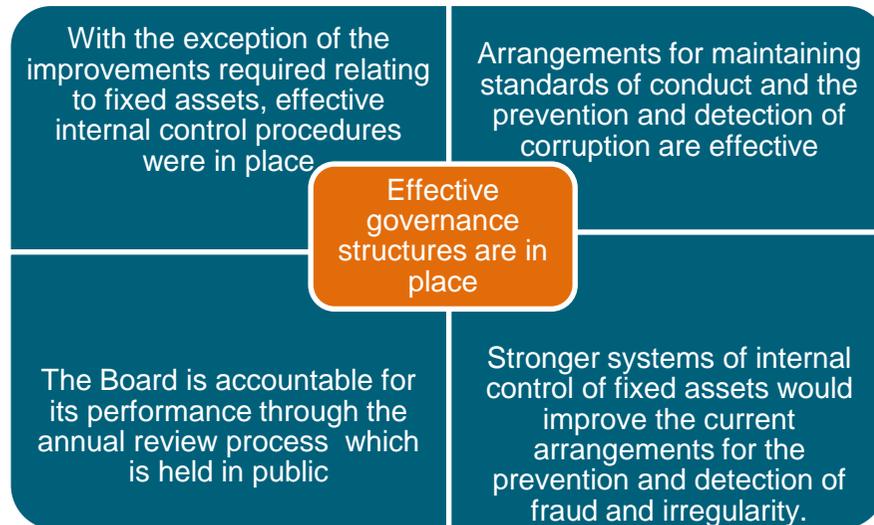
Conclusion on financial sustainability

65. Overall, we concluded that the board's financial position is sustainable currently and in the foreseeable future although significant challenges lie ahead.

Outlook

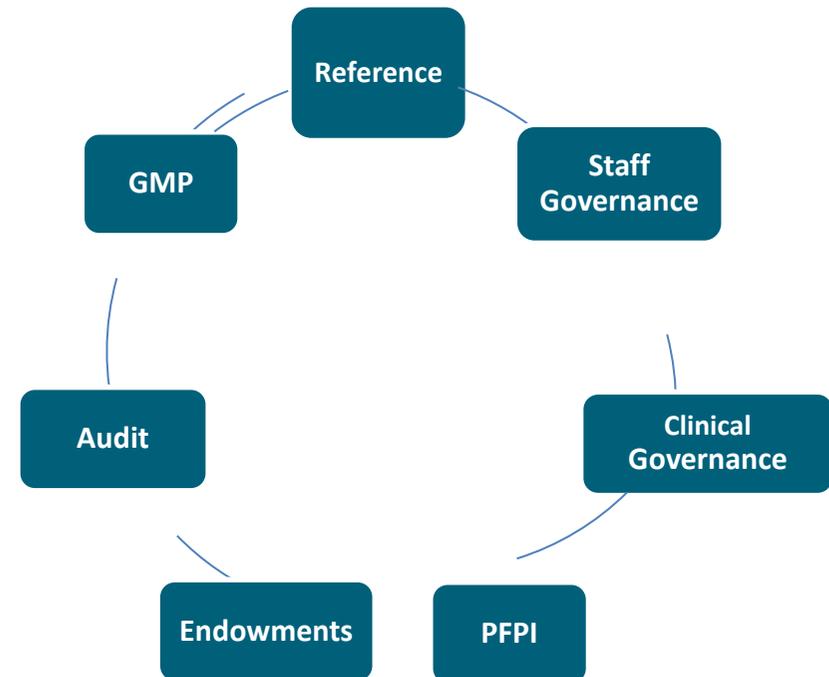
66. The board predicts it will not be in recurring financial balance until 2018/19 and this is dependent on achieving planned efficiency savings. There are significant recurring cost pressures facing the Board going forward notably staff pay costs, the growing costs of drugs, new technologies and rising pension costs.

Governance and transparency



- 68. The Board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHS Shetland and for monitoring the adequacy of these arrangements.
- 69. There have been no changes to the Board’s governance structure since last year, with the Board supported by a number of standing committees as illustrated opposite.
- 70. The standing committees meet on a regular basis throughout the year. We review committee minutes to ensure that committees are

fulfilling their responsibilities. We also attend each meeting of the Audit Committee.



- 71. We concluded that the Board has appropriate governance arrangements in place and they provide a framework for effective organisational decision making.

Internal control

72. As part of our audit, we review and test the Board's systems of internal control for the purposes of our audit of the financial statements. Our objective is to obtain sufficient audit evidence to support our opinion on the Board's financial statements.
73. The board has amended the financial statements for the errors in non-current assets and has disclosed the losses in SFR 18. Disclosure of the weakness in internal control has been made in the governance statement together with information on the action being taken to address these issues.
74. We reported our findings through our reports submitted to the Audit Committee on 20 May and 20 June 2016.

Internal audit

75. Internal audit provides the Board and Accountable Officer with independent assurance on the Board's overall risk management, internal control and corporate governance processes. The internal audit function is provided by Scott Moncrieff. Audit Scotland carried out a review of the adequacy of the internal audit function of Scott Moncrieff. Based on this review and our local knowledge of audit arrangements in Shetland, we concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

76. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2015/16 we placed formal reliance on internal audit's work on income, trade receivables, payroll, accounts payable, capital accounting, travel & subsistence and health and social care integration.

ICT audit

77. ICT is a key area of control because it underpins all systems used by the board. As part of our planning process we carried a high level review of ICT provision in the health board.
78. Overall, we concluded that the board's ICT arrangements are satisfactory and we are not aware of any specific issues that require to be brought to the attention of members.

Arrangements for the prevention and detection of fraud and other irregularities

79. We assessed the Board's arrangements for the prevention and detection of fraud during the planning phase of our audit. Our review covered a number of areas such as whistleblowing. The Board also works closely with the CFS to raise awareness and provide training on fraud prevention and detection.
80. We concluded that the Board is proactive in promoting fraud awareness. Stronger systems of internal control of fixed assets would improve the board's arrangements for fraud detection and prevention.

National Fraud Initiative in Scotland

81. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.
82. The current NFI exercise identified a total of 420 matches of which 16 were recommended for investigation. The board has fully investigated all of the recommended matches with no frauds or irregularities found. The results of NFI activity are also reported to the Audit Committee.
83. We concluded that the Board actively investigates NFI matches and that there are no issues of concern that we require to highlight in this report.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption.

84. The board has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for officers and members. Also, there are established procedures for preventing and detecting corruption including annual reviews of Standing Financial Instructions and Standing Orders.
85. Based on our review of the evidence, we concluded that the board has appropriate arrangements in place for the prevention and

detection of corruption and we are not aware of any specific issues that we need to record in this report.

Transparency

86. Local residents have the opportunity to hold the board to account through the annual review process. The annual review aims to encourage dialogue and accountability between local communities and health boards. The annual review for NHS Shetland was held in October 2015. This was attended by board members led by the Chairman and a Scottish Government official. There was an open session where members of the public in attendance could ask questions of the Chief Executive and the Board. This session was broadcast live on BBC Radio Shetland and listeners were also able to ask questions.
87. The issues raised at the open session included mental health services provision in Shetland, the board's financial position, GP waiting times, patient transport and services for patients with dementia.
88. Members of the public can also attend meetings of the Board although meetings of standing committees are not held in public session. Minutes and supporting papers for Board meetings are available on NHS Shetland's website.
89. The Board should consider enhancing transparency by publishing papers submitted to standing committees. Where papers include confidential information these can be withdrawn or redacted as appropriate.

90. Overall we concluded that the Board is open and transparent although we believe that there are some areas where the Board could make improvements to the current arrangements.

Integration of health and social care

91. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland which straddles both the local government and health sectors but only covers some of their functions. This is a change to the delivery of health and social care of considerable scale and complexity.
92. Audit Scotland published the first of a series of reports on the integration agenda in December 2015. This report entitled Health and Social Care Integration also states that stakeholders have done well to get the systems in place for integration, but much work remains. The report outlines key issues that require to be addressed if the reforms are to be successful in improving outcomes for people. These are summarised in the extract below.

Partners need to set out clearly how governance arrangements will work in practice, particularly when disagreements arise. This is because there are potentially confusing lines of accountability and potential conflicts of interests for board members and staff. There is a risk that this could hamper the ability of an Integration Joint Board (IJB) to make decisions about the changes involved in redesigning services. People may also be unclear who is ultimately responsible for the quality of care. In addition, IJB members need training and development to help them fulfil their role.

IJBs must have strategic plans that do more than set out the local context for the reforms. To deliver care in different ways, that better meets people's needs and improves outcomes, IJBs need to set out clearly:

- the resources, such as funding and skills, that they need
- what success will look like
- how they will monitor and publicly report on the impact of their plans.

NHS boards and councils must work with IJBs to agree budgets for the new IJBs. This should cover both their first year and the next few years to give them the continuity and certainty they need to develop and implement strategic plans. IJBs should be clear about how they will use resources to integrate services and improve outcomes.

93. The Shetland Integrated Joint Board was formally constituted on 27 June 2015 and its 2015/16 strategic commissioning plan was

approved in November 2015. There remained doubt as to whether the IJB was “live” from that date until clarification was received from the Scottish Government on 5 April 2016. The Scottish Government’s view was that approval of the plan meant that the IJB had accepted responsibility and that the IJB “live” date should be 20 November 2015.

94. The financial transactions of the IJB for the period 20 November 2015 to 31 March 2016 have therefore been consolidated into NHS Shetland’s 2015/16 financial statements. As stated in the Significant Findings from the Audit section of this Annual Audit Report, the total expenditure incurred by the board for IJB commissioned services was used as the basis for the figures included in the board’s Statement of Consolidated Comprehensive Net Expenditure. This meant that a proportion of 19/52 was applied to the expenditure recorded for the 12 month period to 31 March 2016 as the IJB had only been in operation for 19 weeks. This type of calculation will only be required in incomplete years of operation and it is therefore not expected to recur. Having reviewed the board’s method of calculation, we accept the reasonableness of it.
95. Internal audit performed a review of how NHS Shetland ensured that the integration procedures complied with government guidance. Internal audit also considered wider aspects of the integration process including financial governance and assurance, strategic governance and risk management arrangements. Internal audit identified a number of areas for improvement including the need for a performance management framework to be put in place.

96. The IJB will have a crucial role to play in delivering the Scottish Government’s 2020 Vision. Audit Scotland, as part of its series of reports on HSCI will be reporting on the progress of IJBs following the financial year 2016/17. A future report will also look at the longer term impact of IJBs on shifting resources to preventative services and community-based care and improving outcomes for the people who use these services.
97. Although significant progress has been made since last year in relation to health and social care integration, the lack of clarity over the date of commencement of the Shetland IJB has increased the risk that appropriate monitoring of performance was not in place throughout the period.

2020 Vision

98. The Scottish Government’s vision is that by 2020 everyone will be able to live longer, healthier lives at home or in a homely setting. Audit Scotland published its annual overview report, “NHS in Scotland 2015”, in October 2015. It found that the pace of change needs to increase if the 2020 Vision is to be achieved. The report recognised the importance of the Scottish Government and NHS boards ensuring that changes are underpinned by good long-term financial and workforce planning. The report also recognised the need to consider the implications for performance targets and standards and the NHS estate, as well as ongoing initiatives and reform programmes. By doing so, the report concluded that this would lead to the Scottish Government and boards gaining a better understanding of the nature, scale and impact of changes required.

99. In August 2015, the Cabinet Secretary for Health, Wellbeing and Sport opened a national conversation on improving the health of the population and on the future of health and social care. It is envisaged that this will be used to influence a programme of work to drive greater progress towards the 2020 vision and any necessary changes over the next 10 to 15 years. This is a clear signal from the Scottish Government that it intends to promote faster progress through NHS boards.

Outlook

100. The Scottish Government has set out an ambitious vision for health and social care to respond to the challenges of rising demands on the health service coupled with the requirement to achieve efficiency targets. The government's 2020 Vision sets out its aim to deliver high quality, local health and care services suited to the needs of the population. This will require the board to continue to develop new models of care such as the current employment of additional community psychiatric nurses and two permanent psychiatrists. This has had the result that the service is now maintaining more people in the community rather than having to use off-island services.

101. Integration joint boards will have a key role to play in delivering the government's 2020 Vision. 2016/17 will be the first full year of operation for the Shetland IJB. The NHS board, the council and the IJB will require to work closely to shift the balance of care towards a more preventative and community-based approach.

102. The Audit Scotland report "Health and Social Care Integration (December 2015)" stated that there is evidence to suggest that the IJBs will not be in a position to make a major impact during 2016/17. Audit Scotland plans to re-visit health and social integration in future years to assess progress and impact.

103. The Scottish Government is planning to review the number, structure and regulation of health boards. The government is also taking forward a review of national NHS targets. An expert group is to be set up to lead the review and will examine a range of national targets to ensure that best use is made of NHS resources. It will also look at how target-setting aligns with the Government's strategy for the future direction of NHS and social care services, in the context of existing outcomes and indicators for health and social care integration.

Best Value



104. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

Arrangements for securing Best Value

105. Best Value arrangements are part of business as usual within the board. They are embedded in its planning processes, governance arrangements and its performance management and quality improvement frameworks.

106. Within NHS Shetland, responsibility for each Best Value characteristic is assigned to committees within the board. The chair of each committee provides assurance to the board on the relevant Best Value theme. The Best Value themes set out in national guidance are:

- Vision & leadership
- Effective partnerships
- Governance and accountability
- Use of resources
- Performance management.
- Equality
- Sustainability.

107. We have reviewed evidence underpinning the board's BV arrangements including the Local Delivery Plan, performance management and reporting, and committee papers. Overall, we concluded that the board has well-developed arrangements for securing Best Value and continuous improvement.

Shared services

108. The financial challenges facing the health service in Scotland are well documented. To meet these challenges and address the Scottish Government's 2020 Vision, sharing services has been given a new impetus. A Guiding Coalition comprising board chairs, chief executives and SGHSCD was formed in 2015 and tasked with identifying the potential for further sharing of services.

109. The Director of Community Health and Social Care is a joint appointment by the council and the health board. The Director has led the integration of health and social care services in Shetland since 2013.

Performance management

110. The performance of NHS Shetland is monitored by the Scottish Government against a number of Local Delivery Plan 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 Local Delivery Plan (LDP).

111. Performance against HEAT targets and standards is presented to various committee meetings as well as to the board. Two performance reports are presented to each board meeting – one for finance and the other for capturing NHS Shetland’s position in relation to all other targets and quality measures.

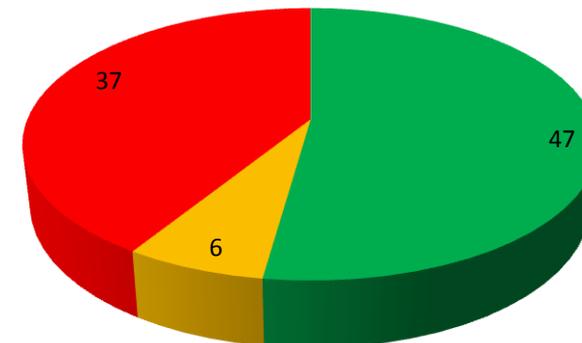
112. More detailed scrutiny of performance takes place by the appropriate committee and at meetings of the Senior Management Team. The performance reports are accompanied by a narrative setting out actions being taken to support the achievement and sustainability of the HEAT targets and standards. In addition, separate reports on waiting times and financial performance are also reviewed on a regular basis.

113. We concluded that the Board had a well established performance management framework in place during 2015/16. This was supported by good performance monitoring.

Overview of performance targets in 2015/16

114. NHS Shetland’s performance against the 90 indicators in the board’s performance report as recorded in the 2015/16 annual accounts, and based on the most up to date data available regarding the position at the end of March 2016, is summarised in the following diagram.

**Overall performance
2015-16**



115. Out of a total of 90 performance indicators, 52% were categorised as green, 7% amber and 41% red where:

- Green means meeting or better than trajectory
- Amber means within 5% of trajectory

- Red means outwith 5% of meeting trajectory
- 116.** Overall, NHS Shetland performs well with the majority of targets categorised as green or amber. However there remains a number of measures that are off-target by more than 5% and these include:
- The proportion of children with a BMI outwith the healthy range
 - Sickness absence rate
 - 12 week referral target
 - 12 week treatment time
 - Access to child and adolescent mental health services
 - Psychological therapies.
- 117.** The board recognises that it faces significant challenges in these areas and action plans have been put in place to improve performance. These include service redesign and the recruitment of specialist staff to reduce waiting times. The board closely monitors performance to ensure the action plans lead to improvement.
- 118.** We concluded that the board has good performance monitoring arrangements in- place which support board members in exercising scrutiny.

National performance audit reports

- 119.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for

Scotland. During 2015/16, a number of reports were issued which are of direct interest to the Board. These are outlined in [appendix III](#) accompanying this report.

- 120.** As reported in previous years, NHS Shetland has processes in place to ensure that all national performance reports and their impact on the Board are considered by the Audit Committee and other governance committees, as appropriate.
- 121.** From our attendance at Audit Committees and evidence available to us, we conclude that the arrangements for considering national performance audit reports are consistent with good practice.

Equalities

- 122.** The Equality Act 2010 introduced a new public sector ‘general duty’ which encourages equality to be mainstreamed into public bodies’ core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
- 123.** The board published “*Shetland’s Equality Outcomes Progress & Mainstreaming Report*” in April 2015. The report is readily accessible on the board’s website and contains links to other publications and source legislation.

Outlook

- 124.** Audit Scotland in its annual overview of the NHS in Scotland (October 2015) highlighted that pressures on NHS boards have

intensified over the past year as has the urgency for fundamental changes such as introducing new ways to deliver healthcare and developing a national approach to workforce planning.

125. The overview report also highlighted that the strong focus on performance targets may not be sustainable when combined with the additional pressures of increasing demand and the overall NHS budget static or decreasing in real terms. The efforts that NHS boards are making to meet challenging financial and performance targets each year makes it more difficult for them to focus on the long-term planning required to achieve the Scottish Government's 2020 Vision.
126. Additionally Audit Scotland has been changing how it develops its programme of work, shifting to a longer-term and strategic approach focusing on the key risks and opportunities facing Scotland's public sector. Within the health sector, a number of studies are planned to address key areas of risk including NHS workforce management(2016/17), child and adolescent mental health care (2017/18), and digital developments. Full details of our future work programme can be found at www.audit-scotland.gov.uk

Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement in the financial statements		
<p>Risk of management override of control</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>Risk</p> <p>Management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Testing the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements. • Review of accounting estimates for biases • Evaluation of significant transactions that are outside the normal course of business. • Focussed testing of the regularity and cut-off assertions during the financial statements audit. 	<ul style="list-style-type: none"> • We carried out detailed testing of trade payable and trade receivable balances to ensure that correct cut-off procedures had been applied. • We performed substantive testing on a sample of transactions from each material category of income and expenditure with reference to supporting documentation to confirm that they were accounted for in the appropriate financial year. <p>Our testing did not identify any issues to report to those charged with governance.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Non-current assets</p> <p>Audit procedures highlighted that the information held on the Fixed Asset Register was not up-to-date and had not been amended to account for a number of assets which had been sold, scrapped or lost during the years leading up to the 2015/16 financial year.</p> <p>Risk</p> <p>There was a risk of material error in the financial statements and misreporting of the board's financial performance.</p>	<ul style="list-style-type: none"> • Expanded physical asset verification testing by audit team • Review of the results of the board's 100% physical asset verification of Plant & Machinery and IT assets performed in May and June 2016. • Normal audit procedures applied to additions, disposals, depreciation calculations and impairments. 	<ul style="list-style-type: none"> • Following a series of verification exercises the final total cost of assets which could not be located by the board was £1.439 million. This figure has been included in Note 11 to the accounts as "Disposals". • The Net Book Value of the missing assets is £48,000 which is below the level of materiality and is included in the list of unadjusted errors. • An unqualified opinion that the financial statements give a true and fair view has been issued. However, the conclusion on Other Matters has been modified to state that adequate accounting records have not been kept in relation to certain property, plant and equipment assets.

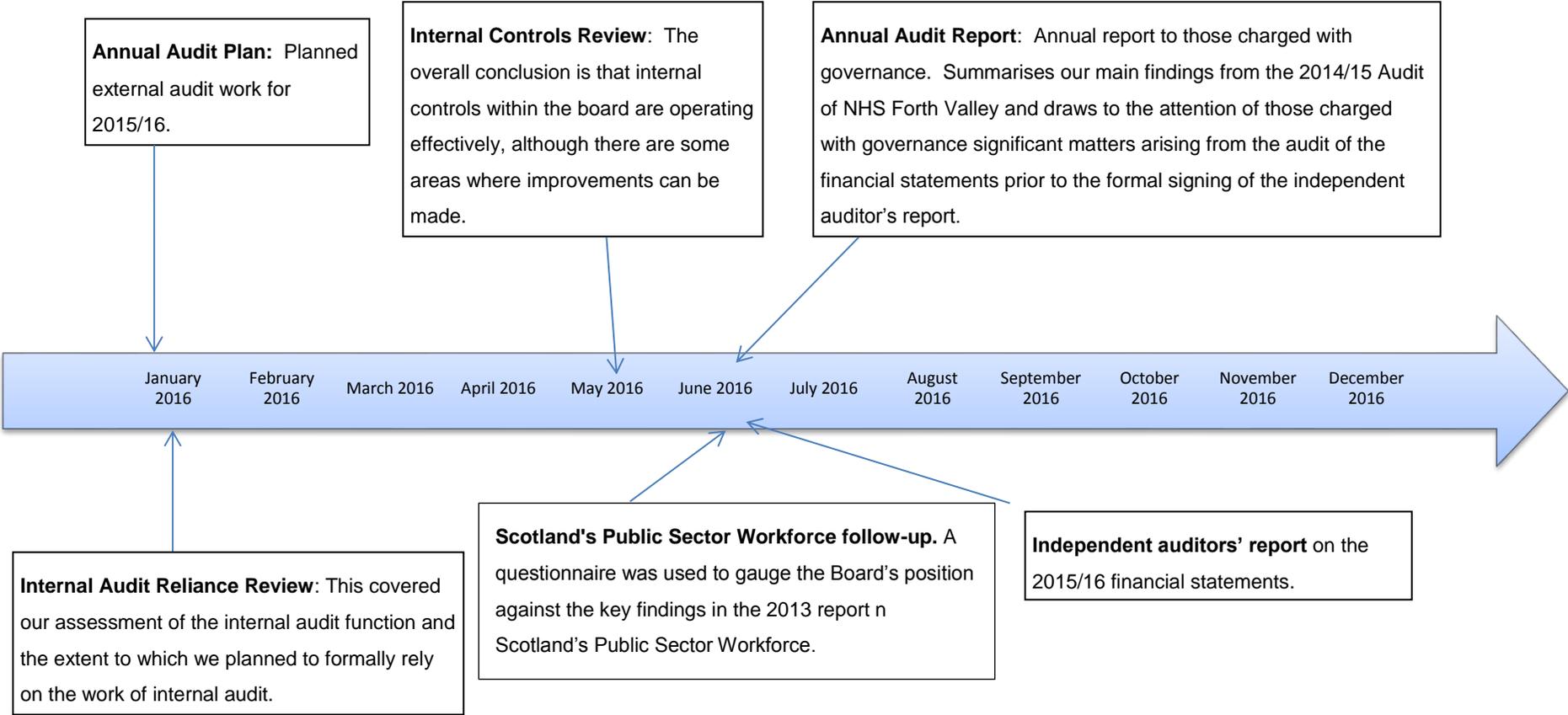
Audit Risk	Assurance procedure	Results and conclusions
<p>Fraud over income</p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams are significant. The majority of the board's funding comes from Scottish Government allocations but there is also income from other sources which increases the risk of a material misstatement in the reported revenue position.</p>	<ul style="list-style-type: none"> • Evaluation of accounting policies for income and expenditure. • Detailed testing of journal entries. • Review of accounting estimates. • Analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income. • Substantive testing of income transactions to confirm occurrence and accuracy of amounts in the financial statements. • Audit testing of disposals of non-current assets 	<ul style="list-style-type: none"> • As referred to in the audit opinion, inadequate accounting records were maintained for Plant and Machinery and IT assets. Detailed verification work by the board however has allowed us to conclude that the risk of material error remains low because the NBV of the missing assets was below the level of materiality. • Excluding the issues highlighted within Non-current Assets, audit testing did not highlight any areas of concern regarding fraud over income.
<p>Financial position</p> <p>The board faces a wide range of financial challenges including achievement of breakeven by the year end. Significant increases in patient travel, drug and locum expenditure place further pressure on the Board and present a risk that breakeven will not be achieved.</p>	<ul style="list-style-type: none"> • Review of committee minutes and financial monitoring reports. • Detailed cut-off testing. • Testing of journal entries. • Attendance at audit committee meetings. • Detailed testing of income and expenditure transactions to ensure correct classification. 	<ul style="list-style-type: none"> • No material misstatements were identified in this area. • All financial targets were achieved.

Audit Risk	Assurance procedure	Results and conclusions
<p>Preparation of financial statements</p> <p>Our Annual Audit Plan included the risk that the narrative sections of the Board’s accounts would again contain a significant number of spelling and grammatical errors leading to additional work by the finance team to ensure that the financial statements were of the appropriate quality. This increases the risk that deadlines are missed due to the additional time required to check subsequent versions of the financial statements.</p>	<ul style="list-style-type: none"> • Detailed review of the narrative sections of the financial statements to ensure compliance with guidance • Ongoing discussions with Director of Finance • Attendance at Audit Committee meetings 	<ul style="list-style-type: none"> • Although the quality of the narrative sections has improved, further work is still required to ensure that fewer versions of the accounts are submitted for audit. All changes identified by the auditors should be processed in a single version of the accounts. The auditors this year were presented with 7 versions of the accounts and this led to additional time by the audit team and the finance department.
<p>Government Financial Reporting Manual (FReM) changes</p> <p>Changes to the FReM require the inclusion of a performance report and an accountability report within the financial statements. There is a risk of non-compliance with guidance and missed deadlines if the required changes are not processed appropriately.</p>	<ul style="list-style-type: none"> • Review of the board’s performance and accountability reports to ensure compliant with guidance. 	<ul style="list-style-type: none"> • The performance and accountability reports have been prepared in compliance with the FReM.

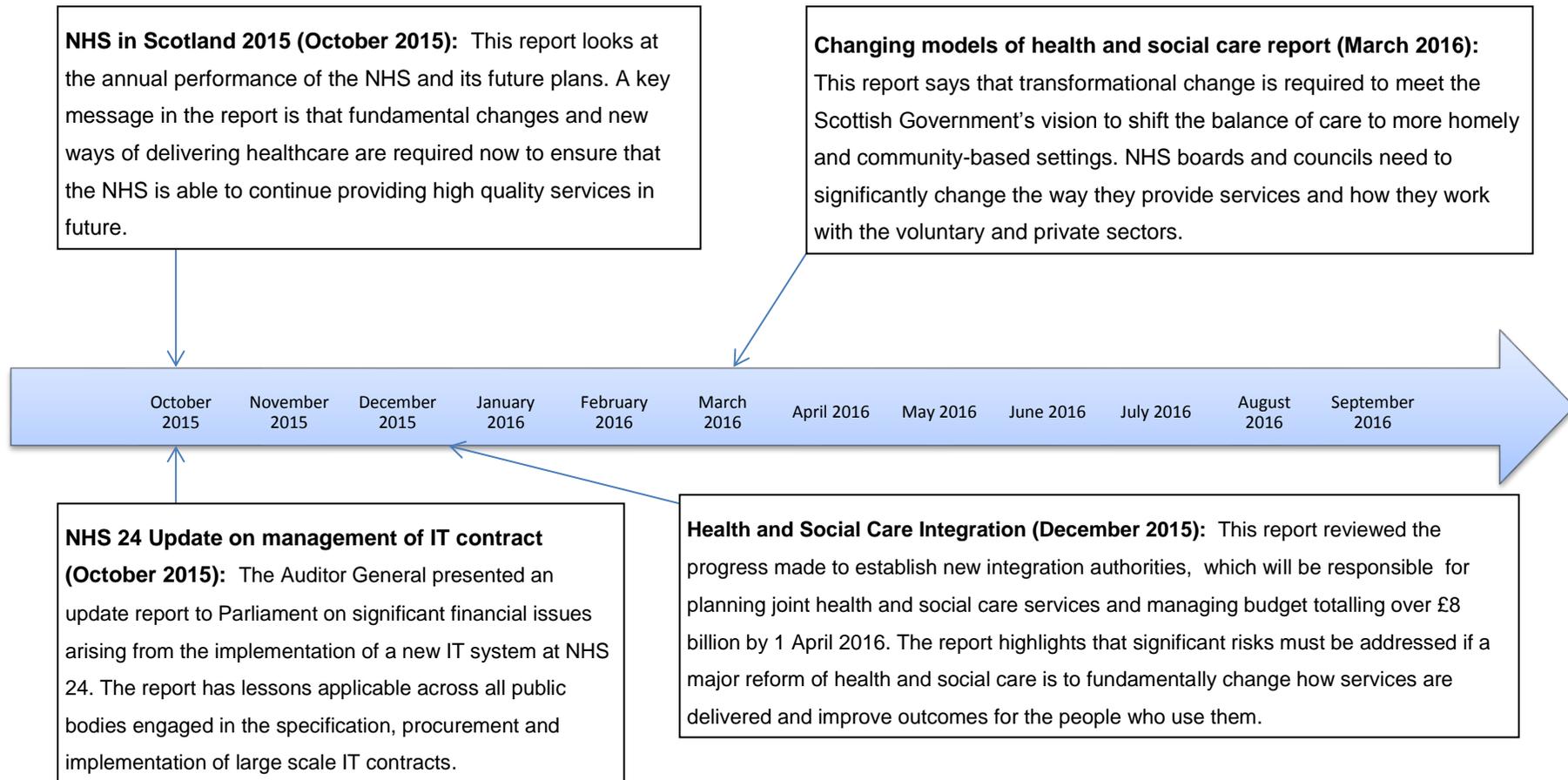
Audit Risk	Assurance procedure	Results and conclusions
<p>Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the annual accounts.</p>	<ul style="list-style-type: none"> • Completion of 'review of the work of an expert' for the professional valuer • Focused substantive testing of key areas 	<ul style="list-style-type: none"> • No material misstatements were identified
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>Non-recurring savings</p> <p>A significant proportion of the Board's total planned savings for 2015/16 were non-recurring in nature. There is a risk that non-recurring savings put pressure on future years' budgets and that financial targets may not be achieved.</p>	<ul style="list-style-type: none"> • Review committee minutes and reports monitoring the financial position through the year including achievement of savings targets • Attendance at audit committee meetings • Regular discussion with the Director of Finance and the Finance team 	<ul style="list-style-type: none"> • The board achieved £2.169m of savings in 2015/16 which exceeded the recurring savings target of £2.071m. However, only £710,000 related to recurring savings with £1.458m achieved through non-recurring savings. • The balance of unachieved recurring savings has been carried forward in the ongoing financial plan. Achieving the required levels of recurring savings will therefore be particularly challenging going forward for the board.

Audit Risk	Assurance procedure	Results and conclusions
<p>Workforce planning</p> <p>The board faces a significant challenge in maintaining adequate staffing levels across the workforce. Continued reliance on locums and agency staff is not sustainable and there is a risk that this could have a significant impact on the board's plans to achieve the savings required for longer-term financial sustainability.</p>	<ul style="list-style-type: none"> • Completion of targeted follow-up work based on the recommendations in the 2013 Scotland's Public Sector Workforce report. 	<p>We reviewed the workforce planning arrangements across the board and met with key officers.</p> <p>The board has established sound workforce planning arrangements and continues to work on recruiting and retaining staff in key areas.</p>

Appendix II: Summary of NHS Shetland local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16



Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
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No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	32	<p>Issue</p> <p>Audit testing revealed that the Fixed Asset Register included details of several assets which had been sold or disposed of by the board. The reason for this is that the appropriate paperwork was not completed by asset owners and submitted to the finance department to indicate that the FAR should be updated. This contravenes the board's Standing Financial Instructions (SFIs) and increases the risk that there will be errors in the financial statements.</p> <p>Recommendation</p> <p>The board should remind all staff of the need to comply with SFIs and should ensure that regular physical verifications of assets take place.</p>	<p>The Board is currently in the process of reviewing the Standing Financial Instructions (SFIs) to take account of the need to address legislative implications of Public Procurement Legislation and Health and Social Care Integration. As part of this review, the policy and protocols covering the FAR will now be reviewed to address the process and documentation issues highlighted.</p> <p>An outline plan of how to tackle these issues in respect of the Board's Asset Verification process will be discussed and agreed by a specific working group established to review the FAR. The first meeting of that group is on 20 June 2016. The group's proposals will be converted into a Board policy with supporting protocols and taken through the appropriate internal review process to approve the policy.</p> <p>Action: The Audit Committee should receive in September the proposals to address the FAR and the full SFIs review in November. The revised SFIs would then go to the December Board meeting for approval.</p>	<p>Director of Finance</p> <p>December 2016</p>

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	46	<p>Issue</p> <p>We reviewed the Board's standing financial instructions and standing orders, which are updated annually, and concluded that, given the issues identified in the capital accounting system, there is scope for the SFIs to be updated.</p> <p>Recommendation</p> <p>The board should review the SFIs to ensure that the instructions relating to monitoring of assets are appropriate.</p>	<p>The policy and protocols covering the FAR will now be reviewed to address the process and documentation issues highlighted.</p> <p>An outline plan of how to tackle these issues in respect of the Board's Asset Verification process will be discussed and agreed by a specific working group established to review the FAR. The first meeting of that group is on 20 June 2016. The group's proposals will be converted into a Board policy with supporting protocols and taken through the appropriate internal review process to approve the policy.</p> <p>The Audit Committee should receive in September the proposals to address the FAR.</p> <p>Action: Following agreement of the policy all budget holders will be sent a copy of the revised policy and protocols. They will be asked to sign and return a declaration they have read policy and protocols and understood their responsibilities as outlined in the document.</p>	<p>Director of Finance</p> <p>October 2016</p>

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	55	<p>Issue</p> <p>The board achieved its savings target of £2.071 million, but only £710,000 (33%) were on a recurring basis. As a result, a recurring savings target of £1.461 million has been carried forward in the ongoing financial plan. There is a risk that the financial plan and financial targets will not be achieved</p> <p>Recommendation</p> <p>The board should ensure that plans are in place for savings to be achieved on a recurring basis.</p>	<p>The Board's Strategy and Redesign Committee (SRC) leads on holding the Executive Management Team (EMT) to account on behalf of the Board for efficiency and redesign. They have recently received and discussed internal audit's report on the Board's capacity for delivering the challenging savings targets required.</p> <p>EMT has established a project Board that includes key Heads of Service for the delivery of redesign projects to own and manage the Board's plan. The actions agreed at these meetings inform management reports to SCR.</p> <p>The outline draft efficiency targets for the next 5 years were set out in the Board's Local Delivery Plan. This included specific proposals for 2016-17 and targets for 2017-18 to 2020-21. Recurring plans have been identified for £3m in 2016-17.</p> <p>Action: Approve the 2017-18 financial plan in December 2016 and that schemes for 80% of the recurring savings targets will have been developed by that deadline.</p>	Chief Executive December 2016

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4.	57	<p>Issue</p> <p>Backlog maintenance is estimated to be around £2.3 million of which £1.6 million is assessed by the board as “Significant” or “High” and relates to Gilbert Bain Hospital. It will be challenging for the board to address these levels of maintenance in the current financial climate.</p> <p>Recommendation</p> <p>The board should ensure that sustainable plans are put in place to address the levels of backlog maintenance.</p>	<p>NHS Shetland has developed a ten year capital plan that is reviewed and updated annually.</p> <p>The annual review continuously re-evaluates priorities against the available resources.</p> <p>The Head of Estates leads on the annual completion of NHS Shetland Property Asset Management return that informs the classification of the Board’s estate and evaluates risk attached to the physical state of the Board’s assets. This informs the use of both the Board’s revenue estate and facilities budgets and proportion of the capital budget utilised to address pressing backlog maintenance issues.</p> <p>The out-turn report from NHS Shetland Property Asset Management return is reported to the Board annually.</p> <p>Action: The Board will agree a 10 year capital plan that takes into account the relevant priorities associated with backlog maintenance, estate improvement and equipment replacement in line with available resources.</p>	<p>Head of Estates April 2017</p>

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
5.	58	<p>Issue</p> <p>A number of assets reviewed during the audit were not appropriately tagged. This increases the risk of loss to the board.</p> <p>Recommendation</p> <p>The board should ensure that assets are tagged where practicable promptly on purchase.</p>	This issue will be covered within the actions outlined in issues 1 and 2 above.	Director of Finance October 2016
6.	59	<p>Issue</p> <p>Audit testing indicated that it is necessary for the board to improve the details recorded on the Fixed Asset Register to ensure that the description is accurate and that serial numbers are included. Insufficient levels of detail hinder checks of assets and may lead to inaccuracies in the accounts when assets are sold or disposed of.</p> <p>Recommendation</p> <p>The board should ensure the FAR is an accurate record of the board's assets.</p>	This issue will be covered within the actions outlined in issues 1 and 2 above.	Director of Finance October 2016