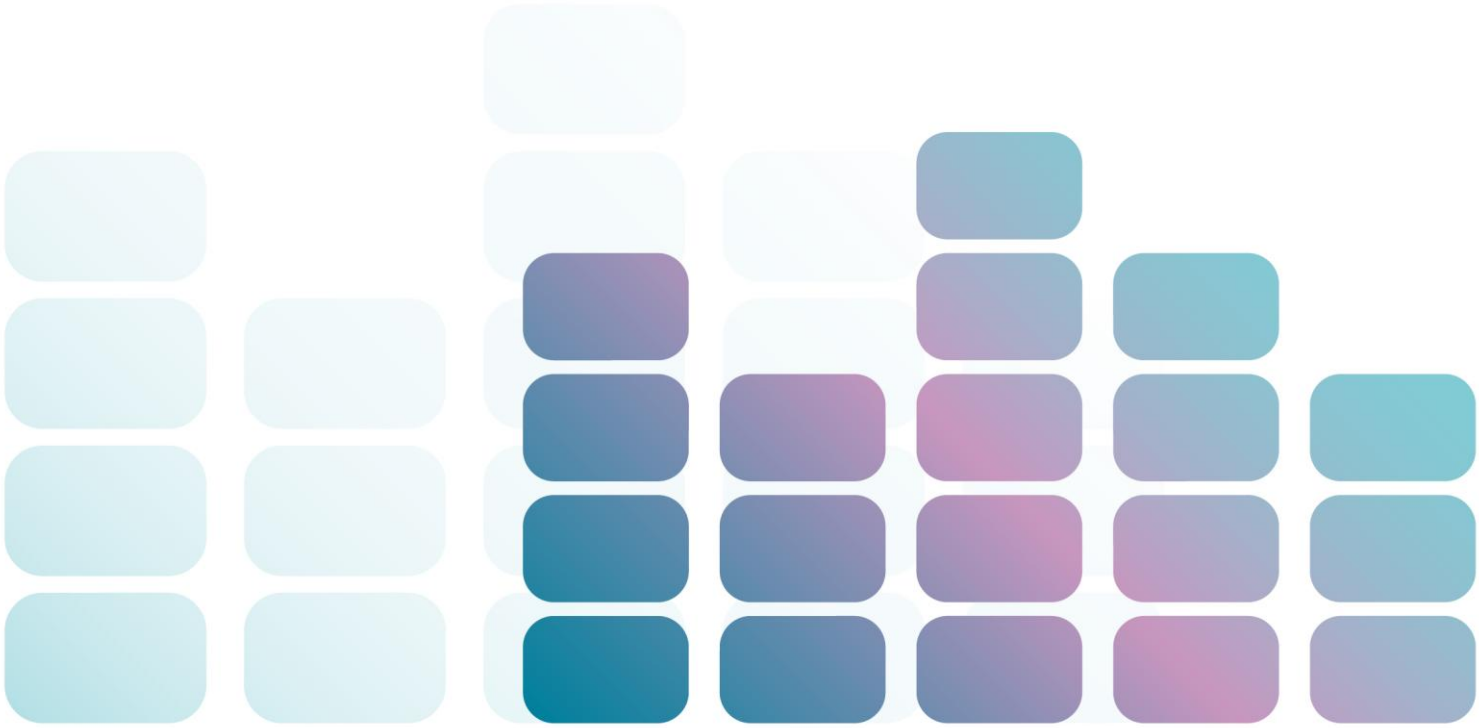
NHS Lothian

2024/25 Annual Audit Report



AUDIT SCOTLAND

Prepared for NHS Lothian and the Auditor General for Scotland
June 2025

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Key messages

Audit of the annual report and accounts

1 All audit opinions stated that the annual report and accounts were free from material misstatement.

2 There were no significant findings or key audit matters to report. All audit adjustments required to correct the financial statements were processed by NHS Lothian.

Financial management

3 NHS Lothian operated within the key financial targets set by the Scottish Government in 2024/25.

4 NHS Lothian exceeded its revised savings target of £58 million, with around 90 per cent of savings recurring in nature.

5 Our audit work found that the arrangements in place for securing sound financial management were effective and appropriate.

Financial sustainability

6 The Five-year Financial Plan for the period 2025/26 to 2029/30 projects a funding gap of £144 million. This is an improvement on the previous period's financial plan.

7 A break-even position for 2025/26 is forecast, however this is subject to achievement of the Financial Recovery Plan target of 3% efficiency savings (equating to £63 million).

8 NHS Lothian has developed a business continuity plan to prioritise capital projects, but current funding is not sufficient to maintain current service provision.

Vision, leadership and governance

9 Our audit work on the arrangements at NHS Lothian in respect of its vision, leadership and governance found that these were effective and appropriate.

Use of resources to improve outcomes

10 NHS Lothian has suitable arrangements in place to monitor performance against its strategic objectives.

11 NHS Lothian has been escalated to Stage 3 of the NHS Scotland Support and Intervention Framework as a result of waiting time performance for CAMHS. A recovery plan will be included in the 2025/26 annual delivery plan.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of NHS Lothian's annual report and accounts and the wider scope areas specified in the Code of Audit Practice (2021).

2. The Annual Audit Report is addressed to NHS Lothian and will be published on Audit Scotland's website in due course.

Appointed auditor and independence

3. Pauline Gillen, of Audit Scotland, has been appointed as external auditor of NHS Lothian for the period from 2024/25 until 2026/27. As reported in the Annual Audit Plan, Pauline Gillen and the audit team are independent of the body in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team, including no provision of non-audit services.

Acknowledgements

4. We would like to thank NHS Lothian and its staff, particularly those involved in preparation of the annual report and accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Performance Report and Governance Statement.
- An opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on the body's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the body's arrangements for securing Best Value.
- Provision of this Annual Audit Report.

Responsibilities and reporting

6. The Code of Audit Practice sets out the respective responsibilities of the body (in this case NHS Lothian) and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts, and concluding on the body's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may

not be all that exist. Communicating these does not absolve the body from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at Appendix 1 setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

NHS Lothian's responsibilities

10. NHS Lothian has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements for the body and its group that gives a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

National and performance audit reporting

11. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to the body and the audit and risk committee (ARC). Details of national and performance audit reports published over the last year can be seen in Appendix 3.

Audit of the annual report and accounts

Main judgements

All audit opinions stated that the annual report and accounts were free from material misstatement.

There were no significant findings or key audit matters to report. All audit adjustments required to correct the financial statements were processed by the body.

Audit opinions on the annual report and accounts

12. NHS Lothian and its group's annual report and accounts were approved by the Board on 25 June 2025 and signed by the appointed auditor on 27 June 2025. The Independent Auditor's Report is included in the body's annual report and accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.

Audit timetable

13. The unaudited annual report and accounts were received on 14th May 2025, while the template and most of the working papers were received in advance of then. While this is slightly later than the timescale as set out in the annual audit plan, it did not prevent the audit from being completed on time.

Audit Fee

14. The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £366,580. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

Materiality

15. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

16. Broadly, the concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

17. Materiality levels for the audit of NHS Lothian and its group were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts. No changes were required to the materiality levels, which are outlined in Exhibit 1.

Exhibit 1
2024/25 Materiality levels for the body and its group

Materiality	NHS Lothian and its Group
Overall Materiality	£45 million
Performance materiality	£33 million
Reporting threshold	£500,000

Source: Audit Scotland

Significant findings and key audit matters

18. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for the body is the ARC.

19. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

20. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.

- Significant events or transactions that occurred during the year.

21. The significant findings and key audit matters to report are outlined in Exhibit 2.

Exhibit 2
Significant findings and key audit matters

Significant findings and key audit matters	Outcome
1) Revaluation of the Royal Infirmary of Edinburgh (RIE) An external valuation exercise was carried out in 2024/25 which included the RIE. Although there are known fire safety issues with the hospital, the valuation did not conclude that an impairment of the RIE was appropriate. This was partly because costs were unknown. However, a report to the NHS Lothian Board in April 2024 provided a cost estimate and referred to decanting which suggests future impact on use which the NHS capital manual sets out should result in an impairment. There is a risk that the valuation was misstated.	The issue was discussed with management at NHS Lothian who agreed to provide the Board report to the valuer. The valuer subsequently reviewed the report and concluded that an adjustment was not appropriate. This view was based on available information, which would not allow for an estimate of the cost or timescales required to complete the work. The valuer refers to a fire strategy which, once developed, will identify timescales, cost estimates, work programmes, decant requirements etc. The valuer requested that the matter be referred back to them when this information is known. We are satisfied with the valuer's opinion on this matter but have raised a recommendation for NHS Lothian to revisit this issue when the business case is finalised. See Appendix 1 (recommendation 1)

Significant findings and key audit matters	Outcome
2) Liberton Hospital – difference of opinion During our 2022/23 audit, NHS Lothian informed us that it had received £5 million from City of Edinburgh Council for Liberton Hospital. Through our discussions we found that there was a signed contract for the sale and a signed contract titled 'licence to occupy' between NHS Lothian and the council. NHS Lothian treated the £5 million as deferred income as it had applied the relevant accounting standard for recognising revenue (IFRS 15) which requires this approach until certain conditions have been met. This is mainly because it continued to provide services at the hospital. The asset therefore remains on NHS Lothian's balance sheet with a net book value of around £2 million. However, in our view this is a sale and leaseback arrangement as there are signed agreements in place for the sale and the licence to occupy. We consider the latter to be a lease agreement. During 2024/25 we found that NHS Lothian continues to hold the asset on its balance sheet and is treating the income as deferred. NHS Lothian has confirmed to us that the asset transfer will take place in 2025.	It remains our view this is a sale and leaseback arrangement as there are signed agreements in place for the sale and the licence to occupy. As NHS Lothian maintains its position that it is not a disposal, we have agreed to record this as an unadjusted misstatement. Given the amounts involved this does not materially impact on the financial statements.

Source: Audit Scotland

Qualitative aspects of accounting practices

22. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the body's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

23. The appropriateness of accounting policies adopted by NHS Lothian was assessed as part of the audit. These were considered to be appropriate to the circumstances of NHS Lothian, and there were no significant departures from the accounting policies set out in the Government Financial Reporting Manual (FReM).

Accounting estimates

24. Accounting estimates are used in number of areas in NHS Lothian's financial statements, including the valuation of land and building assets and the clinical and medical negligence provision. Audit work considered the management processes which NHS Lothian has in place around its accounting estimates, including the assumptions and data used in making any estimates, and the use of management experts where appropriate. Our audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

25. Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in Exhibit 5, (page 15).

Disclosures in the financial statements

26. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as property valuation.

Group audit

27. NHS Lothian is part of a group and prepares group financial statements. The group is made up of six components, including NHS Lothian which is the parent of the group. As outlined in the Annual Audit Plan, audit work was required on a number of the group's components for the purposes of the group audit, and this work was performed by a combination of the audit team and the components' audit teams. Group audit instructions were issued to component auditors, where required, to outline the expectations and requirements in performing the audit work for the purposes of the group audit. The audit work performed on the group's components is summarised in Exhibit 3.

Exhibit 3
Summary of audit work on the group's components

Group component	Auditor and audit work required	Summary of audit work performed
NHS Lothian	**Audit Scotland** Fully scope audit of the body's annual report and accounts.	The outcome of audit work performed is reported within the Annual Audit Report, with details of significant findings and key audit matters reported in Exhibit 2.
NHS Lothian Charity	**Chiene & Tait** Procedures due on the investment fund balance.	The specific audit procedures required on NHS Lothian Charity were performed by the component auditor, and these were evaluated and reviewed by the audit team. No significant issues were identified with the audit procedures performed by the component auditor.
East Lothian IJB	**Audit Scotland** Analytical procedures at group level	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.
Edinburgh IJB	**Audit Scotland** Analytical procedures at group level	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.
Midlothian IJB	**Audit Scotland** Analytical procedures at group level	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.
West Lothian IJB	**Audit Scotland** Analytical procedures at group level	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.

Source: Audit Scotland

28. [ISA (UK) 600 requires auditors to report the following matters if these are identified or encountered during an audit:

- any instances where review of a component auditor's work gave rise to issues and how this was resolved.
- any limitations on the group audit.
- any frauds or suspected frauds involving group or component management.

29. Our work did not find any such issues.

Audit adjustments

30. Audit adjustments were required to the financial statements to correct misstatements that were identified from the audit. There was only one audit adjustment greater than the reporting threshold of £500,000 which relates to Liberton Hospital and was outlined in Exhibit 2.

31. It is the auditor's responsibility to request that all misstatements greater than the reporting threshold are corrected, even if they are not material. As stated in Exhibit 2. management of NHS Lothian have not processed an audit adjustment to correct this misstatement.

32. Two further misstatements were found from our audit testing. These related to accruals for £1.25 million and £0.5 million which were not appropriately supported. Management at NHS Lothian accepted these misstatements and opted not to adjust for them as they were not material.

33. The value, nature, and circumstances of the uncorrected misstatements were considered, individually and in aggregate, by the audit team, and it was concluded these were not material to the financial statements. As a result, these did not have any impact on the audit opinions given in the Independent Auditor's Report.

34. In addition, NHS Lothian identified a misstatement of £26.9 million. This related to a prepayment which had erroneously been included within accruals. We confirmed this error and agreed with the corrective action proposed. The net impact is nil on the net asset position on statement of financial position It has no impact on the statement of comprehensive expenditure.

Significant risks of material misstatement identified in the Annual Audit Plan

35. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in Exhibit 5.

Exhibit 5
Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response	Outcome of audit work
1. Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.	Audit work performed found: • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • No significant issues were identified from transactions outside the normal course of business. • The controls in place for identifying and disclosing related party relationships and transactions were adequate. • No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias. **Conclusion:** no evidence of fraud caused by management override of controls.

Risk of material misstatement	Planned audit response	Outcome of audit work
2. Valuation of property, plant and equipment NHS Lothian held £1,160.3 million of property, plant, and equipment (PPE) at 31 March 2024, of which £1,014.1 million was land and building assets. NHS Lothian is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated cost replacement (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.	The audit team will: • Evaluate the design and implementation of controls over the valuation process. • Review the information provided to the valuer and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the appropriateness of the key data and assumptions used in the 2024/25 valuation process, and challenge these where required. • Review management's assessment that the value in the balance sheet of assets not subject to a valuation process in 2024/25 is not materially different to current value at the year-end, and challenge this where required.	Audit work performed found: • The design and implementation of controls over the valuation process were appropriate. • The information provided to the valuer was accurate and complete. • The valuer had sufficient competence, capability, and objectivity to perform their work. • Management are involved in the valuation process and have an appropriate level of oversight. • The data and assumptions used in the 2024/25 valuation process were appropriate. • Management's assessment of assets not subject to a valuation process in 2024/25 was reasonable and concluded there was unlikely to be a material difference to the current value at the year-end. **Conclusion:** the valuation of PPE is not materially misstated.

Risk of material misstatement	Planned audit response	Outcome of audit work
3. Accounting for changes in service concession arrangements NHS Lothian operates a number of properties through private finance initiative (PFI) or public private partnerships (PPP) contracts. These are accounted for as service concession arrangements under IFRS 16 with liabilities disclosed in the statement of financial position at 31 March 2024 of £450.5 million. One such contract relates to the Royal Infirmary of Edinburgh (RIE) which at 31 March 2024 had an associated liability of £195.4 million. During 2024/25, NHS Lothian proposed against entering into the secondary contract for RIE which is due to commence in 2027. As the model supporting the liability had assumed that the secondary contract would proceed, this will require to be revisited in 2024/25. Given the value of the liability at March 2024, this will result in a material adjustment.	The audit team will: • Review working papers to ensure that the adjustment correctly reflects the decision taken by the Board and is in line with IFRS 16. • Ensure that the adjustment has been appropriately disclosed in the annual report and accounts.	Audit work performed found: • The supplemental agreement was not signed at 31 March 2025. As a result, no conditions existed at the yearend to allow NHS Lothian to break from the existing contract and retain use of the hospital. • Under IFRS 16, such a break would represent a modification of the lease agreement. The standard also states that any modification should only apply from the date it is agreed. • As the supplemental agreement remains unsigned, no specific disclosures were required within the annual report and accounts. **Conclusion:** the estimation of the liability in respect of the RIE contract is not materially misstated.

Source: Audit Scotland

Prior year recommendations

36. NHS Lothian has made good progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with the body and are outlined in Appendix 1.

Wider scope and Best Value audit

Audit approach to wider scope and Best Value

Wider scope

37. As reported in the 2024/25 Annual Audit Plan, the wider scope audit areas that frame public sector audit are:

- Financial Management
- Financial Sustainability
- Vision, Leadership and Governance
- Use of Resources to Improve Outcomes.

38. Audit work has been performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements NHS Lothian has in place for each of these is reported in this chapter.

Duty of best value

NHS Lothian demonstrates commitment to securing fairness and equality characteristic of best value

39. The Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. Best value in public services: guidance for accountable officers as issued by Scottish Ministers, sets out their duty to ensure that arrangements are in place to secure best value in public services.

40. Last year we reported that NHS Lothian had prepared a document outlining the various actions and arrangements in place to meet each of the best value characteristics. This year our work focused on the fairness and equality characteristic.

41. We found that:

- Equality objectives and outcomes are promoted across NHS Lothian through various methods. This includes mandatory and voluntary training as well as events such as the equality and diversity conference.

- NHS Lothian incorporates equalities in its strategic planning. For example, the Lothian Strategic Development Framework (LSDF) includes a priority to reduce inequalities under the objective to develop NHS Lothian as an anchor organisation. The term anchor organisation meaning that the Board's long-term sustainability is tied to the wellbeing of the population it serves. Further, a commitment to inclusion is explicit throughout the Equality and Human Rights Strategy which is aligned with the LSDF.

- Equality impact and Fairer Scotland assessments influence strategic decision-making, alongside consultation with relevant stakeholders. For example, during 2024/25 an equality impact assessment influenced a decision regarding the use of diabetes technology for adults and children.

- NHS Lothian has developed defined equalities actions which are approved by the corporate management team and the Lothian Partnership Forum. Progress against these actions is monitored by the staff governance committee and Lothian Partnership Forum.

- Measurable indicators are being developed for each of the strategic equality and human rights priorities. This work has not been completed in time for the 2024/25 annual report and accounts but will progress in 2025.We will follow up during our audit in 2025/26.

42. Accordingly, we are satisfied that NHS Lothian demonstrates commitment to securing best value in relation to fairness and equality. We are also assured that it is taking steps to further improve existing arrangements.

Financial Management

Conclusion

NHS Lothian operated within the key financial targets set by the Scottish Government in 2024/25.

NHS Lothian exceeded its revised savings target of £58 million, with around 90 per cent of savings recurring in nature.

Our audit work found that the arrangements in place for securing sound financial management were effective and appropriate.

NHS Lothian operated within its Revenue Resource Limit (RRL) of £2,434 million

43. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within. Exhibit 6 shows that the Board operated within its limits during 2024/25.

Exhibit 6
Performance against resource limits in 2024/25

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	2,310	2,309	1
Non-core revenue resource limit	124	124	0
Total revenue resource limit	**2,434**	**2,433**	**1**
Core capital resource limit	40	40	0
Non-core capital resource limit	1	1	0
Total capital resource limit	**41**	**41**	**0**
Cash requirement	**2,492**	**2,492**	**0**

Source: NHS Lothian Annual Report and Accounts 2024/25

NHS Lothian exceeded its savings target, and around 90 per cent of savings are recurring

44. Last year we reported that there was a residual funding gap of £29 million for 2024/25. This included £10 million worth of forecast savings which NHS Lothian did not include in its submission to the Scottish Government. Therefore, NHS Lothian worked to close a gap of £39 million, which incorporated £53 million worth of forecast savings.

45. As reflected in reports provided to the Board and the Finance and Resources Committee (FRC) over the year, this gap was fully reduced by the year end. Exhibit 7 provides details of the movements across the period. This demonstrates that NHS Lothian has been able to effectively manage its resource position in a challenging year.

46. Over the course of the year NHS Lothian has exceeded its revised forecast of £58 million of savings, delivering £60 million. Of this total, around £54 million (90%) are assessed as being recurring.

Exhibit 7
Movement in forecast resource gap during 2024/25

Description	£m
Forecast resource gap per submission to Scottish Government	(39)
Additional new medicines funding	8
SLA recovery	3
Increases to financial recovery plans	13
Improved forecast positions offset against overspends	2
CNORIS cost reduction	4
Release of funding flexibility	10
Year-end position	**1**

Source: NHS Corporate Management Team report, May 2025

Financial management arrangements at NHS Lothian are effective and appropriate

47. Through the course of our audit work we have observed that NHS Lothian has appropriate financial management arrangements in place. Budgets are well managed and robustly monitored throughout the financial year contributing towards the achievement of a break-even position at the year end and the achievement of savings targets as noted above.

48. There is evidence of a culture of efficient scrutiny and accountability which is demonstrated through regular and accurate reporting to the Board and FRC. The finance team are also open and transparent with the external audit team on significant and relevant matters that arise during the year.

NHS Lothian had appropriate internal control arrangements during 2024/25

49. We carried out a review of the design and implementation of systems of internal control, including those relating to IT, relevant to our audit approach. We did not identify any significant internal control weaknesses which could affect NHS Lothian's ability to record, process and report financial and other relevant data and which could result in a material misstatement in the financial statements. We did find some minor issues which we will follow up in 2025/26.

Control weaknesses within the service organisation resulted in the service auditor issuing qualified opinions

50. Across the NHS in Scotland a number of shared services exist. NHS Lothian's control environment includes externally provided services from:

- NHS National Services Scotland (NSS) provision of primary care payments, payroll and the national IT controls
- NHS Ayrshire and Arran provision of the National Single Instance eFinancials service
- Elcom who provide Professional Electronic Commerce Online System (PECOS) the eProcurement system used by NHS Boards across Scotland.

51. The NHS in Scotland procures service audits each year to provide assurance on the controls operating within these shared systems. As part of our overall audit approach, we consider the evidence from service auditors of NHS NSS and NHS Ayrshire and Arran to inform our risk assessment procedures.

52. NHS Ayrshire & Arran procures a Type II service audit of the National Single Instance (NSI) eFinancials services. The service auditor assurance reporting in relation to the NSI eFinancials was unqualified. The assurance gap which was identified in previous years in relation to IT general controls, system backup and disaster recovery remains, however this did not impact on our 2024/25 audit. The assurance gap will be addressed in 2025/26.

53. NHS NSS procures service audits covering Practitioner and Counter Fraud Services (primary care payments), payroll and the national IT

services contract that supports the associated systems. The results and impact on our audit approach are provided below:

- Practitioner and Counter Fraud Services (primary care payments) – unqualified opinion. No further audit procedures required.
- Payroll – qualified opinion regarding controls over new starts and leavers. Further investigation however found that only a very small number of non-critical errors related to the team which processed NHS Lothian's payroll transactions. Consequently, we did not change our audit approach.
- IT services contract – qualified opinion regarding controls relating to access to the systems. Having considered this in context of other mitigating controls at both NHS NSS and NHS Lothian, along with our assessment of materiality, we are content that no change in our audit approach was required.

There is an assurance gap relating to the PECOS system following the Scottish Government's decision to change system

54. NHS Lothian use the PECOS purchase to pay application. The PECOS application is available to all Scottish public sector bodies under the Scottish Government eCommerce shared service license agreement. In November 2024, the hosting arrangements of the PECOS application changed from being held at the Scottish Government's Saughton House data centre to being held and managed externally from the Scottish Government by third-party provider, Elcom.

55. While the Scottish Government own the contractual arrangement with Elcom, it is for individual bodies to ensure themselves that there are appropriate application and hosting controls in place at Elcom. NHS Lothian has not received any assurances around the operation of these controls at the third-party provider.

56. NHS Lothian is satisfied that there have been no issues around service performance or availability of information to support the preparation of the financial statements and there is no adverse impact on the Board's system of internal control or governance arrangements in respect of the use of the PECOS application.

Recommendation 2

NHS Lothian should explore how they can gain assurance over the IT arrangements in relation to PECOS.

NHS Lothian enhanced its arrangements to detect and prevent fraud during 2024/25

57. In the public sector there are specific fraud risks and bodies are responsible for implementing effective systems of internal control, including internal audit. In previous years we recommended that NHS Lothian could enhance its arrangements by developing a formal counter-fraud policy which staff are required to adhere to and to develop a method to ensure that officers understand the “Our Values into Actions" section of the intranet.

58. A draft Counter Fraud Policy and Response Plan was approved by the ARC in February 2025. This sets out the various roles and responsibilities of all staff in relation to fraud. It also sets out how any investigations should be carried out.

59. In last year’s report, NHS Lothian agreed to update the Checklist of Control document which “Deputy Directors” are required to review, sign and return as part of the annual Certificates of Assurance process. We can confirm that this was updated in 2024/25 to include confirmation of understanding of the "Our Values into Actions" section of the intranet.

60. The actions above address audit recommendations from the 2023/24 Annual Audit Report.

Financial Sustainability

Conclusion

The Five-year Financial Plan for the period 2025/26 to 2029/30 projects a funding gap of £144 million. This is an improvement on the previous period's financial plan.

A break-even position for 2025/26 is forecast, however this is subject to achievement of the Financial Recovery Plan target of 3% efficiency savings (equating to £63 million).

NHS Lothian has developed a business continuity plan to prioritise capital projects, but current funding is not sufficient to maintain current service provision.

The new Medium Term Financial Framework (MTFF) is aligned with the Lothian Strategic Development Framework (LSDF) and identifies actions needed to address funding challenges

61. The MTFF outlines actions to be taken to deliver a balanced budget. This involves setting savings targets for each identified area and identifies key performance indicators. The first draft of the MTFF was submitted to the corporate management team in July 2024.

62. The MTFF is structured in line with five of the six pillars within the LSDF. The pillar regarding population health and anchor institution status has not been included as currently awaiting results from the 2022 census.

63. As the scope of LSDF is wider than NHS Lothian, not all board costs are in the MTFF scope. Those areas not covered include corporate functions, ehealth, and estates and facilities. However, these areas are covered by NHS Lothian's medium term financial planning (covered below).

NHS Lothian continues to maintain effective medium term financial forecasts which show an improved position since last year

64. In December 2024, Audit Scotland issued a report titled NHS in Scotland 2024: Finance and performance. This reported that to address current financial pressures, fundamental change in how NHS services are provided is now urgently needed.

65. It also recommended that NHS boards should work towards setting a balanced financial position in their next three-year plans. These should involve identifying realistic recurring savings targets and reducing their reliance on non-recurring savings.

66. Last year we reported that NHS Lothian's Five-year Financial Plan forecast a funding gap of £193 million at the end of the period (2028-29). The most recent Five-year Financial Plan (presented to the Board in April 2025) projected a smaller gap at the end of the period (2029-30) of £144 million.

67. The Financial Plan forecasts a break-even position for 2025/26 subject to achievement of Financial Recovery Plan submissions and delivery of Financial Recovery Plan target of 3% efficiency savings (equating to £63 million). This compares to a residual gap of £39 million in the financial plan for 2024/25 (referred to under 'Financial Management'). There are several factors influencing this including additional funding streams (both recurring and non-recurring).

While NHS Lothian has set a break-even budget for 2025/26, this relies in part on non-recurring funding and more work is required to identify recurring savings

68. Scottish Government has confirmed that the national brokerage scheme will no longer exist and will be replaced by sustainability funding. For 2025/26 NHS Lothian will receive recurring funding of £11 million and non-recurring funding of £38 million. As NHS Lothian has not previously required brokerage funding, this in effect represents an improved funding position, relative to previous years.

69. While the financial outlook for NHS Lothian has improved, there remains a number of significant challenges. As mentioned under 'Financial Management', around 90% of savings achieved in 2024/25 are recurring which means that additional savings will need to be found in 2025/26.

70. Over and above this, NHS Lothian has identified a new savings target equating to 3% of funding. This represents £63 million of spend. Also, as some of the additional funding in 2025/26 (such as sustainability funding) is non-recurring. This will potentially reduce in future years providing a further challenge.

71. NHS Lothian also continues to receive less from the National Resource Allocation Committee (NRAC) funding model than its population share. The allocation for 2025/26 is 5% below parity, which NHS Lothian estimates as equating to around £10 million for 2025/26.

72. The four Lothian Integrated Joint Boards (IJBs) will also be expected to contribute towards the savings target for 2025/26. A total of £19 million has already been identified from the four IJBs, with a target of £7 million still to be identified.

NHS Lothian has developed a business continuity plan to prioritise capital projects, but current funding is not sufficient to maintain current service provision

73. Last year we reported that the Scottish Government had reduced the level of capital funding to the sector. Consequently, we recommended that

NHS Lothian should include a clear analysis of the impact of the capital allocation on service performance and the delivery of wider objectives for areas such as climate change.

74. During 2024/25, NHS Lothian prepared a business continuity plan (BCP) which was approved by the FRC and submitted to the Scottish Government. The BCP sets out the capital investment required to maintain the estate and asset base, and to provide service continuity. It concluded that in light of recent funding announcements the ability to maintain the existing estate will be extremely limited.

75. This BCP set out prioritised programmes/projects over a 3-year period. This includes £16.8 million of high-risk backlog maintenance for 2025/26 which had still to be funded. It also includes works to maintain the parts of the estate that were planned to be replaced. NHS Lothian has however secured a commitment from the Scottish Government to support the construction of a new eye pavilion.

76. There is clear evidence that NHS Lothian is actively managing its current estate needs. However, the level of capital funding available is not sufficient to maintain the current estate at an appropriate standard for the continued delivery of services.

Vision, Leadership and Governance

Conclusion

Our audit work on the arrangements at NHS Lothian in respect of its vision, leadership and governance found that these were effective and appropriate.

NHS Lothian continues to work towards the LSDF and has appropriate mechanisms in place to monitor its progress

77. In line with last year, NHS Lothian continued to operate with a more focused number of corporate objectives in 2024/25. The aim of this approach is to make it easier for those working in and with the organisation to understand how they fit with the priorities.

78. As in 2023/24, there are corresponding objectives for each of the 6 pillars and 5 parameters from the LSDF. There are an additional 4 objectives covering the RIE, quality and safety, equality and human rights and improving people's health taking the total to 15.

79. A mid-year progress report was provided to the Board in December 2024. This reflected that while NHS Lothian was one of a minority of boards expected to break even, the financial constraints impacted on the achievement of the other objectives. More generally, performance was reported as being consistent with the Scottish average, with the year-end report due to be submitted to the Board in June.

80. As reflected in the 'Financial sustainability' section, NHS Lothian developed its MTFF in 2024/25. This sets out financial savings plans and targets and is appropriately linked to the LSDF and annual financial plans.

Governance arrangements remain appropriate and effective

81. The NHS Lothian Board continues to meet in person every two months and is open to the public. Board papers and minutes are available on the NHS Lothian website, alongside minutes from committee meetings.

82. A broad range of reports of good quality are submitted to these meetings. These include regular reports concerning performance, finance and risk management. The newly appointed Chief Executive is keen to explore how to further refine risk management reports to ensure they are appropriately strategic in nature.

83. As observed through regular attendance at both the Board and the ARC, we can confirm that there is good standard of scrutiny from members.

National report on governance

84. In May 2025, the Auditor General for Scotland issued a report titled 'NHS in Scotland: Spotlight on governance'. This found that NHS boards' ability to drive reform is constrained by the financial, policy and planning parameters set by the Scottish Government.

85. The report included some recommendations for the Scottish Government and NHS Boards to work together on. These related to:

86. Considering how the experience of under-represented groups can be brought to boards

87. Implementing an external review and validation of the Blueprint for Good Governance self-assessment process

88. Ensuring that the next iteration of the Blueprint for Good Governance provides more support on how good governance can support NHS reform and collaborative working.

89. We will track progress against these recommendations during 2025/26.

Use of Resources to Improve Outcomes

Conclusion

NHS Lothian has suitable arrangements in place to monitor performance against its strategic objectives.

NHS Lothian has been escalated to Stage 3 of the NHS Scotland Support and Intervention Framework as a result of waiting time performance for CAMHS. A recovery plan will be included in the 2025/26 annual delivery plan.

The Board has appropriate arrangements to monitor performance against strategic objectives

90. As set out at paragraph 79. the Board receives an interim and final report on progress against its annual corporate objectives. In addition to this, the Board also receives regular performance reporting based on the national NHS Board Delivery Framework.

91. These reports provide updates on performance in relation to national standards. As such, the Board has demonstrated that it has appropriate arrangements in place to monitor performance against strategic objectives.

Waiting times have still to recover to pre-pandemic levels and NHS Lothian has recently been escalated in terms of children and adolescent mental health services

92. The 2024/25 annual report and accounts highlighted the position at the end of March 2024 regarding NHS Lothian's performance against its national waiting time standards. While these are not currently NHS Lothian's only focus for performance monitoring, they provide context for the scale of the impact of the pandemic on the delivery of health services.

93. Exhibit 8 demonstrates how demand, activity and waiting times have still to recover to pre-pandemic levels.

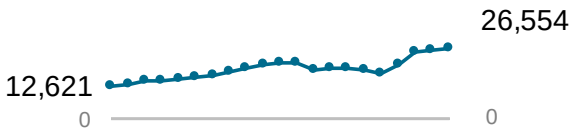
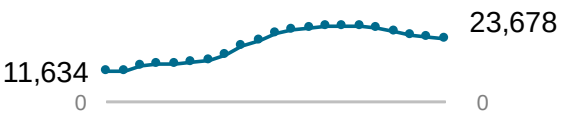
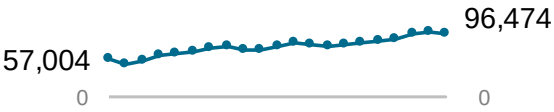
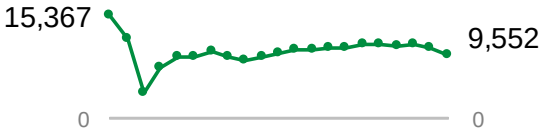
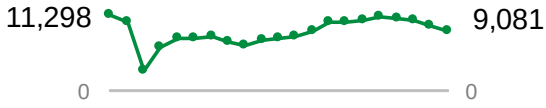
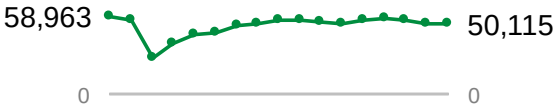
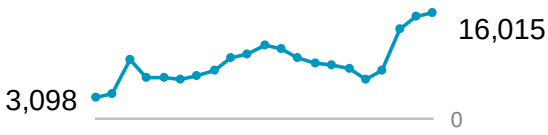
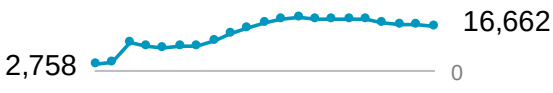
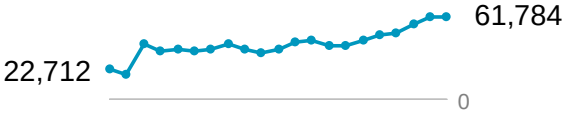
94. In the context of a financially challenging environment there is evidence of some improvement in waiting times compared to last year, however Exhibit 9 shows that only one national standard target has been met (for drug and alcohol services) with performance elsewhere close to or slightly exceeding the Scottish average for most areas.

95. However, despite improvements over the last two years, waiting times regarding children and adolescent mental health services (CAHMS) are significantly below the Scottish average. In January 2025, it was confirmed that NHS Lothian would be escalated for CAMHS performance to Stage 3 of the NHS Scotland Support and Intervention Framework. In response,

NHS Lothian noted that a recovery plan would be included in the 2025/26 annual delivery plan.

96. Initial modelling suggested that 127 new appointments are required each month to meet this standard. Reductions in mental health outcome framework funding will present a significant challenge to achieving this outcome.

Exhibit 8
Trends in demand and activity per acute services

Demand	Quartery trend Dec 2019 to Dec 2024	Change (%)
Ongoing waits for diagnostic tests		110.4%
Ongoing waits for an inpatient or day case admission		103.5%
Ongoing waits for a new outpatient appointment		69.2%
Activity	**Quartery trend Dec 2019 to Dec 2024**	**Change (%)**
Number of scheduled elective operations in theatre system		-37.8%
Number of inpatient and day case admissions		-19.6%
Number of new outpatient appointments		-15.0%
Length of waits	**Quartery trend Dec 2019 to Dec 2024**	**Change (%)**
Ongoing waits longer than 6 weeks for diagnostic tests		416.9%
Ongoing waits longer than 12 weeks for an inpatient or day case admission		504.1%
Ongoing waits longer than 12 weeks for a new outpatient appointment		172.0%

Source: Public Health Scotland

Exhibit 9
Performance against key waiting time standards

Waiting times standard (target)	Performance at March 2022	Performance at March 2023	Performance at March 2024	Performance at December 2024[1]
CAMHS 18 Weeks Proportion of patients that started treatment within 18 weeks of referral **(90%)**	68.3%	62.7%	72.3%	78.4% (Scottish average 93.1%)
Psychological therapies Waiting time within 18 weeks **(90%)**	74.8%	81.7%	82.8%	83.9% (Scottish average 81.6%)
Drug and Alcohol 21 days Proportion of drug and alcohol patients that started treatment within 21 days **(90%)**	80.7%	83.6%	86.6%	90.3% (Scottish average 95.5%)
18 Weeks RTT Proportion of patients that started treatment within 18 weeks of referral **(90%)**	74.5%	70.7%	71.6%	72.1% (Scottish average 68.0%)
Patient Treatment Time Guarantee (TTG) Proportion of inpatients or day case that were seen within 12 weeks **(100%)**	65.3%	55.5%	56.6%	56.3% (Scottish average 57.0%)
Outpatients waiting less than 12 weeks Proportion of patients on the waiting list at month end who have been waiting less than 12 weeks since	51.4%	48.4%	43.9%	36.0% (Scottish average 38.0%)

referral at month end **(95%)**				
A & E attendees Proportion of A & E attendees who were admitted, transferred, or discharged within 4 hours **(95%)**	65.5%	61.5%	59.8%	72.4% (March 2025) (Scottish average 70.6%)
Cancer 31 Days RTT Proportion of patients who started treatment within 31 days of decision to treat **(95%)**	96.8%	91.3%	93.2%	94.7% (Scottish average 94.7%)
Cancer 62 Day RTT Proportion of patients that started treatment within 62 days of referral **(95%)**	79.3%	76.7%	72.8%	80.8% (Scottish average 73.5%

Source: Public Health Scotland

The Scottish Hospitals Inquiry (SHI) has raised several recommendations which NHS Lothian is currently considering

97. In previous years we have provided updates on the SHI. This reviews the construction of the Royal Hospital for Children and Young People/ Department of Clinical Neurosciences (RHCYP/DCN). The Inquiry heard the final oral submissions in respect of NHS Lothian on 17 June 2024 before it concluded on 18 June 2024.

98. Lord Brodie subsequently issued his interim report on 3 March 2025. This set out 11 recommendations covering a range of issues which were also directed at other bodies including NHS Scotland Assure (part of NHS NSS) and Scottish Government/Scottish Futures Trust.

99. As we reported last year, NHS Lothian has been progressing actions from an internal audit report on Governance and Internal Controls in RYCHP/DCN. A number of these are consistent with the SHI recommendations, which ensures that NHS Lothian is well placed to respond to the inquiry's findings.

100. While a full action plan has yet to be developed, NHS Lothian has already identified which recommendations are applicable and those which are covered by previous actions.

101. Since the inquiry began in 2020, NHS Lothian has spent around 25,000 working hours responding to various aspects. This equates to £3.0 million worth of spend over a 3-year period.

Appendix 1

Action plan 2024/25

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. Revaluation of The Royal Infirmary of Edinburgh (RIE) An external valuation carried out in 2024/25 concluded that an impairment of the RIE was not considered appropriate, partly because the extent of potential costs was unknown. However, a report to the NHSL Board in April 2024 provided a cost estimate. The valuer concluded that it was not appropriate to adjust the valuation of the RIE based on the information provided in this report. However the valuer also reflected an adjustment may be possible following the completion of the planned business case for the RIE. There is a risk that the valuation of the RIE is not appropriately revised following the completion of the business case.	NHS Lothian should continue to develop a business case regarding the RIE and should share this with the valuer when it is complete to check if a valuation adjustment is required.	Accepted The Board is currently working with Consort to agree a Supplemental Agreement to the current PFI contract for the RIE, which if agreed will have an impact on the contractual status and liability for hand back works and fire compliance issues on the site. In parallel with the contractual discussions a review is under way to revise the Fire Strategy for the RIE and agree remedial works required. It is anticipated that the scope of the required works will be known by the end of the current financial year, with estimated costs shortly thereafter – which will be shared with our valuers. Director of Finance 31 March 2026

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
2. Assurance gap regarding the use of the PECOS system The PECOS contract is managed via the Scottish Government and was used by the Scottish Government until 2024/25. Historically, there has not been a service auditor arrangement in place to provide necessary assurances, but the operation of the system was subject to review as part of the Scottish Government financial audit which informed our risk assessment procedures. As the system is no longer used by the Scottish Government there is a risk that the contract is not actively managed. While boards can rely on local controls over user access and the operation of interfaces, there is an assurance gap over the general IT environment including back up procedures and disaster recovery.	NHS Lothian should explore how they can gain assurance over the IT arrangements in relation to PECOS.	Partially Accepted This issue applies to health boards across NHS Scotland and therefore requires a national response. We will liaise with colleagues from other boards and the Scottish Government through national forums in order to agree a plan to manage and mitigate this risk. Director of Finance 31 March 2026

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 1 Code of conduct for staff While there is a code of conduct for Board members, there is not one for staff. The intranet ("Our Values into Actions" section) contains similar information to that of a formal employee code of conduct. There is however no formal sign off to verify that staff have reviewed this. Risk – NHS Lothian employees are not fully aware of the level of conduct expected from them in carrying out their role	NHS Lothian should consider requiring relevant staff to confirm they have read and understood the "Our Values into Actions" section of the intranet. **Agreed action** This will be included within the Checklist of Control document which “Deputy Directors” are required to review, sign and return as part of the annual Certificates of Assurance process. **Responsible officer** Board Secretary **Agreed date** 30 June 2025	Implemented The Checklist of Control document for 2024/25 was updated to include confirmation of understanding of the "Our Values into Actions" section of the intranet.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
b/f 2 Impact of reduced capital plans The Scottish Government instructed all NHS Boards to immediately stop any project development spend and direct capital budgets towards maintenance of the existing estate. NHS Lothian has set a capital plan in line with available resources. Risk – The lack of capital investment could lead to asset failure and will impact on service delivery.	NHS Lothian should include a clear analysis of the impact of the capital allocation on service performance and the delivery of wider objectives for areas such as climate change. **Agreed action** In response to the Scottish Government's February 2024 Director's Letter on Whole System Infrastructure Planning NHS Lothian are presently developing their Business Continuity Plan (BCP) for submission to go to the Scottish Government on 31 January 2025. This communicates NHS Lothian's capital priorities and the risks associated with lack of funding for these including on the services and climate change targets. **Responsible officer** Director of Finance **Agreed date** 31 January 2025	Implemented The BCP completed in 2024/25 sets out capital needs and was submitted to the Scottish Government.
b/f 3 Counter fraud policy	To strengthen its internal control environment, NHS Lothian should develop a formal counter-fraud policy which staff are required to adhere to.	Implemented A Counter Fraud Policy and Response Plan was submitted to and approved by the ARC in February 2025
b/f 4. Ownership of PFI / PPP assets	NHS Lothian should progress its work to plan how it will manage processes for all identified PFI / PPP contracts which do not involve a transfer of asset at the end of the contract, to avoid any service disruption.	Implemented NHS Lothian has identified those contracts nearing completion in the medium-term and has identified actions required in light of this.

Appendix 2

Supporting national and performance audit reports

Report name	Date published
Integration Joint Boards: Finance and performance 2024	25 July 2024
The National Fraud Initiative in Scotland 2024	15 August 2024
Alcohol and drug services	31 October 2024
Fiscal sustainability and reform in Scotland	21 November 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024
NHS in Scotland 2024: Finance and performance	3 December 2024
Auditing climate change	7 January 2025
Integration Joint Boards: Finance bulletin 2023/24	6 March 2025
Integration Joint Boards finances continue to be precarious	6 March 2025
General practise: Progress since the 2018 General Medical Services contract	27 March 2025
NHS in Scotland Spotlight: Governance	28 May 2025

NHS Lothian

2024/25 Annual Audit Report

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