

NHS Lothian

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Board of NHS Lothian and the Auditor General for Scotland
June 2024

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Key messages

2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.

Financial management and sustainability

- 2 NHS Lothian operated within its Revenue Resource Limit of £2,262 million. The financial flexibility banked with the Scottish Government is £34 million.
- 3 The Board's budget processes continued to be appropriate and supported the achievement of break-even in an extremely difficult year.
- 4 NHS Lothian has appropriate financial control arrangements in place, but the service auditor issued qualified opinions for the Practitioner and Counter Fraud Service and national IT services contract.
- 5 NHS Lothian has effective medium term financial planning arrangements, but the resource gap is greater than before. The Board needs to make difficult choices, to achieve financial balance, that will impact on service delivery.
- 6 The 2024/25 capital plan has been set in line with the Scottish Government's request to focus on maintenance. This lack of investment creates risks to the condition of the estate and the ability of NHS Lothian to deliver services.

Vision, leadership and governance

- 7 NHS Lothian has a clear vision and strategy and had appropriate arrangements to monitor its progress.
- 8 Governance arrangements remain appropriate and suitably transparent.
- 9 NHS Lothian has embedded climate change considerations within its governance processes, but there are significant risks to delivery.

Use of resources to improve outcomes

- 10 NHS Lothian has appropriate arrangements for performance monitoring and performance.
- 11 While there have been some improvements in waiting times, they remain significantly longer than before the Covid-19 pandemic.

Introduction

- 1.** This report summarises the findings from the 2023/24 annual audit of NHS Lothian. This report is addressed to the board of NHS Lothian and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.
- 2.** The scope of the audit was set out in an Annual Audit Plan presented to the 19 February 2024 meeting of the Audit and Risk Committee (ARC). This annual audit report comprises the significant matters arising from the audit of NHS Lothian's annual report and accounts alongside conclusions on the wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#).
- 3.** We would like to thank members, directors and other staff, particularly those in finance, for their cooperation and assistance this year. We look forward to continuing to work together constructively over the remainder of the audit appointment.

Responsibilities and reporting

- 4.** NHS Lothian has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. NHS Lothian is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.
- 5.** The responsibilities of the independent appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2021 and supplementary guidance, and International Standards on Auditing in the UK (ISAs).
- 6.** This report contains an agreed action plan at [Appendix 1](#). Weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of NHS Lothian from its responsibility to address the issues we raise and to maintain adequate systems of control.

Auditor Independence

- 7.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £359,570, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

8. The annual audit adds value to NHS Lothian by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

We have obtained audit assurances over the identified significant risks of material misstatement identified in our Annual Audit Plan

Audit opinions on the annual report and accounts are unmodified

9. The board approved the annual report and accounts for NHS Lothian and its group for the year ended 31 March 2024 on 26 June 2024. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report was prepared in accordance with the Government Financial Reporting Manual (FReM)
- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the FReM.

Overall materiality was reviewed on receipt of the unaudited annual report and accounts and remains at the planning level of £40 million

10. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues

may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

11. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts (with no revision required) and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£40 million
Performance materiality	£30 million
Reporting threshold	£500,000

Source: Audit Scotland

12. The overall materiality threshold was set with reference to gross expenditure, which is the figure most relevant to the users of the financial statements.

13. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75 per cent of overall materiality, reflecting historically low numbers of significant errors.

14. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

15. Under ISA (UK) 260, we communicate significant findings from the audit to the those charged with governance including our view about the qualitative aspects of the board's accounting practices.

16. The Code of Audit Practice also requires the reporting of key audit matters as defined in ISA (UK) 701 as those matters judged to be most significant. These are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Additional accrual – VAT in relation to PFI/PPP contracts</p> <p>During the audit NHS Lothian confirmed that an additional accrual of £9.7 million was required to recognise the VAT liability associated with the PFI/PPP consortiums which had procured energy supplies via Scottish Government frameworks. The figure is based on an assumption that HMRC will seek to gain payment for a 4-year period (the longest timeframe possible).</p> <p>NHS Lothian informed us of this nation-wide issue and revised allocation letters were being issued to provide the associated additional funding.</p>	<p>The financial statements have been amended to recognise this additional accrual.</p>
<p>2. Liberton Hospital – difference of opinion</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>During 2023/24 we found that NHS Lothian continues to hold the asset on its balance sheet and is treating the income as deferred. NHS Lothian has informed us that the transfer will take place in 2025.</p>	<p>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.</p> <p>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 and is recorded in Appendix 2.</p>

Issue	Resolution
<p>3. Remuneration and staff report - opening CETV disclosure</p> <p>The Remuneration and Staff Report discloses pension information including the opening CETV calculation at the start of each financial year. In accordance with the guidance this should exclude the impact of inflation meaning that the movement disclosed will be less than the difference between the closing and opening balances.</p> <p>Due to the manner that this information is presented within the CETV calculator, NHS Boards have incorrectly disclosed the opening CETV balance adjusted for inflation.</p> <p>This is a common issue that has been identified across the majority of NHS accounts and impacts on the current and prior year opening CETV disclosures.</p>	<p>We raised this with management who have amended the disclosures in the Remuneration and Staff Report.</p>
<p>4. Remuneration and staff report – negative pension movements</p> <p>Our review of the pension figures in the Remuneration and Staff Report found that in some cases, there were negative ‘real increase’ figures in the CETV calculator provided by SPPA. In these cases, in both 2022/23 and 2023/24 the figures have been reported as nil in the pension tables in the remuneration report.</p> <p>While the HB Manual (page 30) refers to negative values that should be reported as zero, this relates to the pension benefits figure in the total remuneration table rather than movement figures in the pension table.</p>	<p>NHS Lothian made the necessary amendments in the revised accounts. These have been confirmed as correct.</p>
<p>5. Performance report – presentation issues</p> <p>The FReM and HB manual specify the required disclosures for the performance report. During audit review it was identified that the following requirements were not met:</p> <ul style="list-style-type: none"> • the performance overview should contain an organisation structure • the performance report should contain an assessment of the outlook for the Board. 	<p>These disclosures have now been included within the audited annual report and accounts.</p>

Audit assurances have been obtained for the risks of material misstatement identified for the annual report and accounts

17. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in the 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified significant risks of material misstatement for the annual report and accounts

Audit risk	Audit Response	Conclusion
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively. This is presumed to be a significant risk in every audit.</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual journal. Test journals at the year-end and post-closing entries and focus on significant risk areas. Consider the need to test journal entries and other adjustments during the year. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates. Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. Focused testing of accounting accruals and prepayments. 	<p>Controls around journals were confirmed to be appropriate and we did not identify any unusual journal activity.</p> <p>Our testing of journals, year-end transactions, accruals and prepayments did not identify any incidents of management override of controls.</p> <p>The methods and assumptions used to prepare accounting estimates were confirmed to be consistent with prior-years or with changes in accounting standards (as per leases).</p> <p>As a result of the above work we are satisfied that there is no material misstatement arising from this risk.</p>
<p>2. Estimation in the valuation of land and buildings</p> <p>There is a significant degree of subjectivity in the valuation of land and</p>	<ul style="list-style-type: none"> Review the information provided from NHS Lothian to the external valuer to assess for completeness. Review detailed working papers to support asset reviews and impairments. 	<p>NHS Lothian provided appropriate instruction and supporting information to allow the valuation process to proceed effectively.</p>

Audit risk	Audit Response	Conclusion
<p>buildings. Valuations are based on specialist and management assumptions, and any changes can have a material impact on the valuations.</p> <p>All non-current assets are revalued on a five-year rolling basis within indexation applied in interim years. NHS Lothian must ensure that its valuation process for land and buildings adequately reflects changes in the property market so that they are not materially misstated.</p>	<ul style="list-style-type: none"> • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. • Assess the approach NHS Lothian has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. • Assess the adequacy of NHS Lothian's disclosures regarding the assumptions in relation to the valuation of land and buildings. 	<p>We assessed the valuer and confirmed that they are competent and qualified.</p> <p>The results from the valuation exercise were correctly posted through the financial ledger and into the annual report and accounts.</p> <p>The approach taken by the valuer to assets not subject to a valuation in year was reasonable. Further we confirmed they have all appropriate information needed for their work.</p> <p>As a result of the above, we are satisfied that the valuation of property assets is not materially misstated.</p>
<p>3. Accounting for service concession arrangements</p> <p>The 2023/24 Government Financial Reporting Manual (FReM) has changed the accounting treatment for indexation linked payments in liabilities for service concession arrangements.</p> <p>NHS Lothian must remeasure if there is a change in future lease payments resulting from a change in an index / rate used to determine those payments and ensure that the financial statements accurately reflect the impact of the revised IFRS16 accounting arrangements.</p>	<ul style="list-style-type: none"> • Assess the approach NHS Lothian has adopted to address this new accounting requirement. • Review the information provided from NHS Lothian to the expert to assess for completeness. • Review detailed working papers to support the evaluation and assess the conclusions reached by the expert and / or NHS Lothian. • Assess the adequacy of NHS Lothian's disclosures regarding service concession arrangements disclosed in the financial statements. 	<p>We reviewed the revised models which were developed by NHS Lothian and ensured that these were consistent with the previous models and that they incorporated indexation within the ongoing liability balance.</p> <p>We are satisfied that these models are appropriate.</p>

18. In addition, we identified an area of audit focus relating to the degree of estimation in the provision for clinical and medical negligence claims. We kept this area under review throughout our audit. At 31 March 2024 the combined balance was £282 million. A review of the NHS Scotland Central Legal Office's methodology was completed by Audit Scotland and concluded that there were no issues. There are no matters which we need to bring to your attention.

There is one uncorrected misstatement in the financial statements

19. We identified one misstatement which was not corrected by management in the audited annual report and accounts. We considered the size, nature and circumstances relating to this misstatement and concluded that it was not material. Further details of the uncorrected misstatements are included in [Appendix 2](#).

The unaudited annual report and accounts were received in line with the agreed timetable

20. The unaudited annual report and accounts were received slightly later than our agreed audit timetable on 13 May 2023. This did not significantly impact on the delivery of the audit as the accounts template and some supporting working papers were provided at the agreed which allowed the audit to commence.

Good progress was made on prior year recommendations

21. NHS Lothian has made good progress in implementing the audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

NHS Lothian operated within its Revenue Resource Limit (RRL) of £2,262 million. The financial flexibility banked with the Scottish Government is £34 million.

The Board's budget processes supported the achievement of break-even in an extremely difficult year.

NHS Lothian has appropriate financial control arrangements in place, but the service auditor issued qualified opinions for the Practitioner and Counter Fraud Service and national IT services contract.

Standards of conduct for prevention and detection of fraud and error are appropriate, with an opportunity to improve through the issue of a code of conduct for staff.

NHS Lothian operated within its Revenue Resource Limit (RRL) of £2,262 million

22. 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 4](#) shows that the Board operated within its limits during 2023/24, after using year-end flexibility of £34 million.

23. The underlying position, incorporating year-end financial flexibility, results in a surplus of £35 million, representing 2 per cent of the core RRL. This is outside the 1 per cent tolerance set by the NHS Manual and is mainly due to regional funds held by NHS Lothian for other boards. The flexibility will carry forward into 2024/25, which will be an even more challenging year.

Exhibit 4

Performance against resource limits in 2023/24

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	2,160	2,159	1
Non-core revenue resource limit	102	102	0
Total revenue resource limit	2,262	2,261	1
Core capital resource limit	31	31	0
Non-core capital resource limit	1	1	0
Total capital resource limit	32	32	0
Cash requirement	2,460	2,460	0

Source: NHS Lothian Annual Report and Accounts 2023/24

The outturn from IJB's has a significant impact on NHS Lothian

24. As part of the overall outturn NHS Lothian provided funding of £1,193 million to the integration joint boards (IJB). The four IJBs are East Lothian, Edinburgh, Midlothian and West Lothian. During 2023/24 all of the IJBs drew on earmarked reserves to fund the delivery of services, cumulatively £23 million representing 55% of brought forward reserves. This demonstrates the risks facing the financial sustainability of the health and social care sector in Lothian as reserves will quickly be fully utilised.

The Board's budget setting and financial management arrangements continued to be appropriate and supported the achievement of break-even

25. NHS Lothian continued to provide its Board with appropriate information about financial challenges and an assessment of the likely outcome throughout 2023/24. This allowed for robust scrutiny during a very difficult period and supported the achievement of break-even at the year-end.

26. In April 2023, NHS Lothian's draft 2023/24 outline financial plan included a funding gap of £52 million. This was after taking account of planned efficiency savings of £41 million.

27. NHS Lothian managed this gap throughout the year with regular updates to both the Finance and Resources Committee (FRC) as well as the Board. These updates included a level of assurance on the Board achieving a year-end break-

even position. Similar to 2022/23, it was not until March 2024 that significant assurance was provided.

28. During the year the level of identified savings increased to £48 million. Although the actual amount of savings achieved was only £46 million, the Board was able to achieve break-even.

£48 million of efficiency savings were achieved which represented 87 per cent of the target set

29. As part of its budget process for 2023/24, NHS Lothian prepared an efficiency programme. The programme set a target of 3 per cent of savings across all departments. This equated to £55 million of savings which was £3 million more than the funding gap in the 2023/24 budget. During 2023/24, £48 million (87 per cent) of these savings were achieved, with £37 million on a recurring basis.

NHS Lothian has appropriate financial control arrangements in place

30. As part of our interim audit, we reviewed the operating effectiveness of internal controls relevant to our audit approach (including those relating to IT). This was carried out to identify issues which could affect NHS Lothian's ability to record, process, summarise and report financial and other relevant data.

31. From our review we did not identify any significant internal control weaknesses which would potentially result in a material misstatement in the financial statements.

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

32. The NHS in Scotland procures several service audits each year to provide assurance on the controls operating within the shared systems.

33. 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 identified last year for the IT general controls, system backup and disaster recovery remains. This continues to be a risk for NHS Scotland that needs to be addressed, but it did not impact on our 2023/24 audit.

34. NHS National Services Scotland procures service audits covering Practitioner and Counter Fraud Services (primary care payments), payroll and the national IT services contract that supports the associated systems.

35. For the Practitioner and Counter Fraud Services the Type II service audit resulted in a qualified opinion on the controls relating to dental payments as the controls associated with the objective *'Controls provide reasonable assurance that: GDS payments are made completely and accurately based on authorised claims to the valid contractors; GDS payments are made only once; and*

Verification is performed in accordance with Scottish Government Guidance did not operate effectively during the year.

36. For the national IT services contract the Type II service audit also resulted in a qualified opinion on the controls relating to access to the systems as the controls associated with the objective *'Controls provide reasonable assurance that logical access to applications, operating systems and databases is restricted to authorised individuals'* did not operate effectively during the year.

37. Having considered these qualifications in context of other mitigating controls at both NHS National Services Scotland and NHS Lothian, and our assessment of materiality we are content that no change in our audit approach is required.

38. In February 2023 NHS Lothian moved across to the shared services payroll system operated by NHS National Services Scotland. In accordance with the agreed audit plan a Type I service audit was completed which concluded that the controls were suitably designed to provide reasonable assurance. As this conclusion is dependent on the user entity controls which have not been evaluated, we have placed reliance on our controls testing undertaken in 2022/23.

Standards of conduct for prevention and detection of fraud and error are appropriate, with an opportunity to improve through the issue of a code of conduct for staff

39. In the public sector there are specific fraud risks and bodies are responsible for implementing effective systems of internal control, including internal audit. These controls should safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

40. NHS Lothian has adequate arrangements in place to prevent and detect fraud or other irregularities. Last year we recommended that it could enhance these arrangements by developing a formal counter-fraud policy which staff are required to adhere to. We have been advised that a national fraud policy is being created that will apply to all Boards.

41. This is being created centrally by NHS Scotland counter-fraud services, which has also published a counter fraud strategy for 2023-26. This strategy details the current risks, counter fraud principles and annual delivery plan. This recommendation remains ongoing and is covered in [Appendix 1](#).

42. We also reviewed arrangements in place regarding staff conduct. We found that while there is a code of conduct for Board members, there is not one for staff. We acknowledge that 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.

43. To improve the arrangements, NHS Lothian could put in place arrangements whereby relevant staff periodically confirm that they have read and understand the code.

Recommendation 1

NHS Lothian should consider requiring relevant staff to confirm they have read and understood the "Our Values into Actions" section of the intranet.

National Fraud Initiative

44. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. We reviewed the arrangements in place at NHS Lothian and found that these were good. We confirmed that data was provided to a good standard and on time, and matches were investigated promptly and without using excessive resources.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

NHS Lothian has effective medium term financial planning arrangements, but the resource gap is greater than before. The Board will need to make difficult choices, to achieve financial balance, that will impact on service delivery.

The 2024/25 capital plan has been set in line with the Scottish Government's request to focus on maintenance. This lack of investment creates risks to the overall condition of the estate and the ability of NHS Lothian to deliver essential services.

Significant changes are needed to ensure financial sustainability of Scotland's health service

45. As highlighted in Audit Scotland's [NHS in Scotland 2023](#) report, significant changes are needed to ensure the financial sustainability of Scotland's health service. Growing demand, operational challenges and increasing costs have added to the financial pressures the NHS was already facing.

46. The report contains a series of recommendations for the Scottish Government (alongside the sector) to address financial sustainability risks. These include the need to:

- develop a new long-term vision for the wider health system by 2025 that sets out national priorities and recognises the interdependencies in the healthcare system. This should enable the necessary reforms that will ensure the future sustainability of health services.
- improve understanding of new financial support arrangements and how this impacts on the NHS Scotland Support and Intervention Framework.
- develop and publish a national NHS capital investment strategy in 2024.
- publish a revised Medium-Term Financial Framework (MTFF) for health and social care, following publication of its wider Medium-Term Financial Strategy (MTFS) in 2024.

NHS Lothian has effective medium term financial planning arrangements and these will be necessary given the financial pressures being faced

47. As reported last year, NHS Lothian has not previously required brokerage from the Scottish Government. This demonstrates that it has been able to prudently manage its finances so that it operates within its spending limits. However, the scale of the financial challenge will significantly increase in future years and the Board's ability to maintain this position will come under serious threat.

48. NHS Lothian submitted its initial financial outlook 2024/25-2028/29 to the FRC in October 2023. This was then updated following the Scottish Government's budget announcement in December 2023. The revised plan was subsequently presented to the FRC in February 2024 before being approved in March 2024.

49. The situation is fluid and NHS Lothian has demonstrated that it has appropriate and effective planning arrangements in place to manage this. It will need to maintain this and continue to react to emerging pressures to manage the situation in the months and years ahead.

NHS Lothian's medium term financial plans highlight the scale of future challenges and the increasing disparity between forecast spend and funding

50. Early iterations of the 5-year financial outlook and outline plan 2024/25 did not provide assurance on the Board's ability to achieve financial balance over the next 5 years. Following decisions regarding new medicines (£15 million) and health consequential funding (£22 million), the March report instead asked members to consider the challenge to achieve balance and the difficult decisions that will need to be made.

51. The annual forecasts identify an outlook gap for each respective year over the upcoming 5-year period, before the financial recovery plans are identified. In looking at the financial forecasts in previous years ([Exhibit 5](#)) it is clear that these are based on sound assumptions with little deviation from 2022 to 2024, indeed the shorter-term gaps have fluctuated by no more than 5 per cent. The extent of the challenge is clear with the forecast gap for 2028/29 now approaching £200 million.

Exhibit 5

Forecast outlook gaps before impact from finance recovery plans

Year of 5-year outlook report	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
2022	104	123	141	-	-
2023	107	120	134	149	-
2024	103	116	138	165	193

Source: NHS Lothian Financial Outlook and Outline Plans 2022/23, 2023/24 and 2024/25

The resource gap is greater than before and NHS Lothian needs to make difficult choices which will impact on services

52. NHS Lothian has requested that each business unit deliver financial savings plans of 3 per cent. This is in line with advice from the Scottish Government. To date savings plans totalling £53 million have been identified, which represents 2.9 per cent of the total budget. This leaves a residual gap of £50 million from the total gap for 2024/25 of £103 million.

53. NHS Lothian recognises the significant challenge to delivery financial balance. In addition to the savings targets required from business units, NHS Lothian are looking to executive led workstreams to reduce the residual funding gap to £29 million. Areas being progressed include:

- Pause and Assess Capacity Workstream – to review areas of uncommitted spend and to pause until NHS Lothian is forecasting a breakeven situation.
- Pause and Assess Treatment Options – to identify actions that stop, reduce or delay treatment (clinically led).
- Estates Rationalisation – to seek opportunities for rationalisation through reviewing the utilisation of the estate.
- Procurement Non-Pay Controls – to restrict spend on areas like overseas travel and booking of external venues by enhancing controls.
- Workforce – to reduce pay costs by reducing overall workforce numbers and premium staff costs.
- Corporate Controls – to implement additional authorisation controls over particular areas of spend.

54. These workstreams outline the difficult choices facing the Board to achieve financial balance. These decisions will impact on the level of service which the Board can offer. NHS Lothian will require to balance the need to reduce spend with the statutory duty to deliver healthcare.

The Scottish Government has improved NHS Lothian's funding allocation relative to other boards, but it is still 0.6 per cent from parity

55. Last year we reflected on the impact of the Scottish Government's National Resource Allocation Committee (NRAC) on NHS Lothian. We reported that it was one of three territorial boards which receives funding less than its population share. The allocation represented 0.8 per cent less than parity which was estimated to be £151 million over a ten-year period (after accounting for inflation).

56. During 2023/24, following discussions with the Scottish Government, there were some changes in the national allocation methodology. This resulted in NHS Lothian being brought to within 0.6 per cent of parity providing an additional allocation of £8 million in 2023/24.

57. As reported to the FRC in February 2024, NHS Lothian estimates that further funding of up to £10 million is required to achieve parity. Senior management remain in discussion with the Scottish Government to progress this.

The 2024/25 capital plan has been set in line with the Scottish Government's request to focus on maintenance, but this creates further risks

58. The Scottish Government issued a letter in December 2023 which instructed all NHS Boards to immediately stop any project development spend. Local formula capital budgets should instead be directed towards maintenance of the existing estate.

59. During our 2023/24 audit we found that assets under construction were impaired by £9 million. This adjustment represents the associated cost for projects that had to be paused following the funding announcement in December 2023.

60. NHS Lothian has determined that it has £22 million capital funding available for investment in the Rolling Programmes for 2024/25. This also includes presumed income from capital receipts. This is less than 37 per cent of the funding requested for rolling programmes of £60 million.

61. NHS Lothian has now set its capital plan for 2024/25, following a prioritisation exercise, with the available funding allocated to rolling programmes to address the most significant risks within NHS Lothian's existing assets. The results from this were reported to the FRC in March 2024.

62. While the Board has set a capital plan in line with available resources, there are associated risks as set out to the FRC. These include the risk of asset failure due to extending lifespans, building contractors focusing on other sectors and construction cost inflation.

Recommendation 2

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.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

NHS Lothian has a clear vision and strategy and has appropriate arrangements to monitor its progress during the year.

Governance arrangements remain appropriate and suitably transparent.

NHS Lothian has embedded climate change considerations within its governance processes, but there are significant risks to delivery.

NHS Lothian has a clear vision and strategy and has appropriate arrangements to monitor its progress

63. As we reported last year, NHS Lothian has a clear vision and strategy which supports joint working with other healthcare providers. The Lothian Strategic Development Framework (LSDF) will run from 2022/23 to 2027/28. It is a collaboration between the bodies with responsibility for the planning, commissioning and delivery of health and care services in the Lothians, namely Edinburgh Integration Joint Board, East Lothian Integration Joint Board, Midlothian Integration Joint Board, West Lothian Integration Joint Board and NHS Lothian.

64. In June 2023, the Board agreed to significantly reduce the number of corporate objectives from 123 down to 11. Each of these is aligned with, either one of the six pillars, or five parameters set out in the LSDF. Three additional objectives were agreed taking the total to 14. These cover the provision of quality services, prevention of ill-health and planning for the hand-back of the Royal Infirmary of Edinburgh.

65. The mid-year review in December 2023 reported that 11 of these are either on or ahead of plan. The remaining three (unscheduled care; mental health, illness and wellbeing; and environmental sustainability) were marked as "requires stocktake". This indicates that the programmes need to review progress and ensure that both its plan and execution are functioning appropriately.

66. A year-end report was provided to the Strategy, Planning and Performance Committee (SPPC). This reflected on the impact of the Scottish Government's budget announcement in December 2023. The report reaffirmed the commitment to deliver on the LSDF, but commented that timescales may increase. The report also highlighted that while most actions in support of the six pillars remain on track, there are issues relating to three of these. These actions relate to mental health, primary care and scheduled care.

67. While highlights were reported for each of the five parameters, they also had challenges listed. These included issues relating to revenue and capital funding (as per the financial sustainability section of this report). Other challenges raised including high rates of sickness absence, lack of funding to support digital projects and limited progress on sustainable travel.

Governance arrangements remain appropriate and suitably transparent

68. NHS Lothian's governance arrangements have been set out in the Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.

69. NHS Lothian has a good approach to openness and transparency. The Board meets in person every two months and these meetings are open to members of the public. Annual accounts, annual reviews, Board and committee meeting minutes are all available on the NHS Lothian website. Committees produce action notes documenting scrutiny and challenge of decision making and the minutes regularly refer to discussions regarding performance across NHS Lothian.

70. Regular financial and performance reports are presented to the relevant committee and the Board. We reviewed these reports and concluded that they contain sufficient information for effective decision-making. We also attended meetings of the Board and the ARC and observed an appropriate level of scrutiny.

NHS Lothian has embedded climate change within other internal governance process such as risk management, but there are significant risks to delivery

71. The Scottish Parliament has set a legally binding target of becoming net zero by 2045. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

72. The performance report within the 2023/24 annual report and accounts contains the details of the Sustainability and Environmental Reporting for NHS Lothian. A Sustainable Development Framework and Action Plan is in place and progress is regularly reported to the FRC.

73. The Climate Emergency and Sustainability Report 2022-2023, which details the progress being made, was signed off by the Board on 24 April 2024 and is available on the NHS Lothian website. Climate change is part of the risk management processes and is therefore subject to regular review, including

assessing the impact on the plans off other factors such as the current financial challenges.

74. The Auditor General for Scotland and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

Cyber security continues to be a significant risk which is being actively managed

75. There continues to be a significant risk of cyber-attacks to public bodies. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation.

76. Through regularly attending the ARC we have observed that cyber is monitored through the risk management process. We have also noted that it features as part of reporting on arrangement regarding counter fraud activities and we are aware that it receives regular network information system regulation (NISR) audit reports. Overall, we note NHS Lothian is aware of the risk and is taking reasonable steps to mitigate this.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

NHS Lothian has appropriate arrangements for performance monitoring and performance.

While there have been some improvements in waiting times, they remain significantly longer than before the Covid-19 pandemic.

NHS Lothian's involvement in the Scottish Hospitals Public Inquiry will conclude in 2024, but there are no timescales for an interim report.

NHS Lothian has appropriate arrangements for performance monitoring and reporting

77. The corporate objectives for 2023/24 were agreed by the Board in June 2023. These are aligned to the LSDF. The SPPC report on progress in delivering the agreed corporate objectives to the Board. NHS Lothian reported on overall performance against the corporate objectives within the Annual LSDF Report submitted to the SPPC in May 2024 (see [paragraph 68](#)).

78. NHS Lothian developed the Patient Experience Strategic Plan 2023-28, approved by the Board on 5 April 2023. The strategy was developed alongside staff and patient partners to make sure it reflects the ambition of those it directly affects. There are two challenges associated with the implementation of this strategy, being that the current pressures will impact on the ability of teams to implement plans and the need to develop metrics.

79. During 2023/24 the Healthcare and Governance Committee (HGC) developed and approved the Patient Experience Implementation Plan 2023-28 and the Patient Experience Measurement Plan at their July 2023 meeting. These aim to support the delivery of the strategic plan.

While there have been some improvements in waiting times, they remain significantly longer than before the pandemic

80. The 2023/24 annual report and accounts includes the board's performance against its national waiting time standards position at the end of March 2024. While these are not currently the Board's only focus for performance monitoring, they provide context for the scale of the impact of the pandemic on the delivery of health services and allow comparison across Scotland.

81. [Exhibit 6](#) demonstrates how activity and waiting times have struggled to recover from the impact of the Covid-19 pandemic. While there have been some improvements, none of the metrics have recovered to the pre-pandemic levels and, in some cases, NHS Lothian's performance has continued to decline.

82. Last year we commented that demand had levelled off in 2023 and this trend has largely continued into 2024. Numbers awaiting diagnostic tests have significantly reduced, down by 4,496 (20%) from a high point of 21,992 in July 2022.

83. There has been a 19% increase in activity in the year to December 2023 in terms of inpatient activity, but no significant improvements elsewhere. While waiting times have improved for diagnostic tests and inpatients, the figures for outpatient appointments continue to decline.

84. [Exhibit 7](#) provides a comparison of current waiting times compared to prior years. Although none of the areas meet the standard, there have been some notable improvements in areas such as cancer treatment and CAMHS (children and adolescent mental health services). However, there are also notable areas of decline such as in accident and emergency and outpatient care.

85. Last year we commented that additional funding to address waiting times was unlikely to be sufficient and this has largely proven to be the case. As set out in the previous section on financial sustainability, all NHS boards face a difficult challenge of trying to reduce waiting times while remaining within available resources. With the financial pressures being faced it is unlikely that NHS Lothian will be able to achieve significant improvement in performance in the short to medium term.

Exhibit 6

Trends in demand and activity per acute services

Demand		% change	
Monthly Dec 2019 to December 2023			
Number waiting for diagnostic tests	12,621	16,796	33.1%
Quarterly Dec 2019 to December 2023			
Number of patients waiting for an inpatient or day case admission	11,631	26,950	131.7%
Quarterly Dec 2019 to December 2023			
Number of patients waiting for a new outpatient appointment	56,990	81,083	42.3%
Activity			
Monthly Dec 2019 to February 2024			
Number of scheduled elective operations in theatre system	4,759	3,652	-23.3%
Quarterly Dec 2019 to Dec 2023			
Number of inpatient and day case admissions	11,300	10,995	-2.7%
Quarterly Dec 2019 to Dec 2023			
Number of new outpatient appointments	58,927	49,610	-15.8%
Length of waits			
Monthly Dec 2019 to Dec 2023			
Number waiting longer than 6 weeks for diagnostic tests	3,098	5,861	89.2%
Quarterly Dec 2019 to Dec 2023			
Number of patients waiting longer than 12 weeks for an inpatient or day case admission	2,757	19,427	604.6%
Quarterly Dec 2019 to Dec 2023			
Number of patients waiting longer than 12 weeks for a new outpatient appointment	22,696	46,513	104.9%

Source: Public Health Scotland

Exhibit 7

Performance against key waiting time standards

Target / standard	Description	March 2020	March 2021	March 2022	March 2023	March 2024 ¹
Cancer 62 Day RTT (Standard 95%)	Proportion of patients that started treatment within 62 days of referral	83.5%	84.8%	79.3%	73.7%	79.0% (Dec 2023)
18 Weeks RTT (Standard 90%)	Proportion of patients that started treatment within 18 weeks of referral	76.4%	82.0%	74.5%	70.7%	70.3% (Dec 2023)
Patient Treatment Time Guarantee (TTG) (Standard 100%)	Proportion of inpatients or day case seen within 12 weeks	75.1%	70.1%	65.3%	55.5%	56.7% (Dec 2023)
Outpatients waiting less than 12 weeks (Standard 95%)	Proportion of patients on the waiting list at month end waiting less than 12 months since referral at month end	63.4%	45.6%	51.3%	48.7%	42.6% (Dec 2023)
A & E attendees (Standard 95%)	Proportion of A & E attendees admitted, transferred, or discharged within 4 hours	94.9%	90.5%	65.9%	70.9%	60.0%
Cancer 31 Days RTT (Standard 95%)	Proportion of patients who started treatment within 31 days of decision to treat	95.2%	97.9%	96.8%	91.3%	94.6 (Dec 2023)
Drug and Alcohol 21 days (Standard 90%)	Proportion of drug and alcohol patients that started treatment within 21 days	85.1%	87.7%	80.7%	83.6%	86.2% (Dec 2023)
CAMHS Waiting Times (Standard 90%)	Proportion of patients seen within 18 weeks of referral	53.9%	57.1%	68.3%	62.2%	77.0% (Dec 2023)

Source: Public Health Scotland

1 = Alternative date shown if March 2024 data is not available at time of writing

NHS Lothian has an appropriate arrangement to demonstrate compliance with best value

86. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

87. NHS Lothian prepared a document which outlined the various actions and arrangements in place to meet each of the characteristics. This was approved at a meeting of corporate management team in June 2024. A subsequent paper was taken to the ARC. This was found to provide a good level of detail regarding each of the characteristics and provides assurance to members of the arrangements in place.

NHS Lothian's involvement in the Scottish Hospitals Public Inquiry will conclude in 2024, but there are no timescales for an interim report

88. The Scottish Hospitals Public Inquiry (SHI) was launched in August 2020. The SHI is reviewing the construction of the Royal Hospital for Children and Young People (RHCYP), and Department of Clinical Neurosciences (DCN) in Edinburgh. The SHI also covers the construction of the Queen Elizabeth University Hospital Campus (QEUH) in Glasgow.

89. During 2023/24 the SHI led by Lord Brodie progressed. The final hearing (in respect of NHS Lothian) commenced on 26 February 2024 for three weeks. Further oral submissions in June 2024 represent the final opportunity for NHS Lothian to put forward its position in response to the evidence heard.

90. While there will be further sessions regarding the QEUH, the Chair has confirmed that an interim report (covering NHS Lothian) will be issued. There are currently no confirmed timescales, but it will occur after the end of the current audit year, given the timing of final oral submissions.

91. Last year we highlighted that NHS Lothian had implemented a standard operating procedure to document the approach for responding to requests from the SHI. The workload to support the SHI has been significant. NHS Lothian estimates that it has cost around £1 million in 2023/24. Given the end of the evidence sessions for NHS Lothian, this will reduce moving into 2024/25.

Progress on the SHI is reported internally but improvement actions will be impacted by the reduced capital programme

92. NHS Lothian provides regular updates on progress of the SHI to the FRC. The update in March 2024 outlined the following key themes emerging from the evidence sessions adherence to technical guidance at the design stage of the project; the processes and arrangements around the decision to delay the opening of NHCYP and NCD; and lessons learnt.

93. The update also referred to follow up work in relation to the internal audit report on Governance and Internal Controls in RYCHP and DCN. This report was initially presented to the ARC in July 2020 and included six recommendations which have been followed up through the overall assurance framework.

94. Progress on the assurance framework is provided to the FRC. The March 2024 report highlighted progress in each of the internal audit recommendations. Mainly this reported the provision of additional guidance or frameworks covering areas such as internal controls, decision making, working with clinicians and advisors, and governance.

95. The report to the FRC also emphasised that further progress is impacted by capital funding allocations which will reduce the number of ongoing projects.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Code of conduct for staff</p> <p>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.</p> <p>Risk – NHS Lothian employees are not fully aware of the level of conduct expected from them in carrying out their role.</p>	<p>NHS Lothian should consider requiring relevant staff to confirm they have read and understood the "Our Values into Actions" section of the intranet.</p> <p>Paragraph 43.</p>	<p>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.</p> <p>Responsible officer</p> <p>Board Secretary</p> <p>Agreed date</p> <p>30 June 2025</p>
<p>2. Impact of reduced capital plans</p> <p>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.</p> <p>Risk – The lack of capital investment could lead to asset failure and will impact on service delivery.</p>	<p>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.</p> <p>Paragraph 62.</p>	<p>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 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.</p> <p>Responsible officer</p>

Issue/risk	Recommendation	Agreed management action/timing
		Director of Finance Agreed date 31 January 2025

Follow-up of prior year recommendations

Issue	Recommendation	Agreed management action/timing
b/f 1. Remuneration and staff report	Year-end processes for the remuneration and staff report should be strengthened to ensure disclosures are accurate and in line with the NHS Manual.	Complete – from audit work completed in 2023/24, no issues were found.
b/f 2. Budget holders review	NHS Lothian should further enhance its processes to ensure that budget holders regularly access and review monthly monitoring reports effectively.	Complete - NHS Lothian has enhanced its budgetary control measures and to ensure budget holders are properly equipped for their role.
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.	In progress – a national policy for the NHS in Scotland is currently being developed.
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.	In progress – a recent report to the Lothian Capital Investment Group recommended that an action plan be drawn up for those contracts due to expire in the next three years.
b/f 5. Best value	NHS Lothian should produce an annual formally agreed document which details how it meets the best value characteristics as set out in the SPFM.	Complete – a document outlining the Board’s arrangements was submitted to the corporate management team in June 2024, and the Audit and Risk Committee.

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £500,000.

The table below summarises amendments that would be required to correct misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Statement of Consolidated Comprehensive net expenditure		Statement of financial position	
		Dr	Cr	Dr	Cr
Accounting Misstatements		£0	£0	£0	£0
	Deferred income			5.0	
	Income		5.0		
1. Liberton hospital sale not recognised in year	Non-current assets				2.0
	Gain on disposal	2.0			
Account Disclosure Issues					
1. More details in Exhibit 2 , item 2.					

NHS Lothian

2023/24 Annual Audit Report

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