

NHS Lothian

2022/23 Annual Audit Report



Prepared for the Board of NHS Lothian and the Auditor General for Scotland
June 2023

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Key messages

2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 One material classification adjustment has been made to the annual report and accounts as a result of the audit process. This did not impact on the overall financial position.

Financial management and sustainability

- 3 NHS Lothian operated within its Revenue Resource Limit of £2,068 million supported by effective financial management.
- 4 NHS Lothian has an established and effective approach to medium-term financial planning and will need to maintain and further develop this to meet the future financial challenges.
- 5 The target for efficiency savings has increased from 1.3 per cent in 2022/23 to 3.0 per cent in 2023/24 which represents a significant challenge. The Scottish Government has provided additional support to reduce waiting times but it is unlikely to be enough to make a significant difference.

Vision, leadership and governance

- 6 NHS Lothian has a clear vision and strategy which should support joint working with other healthcare providers.
- 7 Governance arrangements are appropriate and NHS Lothian provide transparency through papers available on the website.

Use of resources to improve outcomes

- 8 NHS Lothian's annual delivery plan has a series of actions to address backlogs caused by the Covid-19 pandemic and restore performance levels, however this is likely to take several years.
- 9 Significant investment is required to alleviate growing pressure on NHS Lothian's services.

Introduction

1. This report summarises the findings from the 2022/23 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 17 April 2023 meeting of the Audit and Risk Committee (ARC). This annual audit report comprises significant matters arising from an audit of NHS Lothian's annual report and accounts and conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#).

Audit appointment from 2022/23

3. I, Carole Grant, have been appointed by the Auditor General for Scotland as the auditor of NHS Lothian. The 2022/23 financial year was the first of my five-year appointment.
4. My team and I would like to thank directors and staff, particularly those in finance, for their cooperation and assistance and we look forward working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. NHS Lothian has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. NHS Lothian is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.
6. The responsibilities of the independent appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.
7. 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

8. 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 2022/23 audit fee of £339,080, 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

9. We add 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 2022/23 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.

One material classification adjustment has been made to the annual report and accounts as a result of the audit process. This did not impact on the overall financial position.

Audit opinions on the annual report and accounts are unmodified

10. The board approved the annual report and accounts for NHS Lothian and its group for the year ended 31 March 2023 on 21 June 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- 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 financial reporting framework
- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Overall materiality was reviewed on receipt of the unaudited annual report and accounts and remains at the planning level of £40.0 million

11. 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.

12. 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 and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£40.0 million
Performance materiality	£30.0 million
Reporting threshold	£250,000

Source: Audit Scotland

13. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

14. 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 a low number of significant errors in previous years.

15. 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

16. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the board including our view about the qualitative aspects of the body's accounting practices.

17. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

18. The significant findings and key audit matters 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. Income from other NHS Boards</p> <p>A report from the sales ledger is run at year-end and an adjustment is made when preparing the statement of comprehensive net expenditure regarding the income from Scottish NHS boards with other income.</p> <p>Our testing found that the figure in the unaudited accounts was £48.6 million lower than the ledger.</p>	<p>The report used in the preparation of Scottish boards income was incorrect as it used an out-of-date cost centre hierarchy. This resulted in some of the income being reported in an incorrect line within the income note.</p> <p>This has been corrected in the audited accounts which have been checked by the auditor.</p> <p>As this moved income from one line to another it had no impact on the overall financial position.</p>
<p>2. Secondary care adjustment</p> <p>As part of the accounts preparation process, NHS Lothian make an adjustment to reclassify some costs which are recorded as secondary care in the ledger to primary care in the accounts. This includes vaccines administered in the community at GP surgeries.</p> <p>Through our audit we found that this adjustment did not include all vaccine costs and an additional £5.1 million of expenditure should have been included in the adjustment.</p>	<p>Upon review, NHS Lothian confirmed that a further £5.1 million should be moved from secondary care to primary care drugs.</p> <p>This has been corrected in the audited accounts which have been checked by the auditor.</p> <p>As this moved expenditure from one line to another it had no impact on the overall financial position.</p>
<p>3. Liberton Hospital</p> <p>During the course of our audit NHS Lothian informed us that it had received £5 million from City of Edinburgh Council for this property in 2022/23. 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 is treating the £5.0 million as deferred income as it has applied the relevant accounting standard for recognising revenue (IFRS 15) which requires this approach until certain conditions have been met. This is mainly</p>	<p>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>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>because it continues to provide services at the hospital. This situation has arisen as the hospital was ear-marked for closure as part of the Edinburgh IJB bed-review but the alternative accommodation has been delayed due to funding constraints.</p> <p>The asset therefore remains on NHS Lothian's balance sheet with a net book value of around £2.0 million.</p>	
<p>4. Remuneration and staff report</p> <p>During our audit of the remuneration and staff report we found several issues, including:</p> <ul style="list-style-type: none"> • Pension figures which required to be updated due to revised calculators from SPPA. • Two errors in pension benefits calculations due to omission of employee contributions. • Error in median pay calculation due to omission of overtime from annualised salary figures. • Presentational issues including incorrect column headers and omission of data as set out in NHS Manual covering issues such as details of service contracts and duration of contracts. 	<p>The remuneration and staff report has been corrected in the audited accounts which have been checked by the auditor.</p> <p>See Recommendation 1 in Appendix 1</p>

Source: Audit Scotland

19. During the audit we also became aware of a pay offer made to junior medical staff at national level. The Scottish Government provided advice that NHS boards should record an unadjusted error where the auditors conclude that an accrual is appropriate. Given the rejection of the pay offer in June 2023, NHS Lothian determined that there is no certainty over the value of the payment, therefore an accrual or provision is not appropriate. On the basis of materiality, a contingency has not been disclosed either. We are content that this judgement is reasonable and in line with accounting standards.

Our audit work addressed the identified risks of material misstatement

20. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit

procedures we 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 in 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 International Standard on Auditing (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.</p> <p>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 activity. • 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 financial year. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • 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>

Audit risk	Audit Response	Conclusion
<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 buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to 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"> 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. Evaluate the competence, capabilities and objectivity of the professional valuer. Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. Critically assess the approach NHS Lothian has adopted to assess the risk that assets not subject to valuation are materially misstated. Consider the robustness of that approach. Critically assess the adequacy of NHS Lothian's disclosures regarding the assumptions in relation to the valuation of land and buildings. 	<p>We confirmed that NHS Lothian provided appropriate instruction and supporting information to allow the valuation process to proceed effectively.</p> <p>We assessed the valuer and confirmed that they are competent and appropriately qualified for their role.</p> <p>The results from the valuation exercise were correctly posted through the financial ledger and into the annual report and accounts.</p> <p>We assessed the approach taken by the valuer to assets not subject to a valuation in year and confirmed that this was reasonable.</p> <p>As a result of the above, we are satisfied that the valuation of property assets is not materially misstated.</p>

Source: Audit Scotland

21. In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- IFRS 16 Implementation: IFRS 16 has been introduced in 2022/23. NHS Lothian has recognised leases as right-of-use assets, with a corresponding lease liability in their statement of financial position. We reviewed the adjustments and disclosures made by NHS Lothian and confirmed that these were in line with the standard and guidance.

- Estimation in the provision for clinical and medical negligence claims: NHS Lothian holds provisions for estimated costs relating to clinical and medical negligence claims and participation in CNORIS (Clinical Negligence and Other Risks Indemnity Scheme). At 31 March 2023, the combined balance was £269.5 million. Reliance is placed on the details provided by the NHS Scotland Central Legal Office (CLO) to quantify amounts provided. Nationally, Audit Scotland's central Professional Support team evaluated the appropriateness of the methodology adopted by the Scottish Government to estimate the total national obligation for CNORIS and concluded that it was reasonable.
- Scottish Government repayment of Covid 19 funding from Edinburgh, East Lothian, West Lothian and Midlothian Integration Joint Boards: In January 2023 the Scottish Government announced its intention to recover unspent Covid-19 funding in 2022/23. The level of funding to be recovered from across the four Integration Joint Boards totalled to £52.4 million. Through our audit review we found that this had been adjusted down to £51.1 million. We confirmed that NHS Lothian had appropriately adjusted its funding contributions by £51.1 million in line with the amounts agreed with Scottish Government.

There were a small number of misstatements identified within the financial statements

22. We identified a number of misstatements which were not corrected by management in the audited accounts. We considered the size, nature and circumstances leading to all uncorrected misstatements, individually and in aggregate, and concluded that these were 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

23. The unaudited annual report and accounts were received in line with our agreed audit timetable on 9 May 2023. NHS Lothian also provided a full suite of working papers to support the audit process at this time. The working papers provided were of a high standard and the audit team received good support from finance staff which enabled the audit process to progress in accordance with the planned timetable.

Good progress was made on prior year recommendations

24. NHS Lothian has made good progress in implementing the audit recommendations identified by the previous external auditor as detailed 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 of £2,068 million supported by effective financial management.

NHS Lothian has appropriate financial control arrangements in place, including assurance from service auditors, but should consider strengthening its approach to how budget holders monitor in-year spend.

Standards of conduct for prevention and detection of fraud and error are adequate with room for improvement in how it is communicated with staff.

NHS Lothian operated within its Revenue Resource Limit (RRL) of £2,068 million

25. The Scottish Government Health and Social Care Directorate (SGHSCD) sets annual resource limits and cash requirements which NHS boards are required by statute to work within. [Exhibit 4](#) shows that NHS Lothian operated within its limits during 2022/23.

Exhibit 4

Performance against resource limits in 2022/23

Performance against resource limits set by SGHSCD	Resource Limit £million	Actual £million	Underspend £million
Core revenue resource limit	2,002.2	2,001.2	1.0
Non-core revenue resource limit	65.5	65.5	0
Total revenue resource limit	2,067.7	2,066.7	1.0

Performance against resource limits set by SGHSCD	Resource Limit £million	Actual £million	Underspend £million
Core capital resource limit	52.2	52.2	0
Non-core capital resource limit	1.6	1.6	0
Total capital resource limit	53.8	53.8	0
Cash requirement	2,292.3	2,292.3	0

Source: NHS Lothian Annual Report and Accounts 2022/23

IJB outturn and impact on NHS Lothian

26. As part of the overall outturn NHS Lothian provided funding of £1,061.5 million to the integration joint boards (IJB). The four IJBs are East Lothian, Edinburgh, Midlothian and West Lothian. During 2022/23 all of the IJBs drew on earmarked reserves to fund the delivery of services, cumulatively £79 million representing 66 per cent 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.

Budget processes were appropriate and the majority of planned efficiencies were achieved

27. NHS Lothian provided its Board with appropriate information during the year about financial challenges and an assessment of the likely outcome. This allowed for robust scrutiny and supported the achievement of break-even at year-end.

28. In April 2022 NHS Lothian's outline financial plan for 2022/23 anticipated total spend of £2,030.9 million. This included a baseline gap of £54.1 million and cost increases relating to new (non-Covid issues) of £85.0 million and £78.6 million for Covid-19 related activity.

29. Assumed additional funding from the Scottish Government totalled £93.6 million, of which £45.5 million was expected to be recurring. After including £17 million of identified efficiency savings, the net position was a forecast funding shortfall (gap) of £107.1 million (5.3 per cent of total spend). NHS Lothian expected Covid spend of £78.6 million to be fully met by the Scottish Government, so focused on the residual gap of £28.4 million.

30. During the year NHS Lothian identified efficiency savings of £25.8 million for 2022/23 representing 1.3 per cent of its budget. In-year monitoring reports to the finance and resources committee (FRC) however only gave limited assurance on the likelihood of NHS Lothian breaking even in 2022/23.

31. The March 2023 report to the FRC though offered significant assurance on the board's ability to deliver a breakeven position in 2022/23. This was largely attributed to NHS Lothian delivering efficiency savings of £21.8 million. This represented 84.5 per cent of the target and included £13.4 million of recurring savings.

32. Combined with an unanticipated additional allocation from the new medicines fund of £7.5 million, this resulted in a more favourable forecast towards the end of the year. The June 2023 report to the FRC updates the total efficiency saving to £23.8 million, with £14.9 million recurring.

NHS Lothian has appropriate financial control arrangements in place but should consider strengthening its approach to how budget holders monitor in-year spend

33. 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. This also involved testing the operating effectiveness of specific controls. We did not identify any internal control weaknesses which could affect NHS Lothian's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

34. While controls were found to be satisfactory, one area for improvement was identified. This related to budget monitoring reports produced from the financial ledger. Currently NHS Lothian can monitor downloads of budget reports through a dashboard. NHS Lothian has also commenced a training programme with budget holders but further work is required to ensure that these reports are being appropriately scrutinised.

Recommendation 2

NHS Lothian should further enhance its processes to ensure that budget holders regularly access and review monthly monitoring reports effectively.

Unqualified opinions were provided by service auditors on the controls operating in shared systems, however an assurance gap has been identified

35. The NHS in Scotland procures several service audits each year to provide assurance on the controls operating in shared systems. NHS Ayrshire & Arran procures a service audit of the National Single Instance (NSI) eFinancials service. The service auditor assurance reporting in relation to the NSI eFinancials was unqualified but did highlight the issues experienced following the system update in January 2023.

36. NHS National Services Scotland (NHS NSS) procures service audits covering payroll, primary care payments (Practitioner and Counter Fraud Services) and the national IT services contract. Both service auditor assurance reports were unqualified.

37. An assurance gap has been identified for the IT general controls, system backup and disaster recovery for the NSI eFinancials system. These are not covered by any of the current service audit arrangements. This did not result in an audit risk in 2022/23 but is an area that needs resolved for NHS Scotland.

Standards of conduct for prevention and detection of fraud and error are adequate with room for improvement in how NHS Lothian communicates with its staff

38. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

39. NHS Lothian has adequate arrangements in place to prevent and detect fraud or other irregularities. One area for improvement relates to how it communicates counter fraud information to its staff. Currently this is delivered through the 'Our values into actions' section of the staff intranet. This could be strengthened by the development of a formal counter-fraud policy which staff are required to adhere to.

Recommendation 3

To strengthen its internal control environment, NHS Lothian should develop a formal counter-fraud policy which staff are required to adhere to.

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 an established and effective approach to medium-term financial planning and will need to maintain and further develop this to meet the future financial challenges.

The target for efficiency savings has increased from 1.3 per cent in 2022/23 to 3.0 per cent in 2023/24 which represents a significant challenge.

The Scottish Government has provided additional support to reduce waiting times but it is unlikely to be enough to make a significant difference.

The response to Covid-19 and a range of emerging financial pressures have exacerbated the financial position of the NHS in Scotland

40. As highlighted in Audit Scotland's *NHS in Scotland 2022* report, the financial position is concerning across the health sector. Despite growth in health funding a range of financial pressures are presenting a significant challenge for all health boards. These include inflation, recurring pay pressures, ongoing Covid-19 related costs, rising energy costs and a growing capital maintenance backlog.

NHS Lothian has an established approach to medium-term financial planning which has proved to be effective in recent years

41. NHS Boards were required to submit a three-year integrated plan, covering the period 2022-25, to the Scottish Government by the end of July 2022. This medium-term plan is intended to enable a more strategic approach to planning and support programmes of service transformation. It should also align with the NHS Recovery Plan and the Care and Wellbeing Portfolio.

42. The medium-term plans are to be underpinned by an annual delivery plan. Boards will be required to provide quarterly updates on these plans to the Scottish Government. The three-year plan was submitted by NHS Lothian to the Scottish Government on 16 August 2022. The NHS Lothian Board approved the 2022/23 annual delivery plan in October 2022.

43. NHS Lothian also produces an annual 5-year financial outlook alongside the delivery plans. Given NHS Lothian's ability to achieve break-even in recent years, it has demonstrated that its medium-term financial planning is effective. However, the challenges in the coming years are greater than those previously encountered.

NHS Lothian is facing increasing financial risks and uncertainties in 2023/24 and beyond

44. The Scottish Government makes funding decisions based on the National Resource Allocation Committee (NRAC) allocation formula. The principal element of the NRAC calculation is the population of the health board as a percentage of the national total. A report to the FRC in June 2023 highlighted that NHS Lothian was one of three territorial boards which receives funding less than its population share. The report estimates that cumulatively NHS Lothian has received in £151 million less than its NRAC share over the last decade (after accounting for inflation).

45. Prior to 2022/23, financial plans presented to the FRC offered limited assurance that the board would achieve financial balance in the year. The 2022/23 and 2023/24 plans however stated that it was not possible to provide any assurance. NHS Lothian's most recent 5-year financial outlook and outline plan 2023/24, presented to the FRC in March 2023, identified a funding gap of £52 million for 2023/24. This position was achieved after taking account of planned efficiencies and is almost double the gap in 2022/23 (£28.4 million).

46. The Scottish Government outlined funding commitments for 2023/24 in December 2022, which are reflected in the plan. This set out a two per cent uplift on baseline budget, representing £33.9 million of funding. The plan assumes a further £74 million of additional resource following final agreement of the 2023/24 pay award.

47. NHS Lothian anticipates additional costs of £201.3 million in 2023/24. This includes an underlying gap from the previous year of £104.5 million and £96.8 million on new issues. The resultant gap is reduced to £52 million by planned efficiency savings.

The target for efficiency savings has more than doubled from 1.3 per cent in 2022/23 to 3.0 per cent in 2023/24

48. NHS Lothian has identified £41 million of efficiency savings for 2023/24 against a target of £54.0 million (representing 3.0 per cent of spend). This compares with identified efficiencies of 1.3 per cent in 2022/23 (see [paragraph 30.](#)) which itself presented a significant challenge. While £31.0 million of these

anticipated efficiencies are expected to be recurring, plans still need to be developed for the remaining £13.0 million.

49. The planned efficiency savings cover a wide range of service areas, including drugs, energy, permanent nursing, prescribing costs and office services. Given the amount of recurring savings achieved in 2022/23 was £14.7 million out of a total of £23.8 million, this demonstrates the scale of the challenge for 2023/24.

Covid spend is reducing but ongoing challenges may require further support from the Scottish Government

50. NHS Lothian's 2023/24 5-year financial outlook and outline plan 2023/24 makes no distinction between Core services and Covid spend. This is on the basis that NHS Lothian returns to "business as usual" with Covid costs largely absorbed within normal service delivery. Additional resource is expected to be restricted in 2022/23, limited to support the vaccination programme, testing and PPE costs.

51. The 5-year outlook forecasts funding gaps ranging from £104.6 million in 2024/25 to £147.1 million in 2027/28. NHS Lothian has not previously required brokerage from the Scottish Government and therefore does not require to factor in repayment costs, unlike some other boards. Given the financial gaps within the NHS Lothian 5-year financial outlook, without a fundamental change in service delivery plans, there remains a risk that NHS Lothian may require to use brokerage from the Scottish Government in future years.

The Scottish Government has provided additional support to reduce waiting times but this is unlikely to be enough to make a significant difference

52. The financial assessment within the 5-year financial outlook does not include any additional cost implications arising from closing the gap on waiting times. This includes both the backlog in procedures and any recurring capacity deficit.

53. In February 2023 the Scottish Government issued planned care planning guidance, which sought to place a strong emphasis on recovery, redesign and sustainability. To support longer term decision making, and embed new ways of working, the guidance noted that access funding of £103 million will be recurring from 2023/24. This funding was allocated on an NRAC basis. NHS Lothian's share of this is around £15.5 million per year.

54. In previous years, NHS Lothian received non-recurring funding of around £20.0 million per year to address waiting times. This was mostly spent on securing non-recurring external capacity, with around £5.0 million invested on a recurring basis in internal capacity. Therefore, around £10.5 million of funding will be available in 2023/24. It is unlikely that this will be sufficient to support a significant reduction waiting times.

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 which should support joint working with other healthcare providers.

Governance arrangements are appropriate and NHS Lothian provide transparency through papers available on the website.

NHS Lothian has a clear vision and strategy which should support joint working with other healthcare providers

55. The Lothian Strategic Development Framework (LSDF) was prepared in April 2022. This plan covers the period from 2022/23 to 2027/28 and supersedes the NHS Lothian Strategic Plan: Our Health, Our Care, Our Future 2014-2024. All other business strategies sit under the LSDF.

56. The LSDF sets out a vision that:

- Citizens lead longer, healthier lives, with better outcomes from the care and treatment we provide
- We connect health and social care services seamlessly, wrapping around the citizen in their home
- We improve performance across our system, with better experiences for citizens and those who work for and with us.

57. The LSDF sets out NHS Lothian's objectives across Lothian's Health and Care system (LHCS) over the next 5 years. The LHCS consists of NHS Lothian and the four related integration joint boards (IJBs) covering East Lothian, Edinburgh, Midlothian and West Lothian.

58. The LSDF is therefore a collaboration between these bodies for the planning, commissioning and delivery of health and care services in the Lothian area. This represents good practice and should support more aligned and effective joint working between all parties to help address financial and system performance challenges.

59. To deliver the vision the LSDF sets out actions against six pillars: Developing NHS Lothian as an anchor institution; Children and Young People; Mental Health, Illness and wellbeing; Primary Care; Unscheduled care; and Scheduled care.

60. These pillars are set against five parameters: Workforce; Environmental Sustainability; Digital; Finance; and Capital. The identified pillars and parameters appear appropriate and cover expected areas of service provision with known challenges.

NHS Lothian has established appropriate arrangements to monitor progress of the LSDF

61. NHS Lothian established the Planning, Performance & Development Committee (PPDC) in October 2020. Its role is to focus on the medium to long-term and it operates to facilitate the work of other committees on assurance, performance and risk management.

62. The PPDC has developed a series of corporate objectives, built around the six pillars and five parameters from the LSDF. These show how NHS Lothian will progress towards its five-year vision. These are reviewed regularly at PPDC on an ongoing basis. The PPDC was renamed as the Strategic, Planning and Performance Committee (SPPC) when its Terms of Reference were revised and approved at the December 2022 Board meeting.

Governance arrangements are appropriate and NHS Lothian provides transparency through papers available on its website

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

64. Papers and minutes for Board meetings, including financial and performance information and details of decisions made are available on NHS Lothian's website. Although committee papers are not available, all agreed minutes are posted on the NHS Lothian website. These arrangements allow for openness and transparency in decision making.

65. Through attendance at Board and ARC meetings, it is evident that members are well informed and provide appropriate scrutiny.

Climate change arrangements are reasonable but NHS Lothian faces significant challenges to achieve set targets

66. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 per cent reduction in greenhouse gas emissions by 2030. 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.

67. NHS Lothian produced its sustainable development framework ([SDF](#)) and action plan in late 2022 which is available on its website. This set a target of zero carbon emissions by 2045 and a proposed interim target of 70 per cent reduction by 2030. In 2023 the timescale to zero carbon emissions was brought forward to 2040.

68. The SDF sets out a range of actions across four areas (People, Partners and Organisation; Sustainable Models of Care; Focus Area; and Monitoring Progress and Evaluating Impact). Regular reports are provided to the FRC and a Climate Emergency and Sustainability Programme Board was established in December 2022.

69. NHS Lothian produces an annual Carbon Emissions report (now named the Climate Emergency and Sustainability Annual Report). These are available on the NHS Lothian website. Overall NHS Lothian has reasonable arrangements in place to develop a climate change strategy and to monitor and report on its progress. Like many other bodies it faces significant challenges in achieving these targets in future years.

70. The Auditor General 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 arrangements are appropriate

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

72. During 2022/23 we confirmed that internal audit carried out a review in this area. This noted several instances of good practice with areas for improvement which NHS Lothian is taking action to address. The implementation of these actions is monitored by the ARC (alongside other audit recommendations).

73. The ARC also receives regular updates on cyber security, the most recent delivered to the meeting in April 2023. In addition cyber has been identified within the corporate risk register which is reported to the ARC and the Board. In 2023/24, NHS Lothian will be subject to a further annual network and information systems security audit as part of a rolling programme. Previous exercises in 2021 and 2022 resulted in positive scores of 81 per cent and 84 per cent respectively.

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's annual delivery plan has a series of actions to address backlogs caused by the Covid-19 pandemic and restore performance levels, however this is likely to take several years.

Significant investment is required to alleviate growing pressure on NHS Lothian's services.

NHS Lothian should further develop its approach to demonstrating best value.

NHS Lothian's annual delivery plan has actions to address Covid-19 backlogs and restore performance levels, however this is likely to take several years

74. The Scottish Government requested NHS boards to produce and regularly revise plans for the delivery of health services. NHS Lothian outlined four priority areas in the LSDF and has progressed them through the annual delivery plan. These are:

- Active promotion of realistic medicine – actions include promoting 'Digital First' unless face to face examination is required and reducing the number of people who do not attend scheduled appointments.
- Optimising current resource and capacity – actions include prioritisation of clinical resources aligned with clinical need and continuation of out-patient redesign programme.
- Supporting, developing and protecting our workforce – actions include developing a recruitment plan to meet challenges and increasing training support for existing workforce.

- Securing additional capacity – actions include exploring care options with the independent sector and progression of plans for a national treatment centre for Lothian.

75. The plans which NHS Lothian has developed look reasonable and the governance arrangements set out in [Section 4](#) should ensure that progress is appropriately monitored. As outlined in the LSDF though, recovery from the pandemic is a longer-term issue and is likely to take several years.

NHS Lothian has appropriate arrangements for performance monitoring and reporting

76. Performance reports have been considered by the Board regularly throughout 2022/23. As described earlier, these papers are publicly available, therefore NHS Lothian is transparent in its reporting. From review, the Board reports cover performance against all expected areas. A summary of which is then taken forward to the performance report in the annual report and accounts. Detail is also provided to explain the level of performance reported, with actions taken. Overall NHS Lothian has appropriate performance management arrangements.

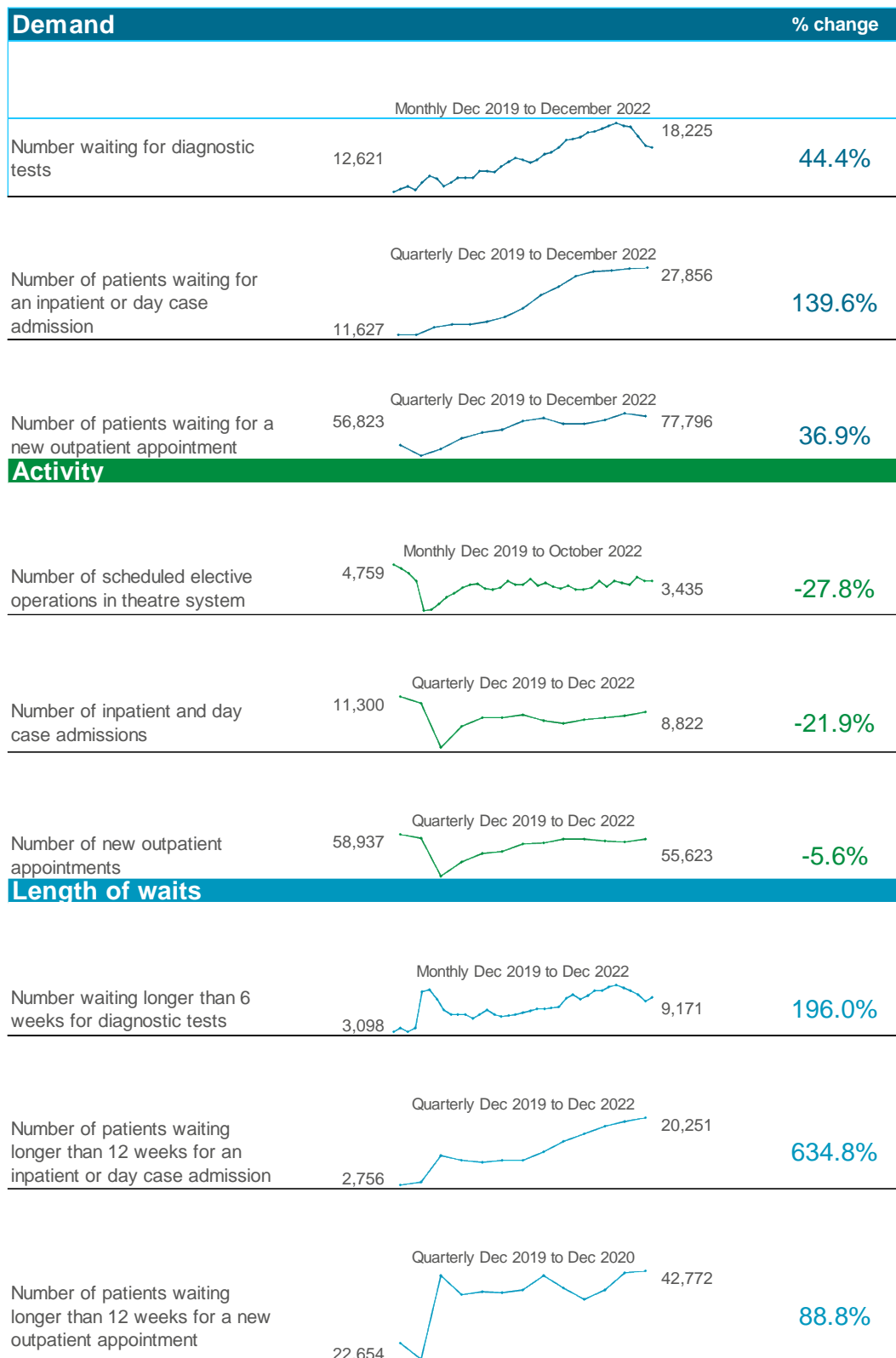
Significant investment is required to alleviate growing pressure on NHS Lothian's services

77. The 2022/23 annual report and accounts include the position at the end of March 2023 on the board's performance against its national waiting time standards. 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 of the delivery of health services.

78. [Exhibit 5](#) demonstrates how activity and waiting times have been impacted by the Covid-19 pandemic and [Exhibit 6](#) provides a comparison of current year waiting times compared to prior years. The exhibits demonstrate that demand increased significantly in 2020 due to the pandemic but has now levelled off, although it remains much higher than the period pre-Covid. Activity reduced significantly in 2020 and while it has been recovering to some degree it still remains below pre-Covid levels.

79. The increase in demand and the reduction in activity has seen a large increase in the amount of time patients are waiting to receive treatment. Waiting times have increased by over 50 per cent on all metrics reported here and by over 600 per cent in the case of in-patient appointments.

80. NHS Lothian acknowledges in the LSDF that it will take years rather than months to reduce waiting times to pre-pandemic levels without significant investment. As mentioned previously ([paragraph 54.](#)) additional funding to reduce waiting times is unlikely to be sufficient. Further, the Board has to deliver overall efficiency savings of 3.0 per cent in 2023/24 and beyond ([paragraph 48.](#)).

Exhibit 5**Trends in demand and activity per acute services at NHS Lothian**

Source: Public Health Scotland

Exhibit 6

Performance against key waiting time standards

Target / standard	Description	Performance March 2020	Performance March 2021	Performance March 2022	Performance March 2023 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% (Dec 2022)
18 Weeks RTT (Standard 90%)	Proportion of patients that started treatment within 18 weeks of referral	76.4%	82.0%	74.5%	74.3% (Dec 2022)
Patient Treatment Time Guarantee (TTG) (Standard 100%)	Proportion of inpatients or day case seen within 12 weeks	75.1%	70.1%	65.3%	55.6% (Dec 2022)
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%	45.0% (Dec 2022)
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%
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%	89.7% (Dec 2022)

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%	Not available
CAMHS Waiting Times (Standard 90%)	Proportion of patients seen within 18 weeks of referral	53.9%	57.1%	68.3%	51.8%

Source: Public Health Scotland; NHS Lothian 2022/23 Annual Report and Accounts

Due to improvements in mental health services the Scottish Government has de-escalated NHS Lothian to level 2

81. The Scottish Government has developed an escalation framework for NHS boards as a means to monitor performance and assess risk. In 2019, NHS Lothian was escalated to stage 3 of the framework in respect of mental health services. This represents significant variation from planned performance and requires a formal recovery plan.

82. In May 2023 the Scottish Government informed NHS Lothian that it was being de-escalated to level 2 of the framework. This follows the service recovery plan and improvements in several areas including a reduction in the number of people waiting to start treatment and reductions in waiting times.

Ownership of some PFI / PPP properties will not transfer to NHS Lothian and the Board need to plan for this

83. NHS Lothian operates a number of properties through private finance initiative (PFI) or public private partnerships (PPP) contracts. Under these contracts, private consortia build and manage properties over the duration of the contract. For accounting purposes these properties are held on NHS Lothian's balance sheet, but ownership remains with the private consortium. In many cases, ownership transfers to NHS Lothian at the end of the contract, however this is not always the case.

84. A previous example of this was Ferryfield House. This was formerly occupied under a PFI contract which ended in October 2021. As per the 2017/18 NHS Lothian annual report and accounts (the last time it was disclosed) it had an estimated capital value of £3.1 million. Following the end of the PFI contract, NHS Lothian have had to continue to use the building to support service deliver under a lease agreement at a cost of £1.9 million in 2022/23. NHS Lothian plans to exit from this arrangement following a bed-based review by Edinburgh IJB, but this is dependent upon other facilities being in place.

85. Currently NHS Lothian is undertaking an exercise to determine how many of these PFI / PPP contracts do not involve a transfer of ownership at the end of the contract. In order to effectively plan for future healthcare provision, NHS Lothian must establish which assets will not be transferred and determine an approach to allow for this while minimising service disruption.

Recommendation 4

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.

NHS Lothian should further develop its approach to demonstrating 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. We found that NHS Lothian does not have a formally agreed document that details the arrangements in place to support the best value characteristics. NHS Lothian did prepare a document for the purpose of our audit. This generally covered the characteristics set out in the SPFM, although it was noted that the headings were not completely aligned.

88. The best value process could be further enhanced by producing a document that is updated annually detailing the arrangements that support the characteristics. The annual update should be presented and approved by the Board or appropriate committee.

Recommendation 5

NHS Lothian should produce an annual formally agreed document which details how it meets the best value characteristics as set out in the SPFM.

NHS Lothian continues to support the ongoing Scottish Hospitals Inquiry and has put in place arrangements to manage this process

89. The Scottish Hospitals Public Inquiry (SHI) was launched in August 2020. This is reviewing the construction of the Royal Hospital for Children and Young People (RHCYP), and Department of Clinical Neurosciences (DCN) in Edinburgh. It is also reviewing the construction of the Queen Elizabeth University Hospital Campus in Glasgow and is led by the Right Honourable Lord Brodie.

90. During 2022/23 there was a hearing in May 2022 which covered ventilation and the design process. Further hearings took place between late April and early May 2023. These addressed the period from the beginning of the procurement exercise to financial close with a focus on the development of the technical specification.

91. There is likely to be a further hearing in late Autumn 2023 in respect of the decisions by the Cabinet Secretary:

- not to open the RHCYP and DCN in July 2019; and
- to fully open the RHCYP and DCN by March 2021.

92. NHS Lothian has implemented a standard operating procedure to document the approach for responding to requests from the SHI. It has also purchased a data management system to ensure that it provides timely responses to the SHI while managing the additional workload pressure.

93. The timetable for completion of the inquiry and publication of the final report has not been confirmed. We note the ongoing efforts from NHS Lothian in response to the SHI and efforts made to manage the workload pressure. NHS Lothian is also aware of pressures on staff in attending and providing evidence to inquiry hearings. We will continue to monitor developments into our 2023/24 audit.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue / risk	Recommendation	Agreed management action / timing
<p>1. Remuneration and staff report</p> <p>There were a number of audit adjustments to the remuneration and staff report to ensure it accurately presented the required information (as set out in the NHS Manual).</p> <p>Risk – the remuneration and staff report is inaccurate and/or not in line with the NHS Manual.</p>	<p>Year-end processes for the remuneration and staff report should be strengthened to ensure disclosures are accurate and in line with the NHS Manual.</p> <p>Exhibit 2, point 4</p>	<p>We have a robust documented process in place for preparation of the remuneration report which is rigorously adhered to. First draft presented to the auditors was still undergoing management review and we were still awaiting some responses from SPPA.</p> <p>We will however include an additional step in our procedure note to ensure there is no potential omitted disclosure covering issues such as details of service contracts and duration of contracts, as prescribed by the Accounts Manual</p> <p>Responsible officer Director of Finance</p> <p>Agreed date 30 June 2023</p>
<p>2. Budget holders review</p> <p>Budget holders are provided with regular monitoring reports from the financial management system and management can check they are being downloaded through a dashboard. NHS Lothian has also commended a training</p>	<p>NHS Lothian should further enhance its processes to ensure that budget holders regularly access and review monthly monitoring reports effectively.</p> <p>Paragraph 34.</p>	<p>From 23/24 NHS Lothian has introduced a Finance Training programme for all budget holders to support understanding of their responsibilities in relation to budget management. The first two of the seven training modules include an Introduction to Budgets and</p>

Issue / risk	Recommendation	Agreed management action / timing
<p>programme with budget holders. However further work is required to ensure that budget holders appropriately scrutinise monitoring reports.</p> <p>Risk – budget issues are not identified appropriately resulting in overspends</p>		<p>Dashboards for monthly reporting. The Budget module has been delivered and has been very well attended and received. We will continue to monitor dashboard utilisation in partnership with delivery of these modules.</p> <p>Responsible officer Director of Finance</p> <p>Agreed date Completed</p>
<p>3. Counter fraud policy</p> <p>Currently NHS Lothian informs its staff about its approach to fraud via its internal staff intranet. While some staff also receive training, there is not a formal policy for counter fraud.</p> <p>Risk – NHS Lothian staff could be unaware of their responsibilities in respect of countering fraud and irregularity.</p>	<p>To strengthen its internal control environment, NHS Lothian should develop a formal counter-fraud policy which staff are required to adhere to.</p> <p>Paragraph 39.</p>	<p>This has already been discussed at the Counter Fraud Action Group meetings. We'll continue to develop plans to support implementation of the Counter Fraud standards, which includes formal Counter-Fraud policy.</p> <p>Responsible officer Director of Finance</p> <p>Agreed date 31 March 2024</p>
<p>4. Ownership of PFI / PPP assets</p> <p>Ownership of some PFI / PPP assets may not transfer to NHS Lothian at the end of the contract. Currently NHS Lothian is reviewing all such contracts to ensure it can plan ahead to continue to provide effective healthcare at affected establishments.</p> <p>Risk – NHS Lothian is no longer able to provide healthcare services at some properties, or must pay significantly higher rental charges.</p>	<p>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.</p> <p>Paragraph 85.</p>	<p>Through the PFI Programme Management function, NHS Lothian has a register of all PFI / PPP contracts, the services provided, the contract end dates and the arrangements for the asset at the termination of the contract. The recommendation to formally plan management of 'end of contract' processes for all PFIs – regardless of status of the asset at the end of the contract – is accepted by NHS Lothian. This will seek to formalise a timetable leading up to end of contract and the responsibilities of</p>

Issue / risk	Recommendation	Agreed management action / timing
		<p>different parts of the organisation to capture clinical service planning post-handover, as well as capital / revenue impact and requirement for provision of support services. This will be considered in line with implementation of the LSDF.</p> <p>Responsible officer Director of Finance</p> <p>Agreed date 31 March 2024</p>
<p>5. Best value</p> <p>Under the SPFM, the Chief Executive (as accountable officer) has a responsibility to ensure best value. While NHS Lothian was able to demonstrate this, the document provided to audit had not been approved by the Board or senior management.</p> <p>Risk – without appropriate challenge and scrutiny NHS Lothian may not be fully demonstrating best value.</p>	<p>NHS Lothian should produce an annual formally agreed document which details how it meets the best value characteristics as set out in the SPFM.</p> <p>Paragraph 88.</p>	<p>NHS Lothian will reinstate the production of an 'Assurance Report on Best Value' to accompany the annual governance statement. This will commence from June 2024 for 2023/24.</p> <p>Responsible officer Director of Finance</p> <p>Agreed date June 2024</p>

Follow-up of prior year recommendations (from previous auditor)

Issue / risk	Recommendation	Update
<p>b/f 1. Suspense and control account reconciliations 2021/22 AAR</p>	<p>Management should ensure that the review of suspense and control accounts is appropriately documented, recording the explanation and/or action taken for each transaction.</p>	<p>Completed - Confirmed through review of the balance sheet reconciliations log provided by NHS Lothian that the suspense accounts were subject to review throughout the year.</p>

Issue / risk	Recommendation	Update
b/f 2. Sales invoices in expenditure 2021/22 AAR	Management should ensure sufficient procedures, training and checks are in place to support the correct classification of sales and purchase invoices.	Completed – through our audit testing we did not find any such cases in 2022/23.
b/f 3. Lifecycle maintenance	Management should ensure lifecycle maintenance costs on Royal Infirmary Edinburgh are accounted for as core expenditure and covered by core RRL funding.	Completed – through our audit testing we did not find any such cases in 2022/23.
b/f 4. Assets under construction	Management should undertake sufficiently regular reviews during the lifetime of each project to ensure that capitalised spend is not materially misstated at the year end and the reasons for write-offs are fully understood and addressed as appropriate.	Ongoing – our testing did find evidence of action taken to separate out revenue costs from the assets under construction but further work is required in this area.
b/f 5. PFI contract expiry	We recommend the board considers including the risks relating to PFI contract expiry on the corporate risk register.	Ongoing – while we found that there is now a risk in the corporate risk register for PFI projects, it didn't specifically address the point raised in the recommendation around contract expiry.

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 £250,000.

The table below summarises amendments that would be required to correct misstatements that were noted during our audit testing. 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	Comprehensive income and expenditure statement		Balance sheet	
		Dr £m	Cr £m	Dr £m	Cr £m
Accounting Misstatements					
1. Liberton hospital sale not recognised in year	Deferred income			5.0	
	Income		5.0		
	Non-current assets				2.0
	Gain on Disposal	2.0			
2. ACT income overstated	Income	0.9			
	Expenditure		0.9		
3. Indexation applied inappropriately	Non-current assets				0.3
	Revaluation reserve			0.3	
		2.9	5.9	7.3	2.3

Supporting notes

1. More details in [Exhibit 2](#), item 3.

2. ACT Income in the ledger is £0.9 million higher than the Advice Notes and reconciliation provided by NHS Education for Scotland.

3. Per the NHS Capital Accounting Manual (para 4.11.2): Indices are only appropriate for use on properties measured using the DRC valuation methodology. NHS Lothian has applied indexation to properties which use the Existing Use Value methodology.

NHS Lothian

2022/23 Annual Audit Report

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