



NHS Lothian

2019/20 Annual Audit Report to the Board and the Auditor General for Scotland

November 2020



Table of Contents


Key messages	3
Introduction	6
Annual report and accounts	9
Financial sustainability	23
Financial management	29
Governance and transparency	35
Value for money	40
Appendices	52

Key messages

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This report concludes our audit of NHS Lothian for 2019/20, with unqualified audit opinions.

This section summarises the key findings and conclusions from our audit.

<p>Annual report and accounts</p>	<p>All key financial targets were met in 2019/20. NHS Lothian achieved a saving of £0.619million against its revenue resource limit, and a breakeven position against its capital resource limit of £52.141million.</p> <p>The annual report and accounts were approved by the Board on 24 June 2020. Our independent auditor’s report includes an unqualified opinion on the annual accounts, regularity and on other prescribed matters. We have drawn attention via an Emphasis of Matter in our independent auditor’s report to Note 1 Accounting policies, 29. ‘Key sources of judgement and estimation uncertainty’ of the financial statements. This describes the effects of a material uncertainty, caused by COVID-19, on the property valuation report. Our opinion is not modified in respect of this matter.</p>
 <p>Financial Sustainability</p>	<p>Whilst acknowledging the uncertainty and significant impact of COVID-19, NHS Lothian needs clearer plans for financial sustainability (including where and how savings will be delivered in response to significant medium-term challenges).</p> <p>As 2020/21 progresses, the risks, challenges, financial impact and service redesign opportunities of COVID-19 will inform and impact how the board approaches this fundamental, strategic issue.</p>
 <p>Financial Management</p>	<p>Whilst meeting its key financial targets in 2019/20, NHS Lothian did not achieve all planned savings, and with significant reliance on non-recurring savings in the year.</p> <p>NHS Lothian has adequate arrangements in place for monitoring and managing its overall financial position and use of resources to date, but reliance on non-recurring savings to achieve financial balance and initial impact of COVID-19 are key risk factors going forward.</p> <p>Key financial systems and internal financial controls are adequate to help prevent material misstatements.</p>
 <p>Governance & Transparency</p>	<p>The NHS Lothian Board made minimal changes to its governance arrangements as a result of COVID-19, seeking to maintain efficient and effective governance during the pandemic.</p> <p>The Board and all its key committees met frequently during 2019/20 and throughout the pandemic to provide scrutiny and oversight and receive assurance on the management of risk.</p> <p>The Board is continuing to implement the governance action plan developed in response to the NHS Blueprint for Good Governance.</p> <p>The Board’s EU Exit Management Group continues to meet periodically to consider emerging risks and required responses.</p>



Value for Money

During 2019/20, the Scottish Government placed NHS Lothian on two levels of its Performance Escalation Framework: Level 4 for the RHCYP/DCN hospital project and Level 3 for general performance issues. The Board put a formal recovery plan in place, increased the frequency of its meetings and retained direct oversight of the recovery plan.

Following the decision to halt the opening of the Royal Hospital for Children and Young People in July 2019, the Cabinet Secretary commissioned two independent reviews into the project, Audit Scotland issued a section 22 report, and NHS Lothian's internal auditors carried out a root cause analysis. What emerged was a picture of human error and confusion over interpretation of the relevant specifications and guidance and a collective failure from the relevant parties involved in the project to spot and rectify the errors.

An established and appropriate performance management framework is in place at NHS Lothian with improvements being continually made in relation to performance reporting.

There was a deterioration in performance, in particular in key waiting times targets. COVID-19 has been a driving factor in this area. Improvement plans are in place to return performance to target levels.

Introduction



We carried out our audit in accordance with Audit Scotland's Code of Audit Practice and maintained auditor independence



Scope

1. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Risk Committee at the outset of our audit. The core elements of our work include:
 - an audit of the 2019/20 annual report and accounts and related matters;
 - consideration of the wider dimensions of public audit work, as set out below, including taking account of the impact of COVID-19;
 - monitoring the Board’s participation in the National Fraud Initiative (NFI); and
 - any other work requested by Audit Scotland.

Audit dimensions within the Code of Audit Practice



Responsibilities

2. The Board is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
3. We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

4. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all

facts and matters that may have a bearing on our independence.

5. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standards. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.
6. We set out in Appendix 1 our assessment and confirmation of independence.

Adding value through the audit

7. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

8. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

Openness and transparency

9. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Annual report and accounts

NHS Lothian's annual report and accounts are a principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

In this section we summarise the findings from our audit of the 2019/20 annual report and accounts.

Annual report and accounts

Unqualified audit opinion on the annual report and accounts

The annual report and accounts for the year ended 31 March 2020 were approved by the Board on 24 June 2020. Our independent auditor's report was unqualified on all matters. We drew attention in our independent auditor's report to Note 1 Accounting policies, 29. 'Key sources of judgement and estimation uncertainty' of the financial statements. This describes the effects of a material uncertainty, caused by COVID-19, on the property valuation report. Our opinion was not modified in respect of this matter. We did not identify any significant adjustments to the unaudited annual report and accounts.

The Board has appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers, albeit COVID-19 impacted aspects of the process.

Overall conclusion

10. Our independent auditor's report includes:
 - An unqualified opinion on the financial statements;
 - An unqualified opinion on regularity; and
 - An unqualified opinion on other prescribed matters.
11. We are also satisfied that there were no matters which we are required to report by exception. We have drawn attention to the material uncertainty caused by COVID-19 on the property valuation report. This is via an Emphasis of Matter in our independent auditor's report.

Our assessment of risks of material misstatement


12. The assessed risks of material misstatement described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures.

Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Noted in the 2019/20 External Audit Plan


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13. We have not identified any indication of management override in the year leading to material misstatement or significant concern. We have reviewed the board's accounting records and obtained evidence to ensure that transactions outside normal processes were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.
 14. We did however identify two instances in 2019/20 where a journal was posted and authorised by the same individual. Whilst the sector-wide accounting system does not prevent this practice by default, NHS Lothian's financial regulations dictate that segregation of duties must be in place and journals should be authorised by a second individual. Management were already aware of both instances and our testing confirmed that both journals were appropriately supported by evidence. We have raised a management action point to ensure procedures are reiterated to all staff and the compliance is closely monitored.

(Action Plan Point 1)

Revenue recognition

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.


Noted in the 2019/20 External Audit Plan

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15. At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for the Board's revenue resource allocation from Scottish Government.
 16. Based on audit work performed, we have gained reasonable and appropriate assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion, we evaluated the Board's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

Risk of fraud in the recognition of expenditure

Practice Note 10 - *The Audit of Public Sector Financial Statements* recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.


Noted in the 2019/20 External Audit Plan

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17. We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion we carried out a broad range of testing, including to confirm that the board's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

Capital transactions

The board holds a significant level of high value estate (net book value of land and buildings was £846.2million at 31 March 2019). The board values its assets on a five year cycle, with an element of the estate being subject to valuation each year. In addition, the Board expects to make significant capital additions during 2019/20. The board's Capital Resource Limit for 2019/20 is £53.263million and it is expected that this will be fully utilised.

Noted in the 2019/20 External Audit Plan

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- A grey arrow pointing from the left margin towards the first item in the list.
18. We have reviewed capital transactions to ensure that they have been accounted for in line with the Government Financial Reporting Manual ('the FReM') and the Board's accounting policies. We have gained assurance over the completeness and accuracy of capital additions recognised in 2019/20.
 19. We noted £8.7million of assets under construction that should have been recognised as a completion in 2019/20 and have recognised the re-classification of assets as an unadjusted difference. Due to resourcing constraints at the year end and the impact of COVID-19, this exercise was not completed. We are satisfied that the impact on the depreciation charge and valuation of assets is below our trivial reporting threshold.


(Action Plan Point 2)
 20. We have gained assurance that the carrying value of the board's estate in the financial statements is in line with valuer's report. Work has just been completed to update the asset register with the useful lives provided by the valuer. We have drawn attention in our independent auditor's report, via an Emphasis of Matter, to Note 1 Accounting Policies, 29. 'Key sources of judgement and estimation uncertainty' of the financial statements, which describes the effects of a material uncertainty caused by COVID-19 on the property valuation report and this is considered further below.

PFI and related assets

NHS Lothian has a range of legacy facilities which were delivered through the Public-Private Partnerships (PPP) / Private Finance Initiatives (PFI), including The Royal Infirmary of Edinburgh, Midlothian Community Hospital, East Lothian Community Hospital, Ellens Glen and Findlay House. More recently, several Non-Profit Distributing Model (NPD) agreements have been entered into and commenced. The cumulative estimated base capital value of these agreements is in excess of £390million.

Due to the complexity of accounting and the high value of the transactions, there is a risk that the Board's financial statements do not show the correct accounting entries and related commitments, and that the unitary payments in relation to these facilities are not correctly accounted for.

Noted in the 2019/20 External Audit Plan

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21. We have reviewed the board's PPP/PFI/NPD accounting and related commitment disclosures against the requirements of the FReM, the Manual and against the supporting contracts. We have also reviewed relevant aspects of the transactions against the NHS Scotland Capital Accounting Manual. No exceptions were identified.
 22. There has been recognition of further stages of the East Lothian Community Hospital development in 2019/20. From the range of work performed, we are satisfied that the various accounting entries present a true and fair review of these assets and related commitments.

Update to our initial risk assessment

23. Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise. We have specifically updated our risk assessment and audit plan in light of COVID-19. We recognised this as a key audit risk¹.

¹ A key audit risk is one which may result in a material misstatement to the financial statements or

significantly impact on our audit judgements and conclusions on the wider scope dimensions.

COVID-19

The COVID-19 pandemic is presenting unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. Core areas of service delivery have been suspended or substantially reduced, systems and processes have been amended to support remote working, arrangements for governance, decision making and performance management have been adapted, and many organisations are forecasting large operating deficits due to loss of income and/or additional cost pressures. It is uncertain how long these challenges will persist.

The implications of these risks and uncertainties are under consideration by the Board, the health sector and the Scottish Government. We continue to monitor government and relevant announcements as they pertain to the audit and have adapted our audit approach as required.

24. In response to COVID-19 we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion.

- Property valuations
- Stock valuations
- Content of the annual report and accounts
- Access to audit evidence
- Timescales/administrative processes
- Group considerations (see below).

Property valuations

25. During the pandemic, the Royal Institution of Chartered Surveyors (RICS) published guidance which outlines the challenges with regard to the valuation of assets during this period, including the potential for valuations to be “qualified” with a “material valuation uncertainty”.
26. The Board, in accordance with its accounting policies, obtains an external valuation of all land and buildings assets on an annual basis. The valuations are carried out in accordance with the RICS Appraisal and Valuation Manual insofar as these

terms are consistent with the agreed requirements of the Scottish Government.

27. In the current year the valuation report received from the external valuers (“Avison Young”) stated the following:

Material Valuation Uncertainty

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors.

As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Valuation – Global Standards effective from 31 January 2020. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case.

For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the phrase is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.

**Avison Young Capital
Valuation of Property Assets
as at 31 March 2020, Prepared
for NHS Lothian**

28. Boards are required to revalue properties with sufficient regularity to ensure that the carrying amount does not differ materially from the current value at 31 March. A material uncertainty in a valuer's report does not mean that the valuation cannot be relied upon or that there is a misstatement. However, it indicates that less certainty can be attached to the valuation than would otherwise be the case.
29. The Board has disclosed this uncertainty within both the Performance Report and Accounting

Polices (Significant Accounting Estimates and Judgements). We encouraged the Board to quantify the uncertainty by way of sensitivity analysis disclosure, but this information was not available and so was not included in the financial statements.

30. We considered whether the material uncertainty over the property valuations is of such importance that it is fundamental to users' understanding of the financial statements. Based on our considerations we have concluded that an emphasis of matter paragraph is required in our independent auditor's report, which draws attention to the disclosures made in the annual accounts. Our audit opinion is not modified in respect of this matter.

Stock valuations

31. Due to the impact of COVID-19 the Board was unable to perform full stock counts for all areas included within inventories. All areas where the year-end balances are material had stock counts performed, however clinical areas where the stock movement was low or where access was restricted were not counted prior to 31 March 2020. We reviewed the Board's approach to stock counts and concluded that this was a reasonable approach and would not be likely to result in a material misstatement to the financial statements.

Content of the annual report and accounts

32. In May 2020, HM Treasury issued an addendum to the Government Financial Reporting Manual (FRoM) which covered the following:
 - The addendum permits, but does not require, bodies to omit the

performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.

- Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report.

33. The Board has included a range of relevant and appropriate performance information in the accounts.

Access to audit evidence

34. Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.
35. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.
36. We stayed in close contact with Board finance colleagues right up until the point of accounts signing, to ensure all relevant issues were satisfactorily addressed.

Timescales/Administrative processes

37. In Scotland, the administrative deadline for the submission of audited accounts of health boards and agencies is usually 30 June but this has been extended by three months to 30 September 2020. The legislative

deadline for laying accounts in the Scottish Parliament however remains at 31 December 2020.

38. The Board decided to continue with the original timescales, putting focussed efforts into this, and approved the annual report and accounts on 24 June 2020.
39. We worked closely with management throughout the audit to put us in the best position to adhere to this timetable, and did so successfully.

An overview of the scope of our audit

40. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee in February 2020. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
41. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
42. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit management team. In

performing our work we have applied the concept of materiality, which is explained below.

updated assessment has remained appropriate throughout our audit.

Our application of materiality

43. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout the audit.
44. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.
45. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
46. Our initial assessment of materiality for the financial statements was £24.23million. On receipt of the 2019/20 draft accounts, we reassessed materiality and kept it at £24.23million. We consider that our

	Materiality £million
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Overall materiality: Our assessment is made with reference to the Board's Revenue Resource Limit (RRL). Achieving a breakeven position against RRL is a key target for the Board and one of the principal considerations for the users of the financial statements when assessing financial performance.

24.23

Performance materiality: using our professional judgement we have calculated performance materiality at approximately 65% of overall materiality.

15.75

47. We noted within our External Audit Plan that we would report to the Board all audit differences in excess of £250,000, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identify when assessing the overall presentation of the annual accounts.

Audit differences

48. We are pleased to report that there were no material adjustments to the unaudited annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts. This included updates and additional disclosures in relation to the remuneration report,

accounting policies, and in the staff report/fair pay disclosure.

49. We identified two unadjusted audited differences which are not considered material to the annual accounts. These relate to (i) adjustment of £4.1m between lines of payables, and (ii) £8.7m of assets under construction that should have been recognised as a completion in 2019/20. These are set out in Appendix 3. These have been reported to the Director of Finance and Audit & Risk Committee and are included as an appendix to the letter of representation and this report. The letter covers a number of issues and we requested that it be signed and presented to us at the date of signing the annual accounts.

Group audit

50. The Board prepares its annual report and accounts on a group basis. The group consists of the Board, the Lothian Health Board Endowment Fund and the four integration joint boards (Edinburgh, West Lothian, Midlothian and East Lothian).
51. The Endowment Fund is fully consolidated. The integration joint boards are deemed joint ventures with the respective local authority and accounted for under the equity method. We do not consider the consolidated entities to be of individual financial significance to the group or, due to their specific nature, circumstances and basis of accounting, likely to include significant risks of material misstatement of the group financial statements.
52. As part of our audit we reviewed the consolidation entries made within the group accounts for the Endowment

Fund and confirmed those entries back to the financial statements.

53. We are also the appointed auditor to the Endowment Fund. During our audit we liaised with the separate Endowment Fund audit team to confirm that their programme of work is adequate for our purposes, including to ensure this considers COVID-19 risks and impact.
54. We have nothing to report in respect of the following matters:
- No significant deficiencies in the system of internal control or instances of fraud were identified by the Endowment Fund auditor; and
 - There were no limitations on the group audit.

Other matters identified during our audit

55. During the course of our audit we noted the following:

Other information in the annual report and accounts

56. “Other information” in the annual report and accounts comprises any information other than the financial statements and our independent auditor’s report. We do not express any form of assurance conclusion on the “other information” except as specifically stated below.

The performance report

57. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary

of how the entity measures performance.

58. We concluded that the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

The accountability report

59. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement), a remuneration and staff report; and a parliamentary accountability report.

Governance statement

60. There were delays in obtaining a complete governance statement. We worked with NHS Lothian to ensure a compliant governance statement has been included in the annual report and accounts.
61. The coverage of the governance statement is in line with our expectations and have concluded that the governance statement has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers and is consistent with the financial statements.

Remuneration and staff report

62. We concluded that the audited part of the remuneration and staff report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers.

Regularity

63. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.
64. In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Service auditor reports

65. NHS National Services Scotland (NSS) engages KPMG as service auditor, to provide assurance on national systems. In May 2020 KPMG reported a qualified audit opinion. We have considered the findings of the report and are satisfied that this does not have a material impact on our audit approach or conclusions reached.
66. NHS Ayrshire and Arran procures a service auditor report from BDO. The service auditor reported no critical or significant risk findings and reported an unqualified opinion.

Qualitative aspects of accounting practices and financial reporting

67. During the course of our audit, we considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our audit conclusions on these qualitative aspects are as follows:

Qualitative aspect considered	Audit conclusion
<p>The appropriateness of the accounting policies used.</p>	<p>The accounting policies, which are disclosed in the annual accounts, are in line with the NHS Accounts Manual and are considered appropriate.</p>
<p>The timing of the transactions and the period in which they are recorded.</p>	<p>We did not identify any concerns over the timing of transactions or the period in which they were recognised.</p>
<p>The appropriateness of the accounting estimates and judgements used.</p>	<p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts.</p> <p>We included an emphasis of matter in our independent auditor’s report drawing attention to the material uncertainty disclosure on property valuations.</p> <p>Significant estimates were made in relation to the valuation of liabilities related to the Board’s membership of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). These estimates were informed by advice from qualified, independent experts.</p> <p>We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the experts was appropriate.</p>
<p>The appropriateness of the going concern assumption</p>	<p>We reviewed the financial forecasts for 2020/21. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Board will continue to operate for at least 12 months from the signing date.</p>
<p>The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.</p>	<p>We did not identify any uncertainties, including any significant risk or required disclosures, which are not already included in the annual accounts.</p>

Qualitative aspect considered	Audit conclusion
<p>The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.</p>	<p>From the testing performed, we identified no significant unusual transactions in the period to report here.</p>
<p>Apparent misstatements in the annual report or material inconsistencies with the financial statements.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p>
<p>Any significant financial statement disclosures to bring to your attention.</p>	<p>There are no significant annual accounts disclosures that we consider should be brought to your attention other than the material uncertainty disclosure on property valuations noted above. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p>
<p>Disagreement over any accounting treatment or financial statements disclosure.</p>	<p>While disclosure and presentational adjustments were made during the audit there was no material disagreement during the course of the audit over any accounting treatment or disclosure.</p>
<p>Difficulties encountered in the audit.</p>	<p>There were no significant difficulties encountered during the audit, although the timing of some audit evidence impacted our work and COVID-19 has presented challenges we have worked collaboratively around.</p>

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.



Whilst acknowledging the uncertainty and significant impact of COVID-19, NHS Lothian needs clearer plans for financial sustainability (including where and how savings will be delivered in response to significant medium-term challenges). As 2020/21 progresses, the risks, challenges, financial impact and service redesign opportunities of COVID-19 will inform and impact how the board approaches this fundamental, strategic issue.

The financial plan outlines a financial gap of £10.8million in 2020/21, but this may be subject to revision for substantial additional COVID-19 costs. The quantum also increases substantially over the next 5 years and reflects the scale of the challenge.

Significant audit risk

68. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities:

Financial sustainability

In April 2019, the Board and Finance and Resources Committee considered a Financial Plan to support the Annual Operational Plan. The paper outlined a remaining financial gap of £26 million. Our work on the financial projections from 2019/20 onwards notes ongoing challenges in achieving the recurring savings targets and medium to longer term financial stability.

NHS Lothian has an ongoing challenge relating to the impact of demography as funding has not kept pace with population changes. Since the NRAC formula was introduced in 2009, NHS Lothian's allocation has consistently been below the target level of funding. While all Boards have moved to within 0.8% of NRAC parity (of those below parity), NHS Lothian has estimated that the value of this shortfall will be £15m for 2019/20.

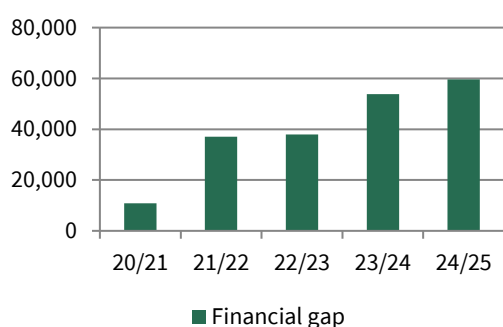
Noted in the 2019/20 External Audit Plan

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69. We reviewed NHS Lothian's achievement of the outturn position as part of our work on financial management and the financial statements. This work has highlighted that the board continues to face challenges in achieving savings targets, including recurrent savings, in amongst a challenging performance management landscape and unprecedented challenges of responding to COVID-19. The board achieved the underspend in 2019/20 due to a number of one-off savings and careful financial management during the year, albeit this operating context was significantly impacted right at year end with the implications of COVID-19.
70. The Financial Plan presented to the Finance and Resources Committee and Board in March and April 2020 sets out a financial gap of £10.8million for 2020/21. Our work on the financial projections from 2020/21 onwards is set out below and highlights the short and medium term challenges the board faces in achieving financial sustainability, while maintaining an appropriate level of performance. We have again concluded that financial sustainability continues to be a significant risk for 2020/21 onwards, with difficult decisions required to balance financial and non-financial performance metrics. COVID-19 is a significant, complicating factor in an already difficult situation.
71. Our detailed findings on the Board's financial framework for achieving long term financial sustainability are set out below.

Financial projections

72. NHS Lothian's Financial Outlook & Financial Plan projects a financial gap of £10.8million in 2020/21, with significant and pronounced increases in the deficit in years thereafter.

Future Financial Gap (£'000s)



Source: NHS Lothian 2020/21 Financial Outlook & Plan

73. NHS Lothian's 2020/21 financial gap is lower than in previous years (eg the gap was forecast as more than double this amount at the equivalent point last year), but 2020/21 brings the added challenge and significant uncertainty of COVID-19. We expect this is likely to substantially impact financial management actions and may have other adverse impacts such as impairing the ability to deliver savings targets and programmes, thereby constraining the ability of NHS Lothian to bridge projected deficits. However, the overall pattern of projected deficits is largely in line with those identified in the previous three years. Each year, the board has achieved a breakeven position although there has been an increasing and significant reliance on one-off savings.

74. Delivery of savings is a fundamental component of NHS Lothian's ability to deliver financial balance. For 2020-21, the board has a £18.6m savings plan as categorised below:

- Acute Services Division: £7.7m
- Corporate Services: £1m
- Four IJB/Partnerships: £6.2m
- Facilities & Consort: £2.4m
- Other: £1.3m

75. NHS Lothian has an oversight and scrutiny structure which includes Business Units reporting back to the Sustainability and Value Group (chaired by the Director of Finance) to examine the Business Units' approach to financial sustainability and what opportunities there may be to improve the financial position.

76. In line with previous financial years, the Finance and Resources Committee has only been able to take limited assurance that the board will achieve financial balance in 2020-21. At this stage, there are no clear plans to close the financial gap on a recurring basis, and this is exacerbated by COVID-19 complications. This level of assurance is revisited as the year progresses.

77. NHS Lothian management have reported through the governance structure that there is a requirement to keep reviewing the financial plan based on new information emerging, stating in Board and Committee reports that "in order to update the plan with a revised forecast for this year, more information is required and data available at the Quarter 1 stage will allow an updated projection to be made." This reflects the evolving and uncertain nature of operating within the COVID-19 environment.

Key assumptions and risks in the Financial Plan

78. NHS Lothian's assumptions are largely consistent with prior years. The board has highlighted the key issues that may impact on the achievement of a balanced financial outturn including:
- Over £10.5m medical and nursing pay baseline pressures;
 - £8.1m medical supplies baseline pressure costs;
 - Over £7.5m equipment and maintenance baseline pressures;
 - COVID-19 being of ongoing, significant uncertainty (for example, c.£5m net cost of COVID-19 in April 2020 alone), and nearly £150m per the Local Mobilisation Plan (LMP);
 - NHS Lothian remains behind NHS Scotland Resource Allocation Committee ('NRAC') parity relative to Scotland by up to an estimated £12million. The board is continuing to highlight its view on the 0.8% ongoing inequity within overall allocations;
 - While the plan shows financial gaps in each year, at this stage, the board does not intend to request brokerage; and
 - There are ambitions to further develop unscheduled care which have not been taken into account within the financial plan and which may be impacted by ongoing COVID-19 developments.
79. From our review of the financial plans, evolving reviews and updates, and presentations made to the Finance and Resources Committee, it is positive to see the detailed analysis, clear citation of risks and uncertainties relating to these projections, clear

ongoing effort to revise and refine the position as internal and external factors develop. This is all alongside a clear and unambiguous message around finance risks being significant and exacerbated in COVID-19 times.

COVID-19 – a significant and ongoing area of financial risk, challenge and uncertainty

80. COVID-19 has had a fundamental impact on finances and financial planning for 2020/21 and beyond. The emerging and uncertain impact on the Board's finances remains a significant risk and equally significant challenge.
81. The NHS Lothian Local Mobilisation Plan (LMP) forecasts additional costs of £149.8m associated with the COVID-19 response across the Board and the four IJBs. Of this, £71m reflects the four months to the end of July.
82. Management have described these cost projections as the "developing picture" across all its services. NHS Lothian has a range of senior management, committee and Board level discussions and scrutiny of these evolving financial pressures and have agreed to continue to:
- refine estimates of additional expenditure, including offsets from reduced expenditure
 - update for analysis of actual expenditure to understand how this begins to confirm or clarify assumptions;
 - forecast when and how additional expenditure may be switched off, through the remobilisation plan;
 - understand the timing and impact of key initiatives on NHS Lothian services (such as Community

- highlight requirements for capital investment or impact on support services to deliver proposed changes.
83. We are pleased to note NHS Lothian overtly recognising and committing to a fully integrated model - working with IJBs, local authority partners and other key stakeholders - as being fundamental to the remobilisation plan and beyond.
84. The Board's remobilisation plan acknowledges that the impact of COVID-19 means some elements within the original 2020/21 Financial Plan forecast will not materialise as previously projected, but "at this early stage it is difficult to interpret its influence on financial performance". We note the impact of the changes in services required to meet COVID-19 has contributed significantly to the overspend position in early months of 2020/21, and as noted above we believe this is likely to substantially impact financial management actions and may have other adverse impacts in 2020/21 and potentially beyond.
86. COVID-19 and the remobilisation of the board's activities influences all aspects of ongoing strategic and operational plans. NHS Lothian retains a focus on supporting the delivery of national priorities associated with improvement in scheduled and unscheduled care, access to mental health and well-being services, alongside greater progress and pace in the integration of Health and Social Care to deliver a shift in the balance of care from hospital to community services.
87. Whilst NHS Lothian has a stated strategic aim of optimising delivery of performance targets with achieving financial balance, this already very challenging and medium-term time horizon has become even more difficult with COVID-19. The exact ways in which these challenges are expected to manifest themselves are still being worked through by management at time of writing.
88. Key areas of focus for 2020/21 include remobilisation, adapting to COVID-19 pressures, and supporting Scottish Government priorities such as Mental Health and the Waiting Times Improvement Plan.

Strategic and Operational Planning

85. NHS Lothian's Strategic Plan *Our Health, Our Care, Our Future* recognises that, against a background of rising quality aspirations, major demographic challenges and resource constraints, delivery will not be achieved without radical change, accelerating innovation and changing mindsets. COVID-19 has accelerated the opportunity for, drive towards, and need to achieve such change.

East Region Plans

89. For many years, NHS Lothian has worked collaboratively with boards across the south east of Scotland. Following the publication of the National Health and Social Care Delivery Plan, NHS Lothian has been involved in assessing potential opportunities in supporting delivery against 5 agreed regional objectives. Shared services work includes focus on procurement and payroll.

90. Despite the significant and ongoing challenges presented to pre-existing plans and initiatives due to COVID-19 (the impact of which on the nature, extent, timing and resourcing remains fluid), a number of priorities are being progressed in partnership, such as:

- Laboratory Medicine
- Ophthalmology
- Regional Trauma Network
- Partnership for the prevention and reversal of Type 2 diabetes
- Radiology
- Innovation and Digital developments
- Cancer services.

Financial management

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



NHS Lothian has effective overall arrangements in place for financial management and the use of resources, albeit it continues to face significant resource pressures.

It met its key financial targets once again in 2019/20, delivering an underspend against its RRL and a breakeven position against its CRL. This was achieved despite the impact of COVID-19 at the tail end of the financial year.

NHS Lothian's reliance on non-recurring savings continues, and the impact of COVID-19 on 2020/21 and beyond is a significant uncertainty.

Financial performance

91. All boards have to work within the resource limits and cash requirements set by the Scottish Government. represents an underspend of 0.035%. This surplus was effectively in line with the breakeven position projected by the board.
92. The board achieved a saving against its RRL of £619,000 in 2019/20, which

Performance against resource limits

Financial target	Limit £000	Actual £000	Variance £000	Target achieved?
Core revenue resource limit	1,684,908	1,684,289	619	Yes
Non-core revenue resource limit	87,032	87,032	-	Yes
Core Capital resource limit	42,108	42,108	-	Yes
Non-core Capital resource limit	10,033	10,033	-	Yes
Cash requirement	1,906,359	1,906,359	-	Yes

Delivering financial balance

93. The 2019/20 Annual Operational Plan outlined an expected financial gap of £25.99million against a full year recurring expenditure budget of £1.615billion, as illustrated:

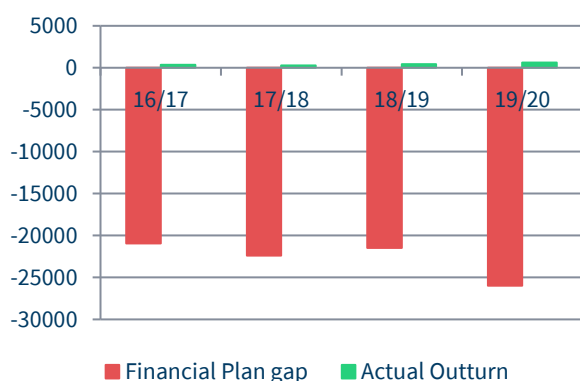
2019/20 Budget (£000)

Full year recurring budget	1,615,420
Baseline pressures	(44,530)
Projected Expenditure uplifts and commitments	(82,768)
Additional resources	76,073
Financial Recovery Plans	25,240
Financial Plan Gap	(25,985)

- 94. The financial gap represents 1.6% of the full year recurring budget (up 0.1% from the 1.5% in 2018/19). In line with previous years, limited assurance was given to the Board and Finance and Resources Committee on achieving a breakeven outturn during early 2019/20 with the risk rated as high for most of 2019/20. Significant assurance was only being provided in the March 2020 reporting cycle.
- 95. NHS Lothian has not been able to set a breakeven budget for many years. Despite the challenging financial position, NHS Lothian has continued to deliver against financial targets in each year. The board continues to assert the adverse impact of the cumulative NRAC funding position in exacerbating this challenge.

- 97. This has been achieved partly through one-off benefits such as in relation to CNORIS and depreciation. The year-end report to the Finance & Resources Committee identified the main areas of saving as being in administrative services (£3.5m), AHPs (£1.7m), administrative pay costs (£3.7m), income being 4.7% in excess of budget (£14.7m), as well as central/additional reserves flexibility unused of over £10m. This was set against spending in excess of budget in most pay budgets and in medical-related non-pay budgets.
- 98. In summary, whilst NHS Lothian achieved an overall underspend against the RRL in 2019/20, the baseline operational overspend was £10.1million which was offset by the net release of reserves flexibility of £10.6million.

Analysis of outturn against financial plan gaps (£'000)



Source: Annual audit reports & financial statements

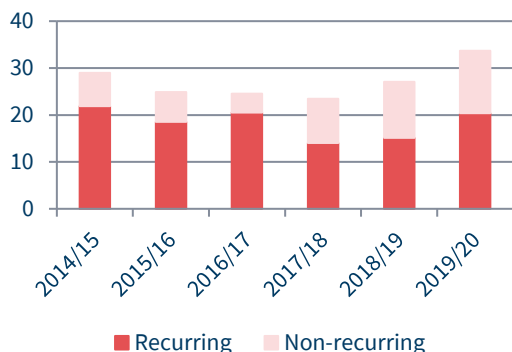
- 96. NHS Lothian has been able to deliver financial targets recurrently in the context of increasing financial pressures from pay changes, growing demographic challenges in Lothian, strategic investment and the implementation of national policies.

Efficiency savings

NHS Lothian is showing signs of improvement in delivering savings on a recurring basis

- 99. The May 2020 Finance & Resources Committee report set out £33.7million of savings delivered in 2019/20.
- 100. The amount of recurring savings achieved has stopped a trend of increasing proportional reliance on non-recurring savings across previous years. The chart below outlines how NHS Lothian had become increasingly reliant on non-recurring savings as a percentage of overall savings.

Historic analysis of savings achieved (£m)



Source: NHS Lothian Financial Monitoring reports to Finance and Resources Committee

- 101. Reliance on non-recurring savings places additional pressures on the future financial position of the board and therefore requires careful management. We will monitor this situation going forward, to assess how the 2019/20 position sits within wider, ongoing trends.
- 102. Shortfalls in achieving savings were reported in the Acute Service Division (£1.47m below target) and in Facilities and Consort (£1.082m below target), although the Acute Services Division did deliver over 75% of its £17.1m savings on a recurrent basis.

Budget monitoring and control

- 103. As part of our audit we considered NHS Lothian's system of budgetary control and financial management and did not identify any significant deficiencies, whilst acknowledging the challenging financial situation and the need for the board to be flexible in how it ultimately delivers financial balance. Comprehensive financial regulations and policies are in place which are subject to regular review

and are available on the board's Finance Online intranet site.

- 104. Continuing the strong internal financial reporting framework from previous periods, financial monitoring reports are submitted to all meetings of the Board, the Finance and Resources Committee, and Corporate Management Team. The reports include forecasts to the year end and explanations of key movements in the year. This has included COVID-19 financial reporting, to help the various stakeholders understand, analyse and manage the implications on finances related to the pandemic.

Prevention and detection of fraud and irregularity

- 105. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the board's arrangements for the prevention and detection of fraud and other irregularities to be adequate and appropriate.
- 106. The Fraud Liaison Officer provides an annual report to the Audit and Risk Committee outlining any cases that have been referred to Counter Fraud Services, and the progress of any investigations. The Audit and Risk Committee also receives updates on current counter fraud activity from the Fraud Liaison Officer at each meeting.

National Fraud Initiative

- 107. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.

108. We reviewed NHS Lothian's participation in the NFI scheme, including an assessment of management commitment to the exercise, profile of the work, and actions in addressing identified matches. This included considering NHS Lothian's participation in the NFI scheme in February 2020, along with an assessment of progress in addressing identified matches. We are satisfied that NHS Lothian has taken a reasonable and proportionate approach to investigating matches and can confirm that the exercise was completed in line with the September 2019 deadline.
109. We have concluded that NFI arrangements are satisfactory and NHS Lothian has participated satisfactorily in the NFI exercise.

Standards of conduct

110. In our opinion NHS Lothian's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and scheme of delegation and for complying with national and local codes of conduct. We have also considered compliance with the regulatory guidance produced by the SGHSCD throughout the year.
111. We noted that some key policies, including the Employee Code of Conduct and the Whistleblowing Policy, are showing as overdue for review and now deemed out of date. We understand there has since been work to migrate this content onto the intranet, and recommend further

assessment of the policy position to ensure any out of date policies are reviewed, updated and available in a timely manner.

(Action Plan Point 3)

Systems of internal control

112. We have evaluated the Board's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.
113. We did not identify any material weaknesses in the board's accounting and internal control systems.
114. During our testing we found several instances of invoices sitting with certain departments for approval for a notable amount of time before they are passed back to Finance. We note that Accounts Payable monitor and chase outstanding invoices on a regular basis, yet the situation continues. This impairs efficiency and can create uncertainty over some aspects of the transactions.

(Action Plan Point 4)

Internal audit

115. An effective internal audit service is an important element of NHS Lothian's governance arrangements and supports the system of internal control. The NHS Lothian internal audit service is provided through a co-sourced arrangement with Grant Thornton. The service operates in line with Public Sector Internal Audit Standards.

During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of NHS Lothian's audit resource.

Governance and transparency

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



The NHS Lothian Board made minimal changes to its governance arrangements as a result of COVID-19, seeking to maintain efficient and effective governance during the pandemic.

The Board and all its key committees met frequently during 2019/20 and throughout the pandemic to provide scrutiny and oversight and receive assurance on the management of risk.

The Board is continuing to implement the governance action plan developed in response to the NHS Blueprint for Good Governance.

The Board's EU Exit Management Group continues to meet periodically to consider emerging risks and required responses.

Governance and transparency

Audit risks

116. Our audit plan identified no significant risks in relation to governance and transparency under our wider scope responsibilities. However, we paid particular attention in the current year to COVID-19 governance arrangements, progress in implementing the Blueprint for Good Governance action plan and Brexit preparedness.

COVID-19 governance

117. The Scottish Government wrote to all health boards in March 2020 providing guidance on COVID-19 governance arrangements. The guidance emphasised the primary concern of ensuring a focus on responding to the pandemic, and supporting the chief executive and the executive team in this regard, while maintaining effective governance.

118. The Scottish Government guidance recognised that no single approach would fit all boards but each board should ensure that the model they adopt “enables agile and effective decision making, places staff and their resilience at the centre and builds important links with the public and the community at this time. Boards should also continue to operate in an open and transparent manner”.

119. The Board made minimal changes to its governance arrangements as a result of COVID-19, seeking to maintain efficient and effective governance during the pandemic.

120. The most significant changes have been more regular board and committee meetings, reflecting the increased risk environment, and that board meetings are not currently being held in public. The Public Bodies (Admission to Meetings) Act 1960 allows public bodies not to meet in public if there is a “special reason” not do so. The board took the view that protection of public health was a special reason and initially resolved not to hold meetings in public between April and June 2020. This was subsequently extended to December 2020. Meetings have been held by videoconference and some non-essential committee meetings were cancelled.

121. At its meeting on 8 April 2020 to approve the revised arrangements, the board raised the importance of staff governance and agreed that the Staff Governance Committee would need to meet to focus on COVID issues such as the workload of clinical staff, any whistleblowing issues and to ensure oversight of health and safety.

122. The Staff Governance Committee has since met three times, on 27 May 2020, 29 July 2020 and 21 October 2020 and has covered all of the above issues. Key areas considered by the committee include staff health and safety issues such as personal protective equipment (PPE) and virus testing, partnership working with care homes, staff resourcing levels and recruitment initiatives, staff well-being services and tools, staff absence and whistleblowing monitoring. The committee agreed to accept a significant level of assurance that NHS Lothian had put staff wellbeing at the

forefront of activity and had robust plans in place.

123. Likewise, the Finance and Resources Committee, Healthcare Governance Committee, Audit and Risk Committee and the Board itself met frequently during 2019/20 and throughout the pandemic to provide scrutiny and oversight and receive assurance on the management of risk. The internal auditors carried out a review of governance arrangements and related response to COVID-19 and provided positive assurance to the Audit & Risk Committee in this regard.

Openness and transparency

124. In previous years, Audit Scotland has cited a risk in relation to public sector organisations keeping pace with public expectations on openness and transparency. During the pandemic, openness and transparency takes on an even greater level of importance.
125. NHS Lothian demonstrates good practice with respect to openness and transparency in the following ways:
- Board agendas and papers are published on NHS Lothian's website in advance of meetings being held;
 - Committee minutes and updates are available to the public, through Board papers and on a specific section of the website. There is also Freedom of Information (FOI) information;
 - Key publications (including operational plan, results of annual review, annual accounts) are available on NHS Lothian's website; and

- Up-to-date register of interests are available on NHS Lothian's website.

126. As noted above, board meetings have not been held in public since April 2020 and this is planned to continue until at least December 2020. Given that board meetings have been successfully held by videoconference, which poses no risk to public safety, the board may wish to consider opening these up for public viewing so that board meetings can be held in public. We understand that the Scottish Government have liaised with boards on this issue, as noted in the action plan.

(Action Plan Point 5)

Blueprint for good governance

127. In February 2019, the Scottish Government published the Blueprint for Good Governance in NHS Scotland. The document draws on best practice to ensure all health boards continuously assess and improve their corporate governance systems.
128. A self-assessment tool was issued by the Scottish Government to all NHS Scotland Boards, to support board members. At NHS Lothian, the feedback was collated and distributed in advance of a Board workshop on 21 March 2019. At the workshop, the Board members considered each of the five key functions of governance set out in the Blueprint, namely; Setting the Direction, Holding to Account, Assessing Risk, Engaging Stakeholders, and Influencing Culture.
129. The self-assessment process identified several areas of strength at NHS Lothian, including:

- **Financial governance.** 100% of respondents agreed that the board safeguards and accounts for public money to ensure resources are used in accordance with Best Value principles exceptionally well or well;
 - **The committee structure and system of assurance.** In our view, NHS Lothian's system of assurance is a particular strength; and
 - **Recent developments in risk management.** 91% of respondents agreed the board had considered and agreed the organisation's risk tolerance exceptionally well or well.
130. While no significant weaknesses were identified, the process did highlight three broad themes where opportunities for continuous improvement exist. These were:
- Sharpening the activities of strategic planning, performance management, and risk management, and improving the linkages between them;
 - Strengthening leadership at all levels, and prioritising leadership resource in key areas;
 - Improving involvement, engagement and consultation with stakeholders.
131. The results from the self-assessment, including a high level action plan to take forward the three continuous improvement themes, were submitted to the Scottish Government on 29 April 2019. Management were then tasked with developing a detailed action plan during 2019/20.
132. The governance action plan contains six high level areas for improvement linked to the board's mission statement, identifies anticipated benefits and allocates responsibility to an accountable director. The six areas for improvement are:
- Overall coordination of improvement work
 - Governance of integration functions
 - Identifying priorities and developing plans
 - Implementation and delivery of outcomes
 - Improving safety culture
 - Leadership.
133. The board held a development session in September 2019 and considered a progress update on each of the six areas in the governance action plan. This was then submitted to the Scottish Government in November 2019.
134. We will continue to monitor progress with the governance action plan as part of our 2020/21 audit.
- ### Impact of EU withdrawal
135. The three main themes of potential impact from EU withdrawal have previously been identified as:
- Workforce;
 - Funding; and
 - Regulation.
136. NHS Lothian has continued to assess the overall impact that Brexit may have on each of the above key areas. Initially, a short-life working group was established to outline the key risks and practical issues. In January 2019, an organisation-wide resilience response structure was established. This included setting up:

- Small Impact Assessment Groups in areas most likely to be affected;
 - A Brexit Secretariat to develop and maintain an information picture and produce in-house planning assumptions for Brexit, and to support other parts of the assessment and response cycle.
 - An EU Exit Management Group to consider the response options and agree actions as appropriate.
137. The board recognised early on that workforce would be a key area of impact. The Staff Governance Committee has received regular updates and these are reported to the Board through Committee updates. Brexit was added to the Board's corporate risk register in April 2019 and also featured as a significant risk in the financial plan. The board and its committees monitored Brexit risks regularly during 2019/20 via the corporate risk register.
138. In April 2020 the board agreed to remove Brexit from the corporate risk register as the uncertainty about Brexit proceeding had been removed. However it was also agreed that this would be reviewed in June and October 2020, to assess possible health service impacts arising from the UK/EU Trade Agreement negotiations and the evolving new relationship between the UK and EU.
139. The Board's EU Exit Management Group continues to meet to consider emerging risks and required responses. The last meeting of this group was on 8 September 2020.

Value for money

Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the Board's reporting of its performance.



During 2019/20, the Scottish Government placed NHS Lothian on two levels of its Performance Escalation Framework: Level 4 for the RHCYP/DCN hospital project and Level 3 for general performance issues. The Board put a formal recovery plan in place, increased the frequency of its meetings and retained direct oversight of the recovery plan.

Following the decision to halt the opening of the Royal Hospital for Sick Children and Young People in July 2019, the Cabinet Secretary commissioned two independent reviews into the project, Audit Scotland issued a section 22 report and NHS Lothian's internal auditors carried out a root cause analysis. What emerged was a picture of human error and confusion over interpretation of the relevant specifications and guidance and a collective failure from the relevant parties involved in the project to spot and rectify the errors.

An established and appropriate performance management framework is in place at NHS Lothian with improvements being continually made in relation to performance reporting.

There was a deterioration in performance, in particular in key waiting times targets. COVID-19 has been a driving factor in this area. Improvement plans are in place to optimise efforts to return performance to target levels.

Significant audit risks

140. Our audit plan identified significant risks to value for money under our wider scope responsibilities. These related to the two areas for which NHS Lothian was escalated on the Scottish Government's Performance Escalation Framework, namely the Royal Hospital for Children and Young People project, and general performance issues.


Value for Money: Developments in relation to Royal Hospital for Children and Young People, Department of Clinical Neurosciences and Child and Adolescent Mental Health Services

In our 2018/19 audit we carried out a high-level review of value for money and governance aspects of the settlement agreement made for the Royal Hospital for Children and Young People, Department of Clinical Neurosciences and Child and Adolescent Mental Health Services facility.

The planned opening date of the hospital was 9 July 2019, but on 4 July 2019 this was halted due to issues identified in the final safety checks relating primarily to the ventilation system.

Following this delay, two investigations were commissioned. One was carried out by KPMG on the governance arrangements in place for the project, and the other was conducted by NHS National Services Scotland (NSS) focussing on technical specifications. The NSS report raised a number of remedial actions that needed to be completed by NHS Lothian to ensure compliance with relevant standards. Given the cumulative issues with the project, a public inquiry has also been announced.

Noted in the 2019/20 External Audit Plan

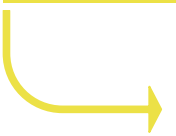
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141. Our detailed comments in relation to this area are set out later in this section.

Performance

In our 2018/19 audit we noted that NHS Lothian met just 50% of performance indicators, a slight improvement from the 48% of 2017/18. Within the metrics, there were a number of areas in which performance had deteriorated since 2017/18, such as the percentage of outpatients treated within 12 weeks, percentage of patients referred with suspicion of cancer receiving treatment within 62 days, and percentage of inpatient and day cases covered under the Treatment Time Guarantee seen within 12 weeks.

Performance against targets has been an area of challenge for the Board, particularly due to ongoing financial pressures. The Board has set out in its 2019/20 Operational Plan an outline of the improvement plans in place to address these areas of performance pressure.

Noted in the 2019/20 External Audit Plan

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- 142. Annual performance metrics show areas of deterioration in performance standards compared to prior year. There has been an initial substantial, adverse impact due to COVID-19 in 2019/20, and this will continue to impact 2020/21 metrics across a range of areas.
 - 143. NHS Lothian did take clear and proactive steps earlier in 2019/20 and moved forward with its Whole System Recovery Plan, with a Director of Improvement appointed and a range of meetings, senior management initiatives and collaboration with Scottish Government to tackle the issues reflected in and underpinning the performance outcomes. We have seen evidence of clear senior commitment to making progress in this area (whilst also noting that management focus has been reprioritised onto the COVID-19 pandemic response since March 2020). However, the recovery plan was effectively set aside in the run up to and during the ongoing pandemic response.
 - 144. The unique circumstances arising from COVID-19 make it difficult to make comparisons across years, and we acknowledge that the NHS Lothian remobilisation plan is a key aspect through which this issue will be reassessed and tackled. We will look into the impact and progress made by NHS Lothian in this area in our 2020/21 audit.

Performance summary

- 145. Performance has declined in some areas compared with the previous year, with a deterioration in key waiting times standards in particular. The impact of the COVID-19 global

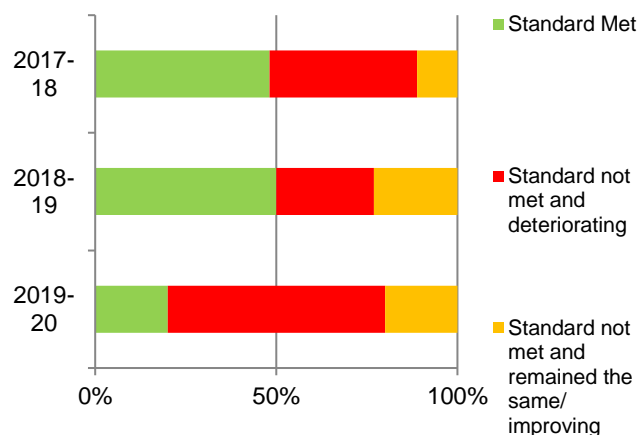
pandemic will cause significant challenge for the board in meeting 2020/21 waiting times targets. Actions to improve performance against the national waiting times standards are being taken forward as part of a

broader Remobilisation, Recovery and Renew Programme.

Performance framework

146. As designed, an established and appropriate performance management framework is in place. The Board monitors its performance against a range of quality and performance measures including national standards and those set out in the Annual Operational Plan.
147. A range of quality and performance improvement indicators have been considered by the Healthcare Governance Committee and the Board in the Quality & Performance Improvement Report. Performance indicators are now considered on a rolling basis by the Corporate Management and Executive Leadership Teams, and regularly at Board meetings within the overall Scheduled and Unscheduled Care paper.
148. NHS Lothian's Annual Operational Plan (AOP) outlined the plans for NHS Lothian's key delivery targets and is aligned with the Scottish Government priorities on waiting times, mental health, primary care, integration, healthcare associated infections and safety improvement.
149. A summary of performance is depicted below. 2019-20 data covers: access performance, scheduled and unscheduled care, mental health and healthcare associated infection. Performance data relating to safety and quality improvement targets from the Annual Operational Plan are not included as they were not published at the time of this report.

The relative performance reported has decreased during 2019-20

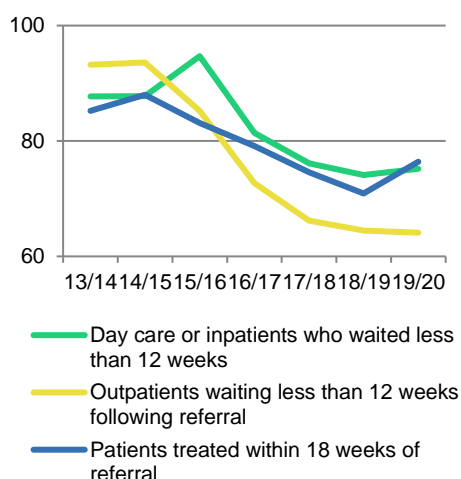


Source: NHS Lothian Performance Reports & ISD

150. Waiting times performance declined compared with the prior year, with further details on key individual metrics set out in the following exhibit as at time of writing. In 2019-20, only 20% of indicators were reported as met, compared to 50% in 2018-19. Of the metrics not met, two have improved and six have deteriorated. Actions to improve performance against key national waiting times standards are being undertaken as part of the recovery programme.

Performance Against Key Waiting Time Standards

Target/standard		Performance at March 2020
At least 95% of patients referred with suspicion with cancer to be treated with 62 days	83.5%	Standard not met and deteriorating performance
At least 95% of patients diagnosed with cancer to be treated with 31 days	95.2%	Standard met
18 Weeks RTT Proportion of patients that started treatment within 18 weeks of referral	76.4%	Standard not met and improving performance
100% of Inpatient and Daycases covered under the Treatment Time Guarantee to be seen in 12 weeks	75.2%	Standard not met and improving performance
Outpatients waiting less than 12 weeks	64.1%	Standard not met and remained the same
At least 95%, with an ambition of 98%, of unscheduled care patients to be admitted, treated or discharged within 4 hours	86.3%	Standard not met and improving performance
90 per cent of clients will wait no longer than 3 weeks from referral received to appropriate drug or alcohol treatment that supports their recovery.	91.9%	Standard met
At least 90% of Psychological Therapy patients to be treated within 18 Weeks	78.0%	Standard not met and stayed the same
At least 90% of Child and Adolescent Mental Health Patients to be treated within 18 weeks of referral	53.9%	Standard not met and deteriorating performance



Longer term waiting time performance

Source: NHS Lothian Performance Reports & ISD

151. Waiting time performance has significantly deteriorated in recent years, partly as a result of financial decisions, and has been significantly impacted by COVID-19 in 2019/20. During 2019/20 despite standards not being met, there were improvements in performance in relation to day case or inpatients who waited less than 12 weeks and patients treated within 18 weeks of referral.

Unscheduled Care

152. Throughout 2019/20 there was a sustained high level of weekly emergency attendances. The levels of attendance, the pattern of arrival times, an increased acuity of patients, delayed discharges, and high levels of occupancy in the hospitals all

contributed to a deteriorating performance against the standard. The COVID-19 pandemic led to a significant decline in unscheduled care attendances and the emergency access standard performance in subsequent weeks improved, achieving the four hour access standard.

Delayed Discharges

153. Delayed discharges as at March 2020 were 20.1% lower than in March 2019. The reason for the outturn is a result of the mobilisation in response to COVID-19, including an increase in the number of community beds, together with a focus on Home First.

Recovery Plan

154. Following NHS Lothian's escalation to Level 3 of the Scottish Government's Performance Escalation Framework, the Board put in place a formal recovery plan and has retained direct oversight of the corporate risks in relation to the recovery plan. The Board also increased the frequency of Board and Finance and Resources Committee meetings so that they met monthly.

155. The NHS Lothian Recovery Plan sets out core performance measures which are being monitored by the board. Clinical prioritisation has been implemented as part of the plan to ensure the focus remains on those in most need (albeit with COVID-19 having impact on the situation). The initial priorities set out in the Remobilisation Plans include:

- Diagnostics and treatment for cancer;
- Urgent treatment for cardiac disease, transplants, renal failure;

- Mental health
- Routine treatments where additional delays caused by the pandemic may have made the clinical picture an urgent one;
- Services for children, where the impact on a child's development could be disproportionate;
- Dental and ophthalmic services where significant underlying disease may have built up;
- General Medical Practice capacity to see patients with non-urgent but significant health problems that will worsen over time.

156. There are significant challenges for NHS Lothian in meeting national standards and the targets set out in its Annual Operating Plan and Recovery Plans. Given the current operational and financial landscape, transformational service redesign and the effective use of resources will be essential.

Royal Hospital for Children and Young People project

Background

157. Ensuring effective project governance and securing value for money are crucial aspects of any hospital development project. The project to develop a new facility for the Royal Hospital for Children and Young People, Department of Clinical Neurosciences and Child and Adolescent Mental Health Services (“the project”) is a high profile, strategically important development for NHS Lothian as it modernises, redesigns and integrates its services.
158. The Outline Business Case was approved in 2012 by the Board and Scottish Government, with the Full Business Case and addendum approved by both bodies in April 2015.
159. The project has faced a number of challenges and delays, with construction issues impairing the original project plan and timetable.
160. On 4 July 2019, the week before the planned opening of the hospital, the Cabinet Secretary postponed the move into the new facility.
161. Our role, as NHS Lothian’s external auditors, has been to review and report on the governance and value for money aspects of the project.

Settlement Agreement in February 2019

162. In February 2019, towards the end of the build stage of the hospital, a Settlement Agreement was signed between NHS Lothian and the contractor Integrated Health Services Lothian Ltd (IHSL). This Settlement Agreement set out all the remaining actions to complete the facility in

return for an £11.6m payment. The main outstanding actions related to a drainage solution, heater batteries, and fire void detectors. The £11.6m payment was in addition to the budgeted £150m construction cost.

163. As part of our audit in 2018/19, Audit Scotland asked us to carry out a high level review of the arrangements for the signing of the Settlement Agreement. Our review considered project governance and value for money. We found that the Settlement Agreement was signed with Board and Scottish Government approval. The board provided evidence of detailed evaluation of options and appropriate diligence and governance before proceeding with the settlement agreement option. This included taking legal, contractual and construction advice, extensive analysis and commitment of senior level resource to appraise the options available and weigh up the pros and cons of different scenarios. The issue was discussed regularly at various management meetings and by the Board and its Committees.
164. All the options reasonably available to NHS Lothian came with some adverse impact, whether financial or non-financial, including impact on service redesign. The priority of providing a safe and robust facility was in evidence throughout the board’s approach to the resolution of the dispute.

Post-completion delay to opening

165. In February 2019 the Independent Tester (Arcadis NV, who had been jointly appointed by NHS Lothian and IHSL) issued a Certificate of Practical Completion. This meant the construction phase came to an end

and the operational phase started; the hospital was handed over to NHS Lothian and the board began making unitary payments of £1.35 million per month. At this time, it was known that significant work was still required before migration of services to the new building could commence as intended in July 2019 (including as discussed per the Settlement Agreement). These works continued into July 2019, including a significant amount of post-completion works. This meant that the time available for rectification of any identified problems was challenging and left little margin for error.

166. As outlined in the tender documentation, the project was required to adhere to the Scottish Health Technical Memoranda (SHTM), including specifically SHTM 03-01 on ventilation in healthcare premises.
167. NHS Lothian appointed the Institute of Occupational Medicine (IOM) to conduct a third-party validation of the ventilation systems to fulfil the reporting requirements under SHTM 03-01.
168. On 24 June 2019, the IOM notified the NHS Lothian programme team verbally that some areas within theatres, isolation areas and critical care were not achieving the required air change rates. SHTM 03-01 provides guidance that 10 air changes per hour is required in critical care areas. The IOM found that some areas within critical care were not achieving this rate. The verbal notification was followed up by a written report on 25 June 2019. At this time, IHSL assured NHS Lothian that the issues could be resolved.
169. On 1 July 2019, following further investigation, IHSL and Multiplex

Construction Europe confirmed that the ventilation equipment was not capable of achieving 10 air changes per hour. This was reported to the NHS Lothian board, which met the following morning to consider options, given that the new hospital was due to open one week later on 9 July. Later that day (2 July), the NHS Lothian Board briefed the Director General of Health and Social Care at Scottish Government on the situation and options.

170. On 4 July 2019 the Cabinet Secretary for Health and Sport made the decision to halt the move to the new site pending resolution of the issues with the ventilation system. The additional costs of the rectification work were estimated at £16 million.

Independent reviews into the project

171. Following the July 2019 delay to the hospital move, the Cabinet Secretary commissioned two independent reviews of the project by KPMG and NHS National Services Scotland (NSS).
172. The KPMG report, published in September 2019, set out to establish what decisions were made by NHS Lothian in relation to the air ventilation issues and any other material issues that led to the delay. The report concluded that:
 - the issue that led to the delay was non-compliance with SHTM 03-01 for air change rates in some of the critical care areas of the hospital.
 - throughout all stages of the project there were references to the requirement for the contractor to adhere to SHTM 03-01, in particular within the Board's Construction Requirements (BCR).

The BCR document, which was the primary document at both the tender and project agreement stages, included the mandatory requirement that the contractor must comply with SHTMs for the design of the hospital.

- the non-compliance with SHTM 03-01 was due to human error and confusion over interpretation of the guidance. This confusion may have stemmed from an error in the Environmental Matrix, produced by NHS Lothian at tender stage in 2012. Elements of the EM were inconsistent with SHTM 03-01.
 - NHS Lothian did not review the Environmental Matrix in detail from a technical perspective, but only for “operational functionality”, as detailed in the project agreement.
 - In January 2019, the board asked IHSL for specific assurance that all critical ventilation systems were to be 'inspected and maintained in line with SHTM 03-01'. IHSL confirmed in their response that all ventilation systems had been designed, installed and commissioned in line with SHTM 03-01.
 - The Environmental Matrix was part of the reviewable design data used by the independent tester to certify that the hospital had been built in accordance with the project agreement. The independent tester expected both parties to the project to have undertaken a detailed review of the Environmental Matrix.
 - opportunities to spot and rectify the error in the Environmental Matrix were missed on numerous occasions by multiple parties.
173. NSS undertook a two phased review, carrying out a series of checks to ensure that the relevant technical specifications and guidance applicable to the new hospital were being implemented. They identified a range of issues that needed to be addressed in their reports dated September and October 2019. In addition to the ventilation issues in critical care, remedial action was required in several other areas. NHS Lothian developed a programme of activity to address the findings in the NSS reports.
174. In December 2019, Audit Scotland prepared a report under Section 22 of the Public Finance and Accountability (Scotland) Act 2000 drawing on both the KPMG and NSS reports as well as our annual audit report for 2018/19. This report was presented to the Scottish Parliament Public Audit and Post Legislative Scrutiny Committee on 16 January 2020.
175. The Audit Scotland report outlined several issues for consideration in order to understand what went wrong and ensure lessons are learned for future projects.
- Internal audit review of project governance and internal controls**
176. Building on all of the above reports, the NHS Lothian Audit and Risk Committee asked its internal auditors to review the governance and controls over the project in order to better understand the root causes of the ventilation issues that led to the delay in July 2019. The internal audit report was submitted to the NHS Lothian Audit and Risk Committee in July 2020 and to the full Board in August 2020.
177. The report highlights that an assumption was made at an early stage of the project that all 20 four bedded rooms within the hospital

- would require the same mechanical and engineering solution. In fact, three of these rooms were designed within critical care and therefore had a higher ventilation requirement of 10 air changes per hour. This was missed from the outset of the project and remained unidentified until the IOM review in June 2019, shortly before the hospital was due to open.
178. The report states that Lothian's responsibility was to set out the requirements for the new hospital in the Board Construction Requirements document and then to approve the designs developed by the contractor which would deliver the required operational functionality. The contractor was responsible for designing and building the hospital to meet the board's requirements and other relevant guidelines listed in the contract, which included SHTM 03-01.
179. Within the tender documents for the procurement, NHS Lothian included an Environmental Matrix, along with the Board Construction Requirements, to support reference design. The detail within the Environmental Matrix was inconsistent with SHTM 03-01. Differing legal views have been presented on the contractual status of the matrix.
180. In the Board's opinion, the contractor took responsibility for the environmental matrix in September 2014 and the internal audit report confirmed that the project documentation makes clear that ownership of the matrix was with the contractor and not NHS Lothian from September 2014.
181. However, the internal audit report also states that "NHS Lothian should have had a control in place to seek and be provided with assurance over the technical accuracy of the environmental matrix, and wider documentation related to reference design prior to inclusion in the tender."
182. There were mechanisms in the contract for inconsistencies between design and requirements to be identified by both parties and resolved throughout the project. However the inconsistencies between SHTM 03-01 and the reviewable design data were never identified.
183. The overall conclusion of the report identifies a collective failure from the parties involved in the project to identify the non-compliance with SHTM 03-01 in relation to the ventilation guidance for critical care. These included the clinical director for the project, the project director, the project team, the technical advisers during the project, the technical advisers involved in the reference design, the contractor and the independent tester.
184. In the internal auditor's view, it is not possible to identify one single event which resulted in the errors as there were several contributing events.
185. The report highlighted that, although the requirement to comply with SHTM 03-01 had been part of the contract from the start, the settlement agreement signed in February 2019 derogated the contractor's responsibility to comply with SHTM 03-01 in critical care and agreed an air change rate of 4 changes per hour within critical care, rather than 10 changes per hour as indicated in the SHTM. (Management have asserted this derogation as being unintentional).

Learning lessons

186. In line with best practice, NHS Lothian anticipates undertaking a post project evaluation to reflect on the RHCYP project. In last year's annual report, we recommended that this post project evaluation should be wide-ranging and cover whole-project contracting, monitoring/timetabling and related lessons learned. As the project has failed to deliver some of its key original objectives, including budget and timescale objectives, it is vital to investigate the root causes of those failures and how similar problems can be avoided in future projects.
187. The reviews by NHS Lothian's internal auditors, KPMG and NSS go a long way to helping understand some of the underlying causes of the problems experienced on the RHCYP project, as well as highlighting the complexity of NHS capital projects.
188. The Cabinet Secretary has also commissioned a public inquiry into the issues experienced at the new Royal Hospital for Children and Young People in Edinburgh and the Queen Elizabeth University Hospital in Glasgow. This inquiry, which is being led by the Right Honourable Lord Brodie, commenced in August 2020.

Completing the rectification work and hospital

189. In August 2019, an Oversight Board was established by the Scottish Government to seek assurances from NHS Lothian and NSS and provide advice to ministers on the readiness of the facility to open, including the proposed solution for ventilation in critical care areas and other rectification works.
190. The Oversight Board reports directly to the Cabinet Secretary, is chaired by the Scottish Government's Chief Nursing Officer and includes senior management from Scottish Government Health and Social Care Directorates, NHS Lothian, NHS National Services Scotland and Scottish Futures Trust.
191. Also in August 2019, NHS Lothian established an Executive Steering Group to support the work of the Oversight Board until transfer of services. This group met weekly.
192. While the Oversight Board and Executive Steering Group were in place, the original Programme Board was given responsibility for communicating to staff and managing contingency arrangements. The Programme Board was to resume responsibility for the planning and management of the transfer of services once the Oversight Board had confirmed that this could occur. At this point, the Executive Steering Group would cease to meet (although, as noted most recently, it is in fact the Executive Steering Group that has continued to meet and the Programme Board has ceased).
193. The Cabinet Secretary also appointed a Senior Programme Director in September 2019 to work with NHS Lothian in ensuring the facility is fit for occupation and overseeing the action plan to deliver a safe and compliant hospital.
194. At that time it was expected that DCN would move to the new site in Spring 2020, with the Children's Hospital migrating in Autumn 2020.
195. On 7 May 2020, NHS Lothian presented a paper to the Oversight Board demonstrating completion of the

actions from the 2 phase NSS report. The Oversight Board agreed to note the formal completion of the actions with the caveat that contractor rectification work remained to be finished to achieve full completion.

196. The first phase in the migration of Children's Services took place in July 2020. This saw around three quarters of all children's outpatient services move, including fracture clinics, physiotherapy services and follow up appointments for patients who have recently had surgery.
197. All remaining remedial and enhancement works, including changes to the ventilation system, are due to be completed by 25 January 2021. This allows a schedule for the migration of the remaining children's services to be determined.
198. DCN also followed a phased migration to the new hospital and completed its move of outpatient and inpatient services in July 2020.

Appendices



Appendix 1: Respective responsibilities of the Board and the Auditor

Responsibility for the preparation of the annual report and accounts

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder.

In preparing the annual report and accounts, the Board and the Chief Executive, as Accountable Officer, are required to:

- apply on a consistent basis the accounting policies and standards approved for NHS Scotland by Scottish Ministers;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate; and
- ensure the regularity of expenditure and income.

Board members are also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether:

- they give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the board and its group's affairs as at 31 March 2020 and of the net expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 FReM ;
- they have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;
- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate or the board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report is consistent with the financial statements and has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement is consistent with the financial statements and has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

Confirmation of independence

We confirm that we have complied with the FRC's Ethical Standards. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the Board, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

In addition to our work on the board we are also responsible for the review of the abstract of receipts and payments of patients' private funds. The non-audit fee for this work in 2019/20 is expected to be around £7,200. This work is undertaken as approved by the firm's ethics partner and Audit Scotland.

Appendix 2: Action Plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

Action plan grading structure

The recommendations are rated to help the Board assess the significance of the issues and prioritise the actions required.

The rating structure is summarised as follows:

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

Current year action plan

Action plan point	Issue & recommendation	Management comments
<p>1. Journal authorisation</p> <p>Rating</p> <p>Grade 2</p> <p>Paragraph Ref</p> <p>14</p>	<p>Issue</p> <p>The sector-wide accounting system permits staff to post and authorise their own journals, which is against NHS Lothian's financial regulations.</p> <p>We identified two instances where this occurred in 2019/20, which management were already aware of.</p> <p>Risk</p> <p>There is an increased risk of fraudulent or erroneous journals being posted if they are not subject to appropriate review and authorisation.</p> <p>Recommendation</p> <p>Management should ensure appropriate controls are in place to prevent or detect where a journal has been posted and authorised by the same individual, and reinforce NHS Lothian procedures to all relevant staff.</p>	<p>Management is aware of the possibility of such an issue arising. NSI is a national system and hence is expected to accommodate journal posting requirements across all the health boards. In majority of the boards, journals can be uploaded and posted by the same individual. There have been ongoing discussions with the NSI systems team to discuss self-authorisation.</p> <p>NSI system team have now confirmed that this function has now been removed and that there are no Lothian users with the ability to self-authorise journals.</p> <p>Responsible officer: Director of Finance</p> <p>Implementation date: Implemented</p>

Action plan point	Issue & recommendation	Management comments
<p>2. Year-end asset procedures</p> <p>Rating</p> <p>Grade 2</p> <p>Paragraph Ref</p> <p>19</p>	<p>Issue</p> <p>We noted £8.7million of assets under construction that should have been recognised as completions in 2019/20 under the appropriate asset category.</p> <p>In addition, the asset register had not been fully updated to reflect the useful lives provided by the valuer.</p> <p>Risk</p> <p>The depreciation charge and value of an asset will be misstated if the asset register does not accurately reflect the date an asset was brought into use, or its remaining useful life.</p> <p>Recommendation</p> <p>We encourage NHS Lothian to complete a review of assets under construction and the useful life of revalued assets to ensure appropriate accounting treatment in 2020/21.</p> <p>Going forward, a review for completed assets should be undertaken as part of the accounts preparation process to ensure the correct treatment is applied.</p>	<p>Management are aware of the classification issue at year end. This was caused by a delay to the Assets Under Construction (AUC) completions/ enhancements process due to resourcing constraints and the impact of COVID-19. A plan has been established to support review of all AUC assets and appropriate completion/ enhancement to ensure appropriate accounting treatment in 20/21.</p> <p>Useful lives provided by the valuer have been updated in the asset register</p> <p>Responsible officer:</p> <p>Director of Finance</p> <p>Implementation date:</p> <p>31 March 2021</p>

Action plan point	Issue & recommendation	Management comments
<p>3. Out of date policies</p> <p>Rating</p> <p>Grade 2</p> <p>Paragraph Ref</p> <p>111</p>	<p>Issue</p> <p>The Employee Code of Conduct and Whistleblowing Policy are showing as overdue for review (June 2015 and September 2018 respectively) and now deemed out of date. We understand there has since been work to migrate this content onto the intranet.</p> <p>Some policy review will be taken forward in line with the national approach and new legislation, but this has been put on hold given the recent shift in priorities due to COVID-19.</p> <p>Risk</p> <p>Without up to date policies, there is a risk that employees do not act appropriately, in line with the national approach or in the best interest of NHS Lothian.</p> <p>Recommendation</p> <p>NHS Lothian should review the policy position and ensure any out of date polices are reviewed, updated and available in a timely manner.</p>	<p>Across NHS Scotland we are moving to Once for Scotland Workforce Policies with the first policies launched in March 2020. This included the Management of Employee Conduct so the previous NHS Lothian policy has now been superseded. At the time that a decision was taken to move to Once for Scotland policies it was agreed with our staff side representatives that unless there was a need to review a policy due to a change in Employment Law, the review dates on the policies would lapse until such times as the new Once for Scotland Policy were launched. The Whistleblowing Once for Scotland Policy was due to be launched in July 2020 but this has been delayed to the COVID-19 Pandemic.</p> <p>Responsible officer:</p> <p>Director of HR & OD, in conjunction with Head of Corporate Governance</p> <p>Implementation date:</p> <p>1 April 2021</p>

Action plan point	Issue & recommendation	Management comments
<p>4. Invoice management</p> <p>Rating</p> <p>Grade 2</p> <p>Paragraph Ref</p> <p>114</p>	<p>Issue</p> <p>During our testing we found several instances of invoices sitting with certain departments for approval for a notable amount of time before they are passed back to Finance. We note that Accounts Payable monitor and chase outstanding invoices on a regular basis, yet the situation continues.</p> <p>Risk</p> <p>This impairs efficiency and can create uncertainty over some aspects of the transactions.</p> <p>Recommendation</p> <p>Invoices should be actioned and returned to Finance in a timely manner. Any non-compliance should be escalated appropriately.</p>	<p>All invoices, with the exception of staff bank and pharmacy are sent directly to Accounts Payable from the supplier. All unpaid Invoices are recorded onto the systems invoice register which enables reports to be generated to departments giving the reason why the invoice is not paid.</p> <p>The invoices identified were within staff bank. We will discuss the internal process with the department to ensure all staff bank invoices are sent onto Accounts Payable in a timely manner.</p> <p>Responsible officer: Director of Finance</p> <p>Implementation: 31 March 2021</p>

Action plan point	Issue & recommendation	Management comments
<p>5. Board meetings</p> <p>Rating</p> <p>Grade 3</p> <p>Paragraph Ref</p> <p>126</p>	<p>Issue</p> <p>Board meetings have not been held in public since April 2020 and this is due to continue until at least December 2020.</p> <p>Risk</p> <p>Transparency may be impaired if the extant situation continues.</p> <p>Recommendation</p> <p>Given that Board meetings have been successfully held by videoconference, which poses no risk to public safety, NHS Lothian may wish to consider opening these up for public viewing so that board meetings can be held in public.</p>	<p>We have considered this issue. From the Board meeting of 9 December 2020, we will invite members of the media to join and observe the public Board meeting.</p> <p>Responsible officer:</p> <p>Director of Communications and Public Affairs</p> <p>Implementation:</p> <p>9 Dec 2020</p>

Follow up of prior year recommendations

Action plan point	Issue & recommendation	Management comments
<p>Research and Development Income</p> <p>Rating</p> <p>Grade 2</p>	<p>Issue</p> <p>NHS Lothian is not recognising R&D income in line with achieved contract milestones but is instead recognising income in relation to expenditure incurred. This is not in line with revenue accounting requirements as R&D surpluses and deficits are not accounted for.</p> <p>Recommendation</p> <p>Management should revise the current approach to recognising research and development income, to ensure it is compliant with IFRS 15.</p>	<p>Responsible officer:</p> <p>Director of Finance</p> <p>Implementation date: 30 November 2019</p> <p>A review of R & D income and how it is recognised in the Board's accounts will be taken forward during 2019/20. This will include ensuring that the Boards' direct and indirect costs are appropriately calculated and reimbursed and that the link between milestones and receipt of income is formalised.</p>
Current status	Audit update	Management response
<p>Complete</p>	<p>A review of R & D income has been completed to ensure this is considered against milestones and recognised appropriately. Our testing did not identify any issues in this regard.</p>	<p>N/A</p>

Action plan point	Issue & recommendation	Management comments
<p data-bbox="217 472 427 539">Waiting Times - next steps</p> <p data-bbox="217 607 304 640">Rating</p> <p data-bbox="217 730 331 763">Grade 3</p>	<p data-bbox="555 450 635 477">Issue</p> <p data-bbox="555 501 927 1077">Following the whistleblowing concerns raised in October 2017 and subsequent investigations, a programme plan was developed with progress being reported through both the Audit and Risk Committee and the Board. As the programme continues to develop, there will soon be a requirement to move the activities to business as usual. At present, it is not clear how this transition will occur or the likely timeframe.</p> <p data-bbox="555 1099 804 1126">Recommendation</p> <p data-bbox="555 1151 927 1368">We encourage the board to agree a timetable and action plan to move the Waiting Times programme to business as usual, using a SMART methodology.</p>	<p data-bbox="987 450 1273 477">Responsible officer:</p> <p data-bbox="987 501 1297 528">Deputy Chief Executive</p> <p data-bbox="987 607 1286 633">Implementation date:</p> <p data-bbox="987 658 1209 685">31 October 2019</p> <p data-bbox="987 763 1382 1200">We recognise the risks highlighted by our External Auditors and agree with their recommendation. We will establish a proposed critical path for transitioning this improvement/Assurance programme to 'Business as usual' and will present the proposed critical path for this objective to ARC for approval in October 2019.</p>
Current status	Audit update	Management response
<p data-bbox="217 1491 344 1525">Complete</p>	<p data-bbox="555 1469 898 1619">Waiting Times arrangements form part of the ongoing "steady state" arrangements.</p>	<p data-bbox="987 1514 1038 1541">N/A</p>

Action plan point	Issue & recommendation	Management comments
<p data-bbox="220 472 475 539">Quality Strategy Progress Reporting</p> <p data-bbox="220 607 304 640">Rating</p>	<p data-bbox="555 450 632 477">Issue</p> <p data-bbox="555 501 922 674">NHS Lothian approved the Quality Strategy in June 2018, including a number of milestones to be achieved during 2018/19.</p> <p data-bbox="555 719 911 815">To date, a progress update has not been presented to the Board or Committees.</p> <p data-bbox="555 853 804 880">Recommendation</p> <p data-bbox="555 909 927 1160">NHS Lothian should prepare an annual report documenting progress against the key milestones outlined within the Quality Strategy. This should be reported to the Board.</p>	<p data-bbox="1002 450 1286 477">Responsible officer:</p> <p data-bbox="1002 501 1270 528">Chief Quality Officer</p> <p data-bbox="1002 607 1302 633">Implementation date:</p> <p data-bbox="1002 658 1225 685">31 October 2019</p> <p data-bbox="1002 770 1385 1525">A 2018-19 annual review of progress against aims of the strategy is being prepared as we finish the first year of implementation. The review will be submitted to key Board Subcommittees (F&R, HCG and Staff Governance) in Q2-3 of 20 19-20 and for consideration by the whole Board in October 2019. Quarterly highlight reports will be produced thereafter for CMT and shared with Board and Subcommittee as requested. Annual reviews will be produced for Q3 of each subsequent Financial Year covering the 2018-23 period.</p>
<p data-bbox="220 734 331 761">Grade 3</p>		
Current status	Audit update	Management response
<p data-bbox="220 1659 344 1686">Complete</p>	<p data-bbox="555 1644 938 1917">Evidence obtained of Quality Strategy update being presented to the Board, of annual reporting to the Board via the Healthcare Governance Committee, and of update reporting to the CMT.</p>	<p data-bbox="1002 1682 1054 1709">N/A</p>

Action plan point	Issue & recommendation	Management comments
<p>RHCYP</p> <p>Rating</p> <p>Grade 3</p>	<p>Issue</p> <p>In line with best practice, NHS Lothian anticipates undertaking a post project evaluation to reflect on the RHCYP project. However, this may not include specific and detailed focus on the whole-project contracting and delivery issues.</p> <p>Recommendation</p> <p>The post project evaluation should include an element specifically focused on the whole-project contracting, monitoring/timetabling and related “lessons-learned”. This should go beyond what may have otherwise been standard on more straightforward projects which have gone closer to plan. The key outcomes should be shared within NHS Lothian and with other NHS bodies in Scotland (as appropriate) to help with cumulative understanding of the issues arising, and to help with both preventative and reactive measures to mitigate the likelihood and impact in future projects.</p>	<p>Responsible officer:</p> <p>Director of Finance</p> <p>Implementation date:</p> <p>31 March 2020</p> <p>The Board welcomes the recommendation to include the settlement agreement within a robust post project evaluation (PPE) process (separate from an ‘occupancy review’, which will take place shortly after occupancy of the facility). Steps are already underway to ensure sufficient resource, skills and knowledge are in place.</p> <p>The Board will look to include other NHS bodies, as well as Government agencies (eg SFT) and external parties in the PPE to ensure a full range of views and experiences, with the key outcomes shared as appropriate.</p>
Current status	Audit update	Management response
<p>Ongoing</p>	<p>See right.</p>	<p>Following the delay to the opening of the facility in July 2019, the post project evaluation will be delayed until after the hospital has been fully occupied. The</p>

Action plan point	Issue & recommendation	Management comments
		Board will build on a number of reviews that have already taken place to ensure lessons are learned and disseminated.
		Implementation date 31 March 2022

Appendix 3: Unadjusted errors

We identified the following potential adjustments to the financial statements during our audit. We have discussed these with management and agreed they will not be reflected in the financial statements on the basis of immaterial impact.

Unadjusted difference	SoCNE		Balance Sheet	
	DR £m	CR £m	DR £m	CR £m
Operational Property, Plant and Equipment			8.7	
Assets Under Construction				8.7
<i>Being the transfer of completed assets out of assets under construction and into use</i>				
Deferred income			4.142	
Accruals				4.142
<i>Being the transfer of payables wrongly categories between disclosure lines</i>				
Net impact on income / expenditure	-			



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