

NHS Lothian

Income and Receivables
Internal Audit Report - FINAL

January 2026

LEVEL OF ASSURANCE:

DESIGN	SUBSTANTIAL
EFFECTIVENESS	SUBSTANTIAL

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The matters raised in this report are only those which came to our attention during our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

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REPORT STATUS	
LEAD AUDITOR(S):	TOM O'HARA
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EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX II FOR DEFINITIONS)		
DESIGN	SUBSTANTIAL	There is a sound system of internal control designed to achieve system objectives.
EFFECTIVENESS	SUBSTANTIAL	The controls that are in place are being consistently applied.

SUMMARY OF FINDINGS (SEE APPENDIX II)		
H	0	
M	0	
L	1	
TOTAL NUMBER OF FINDINGS: 1		

PURPOSE

The Income and Receivables Internal Audit has been conducted to provide assurance to management and the Audit and Risk Committee on how the controls in the following areas are designed and operating :

- Governance and Oversight;
- Income Sources and Accounting;
- Billing and Invoice Controls;
- Receivables Management; and
- Reconciliations and Reporting.

BACKGROUND (Further detail at Appendix I)

It was agreed as part of the 2025-26 Internal Audit Plan that Internal Audit would conduct a review of the arrangements in place surrounding Income and Receivables at NHS Lothian.

This area was last audited in 2017 by the NHS Lothian Internal Audit service and resulted in a green rating for all controls tested.

NHS Lothians total reported income for the year ended 31st March 2025 was £1.7b. There are a variety of funding sources; with the largest being the annual allocation. Other income streams include private and overseas patients, research & development, Social Security Scotland, room hire, catering and training courses, DVLA, labs including NEQAS, and salary overpayments recovery.

The Accounts Receivable (AR) team forms part of the Financial Services team within NHS Lothian and consists of a Team Leader, two Debt Recovery Assistants and two Accounts Receivable Assistants.

eFinancials is the system in use and there are a set of Financial Operating Procedures: Accounts Receivable & Credit Control which outline the key processes for management of income and receivables.

Debtor request forms are completed by the relevant budget holder and passed on to the Accounts Receivable Team to raise an invoice. There are processes in place for the pursuit of debts which include follow up and payment plans before passing on to a debt recovery agency. Any required write offs or losses are reported to the Audit Committee.

CONCLUSION

NHS Lothian's control framework in relation to income and receivables is well-designed and operating effectively in the main.

There are clear policies and procedures in place to govern the accounts receivables process, which clearly outline the roles and responsibilities of key staff, required documentation throughout the process and reporting and monitoring controls. Delegated authorities to approve invoices, credit notes, refunds and write-offs have also been clearly documented and consistently applied.

There are clear segregation of duties in place regarding the raising, review and approval of income requests, credit note requests, refund requests and invoices.

Credit control processes are well-defined and consistently applied, with effective supplementary reporting and monitoring processes, such as monthly service credit control meetings, in place. Monthly reconciliations are also consistently undertaken.

No issues were noted in regard to the calculation of overseas and private patient charges.

We identified an opportunity to improve the design of control in relation to Debtor Request Forms (DRFs) to ensure that dual-reviews are consistently and clearly recorded.

Overall, we can therefore provide substantial assurance over the design and operational effectiveness of controls in place to manage income and receivables.



EXECUTIVE SUMMARY

SUMMARY OF GOOD PRACTICE

During the course of our review, we identified a number of areas of good practice:

- ▶ **Alignment with the Scottish Public Finance Manual** - NHS Lothian's Accounts Receivable and Credit Control Operating Procedures demonstrated good alignment with the SPFM's Receivable and Receipts section.
- ▶ **Scheme of Delegation** - NHS Lothian has a clear Scheme of Delegation in place which outlines delegated debt write-off approvals and required governance approvals. The Scheme of Delegation is reviewed on an annual basis.
- ▶ **Staff Roles and Responsibilities** - NHS Lothian's Accounts Receivable and Credit Control Operating Procedures clearly outlines the roles and responsibilities of Accounts Receivable staff in relation to invoice processing, credit control and reporting. Our interviews with staff found that roles and responsibilities were well understood.
- ▶ **VAT Guide** - The Accounts Receivables Team have developed a VAT guide for service-users to ensure accurate recording of VAT codes within Debit Request Forms (DRFs) circulated to the team.
- ▶ **Debtors Reporting** - Internal Audit confirmed the Accounts Receivables Team produce a suite of debtors and accounts receivable reporting on a monthly basis, which analyses debt by aged balance, total debt per debtor and debt per service-area. Reporting is shared with the Finance Manager, central Finance Team and Management Accountants in each service area.
- ▶ **Automated Reminder Letters** - NHS Lothian allocates letter codes to each invoice issued which allows for the automatic generation of payment reminder letters issued to debtors at pre-determined intervals.
- ▶ **Credit Control Meetings** - The Accounts Receivable Team hold monthly credit control meetings with key service areas on a rolling basis to review outstanding debt and aged balances.
- ▶ **Overdue Balances** - Internal Audit assessed NHS Lothian's follow-up procedures for overdue balances to be well-designed, in that automated payment reminder letters are issued by e-financials at pre-determined intervals based on each debtor's defined payment terms. Internal Audit tested a sample of 15

aged balances and identified these follow-up procedures to be consistently followed in all cases.

- ▶ **Private and Overseas Samples** - Internal Audit conducted a sample test of one private patient and four overseas patient sales invoices to gain assurance that charges were calculated accurately and approved. Internal Audit did not identify any exceptions.
- ▶ **Templates** - NHS Lothian's DRF template and templates for credit note and refund requests are comprehensive and allow for a detailed outline of debtor details, cost centre and account coding, services and products to be invoiced, adjusted or refunded. In addition, the templates for credit note requests and refund require a clear rationale for the request to be provided.
- ▶ **Credit Note and Refund Request Approvals** - There is a well-defined process for dual approving credit note requests and refund requests prior to processing, which was found to be consistently applied in our review of credit note and refund requests.
- ▶ **Reconciliations** - The Accounts Receivables Team undertake monthly reconciliations of the general ledger to the sales ledger and the cash clearing account, which are subject to review by the Finance Manager. Reconciliations were confirmed to be undertaken consistently, in a timely manner and with appropriate secondary review.

SUMMARY OF FINDINGS

Notwithstanding the areas of good practice identified, we also identified opportunities for improvement, which are summarised below:

- ▶ **Debtor Request Form Reviews Documentation** - There is an opportunity to improve the documentation of the dual AR Team review of DRFs received, by ensuring there is a dedicated section for the two reviewers to sign-off their initials and the date at which they reviewed the DRF. At present, AR Team members generally record their initials and the date they have reviewed a DRF within the requester field section, but there is no dedicated check built into the DRF template.

DETAILED FINDINGS



DETAILED FINDINGS

RISK: FAILURE TO MAINTAIN ACCURATE AND PROPERLY APPROVED INVOICES, WITH APPROPRIATE SEGREGATION OF DUTIES AND CONTROLS OVER INVOICE ADJUSTMENTS, COULD LEAD TO FINANCIAL ERRORS, INCREASED FRAUD RISK, AND REGULATORY NON-COMPLIANCE FOR THE ORGANISATION.

FINDING 1 - Debtor Request Form Reviews Documentation			TYPE
<p>It is important that comprehensive documentation is maintained to evidence dual-reviews of accounts receivable documentation to ensure that reviews are consistently adhered to in line with the documented procedures.</p> <p>Internal Audit identified an opportunity to improve the documentation of the dual AR Team review of DRFs received, by ensuring there is a dedicated section for the two reviewers to sign-off their initials and the date at which they reviewed the DRF. At present, AR Team members record their initials and the date they have reviewed a DRF within the requester field section, but there is no dedicated field for the check built into the DRF template, increasing the risk that this is missed.</p>			DESIGN 
IMPLICATION			SIGNIFICANCE
<p>There is a risk that DRFs are not being recorded consistently, potentially increasing the risk that DRFs with incomplete or inaccurate data are being processed for invoicing.</p>			LOW
RECOMMENDATIONS	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
<p>We recommend that the templates for DRFs are updated to include a section to record AR reviews and sign-offs of DRFs prior to invoicing. This section should include two sign-offs, which record the following for both the initial and secondary review:</p> <ul style="list-style-type: none"> The member of staff who completed the review. The date the review was completed. A tick box or signature space confirming review found it to be satisfactory. 	Finance Manager (Order to Cash)	Accepted The template will be updated to improve the visibility of the review.	31 March 2026

OBSERVATIONS



OBSERVATIONS - ALL NOTED

OBSERVATION 1 - AUTOMATED DRF ENTRY

Internal Audit notes that NHS Lothian has previously investigated the possibility of developing a DRF template which could automatically input invoice details into E-Financials. However, this was not deemed to be possible due to difficulties aligning VAT codes inputted into DRFs with E-Financials. There are a number of benefits of automated invoice entry, namely the reduction of manual input errors and increased staff efficiency. Consequently, Internal Audit highlights the potential for further investigation into this possible automated workflow going forward should NHS Lothian change finance system.

APPENDICES

IDEAS | PEOPLE | TRUST





APPENDIX I: BACKGROUND

It was agreed as part of the 2025-26 Internal Audit Plan that Internal Audit would conduct a review of the arrangements around Income and Receivables at NHS Lothian.

The Accounts Receivable Team consists of the Accounts Receivables Team Leader, three Credit Controllers and one Accounts Receivables Assistant. The team is overseen by the Finance Manager and Head of Financial Control. The team is responsible for the invoicing, credit monitoring and credit control of NHS Lothian's income streams. NHS Lothian's Accounts Receivables & Credit Control Operating Procedures, alongside the Scheme of Delegation and Standing Financial Instructions, govern the accounts receivables process.

Aside from the annual allocation from the Scottish Government, NHS Lothian's income is varied, but includes other NHS Health Boards (both Scottish and wider UK), private and overseas patients, research and development, Social Security Scotland, room hire, catering and training courses, DLVA, labs including NEQAS and salary overpayments recovery. Where services become aware of income to be received by NHS Lothian, for example, due to services provided, charges levied to patients or the fulfilment of grant criteria; they complete a Debtors Request Form (DRF) to inform the Accounts Receivables Team of the need to raise an invoice.

DRFs outline the details of the debtor, contact details from the service raising the DRF, a description of the product or service provided to the debtor, alongside applicable costs and account and cost centre codes. DRFs are received by the Accounts Receivable Team through their dedicated email inbox, which is monitored by a member of staff each day. Once received, the team member monitoring the inbox will review the DRF for completeness and accuracy and add their initials alongside the date they completed the review. The DRF is then saved into another team member's dedicated folder, for them to review, again adding their initials and the date reviewed to the DRF, prior to invoicing.

NHS Lothian's finance system, e-financials, is used to raise and issue invoices to debtors. Subject to satisfactory secondary review, an Accounts Receivables Team Member will raise an invoice using the information provided in the DRF, which will populate an invoice template. DRFs are saved alongside invoices within the system. NHS Lothian has defined invoice batch approval limits, which are reviewed on a twice-yearly basis by IT and are enforced through user profiles within e-financials.

Credit notes and refund requests, which both must be documented in a Credit Note Request (CNR) and Refund Request (REFREQ) forms respectively, operate in the same manner as DRFs. These are raised by the service and circulated to the Accounts Receivable Team for review and processing. The forms outline the reason for each request, with each being subject to dual approvals. CNRs can be approved by the Accounts Receivable team members up to £20k, at which point the Accounts Receivable Team Leader can approved up to £250k, and the Finance Manager up to £1.5mil. All REFREQS are subject to formal approval by the Finance Manager.

The process for identifying and calculating charges for private and overseas patients is overseen by the Private and Overseas Finance Team. Patient charges are calculated with reference to NHS Lothian's medical price list, which is updated annually and used as the basis for agreeing costs with insurance companies and calculating patient costs. The medical codes recorded for private and overseas are translated to price codes by the Clinical Coding Team.

The Accounts Receivables Team reconcile the general ledger to the sales ledger and cash clearing account on a monthly basis. Each reconciliation is prepared by the Accounts Receivable Team Leader and reviewed by the Finance Manager, before being passed onto the central finance team in accordance with the Preparation of Balance Sheet Reconciliations procedure.

NHS Lothian issues reminder letters at pre-determined intervals (e.g. 21 days after invoicing, 45 days from invoicing etc.) to debtors, which are generated automatically by e-financials. Credit controllers will record their communications with debtors within the power-pad function of each invoice in e-financials. Where a debt has reached 90 days since invoicing and no communication is received from the debtor, it is passed onto NHS Lothian's debt collectors.

The Accounts Receivables Team prepares monthly reporting to analyse its debt recovery performance. This includes aged balance reports, receipts batch reports and debt by category, service and debtor reporting. Bespoke reporting is issued to each service providing analysis on overdue balances by debtor and category. The Accounts Receivables Team undertake monthly credit control meetings with key services on a monthly basis to review debt recovery performance.

Where NHS Lothian receives advice from its debt collectors that a debt is not economically viable to recover, it will be proposed for write-off. On a quarterly basis, the Accounts Receivable Team prepare a proposed write-off schedule, which outlines the debts proposed for write-off alongside the reason it has been proposed. Write-offs of up to £20k can be approved by the Deputy Director of Finance, with write-offs above £20k requiring Audit & Risk Committee approval. All write-offs must then be approved by the Scottish Government Health and Social Care Directorate.

An annual losses report is presented to the Audit & Risk Committee, which outlines NHS Lothian's debt recovery performance within the prior reporting period. This report provides analysis on write-offs within the year and the level of debt outstanding per debtor categories, including overseas and private patients, other NHS Health Boards and GPs.



APPENDIX II: DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
SUBSTANTIAL	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
MODERATE	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally, a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non-compliance with some controls, that may put some of the system objectives at risk.
LIMITED	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
NO	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE	
HIGH	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
MEDIUM	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
LOW	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.
ADVISORY	A weakness that does not have a risk impact or consequence but has been raised to highlight areas of inefficiencies or potential best practice improvements.



APPENDIX III: TERMS OF REFERENCE

EXTRACT FROM TERMS OF REFERENCE

PURPOSE

The Income and Receivables Internal Audit aims to provide assurance to management and the Audit and Risk Committee that the controls in the following areas are well designed and operating effectively:

- Governance and Oversight;
- Income Sources and Accounting;
- Billing and Invoice Controls;
- Receivables Management; and
- Reconciliations and Reporting.

KEY RISKS

1. Failure to maintain and effectively communicate comprehensive, up-to-date income recognition and receivables management policies in line with the Scottish Public Finance Manual could lead to financial inaccuracies, regulatory non-compliance, and reputational damage for the organisation.
2. Lack of clarity in roles and responsibilities can lead to miscommunication, inefficiencies, and delays in decision-making.
3. Failure to accurately identify, classify, and document all major income streams, including appropriate charges for services, could lead to financial misstatements, loss of revenue, and reputational damage for the organisation.
4. Failure to maintain accurate and properly approved invoices, with appropriate segregation of duties and controls over invoice adjustments, could lead to financial errors, increased fraud risk, and regulatory non-compliance for the organisation.
5. Inefficient or ineffective receivables management could result in uncollected revenue, misstated financial information, and increased financial and reputational risk for the organisation.
6. Failure to regularly complete accurate reconciliations between the accounts receivable and general ledgers, and to produce timely, relevant management information, could lead to financial misstatements, compromised decision-making, and loss of stakeholder confidence.

EXCLUSIONS/LIMITATIONS OF SCOPE

The scope of the review is limited to the areas documented under the scope and approach. All other areas are considered outside of the scope of this review. Our review will not provide assurance over all aspects of Income & Receivables.

Where sample testing is undertaken, our findings and conclusions will be limited to the sample tested only. Please note that there is a risk that our findings and conclusions based on the sample may differ from the findings and conclusions we would reach if we tested the entire population from which the sample is taken.



APPENDIX IV: STAFF INTERVIEWED

BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.

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DENISE MCCONNELL	TEAM LEAD - PRIVATE AND OVERSEAS FINANCE TEAM	KEY CONTACT



APPENDIX V: LIMITATIONS AND RESPONSIBILITIES

MANAGEMENT RESPONSIBILITIES

The Audit & Risk Committee is responsible for determining the scope of internal audit work, and for deciding the action to be taken on the outcome of our findings from our work. The Committee is also responsible for ensuring the internal audit function has:

- The support of the organisation's management team.
- Direct access and freedom to report to senior management, including the Chair of the Audit & Risk Committee.

Internal controls covers the whole system of controls, financial and otherwise, established by the Board in order to carry on the business of the organisation in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records. The individual components of an internal control system are known as 'controls' or 'internal controls'.

The Board is responsible for risk management in the organisation, and for deciding the action to be taken on the outcome of any findings from our work. The identification of risks and the strategies put in place to deal with identified risks remain the sole responsibility of the Board.

LIMITATIONS

The scope of the review is limited to the areas documented under Appendix III - Terms of reference. All other areas are considered outside of the scope of this review.

Our work is inherently limited by the honest representation of those interviewed as part of colleagues interviewed as part of the review. Our work and conclusion is subject to sampling risk, which means that our work may not be representative of the full population.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that: the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or the degree of compliance with policies and procedures may deteriorate.

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