

NHS Lothian

# Corporate Governance

Advisory Report - Final

March 2026



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## Distribution List

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# EXECUTIVE SUMMARY

## BACKGROUND

It was agreed as part of the 2025-26 Internal Audit Plan that Internal Audit would conduct an advisory review of the corporate governance arrangements at NHS Lothian (NHSL), focussing on the Board Assurance Framework which is currently being developed.

The Scottish Government published the Blueprint for Good Governance (BfGG) in January 2019 as a guidance on the functions, enablers, assurance framework, integrated system and operating guidance that needs to be in place to support good governance arrangements for NHS Scotland; a second version of the Blueprint was published in December 2022. The Blueprint states: “Good governance requires an assurance framework that aligns strategic planning and change implementation with the organisation’s purpose, aims, values, corporate objectives and operational priorities.”

NHS Lothian is currently undertaking work to develop and implement a Board Assurance Framework (BAF). BAF is an overarching term used to describe a variety of components that work together to provide Board and Committee level assurance that effectively aligns strategic objectives, risk management and performance reporting. These components include the Strategic Risk Assurance Report (SRAR), Integrated Performance and Quality Report (IPQR) and the Lothian Strategic Development Framework (LSDF).

In the context of ongoing organisational challenges and evolving legislative requirements, the new BAF seeks to provide a central mechanism through which the Board can gain clear oversight of key strategic risks and the controls and assurances in place to manage those risks. The aim is to ensure that the Board receives timely and accurate information, can challenge and hold management to account where necessary, and supports continuous improvement.

The Local Strategy Delivery Framework (LSDF) reflects the shared strategic vision of the five organisations which make up the Lothian Health and Care System and is structured around six Pillars and six Parameters, supported by Implementation Books for a five-year period. However, there is recognition of a ‘missing middle’: Management have noted that the Board would benefit from a single reference point that outlines multi-year strategic aims, tracks relevant legislation, and clarifies how actions across the pillars collectively support overarching objectives.

A Steering Group, including the Chairs of various Board Committees, has been established to guide and oversee the development of the BAF; and aims to ensure clarity on Committee responsibilities, avoid duplicating efforts, and confirm appropriate escalation routes up to the Board.

While the Corporate Risk Register (CRR) captures significant operational and organisational risks, the Strategic Risk Assurance Report (SRAR) which will be a component of the emerging BAF, will focus on defining and monitoring highest-level strategic risks. The intention is that the CRR will escalate any relevant issues to the SRAR and, conversely, the SRAR will inform the content of the CRR, ensuring alignment across all levels of risk.

## PURPOSE

The purpose of this advisory engagement was to assess how NHS Lothian is progressing in its design and implementation of the BAF, including the alignment with strategic objectives, the integration of performance reporting, the clarity of risk appetite and escalation processes, and the overarching governance arrangements—ensuring the Board receives robust assurance on the management of strategic and operational risks. [Refer to Appendix I for more detail]

## SUMMARY

NHS Lothian has made commendable progress in developing its Board Assurance Framework (BAF). The current draft evidences clear intention for alignment to the Lothian Strategic Delivery Framework (LSDF) and Annual Delivery Plan, with a compelling focus on the organisation’s medium-term strategic ambitions. Strengths include a structured approach to risk through the emerging Strategic Risk Assurance Register (SRAR) and plans for streamlined, user-friendly performance reporting. Early adoption of good governance principles is evident, and there is a shared understanding among Steering Group Members that the new framework should help Non-Executive Directors more effectively scrutinise strategic information, thereby strengthening oversight and decision-making.

Looking ahead, the Board’s main priority should be the timely finalisation of the LSDF review so that a fully integrated suite of reports, particularly the Integrated Performance and Quality Report (IPQR) and SRAR, can be launched with consistent performance metrics and clear ownership. Focus should be on developing a minimum viable version of these documents and mobilising them so that these can be refined and developed in response to real time feedback. Establishing a clearly defined risk appetite, sharpening risk scoring criteria, and finalising the supporting governance and assurance documents will be critical to embedding best-practice risk management across the organisation. Ensuring stakeholder input from Finance, Public Health Intelligence, and other underrepresented areas is equally important, alongside instilling programme management principles to drive delivery of the LSDF. These measures will help NHS Lothian embed a robust, transparent, and strategically aligned assurance framework that supports the Board in meeting current and future challenges.

# Detailed Observations



## DETAILED OBSERVATIONS

### RISK 1: IF THE BAF DOES NOT CLEARLY LINK TO THE BOARD'S LONGER-TERM STRATEGIC AIMS, THERE IS A RISK THAT DECISION-MAKING FOCUSES ON SHORT-TERM PRIORITIES, UNDERMINING OVERALL STRATEGIC OBJECTIVES AND ORGANISATIONAL EFFECTIVENESS.

#### Observations

Whilst there is a draft Board Assurance Framework (BAF) in place, further development of key components including the Strategic Risk Assurance Report (SRAR) and Integrated Performance and Quality Report (IPQR) are dependant on the review of the Lothian Strategic Delivery Framework (LSDF).

The LSDF is a high-level expression of where the Board wants to be in 3-5 years time. It was originally developed in 2022 and extends to the end of the financial year 2027/28. The framework covers the aims of 5 boards that come under the Lothian Health and Care System; NHS Lothian, East Lothian Integration Joint Board, Edinburgh Integration Joint Board, Midlothian Integration Joint Board, West Lothian Integration Joint Board.

The document has a focus upon the parameters in which NHS Lothian works; workforce, financial, capital, digital, and environmental. Due to the document being written during the Covid-19 pandemic, there is a focus on the impact that the pandemic was having upon the healthcare system, both the direct impacts of higher workload and reduced staff, but also the indirect impacts of the backlog that was being created.

To work towards the systems vision of citizens leading longer, healthier lives; the Lothian Health and Care System has focussed upon improving 6 pillars that they believe are vital to this vision;

- Children and Young People,
- Mental Health Illness and Well being,
- Improving Population Health,
- Primary Care,
- Unscheduled Care,
- Scheduled Care.

Each of the pillars has a 5-year roadmap leading into another review of the health and care system, and each stage of the process has multiple delivery points.

The LSDF is currently under review by the Deputy Director of Strategic Planning as part of the BAF development. It is anticipated that the final report will be presented to the Corporate Management Team (CMT) in February and the Strategy, Planning and Performance Board in March. During our review, we noted that within the LSDF, there is a link to the 'Values' page on the intranet. This link does not work. [Recommendation 3, see page 6]

Interviewees noted that the LSDF is a vast programme of activity and there is a challenge in identifying a suitable approach to recording performance and reporting on this. The LSDF has various workbook structures for each service, and within these, sets out three-year strategic plans which are broken down into annual deliverables.

It was noted that there are some areas of the strategic plans which are not quantifiable, and softer measures need to be incorporated into the balance scorecard for these.

We reviewed the LSDF strategic plans and initiatives and found that there is a need to identify measurable outputs and outcomes for annual deliverables to support an effective reporting approach; particularly the lack of primary care activity and outcome data. [Recommendation 1]

The Board has been provided with a Mid-Year review on the Annual Delivery Plan which grades progress against the Corporate Objectives on a five-point scale from "yes, objective will be met" to "no, objective will not be met".

#### Good Practice

- Whilst we acknowledge that the BAF is still in development, from our review of the existing draft, we can confirm that there is evidence of clear alignment with key strategic documents i.e., LSDF and Annual Delivery Plans. At a high level, the LSDF clearly sets out the Board's ambitions for the medium term and its 'System Vision' which describes the three high levels strategic intentions; and the Annual Delivery Plan outlines the Planning and Delivery Cycle.
- Where there are areas still to be developed with the BAF such as Financial Delivery Plans and Operating Guidance i.e., linking to Standing Orders, Scheme of Delegation and Committee ToRs, there are comments within the BAF that note that it is to be further developed showing that there has been consideration of strategic alignment and linkage.
- Each Strategic Risk reflected within the draft SRAR intends to be specifically aligned to an LSDF Pillar or Parameter and its corresponding Strategic Objective.
- Steering Group members interviewed noted that they find the existing Board Member Handbook on the intranet useful, finding that it clearly describes the organisation, outlines the strategic development framework, values, structure and corporate governance framework.
- There was a consensus that there is already a mature and good governance framework in place in terms of functions of the committees and structures.
- Steering Group Members agreed on the need for the development of the BAF to support non-executive to fulfil the scrutiny function making sure information is provided in clear and structured way and streamlining papers.

#### Recommendations

1. There is a need to establish measurable outputs and outcomes for the annual deliverables within the LSDF strategic plans. For the areas which are not easily quantifiable, they should incorporate qualitative assessments, such as stakeholder feedback.



## DETAILED OBSERVATIONS

### RISK 1: IF THE BAF DOES NOT CLEARLY LINK TO THE BOARD'S LONGER-TERM STRATEGIC AIMS, THERE IS A RISK THAT DECISION-MAKING FOCUSES ON SHORT-TERM PRIORITIES, UNDERMINING OVERALL STRATEGIC OBJECTIVES AND ORGANISATIONAL EFFECTIVENESS.

#### Observations

For any objectives which are not graded as “yes”, the challenges which are faced in achievement of the objective are listed. Each objective is assigned to an owner who is responsible for overseeing progress.

One interviewee noted that there is not a structural system that is promoting the improvement delivery; and feedback was also received through interviews that there is a need to get a specific programme in place for LSDF delivery and manage it using change management principles. To support this, another member outlined the need for delivery gates and moving into a strategic programme was suggested. [Recommendation 2]

Management noted that the BAF would essentially replace the current Board Members' Handbook. It is important that the key sections of the Handbook are integrated or linked to the BAF e.g., Board and Committee structure, values, Integration of Joint Boards. [Recommendation 3]

Our review of the draft BAF found that there is an opportunity for it to provide better clarity on relationships between Committees and how they work together. Whilst the Handbook set out remits, responsibility and membership, it doesn't show how they link and the relationship between them. [Recommendation 4] Through the introduction of the BAF, Management aims to enhance the structure supporting boards to ensure a stronger connection from programme boards to governance committees and boards.

A Strategic Change Group has been newly formed, off the back of the LSDF review. The ToR went to the CMT on 13<sup>th</sup> January 2026 for approval. The Strategic Change Group is to provide strategic oversight and portfolio management of NHSL's most significant

strategic change priorities; those workstreams that represent major change or redesign to achieve future models of care. It is to resolve tensions between areas of work, ensuring that NHSL continues to progress its shared vision effectively by aligning the LSDF delivery structure across the six pillars and five parameters.

The 'Corporate Governance and Assurance in NHS Lothian' document dated 2017 needs to be reviewed. Whilst Management noted that existing assurance levels which are included in this document are not expected to change, this document will be linked and incorporated within the BAF. [Recommendation 5]

Through interviews, it was noted that the Board are operating without clear national metrics that are up to date as the last national reporting on the LDP standards was in 2022; and it is unclear nationally whether these standards are still required as the last guidance published in 2024-25 did not reference them. Therefore, there are questions raised around the specific issues and outputs that NHSL are expected to deliver by the Scottish Government and whether some of the Local Delivery Plan (LDP) Standards are still key priorities i.e., four-hour emergency target, treatment time guarantee, cam time, mental health time, outpatient time. [Recommendation 6]

#### Recommendations

2. We recommend considering implementing a structured improvement system around LSDF e.g. setting up a dedicated Programme Management Office or Board and applying Programme Management principles including change management principles, and a stage gate delivery approach.
3. We recommend a thorough review and integration of all connections between strategic documents and the Board Assurance Framework (BAF) to ensure alignment and accessibility. This should include:
  - Ensuring that any linked documents or web pages are valid and up to date e.g. broken link to values page on the intranet.
  - Ensuring key elements of the Handbook are integrated prior to replacing it with the BAF e.g. Integration of Joint Boards.
  - Ensuring that information is made available on the public facing website as appropriate e.g. NHS Lothian Values.
4. To improve clarity on Committee relationships, we recommend creating a visual map that illustrates how Committees interact within the BAF. Additionally, each ToR should be updated to clearly outline the relationships and collaborative functions with other Committees.
5. As intended by NHSL, we recommend that the Corporate Governance and Assurance in NHS Lothian document dated 2017 is refreshed. NHSL should ensure that this is then embedded into the BAF.
6. NHSL should engage with the Scottish Government to obtain updated national metrics and clarify the priorities for NHSL.



## DETAILED OBSERVATIONS

### RISK 2: IF THE BOARD'S RISK APPETITE IS NOT WELL-DEFINED OR INTEGRATED INTO THE BAF, STRATEGIC RISKS MAY BE POORLY IDENTIFIED, ASSESSED, OR ESCALATED, LEADING TO GAPS IN GOVERNANCE AND POTENTIAL EXPOSURE TO UNMITIGATED HIGH-LEVEL RISKS.

#### Observations

The SRAR is still a work in progress as it is dependent on the development and finalisation of the LSDF Review; and Strategic Risks need to be formulated for each individual Pillar and Parameter.

It is the intention that the Corporate Risk Register will remain operational and will capture escalated operational risks which have been identified at service level, whilst the SRAR will capture strategic risks linked to the Board's objectives. Programme Boards will be responsible for updating strategic risks and ensuring they are communicated to the Corporate Management Team.

Through interviews, there was a shared view that it would be useful to have a workshop to discuss and agree on the risks for inclusion in the SRAR. [Recommendation 7]

Whilst the template developed for the SRAR explains what a Risk Appetite is, the Board have not agreed a risk appetite for NHSL. Internal Audit acknowledge that the Risk Appetite Statement which highlights key risk areas, risk appetite level and description is subject to board consideration and development. [Recommendation 8] Introduction of a risk appetite would make it clear whether a risk is currently tolerable to the Health Board or whether action needs to be taken to transfer, treat or terminate the risk. It will also assist in the setting or target risk scores to bring risk levels into the tolerable range.

The Organisational Risk Management Policy and Framework is to be added to the BAF, however, Management noted that the policy is to be reviewed and ratified by the Steering Group. [Recommendation 9]

The Risk Scoring Card in the SRAR aligns to the Corporate Risk Register matrix. Whilst it outlines the likelihood and consequence, with inherent, current and target risks scores, it does not include clear criteria or definitions for likelihood and consequence risk scoring. Introducing such criteria would help to ensure a more consistent and objective approach to risk scoring. [Recommendation 10]

The Risk Protocol aspect of the BAF is still to be developed which outlines governance arrangements relating to the management and oversight of Strategic and Corporate Risks; as well as the escalation route of corporate risks. [Recommendation 11]

Through interviews, Internal Audit found that there are opportunities to improve the effectiveness of performance and risk reporting; and have outlined the following issues raised:

- Dissatisfaction with the current performance reporting and Corporate Risk Register (CRR) was raised by a member of the Steering Group, noting that they do not facilitate meaningful discussions at the board level.
- The effectiveness of risk identification, management, and reporting; and that there is a need to evolve the risk register to make it more useful and to include target scores for risk especially with the lack of a defined risk appetite which was noted as a concern.

#### Good Practice

- The Strategic Risk Assurance Register (SRAR) component of the BAF is comprehensive and has a detailed quick guide which clearly outlines the purpose, risk descriptors (cause, risk and effect) and risk scoring using a risk matrix and score of inherent, current and target risks.
- Internal Audit are satisfied with the contents and design of the SRAR including the dashboard which clearly presents the controls, assurances, gaps and actions for each strategic risk.
- The Steering Group have reviewed examples from Boards across NHS Scotland e.g. NHS Fife as well as NHS England, for examples of Best Practice.

#### Recommendations

7. Conduct a workshop with Steering Group Members to discuss and agree on Strategic risks for inclusion in the SRAR.
8. NHSL Board should prioritise the development of a Risk Appetite Statement to define key risk areas and levels. This will guide decision-making and enhance strategic risk management.
9. The Steering Group should promptly review and ratify the Risk Management Policy to ensure it aligns with current organisational needs and enhances risk governance.
10. The Steering Group should consider adopting a structured risk scoring guide, similar to the NHS United Lincolnshire Hospital's approach. This guide can provide a clear framework for assessing and prioritising risks, ensuring consistent evaluation across the organisation. This should align to the Corporate Risk Register. [Item-13.1.4-Appendix-III-Risk-Scoring-Guide-2018.pdf](#)
11. As highlighted in the BAF, the development of the Risk Protocol within the BAF should be prioritised to clearly define governance arrangements and accountability for managing strategic and corporate risks at all levels within NHS Lothian.



## DETAILED OBSERVATIONS

### **RISK 3: IF MITIGATING CONTROLS AND SOURCES OF ASSURANCE ARE NOT CLEARLY ARTICULATED AND ASSESSED, THE BOARD MAY NOT BE ABLE TO DETERMINE WHETHER SIGNIFICANT RISKS ARE BEING EFFECTIVELY MANAGED, RESULTING IN POSSIBLE GAPS IN ASSURANCE.**

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#### Observations

The three lines of assurance model has been clearly defined within the draft SRAR to ensure robust assurance; however, our interviewees found that there is a need for this to be embedded into practice and to map out the assurance sources.

Within the draft BAF, there is a section to be further developed to describe the Assurance Framework system and incorporate an assurance map, summarising the key assurance needs of the Board, where this assurance is routinely provided (e.g., Board, Committee, Corporate Management Team) and the type of assurance provided (i.e., First/Second/Third Line of Defence).  
[Recommendation 12]

Management noted that there are instances where the third line assurance is not needed and the guidance in the SRAR / BAF needs to express this i.e., for areas identified as low risk or where processes are well embedded, second-line assurance may be deemed sufficient in the absence of third-party assurance.

For the Sustainability Strategic Risk which has been drafted, there is an opportunity for improvement in identifying specific metrics or indicators for each control to enhance clarity on measurable outcomes.  
[Recommendation 13]

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#### Good Practice

- The SRAR template includes fields for mitigating controls and sources of assurances; and there is clear guidance in place for completing this.
- Internal Audit reviewed the Sustainability Strategic risk which has been drafted as an example within the SRAR and can confirm that appropriate controls, responsibility and sources of assurance have been defined.
- Internal Audit were only able to examine the one Sustainability Strategic Risk in place to assess whether controls are proportionate, realistic, and linked to measurable outcomes. We can confirm that these controls generally appear proportionate and realistic, with many linked to measurable outcomes through reporting, metrics, regular reviews; and there is also a section on controls gaps.

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#### Recommendations

12. As mentioned in the BAF, the Delivery Approach regarding the Assurance Framework should be developed further and should incorporate all key bullet points i.e., assurance map, diagram showing governance committees.
13. When finalising strategic risks, it is recommended to identify and implement specific metrics or indicators for each control.



## DETAILED OBSERVATIONS

### RISK 4: IF ROLES, RESPONSIBILITIES, AND ESCALATION ROUTES ARE UNCLEAR, THE BOARD AND COMMITTEES MAY DUPLICATE EFFORTS OR OVERLOOK KEY RISKS, RESULTING IN LESS EFFECTIVE DECISION-MAKING AND LESS TIMELY RESPONSES TO EMERGING ISSUES.

#### Observations

Whilst we noted that there are clear Terms of Reference (ToRs) in place for each of the Board Committees, we found that there are only ToRs publicly available for two out of seven of the Committee sub-groups - St John's Stakeholder Group and Remuneration Committee.

Management noted that there may have been a conscious decision for some of these ToRs not to be publicised but that the document they are contained in needs to be reviewed; in particular it was noted that the ongoing role of the St John's Stakeholder Group needs to be considered. [Recommendation 14]

A Board Assurance Framework Steering Group has been established with a remit to support the Board's effective and good governance, shaping and overseeing the development of the structure and composition of a Board Assurance Framework.

Whilst the Steering Group is to meet monthly, the Steering Group did not meet in November or January and there is not currently a scheduled meeting.

Internal Audit acknowledge that the Working Group are reviewing the actions from previous Steering Groups and are aiming to formulate a revised proposal and crystallise this before arranging another meeting of the Steering Group. The ToR in place for the Board Assurance Framework Programme Steering Group remains in draft. [Recommendation 15]

During interviews with key stakeholders, concerns were raised around the lack of a Project Manager or Lead Co-Ordinator to liaise with subject matter experts. Management have notified that there is now some project support in place as of 9th February 2026.

Internal Audit are unable to confirm that there has been clear oversight of the IPQR deliverable as it has

not yet been developed.

Internal Audit are unable to confirm whether responsibilities have been assigned for each strategic risk, however, can confirm that within the new SRAR template, there is a section to clearly outline the Risk Owner.

Whilst there has been a lot of discussion in the Steering Group meetings, members have felt that there hasn't been clarity around the planned approach and decision making for the BAF. [Recommendation 22, see page 12]

Whilst one member noted that Committee's responsibility is for interrogating detail and managing issues, another member feels that that they are unable to conduct their role to interrogate, challenge and influence the quality standards to be able to give assurance to the board due to the level of detail presented at Board; and there are occasions where detail becomes a matter of debate rather than focusing on strategic issues.

There is intention to establish an "Integrated Governance Group", comprised of the chairs of the Board's standing governance Committees, to support sharing of information between Committees. Particularly, to discuss collectively the outputs of committee annual assurance reports and identify any gaps in assurance needs for consideration by Audit and Risk Committee.

Whilst Internal Audit agree with formalising the Board Assurance Framework Steering Group (BAFSG) into an Integrated Governance Group (IGG), it is important to note that once the BAF is in place, the remit of the group need to be clear and distinct from the existing Committees and meetings must be clearly minuted for transparency. [Recommendation 16]

#### Good Practice

- The NHSL Intranet is easily accessible, user friendly and clearly outlines Board Members, the Board Members Handbook, Papers and Minutes. It also has the Corporate Governance Team contact details and outlines the Corporate Structure.
- TORs for the five Board Committees are accessible, reviewed annually and we found them to be clear, distinct and free from overlap.
- Whilst there have only been three Steering Group meetings since the Group was established in September 2025, there is an action tracker in place with clear actions, escalation and challenge.
- Internal Audit reviewed minutes from the Steering Group and can confirm that there has been clear oversight of the draft BAF and SRAR.
- There is established oversight including the Steering Group and Working Group which has been formed with representation including the Board Secretary, Deputy Director Strategic Planning, Director of Quality and Head of Performance and Business Unit.
- The Working Group are to meet on a weekly basis until the end of March, and the Chief Executive will be regularly briefed.

#### Recommendations

14. We recommend that Management should review and evaluate the publicly available terms of references to ensure they are relevant and aligned with the organisation's strategic goals. Additionally, any organisational structures or terms of reference that are no longer relevant or necessary should be disestablished.
15. It is recommended that the Board Assurance Framework Programme Steering Group prioritise the finalisation of its terms of reference.



## DETAILED OBSERVATIONS

### **RISK 4: IF ROLES, RESPONSIBILITIES, AND ESCALATION ROUTES ARE UNCLEAR, THE BOARD AND COMMITTEES MAY DUPLICATE EFFORTS OR OVERLOOK KEY RISKS, RESULTING IN LESS EFFECTIVE DECISION-MAKING AND LESS TIMELY RESPONSES TO EMERGING ISSUES.**

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#### Observations

Interviewees have felt that the Board can get drawn down into detail with lengthy reports and overlapping with committees; and should be more strategic and receive escalations from committees rather than detail (more detail included in risk 7).

[Recommendation 16]

During our review, we found that to date there has been a lack of representation from Finance and Resource at Management level amongst the Working Group. Additionally, the Public Health Intelligence Team has not been represented in anyway and has not been included in conversations around development of performance metrics.

[Recommendation 17]

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#### Recommendations

16. Once the BAF has been fully integrated, it is recommended that the BAFSG remit is re-defined into an IGG. Key focus should be on strategic oversight rather than detailed operational matters; and the primary function should be to facilitate the sharing of information between Committees, particularly through the discussion of Committee annual assurance reports. Membership should include the Chairs and Executive Leads of all Committees including the Audit and Risk Committee.
17. It is important that the Working Group include management-level representatives from Finance and Resource, alongside the Public Health Intelligence Team to provide valuable insights and ensure that all relevant aspects are considered in shaping the metrics and reporting framework as soon as possible.



## DETAILED OBSERVATIONS

### RISK 5: IF THE BAF IS NOT PROPERLY INTEGRATED WITH OPERATIONAL AND FINANCIAL PLANNING CYCLES, ALONG WITH PERFORMANCE REPORTING, IT MAY BE VIEWED IN ISOLATION AND FAIL TO INFORM DAY-TO-DAY DECISION-MAKING OR RESOURCE ALLOCATION.

#### Observations

Within the BAF, there is a planning cycle diagram however, we noted that it is yet to be updated to reflect the future quarterly performance and strategic risk reporting schedule which will be linked to the delivery of strategic objectives.

[Recommendation 18]

The BAF includes a section on Financial Delivery Plans and notes that, each year, the Board receives and approves a Financial Plan on the recommendation of the Finance and Resources Committee. This sets out the detailed financial forecast for the year ahead, based on available resources, commitments and service priorities. It also provides financial projections over a five-year period, based on the best available information.

The Financial Delivery Plan provides assurance to both the Board and the Scottish Government on the extent to which it can be confident of achieving overall financial balance in the year ahead, whilst meeting its service commitments and remaining focused on the delivery of its strategic ambitions. It is noted that this section is to be further developed to include the capital prioritisation process and reporting to the Board.

[Recommendation 19]

Challenges have been identified around linking the BAF to Performance Reporting due to a lack of agreement to date as to what the metrics should be and where they should be reported. Additionally, the working group are trying to make sure there is triangulation between the LSDF, SRAR and the performance reporting in the IPQR (more detail included in risk 6).

Under “Assurance Information System” in the BAF, there is a section to be developed further to summarise the purpose and operation of the new Integrated Performance & Quality Report (IPQR) and describe how this report is reviewed by the Board, with relevant aspects received and scrutinised beforehand by the standing governance committees.

It also noted that the section will describe the means by which the significant volume of other assurance information (outwith standardised performance and risk reporting) is provided to the Board or via its Committees e.g. annual compliance or delivery reports, service reports, regulators’ inspection reports, etc. This content is to be reflected fully within either the Board’s Annual Cycle of Business or in Committee Work Plans.

It also noted that this assurance information will also be mapped against the compliance requirements set out in Annex A: Key Legal Reporting Requirements of the Framework Document for NHS Boards, issued as DL (2025) 13.

#### Good Practice

- The BAF clearly outlines the Planning Cycle which sets out the annual programme of reporting that support against the delivery of the Board’s agreed aims, objectives and priorities.

#### Recommendations

18. It is recommended to update the planning cycle diagram to reflect future quarterly performance and strategic risk reporting. This update should be linked to the delivery of strategic objectives, ensuring that the Board Assurance Framework (BAF) remains aligned with the organisation’s goals and provides timely insights into performance and risk management.
19. The section of the BAF highlighting Financial Delivery Plans should be further developed to include the capital prioritisation process and reporting to the Board.



## DETAILED OBSERVATIONS

### RISK 6: IF PERFORMANCE METRICS, PARTICULARLY AROUND QUALITY AND MANDATORY REPORTING, ARE NOT FULLY INTEGRATED OR PRESENTED IN A CLEAR FRAMEWORK, THE BOARD COULD LACK A HOLISTIC VIEW OF ORGANISATIONAL PERFORMANCE, LIMITING STRATEGIC OVERSIGHT.

#### Observations

Current performance reporting to the Board outlines key performance areas, national standard compliance, and ADP trajectory compliance. There is an annual Performance Framework which is separate to the BAF. Development of the current iteration of the Annual Performance Framework has been delayed due to the development of the BAF and IPQR requirements.

The Annual Performance Framework outlines the general principles on how to present data. The IPQR has not yet been developed, and it is recognised that this is contingent on the LSDF being finalised and strategic risks and measures being agreed. [Recommendation 20]

As mentioned in Risk 4, there is now Project Management support which should allow capacity for stakeholders involved in the BAF to now complete the development of the Annual Performance Framework.

The Working Group are currently evaluating which metrics should be used to measure performance and where these should be reported. There has been discussion around using Healthcare Improvement Scotland (HIS) Standards as a starting point, or for each Committee to have their own section within the IPQR providing direct assurance from the Committees and signposting to relevant papers and deep dives, but at the time of the review, no decision had been made on this.

Our interviews found that there was concern from both Executive and Non-Executive members around the volume and detail of Committee and Board papers at present, which can limit meaningful discussion and challenge.

Members felt that there is a need for better narrative within reports, and identification of clear implications, as there is currently a struggle to see

connections, add value and have more assurance-based discussions due to the volume of information received. It was also noted that, at present, there is a tendency for performance reports to come to Committees and then be discussed again at full Board meetings in detail. This duplication limits efficiency and results in a lack of trust in Committees to take assurance on key areas and escalate to the Board as necessary. [Recommendation 21 & 28, see page 14]

The Working Group had intentions to introduce the BAF, including the SRAR and IPQR, at the Board Development Sessions in April, however, it was noted this timeline is now unlikely. As a result, there are no set timescales in place to reintroduce the IPQR. A key stakeholder noted that it would be helpful if there was a Board Assurance Plan in place with key milestones to help everyone understand the development process and what is still required; this would help alleviate some of the current confusion and frustration that is felt with the process. [Recommendation 22]

Whilst the BAF is owned and maintained by the NHSL Board and Board Secretary; there is currently a lack of clarity around who will have ownership of the IPQR; as performance does not naturally fit under one teams' remit. [Recommendation 23]

Internal Audit acknowledge that there is a planned workshop with the Working Group on 17<sup>th</sup> February 2026 to address the current environment and map out the HIS domains against the relevant/most accurate assurance Committees to identify current gaps and opportunities; the goal is to ensure that each committee's legislative functions are aligned with quality domains, and to determine where data can be triangulated to elevate information to the board. This process will help establish thresholds for information and data that require escalation.

#### Recommendations

20. We recommend prioritising the development of the IPQR/performance measures and implementing it. From here, feedback can be gathered around whether they are fit for purpose or require further development.
21. There is an opportunity to add an agenda item for each committee at the end of each meeting to agree matters that need to be escalated to the Board. This will ensure a clear record of which items need to be discussed in detail.
22. To address the delays and stakeholder concerns regarding the introduction of the BAF and the absence of plans for the IPQR, it is recommended that the Working Group develop a comprehensive and structured road map or action plan for the remainder of the development. This plan should:
  - Establish a clear timeline for the introduction of the BAF, including specific dates for key activities such as stakeholder engagement, document preparation, and presentation to the board.
  - Outlines key milestones, deliverables.
  - Map out expectations of key stakeholder and input required.
  - Schedule an engagement session with the Steering Group to gather feedback and address concerns, refining the BAF to meet the needs of all parties involved.
23. While the BAF is owned by the NHSL Board and Board Secretary, it is recommended that Management establish a responsible Committee, group or team for managing the development of the IPQR and beyond implementation. This will ensure accountability and effective management.



## DETAILED OBSERVATIONS

### **RISK 6: IF PERFORMANCE METRICS, PARTICULARLY AROUND QUALITY AND MANDATORY REPORTING, ARE NOT FULLY INTEGRATED OR PRESENTED IN A CLEAR FRAMEWORK, THE BOARD COULD LACK A HOLISTIC VIEW OF ORGANISATIONAL PERFORMANCE, LIMITING STRATEGIC OVERSIGHT.**

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#### Observations

In 2020, an IPQR report was produced that was high level with a small amount of data and information. Management noted that the feedback received from a Board questionnaire were that they were satisfied with this level of information. Since then, members feel there has been a desire to over provide on reporting post Covid-19, leading to overwhelm and feelings that there is a lack of trust in Committees to bring assurance to the Board.

During discussions with key stakeholders, several observations were made regarding the current state of performance reporting and metrics within the organisation:

- Reporting of Metrics: There is uncertainty about whether metrics should primarily be reported at the Strategic Planning Performance Committee, which includes Non-Executive Board members. Concerns were raised that not all measures are consistently presented at the Public Board meeting, potentially impacting transparency and comprehensive oversight.
- Performance Report Cohesion: Stakeholders expressed a desire for performance reports to be more digestible and cohesive; and therefore, the need for streamlining the presentation of data to focus on key insights and strategic implications.
- The usefulness of Local Delivery Plan (LDP) standards and performance reporting, which constitute a significant portion of the performance report, is unclear for assurance purposes. Additionally, there is concern that the Board is operating without clear, up-to-date national metrics, which may hinder effective decision-making and strategic planning (more detail included in risk 1).

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#### Recommendations

24. It is recommended to involve the Lead from the Data Analytics Team in the Working Group meetings. This inclusion will ensure that the lead is actively engaged in discussions regarding metrics and reporting requirements.



## DETAILED OBSERVATIONS

### RISK 7: IF THE BAF IS OVERLY COMPLEX OR NOT USER-FRIENDLY, THE BOARD AND MANAGEMENT MAY STRUGGLE TO UNDERSTAND OR NAVIGATE THE INFORMATION, REDUCING THE EFFECTIVENESS OF STRATEGIC RISK OVERSIGHT AND ENGAGEMENT.

#### Observations

The Board Assurance Framework is a work in progress. The ultimate intention is that it will provide an overarching and easy to access “user guide” for Board Members and communicate to staff and stakeholders a summary of our Board-level governance and assurance arrangements, whilst demonstrating clear alignment with the Blueprint for Good Governance. For now, it also serves to highlight what additional “assurance products” NHSL need to commission and then refine or produce. It notes that there are particular and significant requirements i.e., IPQR and SRAR, however, there are a range of additional pieces of work that will be progressed concurrently. The BAF is a living document that will be subject to regular, cyclical review and updated accordingly.

We noted that, as part of the development process, there has been no stakeholder mapping or outlining what representation is required, as noted previously in the report; there are stakeholder groups which appear to have been under-represented to date in the development process e.g. Finance, Public Health Intelligence. [Recommendation 17, 24, 25]

Our interviews flagged a need to have more Executive engagement away from Non-Executives; and get the Executive team together to identify how to measure what is meaningful. [Recommendation 26] While there is not a steering group meeting in place, the working group are having a workshop to formulate a revised proposal for further discussion with executives and then non-executives before arranging another meeting.

The following challenges and concerns were raised through interviews with both Steering and Working group members:

- Our interviews found a sense that developing a

shared understanding of what they are trying to do, with a lot of perceptions, different ways of doing things, and priorities of what it might or should look like has made the process of drawing it all together tricky. One interviewee noted that there has not been a clear and shared understanding on the purpose of the products and that there can be conflation of the different elements of the BAF. [Recommendation 27]

- Members have felt that the Steering Group Meetings have at times been challenging without a clear focus or ask of each meeting, which has led to repetitive conversations and a lack of clear decision making. [Recommendation 21]
- Two interviewees of the Steering Group noted that they have not all seen a draft of the SRAR and IPQR; and have found it difficult to have a conversation about something and trying to look beyond the concept has been challenging.
- There is a consensus amongst members that they would like to get the BAF into practice and then can challenge, refine and iterate as they go and that ‘perfection gets in the way of a reasonable product’.
- One member noted a concern that in their time on the Board there has been little mention of Board Culture; they noted that with the introduction of the BAF, this will only be useful if the Board have a strong culture. Management noted that they are finalising the Board Development Sessions cycle for the year ahead and are proposing to have a Leadership and Culture session in April, however, dates are still to be confirmed. Additionally, the Board Etiquette is to be developed and adopted by the Board and linked to the BAF. [Recommendation 28]

#### Good Practice

- Internal Audit can confirm that the current BAF draft is easy to read, with effective diagrams, clear headings and subheadings. Content is concise, visually accessible, and user oriented.
- Internal Audit are satisfied with the alignment to the Blueprint for Good Governance and note that in any areas where there are currently gaps in alignment, there are comments in the draft to indicate that these gaps will be filled, showing that all areas of the Blueprint have been considered.
- The Audit & Risk Committee will review the overall product, to provide assurance that its design is sufficiently covering the relevant parts of the Board’s control environment.

#### Recommendations

25. We recommend that stakeholder mapping exercise is carried out to address and fill any gaps.
26. NHSL should hold an Executive session first to fix measures and the practical design, then take a concise proposal to Non-Executives for challenge and refinement.
27. We recommend that the working group design a simple map that explains the BAF and how the key elements all fit together.
28. We recommend that Management confirm dates for Board Development Sessions and communicate the session topics to members.



## DETAILED OBSERVATIONS

### **RISK 7: IF THE BAF IS OVERLY COMPLEX OR NOT USER-FRIENDLY, THE BOARD AND MANAGEMENT MAY STRUGGLE TO UNDERSTAND OR NAVIGATE THE INFORMATION, REDUCING THE EFFECTIVENESS OF STRATEGIC RISK OVERSIGHT AND ENGAGEMENT.**

#### Observations

As mentioned under Risk 6, it was noted by a Steering Group Member that there has been a significant shift in Board Papers since the onset of Covid-19; moving from concise reports to overly detailed documents that have led to operational data overload and diminished trust in Board committee assurances [Recommendation 29].

Steering Group Members noted the following:

- One member expressed that they feel that they are unable to conduct their role to interrogate, challenge and influence the quality standards due to the volume of information.
- One member feels constrained in their ability to fulfil their roles, expressing concerns about merely ticking boxes and returning forms to the Scottish Government without being able to provide meaningful assurance or engage in substantive discussions.
- Interviewees have mentioned that non-executive directors are requesting detailed information during Board meetings, however, the detailed discussions occur within individual Committees; and therefore, noted a lack of confidence in individual Committees providing assurance the Board meetings.
- Interviewees feel that Information presented at the Board level should be specific and add value, rather than attempting to cater to all possible inquiries, which is fundamentally inefficient. [Recommendation 21]

Lastly, Steering Group members feel that a lot of time and resource has been spent on the LSDF and the benefit realisation process is not as clear as expected; and there is a need to think about and create a sustainable delivery process i.e., where are the skillsets to support active delivery. [Recommendation 30]

#### Recommendations

29. It is recommended that clear paper standards are set, enforcing brevity, clarity and a focus on implications. NHSL should use Committee Chair assurance reports to rebuild confidence and reduce requests for operational detail at Board level.
30. Once the LSDF has gone to the Strategy, Planning and Performance Board in March, the Strategic Change Group should deliver a comprehensive presentation to the Board Assurance Framework Steering Group (BAFSG) Members, detailing the benefit realisation process associated with the LSDF review. This presentation should clearly articulate the expected outcomes, key performance indicators, and metrics that will be used to measure success, ensuring alignment with organisational goals and priorities.

# Summary of Recommendations



# RECOMMENDATIONS

No.	RECOMMENDATIONS
1	There is a need to establish measurable outputs and outcomes for the annual deliverables within the LSDF strategic plans. For the areas which are not easily quantifiable, they should incorporate qualitative assessments, such as stakeholder feedback.
2	We recommend considering implementing a structured improvement system around LSDF e.g. setting up a dedicated Programme Management Office or Board and applying Programme Management principles including change management principles, and a stage gate delivery approach.
3	We recommend a thorough review and integration of all connections between strategic documents and the Board Assurance Framework (BAF) to ensure alignment and accessibility. This should include: <ul style="list-style-type: none"> <li>o Ensuring that any linked documents or web pages are valid and up to date e.g. broken link to values page on the intranet.</li> <li>o Ensuring key elements of the Handbook are integrated prior to replacing it with the BAF e.g. Integration of Joint Boards.</li> <li>o Ensuring that information is made available on the public facing website as appropriate e.g. NHS Lothian Values.</li> </ul>
4	To improve clarity on Committee relationships, we recommend creating a visual map that illustrates how Committees interact within the BAF. Additionally, each ToR should be updated to clearly outline the relationships and collaborative functions with other Committees.
5	As intended by NHSL, we recommend that the Corporate Governance and Assurance in NHS Lothian document dated 2017 is refreshed. NHSL should ensure that this is then embedded into the BAF.
6	NHSL should engage with the Scottish Government to obtain updated national metrics and clarify the priorities for NHSL.
7	Conduct a workshop with Steering Group Members to discuss and agree on Strategic risks for inclusion in the SRAR.
8	NHSL Board should prioritise the development of a Risk Appetite Statement to define key risk areas and levels. This will guide decision-making and enhance strategic risk management.
9	The Steering Group should promptly review and ratify the Risk Management Policy to ensure it aligns with current organisational needs and enhances risk governance.
10	The Steering Group should consider adopting a structured risk scoring guide, similar to the NHS United Lincolnshire Hospital's approach. This guide can provide a clear framework for assessing and prioritising risks, ensuring consistent evaluation across the organisation. This should align to the Corporate Risk Register. <a href="#">Item-13.1.4-Appendix-III-Risk-Scoring-Guide-2018.pdf</a>
11	As highlighted in the BAF, the development of the Risk Protocol within the BAF should be prioritised to clearly define governance arrangements and accountability for managing strategic and corporate risks at all levels within NHS Lothian.
12	As mentioned in the BAF, the Delivery Approach regarding the Assurance Framework should be developed further and should incorporate all key bullet points i.e., assurance map, diagram showing governance committees.
13	When finalising strategic risks, it is recommended to identify and implement specific metrics or indicators for each control.
14	We recommend that Management should review and evaluate the publicly available terms of references to ensure they are relevant and aligned with the organisation's strategic goals. Additionally, any organisational structures or terms of reference that are no longer relevant or necessary should be disestablished.



# RECOMMENDATIONS

No.	RECOMMENDATIONS
15	It is recommended that the Board Assurance Framework Programme Steering Group prioritise the finalisation of its terms of reference.
16	Once the BAF has been fully integrated, it is recommended that the BAFSG remit is re-defined into an IGG. Key focus should be on strategic oversight rather than detailed operational matters; and the primary function should be to facilitate the sharing of information between Committees, particularly through the discussion of Committee annual assurance reports. Membership should include the Chairs and Executive Leads of all Committees including the Audit and Risk Committee.
17	It is important that the Working Group include management-level representatives from Finance and Resource, alongside the Public Health Intelligence Team to provide valuable insights and ensure that all relevant aspects are considered in shaping the metrics and reporting framework as soon as possible.
18	It is recommended to update the planning cycle diagram to reflect future quarterly performance and strategic risk reporting. This update should be linked to the delivery of strategic objectives, ensuring that the Board Assurance Framework (BAF) remains aligned with the organisation's goals and provides timely insights into performance and risk management.
19	The section of the BAF highlighting Financial Delivery Plans should be further developed to include the capital prioritisation process and reporting to the Board.
20	We recommend prioritising the development of the IPQR/performance measures and implementing it. From here, feedback can be gathered around whether they are fit for purpose or require further development.
21	There is an opportunity to add an agenda item for each committee at the end of each meeting to agree matters that need to be escalated to the Board. This will ensure a clear record of which items need to be discussed in detail
22	To address the delays and stakeholder concerns regarding the introduction of the BAF and the absence of plans for the IPQR, it is recommended that the Working Group develop a comprehensive and structured road map or action plan for the remainder of the development. This plan should: <ul style="list-style-type: none"> <li>• Establish a clear timeline for the introduction of the BAF, including specific dates for key activities such as stakeholder engagement, document preparation, and presentation to the board.</li> <li>• Outlines key milestones, deliverables.</li> <li>• Map out expectations of key stakeholder and input required.</li> <li>• Schedule an engagement session with the Steering Group to gather feedback and address concerns, refining the BAF to meet the needs of all parties involved</li> </ul>
23	While the BAF is owned by the NHSL Board and Board Secretary, it is recommended that Management establish a responsible Committee, group or team for managing the development of the IPQR and beyond implementation. This will ensure accountability and effective management.
24	It is recommended to involve the Lead from the Data Analytics Team in the Working Group meetings. This inclusion will ensure that the lead is actively engaged in discussions regarding metrics and reporting requirements.
25	We recommend that stakeholder mapping exercise is carried out to address and fill any gaps.
26	NHSL should hold an Executive session first to fix measures and the practical design, then take a concise proposal to Non-Executives for challenge and refinement.



# RECOMMENDATIONS

No.	RECOMMENDATIONS
27	We recommend that the working group design a simple map that explains the BAF and how the key elements all fit together.
28	We recommend that Management confirm dates for Board Development Sessions and communicate the session topics to members.
29	It is recommended that clear paper standards are set, enforcing brevity, clarity and a focus on implications. NHSL should use Committee Chair assurance reports to rebuild confidence and reduce requests for operational detail at Board level.
30	Once the LSDF has gone to the Strategy, Planning and Performance Board in March, the Strategic Change Group should deliver a comprehensive presentation to the Board Assurance Framework Steering Group (BAFSG) Members, detailing the benefit realisation process associated with the LSDF review. This presentation should clearly articulate the expected outcomes, key performance indicators, and metrics that will be used to measure success, ensuring alignment with organisational goals and priorities.

## MANAGEMENT RESPONSE TO REPORT AND RECOMMENDATIONS

*We welcome this advisory review and its positive findings regarding the progress made to date in designing and developing NHS Lothian's emerging Board Assurance Framework (BAF). It is encouraging that the report recognises the strength of the organisation's governance foundations, the clarity of strategic intent, and the constructive engagement of the Steering Group in shaping a framework that will strengthen Board-level oversight and assurance.*

*It is noted that the recommendations provided are advisory and have been offered to support the continued development of a robust and user-focused BAF. The Working Group will reflect carefully on each recommendation as part of the ongoing programme of work. Many of the points raised align with activity already underway, including the creation of the SRAR and IPQR, and the ongoing review of the Lothian Strategic Development Framework (LSDF). A number of suggestions extend beyond the defined parameters of the current BAF project and should be considered in the wider context of organisational governance and planning activity. A small number (e.g., asking the Scottish Government to provided updated national performance metrics) sit quite firmly outwith the Board's direct control.*

*We acknowledge the helpful prompt within the report to set out a clear and achievable delivery timeline, including establishing the "minimum viable" versions of key BAF components; this aligns with views previously expressed by the Steering Group. Since the initiation of the advisory report, we have defined and communicated a project delivery timeline, with an intention to seek approval for the BAF at the August 2026 Board meeting. This staged approach reflects the intention to develop products iteratively, test them in practice, and refine them following feedback from both Executive and Non-Executive colleagues.*

*Relevant recommendations will be considered and incorporated in the next phase of BAF development planning, with a focus on sequencing, prioritisation, and providing clear visibility of milestones. This will support shared understanding of progress and dependencies while recognising that final design decisions will remain subject to ongoing engagement and governance processes.*

*We welcome the sense-check that this advisory report offers and the confirmation that the principles underpinning the development of the BAF are sound. The recommendations will help to ensure that, as the BAF evolves, it becomes a practical, coherent and integrated tool that enhances strategic, Board-level assurance in NHS Lothian."*

<b>NAME</b>	<b>DARREN THOMPSON, BOARD SECRETARY</b>	<b>DATE</b>	<b>26<sup>TH</sup> MARCH 2026</b>
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# Appendices



## Appendix I: Terms of reference

### Extract from terms of reference

#### Purpose

This review was an advisory engagement to assess how NHS Lothian is progressing in its design and implementation of the BAF, including the alignment with strategic objectives, the integration of performance reporting, the clarity of risk appetite and escalation processes, and the overarching governance arrangements—ensuring the Board receives robust assurance on the management of strategic and operational risks. We reviewed progress to date and provided recommendations on how to improve further.

#### Key risks

1. If the BAF does not clearly link to the Board's longer-term strategic aims, there is a risk that decision-making focuses on short-term priorities, undermining overall strategic objectives and organisational effectiveness.
2. If the Board's risk appetite is not well-defined or integrated into the BAF, strategic risks may be poorly identified, assessed, or escalated, leading to gaps in governance and potential exposure to unmitigated high-level risks.
3. If mitigating controls and sources of assurance are not clearly articulated and assessed, the Board may not be able to determine whether significant risks are being effectively managed, resulting in possible gaps in assurance.
4. If roles, responsibilities, and escalation routes are unclear, the Board and Committees may duplicate efforts or overlook key risks, resulting in less effective decision-making and less timely responses to emerging issues.
5. If the BAF is not properly integrated with operational and financial planning cycles, along with performance reporting, it may be viewed in isolation and fail to inform day-to-day decision-making or resource allocation.
6. If performance metrics, particularly around quality and mandatory reporting, are not fully integrated or presented in a clear framework, the Board could lack a holistic view of organisational performance, limiting strategic oversight.
7. If the BAF is overly complex or not user-friendly, the Board and management may struggle to understand or navigate the information, reducing the effectiveness of strategic risk oversight and engagement.

#### Exclusions

The scope of the review was limited to the areas documented under the scope and approach. All other areas were considered outside of the scope of this review. Our review does not provide assurance over all aspects of corporate governance.

Where sample testing is undertaken, our findings and conclusions were 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 II: 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.

Darren Thompson	Board Secretary
Andrew Fleming	Board Vice Chair
Andrew Cogan	Chair - Healthcare Governance Committee
Tracey Gillies	Exec Lead - Healthcare Governance Committee
Val De Souza	Chair - Staff Governance Committee
Ralph Roberts	Chair - Finance & Resources Committee
Jonathan Blazeby	Chair - Audit & Risk Committee
Craig Marriot	Exec Lead - Finance and Resources and Audit and Risk Committee
Wendy Reid	Head of Performance & Business Unit
Rebeca Miller	Deputy Director of Strategic Planning
Jill Gillies	Associate Director of Quality



## Appendix III: Responsibilities, limitations and conformance with the Global Internal Audit Standards

### Management responsibilities

The Board 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 Board is responsible for ensuring the internal audit function has:

- The support of the Company's management team.
- Direct access and freedom to report to senior management, including the Chair of the Audit Committee.
- The Board is responsible for the establishment and proper operation of a system of internal control, including proper accounting records and other management information suitable for running the Company.

Internal controls covers the whole system of controls, financial and otherwise, established by the Board in order to carry on the business of the Company 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 I - 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.

**Conformance with the Global Internal Audit Standards** This engagement has been conducted in accordance with the Institute of Internal Auditors' Global Internal Audit Standards.

#### FOR MORE INFORMATION:

Claire Robertson, Head of Risk Advisory  
Services - Scotland

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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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