

NHS Lothian

PAEP Re-Provisioning Capital
Project
INTERNAL AUDIT REPORT -
FINAL

MAY 2026

LEVEL OF ASSURANCE:

DESIGN	MODERATE
EFFECTIVENESS	MODERATE

IDEAS | PEOPLE | TRUST

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EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX II FOR DEFINITIONS)

DESIGN	MODERATE	Generally, a sound system of internal control designed to achieve system objectives with some exceptions.
EFFECTIVENESS	MODERATE	Evidence of non-compliance with some controls, that may put some of the system objectives at risk.

SUMMARY OF FINDINGS (SEE APPENDIX II)

H	0	
M	2	
L	3	

TOTAL NUMBER OF FINDINGS: 5

PURPOSE

The purpose of this review was to provide assurance over the design and operational effectiveness of the key controls in relation to the ongoing capital project in the following areas:

- Governance and Oversight
- Compliance with Business Case and Capital Investment Protocols
- Risk Management
- Application of Scottish Hospitals Inquiry Recommendations
- Stakeholder Engagement and Communication Strategy
- Knowledge Management and Lessons Learned, and
- Overall Project Management/Readiness.

BACKGROUND (Further detail at Appendix I)

It was agreed that Internal Audit would complete an additional review as part of the 2026/27 audit programme, focussing on the arrangements in place around the Princess Alexandra Eye Pavillion (PAEP) Re provisioning Capital Project.

NHS Lothian has in place a governance, assurance, and project management framework for the PAEP Reprovision Project, aligned to the Scottish Capital Investment Manual (SCIM) and NHS Lothian Capital Assurance Framework, with leadership roles including the Deputy Chief Executive acting as Senior Responsible Officer (SRO) and a Project Director overseeing end-to-end delivery.

The project to re-provision the Eye Pavilion aims to redesign adult and paediatric ophthalmology services in NHS Lothian to meet growing demand and user needs. It also seeks to continue providing specialist services to the Southeast Region of Scotland and ensure adequate cataract assessment and surgical services for the local population. The project has faced challenges since its initial approval in 2017, including two previous attempts being halted by the Scottish Government and a freeze on NHS capital projects in 2023. This resulted in delays and repeated reassessment of scope, design, and delivery approach.

This project has been reviewed in light of the Scottish Hospitals Inquiry, which examined issues with the Royal Hospital for Children and Young People, which led to significant delays and costs. The inquiry resulted in recommendations to improve project management and risk reduction in healthcare infrastructure.

In response to the inquiry, NHS Assure was established to oversee the design, planning, construction, and maintenance of major NHS infrastructure developments, providing support and conducting Key Stage Assurance Reviews (KSARs).

The Scottish Government SCIM guides NHS Scotland bodies through the capital investment lifecycle, with independent project assurance models like Gateway Reviews and Key Stage Reviews ensuring adherence to standards. NHS Lothian has also developed an internal Capital Project Assurance Framework, supported by an Assurance Checklist, to ensure compliance with key guidance and internal frameworks.

CONCLUSION

NHS Lothian demonstrates good practices in managing its ongoing capital project with a governance framework involving key groups such as the Project Board, NHS Lothian Board, and others. Compliance with business case and capital investment protocols is ensured through the Project Initiation Document, a RACI matrix, and alignment with established processes, alongside formal assurance mechanisms and regular governance meetings. Risk management is integrated with change control processes and lessons learned mechanisms, supported by a risk register and workshops, ensuring consistent risk identification and management. Stakeholder engagement involves patient representatives and clinical staff through defined workstreams and feedback mechanisms, while knowledge management is facilitated by regular touchpoint meetings with NHS Scotland Assure and structured assurance processes.

Whilst we noted sound arrangements in place, there are some opportunities present for improvement. We identified two findings of medium significance and three of low significance. Firstly, NHS Lothian's project oversight could be enhanced by increasing the frequency of meetings between the Senior Responsible Officer (SRO) and the Scottish Government. Additionally, the absence of a formal communications plan for stakeholder engagement may hinder effective information sharing. Opportunities exist to improve risk register management by completing thoroughly the 'Action Date' column and incorporating next scheduled review date, as well as defining risk escalation criteria. In order to ensure implementation of Scottish Hospital Inquiry (SHI) recommendations, Management could enhance the existing tracker adding version control and accountability fields to the tracker and establishing no-go criteria for stage progression. Lastly, the lessons learned register requires full completion of key columns and a structured review process to ensure it is regularly updated and utilised effectively.

As a result of our review, we can provide moderate assurance over the design and the operational effectiveness of controls in place to manage the ongoing capital project within NHS Lothian.



EXECUTIVE SUMMARY

SUMMARY OF GOOD PRACTICE

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

Governance and Oversight:

- The project operates within a clearly defined governance framework comprising key groups such as the Project Board, Steering Group, NHS Lothian Board, Finance and Resources Committee (FRC), Lothian Capital Investment Group (LCIG), Capital Investment Group (CIG), and Local Senior Executive Committee (LSEC), supported by structured reporting lines, defined roles, and regular Project Board meetings chaired by the Senior Responsible Officer (SRO).
- This is further supported by formal milestone-based approval processes through the Acute Senior Management Team (SMT) and Estates and Facilities (E&F) SMT, alongside external assurance mechanisms such as NHS Assure, Key Stage Assurance Reviews (KSAR), and the National Design Assessment Process (NDAP) to ensure robust oversight and decision-making throughout the project lifecycle.

Compliance with Business Case and Capital Investment Protocols:

- The Project Initiation Document (PID) establishes a structured framework for governance, roles, procurement, and design development, supported by defined leadership responsibilities, a Responsible, Accountable, Consulted, and Informed (RACI) matrix, and alignment with established capital investment processes including Strategic Assessment, Initial Agreement, Outline Business Case (OBC), and Full Business Case (FBC).
- This also includes formal assurance mechanisms, including a High-Level Assurance Pathway, Assurance Checklist, external advisor involvement, and regular governance meetings (primarily monthly), ensuring coordinated oversight, decision-making, and alignment with the Scottish Capital Investment Manual (SCIM) and NHS Lothian Capital Assurance Framework.

Risk Management:

- The project is supported by a defined programme of milestones from design recommencement in January 2026 through to planned service delivery by 2031, underpinned by a risk management framework including a risk register, risk workshops, and contract-driven processes such as the New Engineering Contract (NEC4) Early Warning Register.
- Risk management is further integrated with change control processes, governance escalation routes, and lessons learned mechanisms, ensuring that risks are

identified, assessed, categorised, and managed consistently throughout the project lifecycle.

Application of SHI Recommendations:

- The project adopts an approach to technical specification development, incorporating defined briefs, formal assurance gateways, and multidisciplinary design review processes, supported by mechanisms such as Building Information Modelling (BIM), derogation management, and stakeholder engagement.
- This is further underpinned by clearly defined roles for technical advisors, formal approval and revalidation processes for key documents (e.g. Schedule of Accommodation (SoA) and Room Data Sheets (RDS)), and ongoing coordination through workshops and reviews.

Stakeholder Engagement and Communication Strategy:

- A stakeholder engagement approach is in place, involving patient representatives, clinical staff, and community stakeholders through defined workstreams, regular workshops, and formal feedback mechanisms to inform design and decision-making.
- This is supported by established communication channels, including periodic updates, engagement logs, mailing lists, and a Master Engagement and Sign-off Schedule, ensuring feedback is captured, tracked, and integrated throughout the project lifecycle across technical and operational areas.

Knowledge Management and Lessons Learnt:

- Engagement with NHS Scotland Assure is embedded through regular monthly touchpoint meetings and structured assurance processes, including planned KSAR and a defined 14-week Case for Assurance (CfA) period, enabling ongoing review of technical matters and high-risk issues.

Our testing did not identify any significant findings surrounding the controls in place to mitigate the following risks:

- Non-compliance with SCIM or the Capital Assurance Framework can result in unapproved cost escalations, delays, or the project failing to meet mandated requirements.
- Weak project planning or inadequate monitoring and oversight may result in missed milestones, budget overruns, and compromised project outcomes



EXECUTIVE SUMMARY

SUMMARY OF FINDINGS

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

- ▶ **Inconsistent Reporting and Limited Centralised Project Oversight** - We noted that the SRO is essential in connecting the project with the Scottish Government (SG) and the NHS Lothian Board, with semi-formal meetings held approximately every six months to discuss capital projects. Although SG representatives are part of the project governance structure, the most recent formal minutes are about a year old, and Management suggested increasing meeting frequency.
- ▶ **Absence of a Formal Communications Plan for Stakeholder Engagement** - We found that the PAEP Reprovision Project is committed to patient-centred design and community engagement by involving patient representatives and stakeholders in consultations. However, NHS Lothian lacks a documented formal communications plan, which may limit the consistency, structure, and transparency of stakeholder engagement and information sharing.
- ▶ **Opportunities to Enhance Risk Register Management and Governance Controls** - In our review, we found that while the PAEP risk register aligns with the Frameworks Scotland template and covers various risks, there are opportunities for improvement. The 'Action Date' column is incomplete, hindering tracking of mitigation actions, and the register lacks next scheduled review date details. Additionally, the Project Initiation Document (PID) or contract does not define a risk score or criteria for risk escalation, which are crucial for timely responses to potential threats during the project lifecycle.
- ▶ **Opportunities to Strengthen SHI Recommendation Management and Governance Controls** - We found that while a tracker is in place and reviewed monthly to capture progress against Scottish Hospitals Inquiry (SHI) recommendations for the PAEP project, improvements such as version control and fields for Action Owner and Date are needed for accountability and timely action completion. Additionally, NHS Lothian should establish internal no-go criteria for stage progression to prevent premature approval of incomplete or unclear technical specifications, despite references to assurance processes like NHS Scotland Assure and Key Stage Assurance Reviews (KSAR).
- ▶ **Gaps in Completion and Maintenance of Lessons Learned Register** - We identified that a lessons learned register is in place for the PAEP project, however this was last updated in May 2023, and has several gaps. Specifically, columns for the principal owner, NHS Scotland Board, and Public Sector Client Partner (PSCP) are incomplete, and entries for 'Input', 'Action', and 'Timescale' are missing throughout. Furthermore, a structured review process is recommended to address outstanding actions, ensuring the register is complete and regularly reviewed as NHS Lothian continues to use it.

DETAILED FINDINGS



DETAILED FINDINGS

RISK: INSUFFICIENT GOVERNANCE STRUCTURE OR UNCLEAR RESPONSIBILITIES MAY LEAD TO POOR DECISION-MAKING AND PROJECT MISMANAGEMENT.

FINDING 1 - Inconsistent Reporting and Limited Centralised Project Oversight			TYPE
It is important that the governance structure is clearly defined, with consistent and formalised reporting and well-documented oversight, to ensure effective decision-making, reduce the risk of project mismanagement, and maintain clarity and effectiveness in project monitoring. We identified that the SRO plays a crucial role in the reporting lines to the Scottish Government (SG), serving as the primary link between the project, the NHS Lothian Board, and SG. Management confirmed that semi-formal meetings with the SG Capital Infrastructure team occur approximately every six months to discuss capital projects, including commercial funding arrangements. Reporting to SG is contingent on the project's stage, with the SRO providing updates as necessary. It was noted that SG representatives are part of the project governance structure, and formal minutes are available, although the most recent minutes date back approximately one year. Management acknowledged that meetings could be held more frequently, with an expectation of around three meetings per year, depending on key project milestones and programme progression.			DESIGN & EFFECTIVENESS 
IMPLICATION			SIGNIFICANCE
Without a single formalised reporting framework and sufficiently frequent oversight by SG, there is a risk that the SRO's updates and project assurance activities may not provide a complete and consistent view of project progress, potentially leading to gaps in governance and decision-making.			MEDIUM
RECOMMENDATIONS	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
We recommend that NHS Lothian should increase the frequency of governance meetings with SG to at least three times per year and ensure consistency in scheduling. These meetings should be aligned with key project milestones, with all discussions formally minuted and retained to support transparency and effective oversight.	Programme Director & SRO	Scottish Government has been approached to request a representative to be invited to the monthly Project Board meeting and preferred attendee list for a formal quarterly update meeting.	August 2026



DETAILED FINDINGS

RISK: LIMITED STAKEHOLDER ENGAGEMENT AND INEFFECTIVE COMMUNICATION CAN CAUSE RESISTANCE, MISUNDERSTANDING, OR INSUFFICIENT UTILISATION OF THE NEW FACILITIES.

FINDING 2 - Absence of a Formal Communications Plan for Stakeholder Engagement			TYPE
It is important that stakeholder engagement is supported by a clear, structured, and well-documented communication framework to ensure effective information sharing and alignment. The PAEP Reprovision Project demonstrates a commitment to patient-centred design and community engagement, with patient representatives and stakeholders actively involved in consultation activities to ensure a broad range of user perspectives are incorporated into the design and development of the project. This approach supports inclusive decision-making and helps align the project with user needs and service requirements. Management advised that a historic communications plan is in place and remains a live document, and that there is recognition of the need for dedicated communications expertise to support stakeholder engagement. However, we note that NHS Lothian does not currently have an up-to-date, formally documented communications plan for the project, which may limit the consistency, structure, and transparency of stakeholder engagement and information sharing.			DESIGN 
IMPLICATION			SIGNIFICANCE
There is a risk that the absence of a formal communications plan may lead to inconsistent, unstructured, and non-transparent stakeholder engagement and information sharing, potentially undermining the project's alignment with user needs and service requirements.			MEDIUM
RECOMMENDATIONS	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
We recommend that NHS Lothian should develop and implement a formal communications plan throughout the project lifecycle. As best practice, NHS Lothian should use an interest-influence matrix to tailor communication strategies appropriately, for example: i. high interest-high influence (manage closely) ii. high interest-low influence (keep informed) iii. low interest-high influence (keep satisfied), and iv. low interest-low influence (monitor).	Project Director/ Comms Lead	Recruitment of dedicated Comms Manager for the project in final stages - once in post one of the individual's key tasks will be to develop the comms plan for the project.	September 2026
Additionally, NHS Lothian should define communication approaches for each stakeholder group, including clear frequency and communication methods, to ensure effective and targeted engagement.	Project Director/ Comms Lead	Recruitment of dedicated Comms Manager for the project in final stages - once in post one of the individual's key tasks will be to develop the comms plan for the project.	September 2026



DETAILED FINDINGS

RISK: FAILURE TO IDENTIFY, MONITOR, OR MITIGATE KEY RISKS COULD LEAD TO PROJECT OVERRUNS, DELAYS, OR REPEATED ISSUES FROM PAST INITIATION ATTEMPTS.

FINDING 3 - Opportunities to Enhance Risk Register Management and Governance Controls			TYPE
It is important that key project risks are clearly identified, consistently monitored, and effectively mitigated through a robust and well-structured risk management framework to prevent potential delays, cost overruns, and the recurrence of issues from previous project stages. Whilst we noted that there is a PAEP risk register in place, in line with the standard Frameworks Scotland template and last updated on 05 May 2026, which includes a range of pre-construction, Outline Business Case (OBC), commercial, design, site, stakeholder, and governance risks with ratings assessed using a probability and impact scale, we identified the following opportunities for improvement to its structure and content: - The 'Action Date' column is not completed for each risk, which limits the ability to track whether mitigation actions are being implemented within agreed timeframes. - We note that the risk register does include a version reference and the date last reviewed/updated (as stated at the top of the template). However, in line with best practice, we would expect a clearly defined review frequency (e.g. monthly) and/or next review date to be included, rather than a general statement that it will be reviewed on a "regular basis," as currently reflected in the Project Initiation Document (PID). - Additionally, we noted that the PID or contract lacks a defined risk score or specific criteria for risk escalation, which are essential to ensure timely responses to potential threats or challenges that may arise during the project lifecycle.			DESIGN & EFFECTIVENESS 
IMPLICATION			SIGNIFICANCE
There is a risk that without completing the 'Action Date' column for each risk, the project team may struggle to ensure that mitigation actions are executed within the agreed timeframes, potentially leading to unmanaged risks. Additionally, the absence of next review date and defined criteria for risk escalation could result in delayed responses to emerging threats, impacting the project's overall success.			LOW
RECOMMENDATIONS	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
We recommend that NHS Lothian should ensure the 'Action Date' column is completed for all risks to enable effective tracking of mitigation actions and timely follow-up.	Project Director	Lead Advisor Team has been instructed to update the risk register template in use accordingly - to be populated at the next collective risk workshop.	16/07/2026
We recommend that NHS Lothian should include the next scheduled review date within the risk register to support ongoing monitoring.	Project Director	Lead Advisor Team has been instructed to update the risk register template in use accordingly - to be populated at the next collective risk workshop.	16/07/2026
We recommend that NHS Lothian should define clear risk scoring thresholds and escalation criteria within the PID or contract to ensure timely and consistent responses to emerging risks.	Project Director	All 'red rated' risks are already formally flagged through the monthly Project Board Report. The process for this has been more formally set out in the PID.	16/06/2026



DETAILED FINDINGS

RISK: NOT APPLYING OR DOCUMENTING RELEVANT RECOMMENDATIONS CAN LEAD TO TECHNICAL NON-COMPLIANCE, PATIENT SAFETY CONCERNS, AND REPUTATIONAL DAMAGE.

FINDING 4 - Opportunities to Strengthen SHI Recommendation Management and Governance Controls			TYPE
It is important that NHS Lothian ensures the systematic application and documentation of Scottish Hospitals Inquiry (SHI) recommendations, which should be fully applied, clearly documented, and supported by robust governance and stage-gate controls to prevent technical non-compliance, safeguard patient safety, and protect its reputation. We found that there is a tracker in place, reviewed monthly, which captures SHI recommendations, actions, and status, ensuring that lessons learned from previous projects are systematically incorporated into the PAEP project's technical specifications; however, as good practice, version control should be incorporated into the tracker (including version number, review date, and next review date), and additional fields such as "Action Owner" and "Date" should be included to ensure clear accountability and timely completion of actions. Additionally, as part of our review of the technical specifications produced to date for the PAEP Project, including an assessment of whether the specifications issued to bidders as part of the procurement process are clear, complete, and robust, and whether learning from the SHI has been appropriately considered, we noted that while assurance processes such as NHS Scotland Assure, Key Stage Assurance Reviews (KSAR), National Design Assessment Process (NDAP), and Healthcare Associated Infection System for Controlling Risk in the Built Environment (HAI-SCRIBE) are referenced, NHS Lothian have not established clear internal "no-go" criteria for progression between stages. This would ensure that incomplete, unclear, or insufficiently evidenced technical information cannot progress solely to maintain programme timelines, thereby strengthening challenge and preventing premature approval of immature designs.			DESIGN & EFFECTIVENESS 
IMPLICATION			SIGNIFICANCE
Without incorporating version control and additional accountability fields into the tracker, and establishing clear internal no-go criteria for stage progression, NHS Lothian risks technical non-compliance, delayed action completion, and premature approval of incomplete designs, potentially compromising patient safety and project integrity.			LOW
RECOMMENDATIONS	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
We recommend that NHS Lothian should enhance the SHI tracker by incorporating version control to ensure regular updates and effective monitoring.	Project Director	Version Control added	16/06/2026
We recommend that NHS Lothian should include clearly defined fields such as "Action Owner" and "Date" within the tracker to ensure accountability and timely completion of actions.	Project Director	Date & Action Owner column added	16/06/2026
We recommend that NHS Lothian should establish clear internal "no-go" criteria for progression between project stages to ensure that only complete, robust, and fully evidenced technical information is approved and progressed.	Project Director	To be implemented for all approvals sought through Project Board.	30/06/2026



DETAILED FINDINGS

RISK: POOR KNOWLEDGE TRANSFER OR FAILURE TO IMPLEMENT LESSONS LEARNED MAY LEAD TO REPEATED MISTAKES AND INCREASED PROJECT RISKS.

FINDING 5 - Gaps in Completion and Maintenance of Lessons Learned Register			TYPE
It is important that lessons learned from previous project stages are fully documented, clearly assigned, and regularly reviewed to ensure effective knowledge transfer and reduce the risk of repeated issues. We noted that a lessons learned register is in place, which was populated during previous attempts to progress the PAEP project, with the most recent update in May 2023; however, we identified several gaps within it. - Specifically, the columns designated for the principal owner, both the NHS Scotland Board and PSCP (contractor), identified as columns F and G, are incomplete across different sheets. - Additionally, the columns labelled 'Input', 'Action', and 'Timescale' have missing entries throughout the workbook. - It is recommended that a structured review process be established to identify any outstanding actions that need to be addressed or closed off from the lessons learned previously identified. Furthermore, as NHS Lothian continues to use this register for the project, it is essential to ensure it is fully complete and reviewed regularly.			DESIGN & EFFECTIVENESS 
IMPLICATION			SIGNIFICANCE
If the lessons learned register for the PAEP Reprovision Project remains incomplete, with missing entries in key columns, there is a risk that important insights and actions from previous project phases may not be effectively addressed or implemented, potentially hindering project progress and improvement.			LOW
RECOMMENDATIONS	ACTION OWNER	MANAGEMENT RESPONSE	COMPLETION DATE
We recommend that NHS Lothian should establish a structured review process to ensure that all columns in the lessons learned register, including 'Principal Owner', 'Input', 'Action', and 'Timescale', are fully completed and updated regularly.	Project Director	Ongoing review and update of lessons learned register. Data gathering underway.	September 2026
Additionally, NHS Lothian should assign responsibility for maintaining the register to specific individuals or teams, ensuring accountability and facilitating the closure of outstanding actions from previous project phases.	Project Director	Lessons learned register is managed by the Soft Landings Lead for the project.	16/06/2026

OBSERVATIONS



OBSERVATIONS

OBSERVATION 1 - KSAR REVIEWS PENDING DUE TO PROJECT PROGRESSION

We observed that formal Key Stage Assurance Reviews (KSARs) by NHS Assure have not yet occurred due to the project's current stage. A 14-week review period has been planned, involving the Project Director and her team, the contractor, the design team, and key stakeholders for specific meetings.

OBSERVATION 2 - OUTSTANDING RISK REGISTER REVIEW AND SUPPORTING EVIDENCE

Management has advised us that the risk register will be reviewed monthly. A contractor is in place to review and input risks that have not been previously identified. The contractor involved had their first run-through in March 2026 since January 2026. The document is yet to be received from the contractor, and a meeting is scheduled for 06 May 2026 to finalise it.

OBSERVATION 3 - PROGRESS AND COLLABORATION IN FINALISING THE TECHNICAL BRIEF FOR CONTRACTOR ISSUANCE

We found that the technical brief is currently marked as “draft” and “in development”, as it remains subject to ongoing technical review and governance processes, after which the watermark will be removed and the document formally issued to the contractor. Key elements, including surveys, detailed specialist requirements, and certain environmental and engineering scopes, are noted as requiring confirmation during Stage 2 and Stage 3, with NHS Lothian planning to work collaboratively with appointed contractors to ensure all technical aspects are clearly defined and aligned with the Scottish Hospital Inquiry's recommendations.

OBSERVATION 4 - DESIGN QUALITY INDICATOR (DQI) PROCESS UNDER DEVELOPMENT

On 12 March 2026, the Programme Director shared the first draft of the Design Quality Indicators (DQI) template for the PAEP reprovion project with key stakeholders, including a process reviewer, a Principal Architect, and a Senior Architect at NHS Scotland Assure. NHS stakeholders will be identified for the development of the DQI document, and patient/user representatives will be advertised for engagement, with identification expected within May 2026. This highlights the ongoing efforts to involve various parties in the project's design quality process.

OBSERVATION 5 - PLANNED ASSURANCE AND FINANCIAL MONITORING ARRANGEMENTS AT CURRENT PROJECT STAGE

We noted that the current arrangements are appropriate given the current stage of the project, and we had discussions with management to understand the planned approach going forward, which includes:

- i. For ongoing monitoring and assurance throughout the construction phase, specific rules set by the project supervisor will ensure alignment with contract information. Independent validators will be appointed during the commissioning stage to assess the contractor's work, and authorising engineers will ensure compliance with technical standards, including conducting tests like water quality checks. Additionally, a technical advisory team will support the review of specifications and assist the project team, with roles expected to be established in 2-3 years.
- ii. Monthly financial reporting will be conducted by a finance team member who will present a report to the Project Board, including cost reporting with the contractor, scheduled to occur by June 2026.
- iii. At the monthly Project Board Meetings in February and March 2026, the Property & Asset Management Finance team reported that all funding is provided by the Scottish Government, with no new budgets approved since January. The approved budgets cover various costs, including land purchase, advisors, contractor costs, and the project team, with spending remaining within budget. We noted that the next steps include developing the Revenue cost model. It is important that the revenue cost model be developed soon to ensure clarity over the affordability of the future service model.

APPENDICES



APPENDIX I: BACKGROUND

Governance, Oversight, Compliance with Business Case and Capital Investment Protocols:

NHS Lothian has in place a governance and leadership framework for the PAEP Reprovision Project, led by the Deputy Chief Executive acting as Senior Responsible Officer (SRO) and supported by the Project Director, who is responsible for end-to-end project delivery from inception to handover. Governance arrangements are defined within the Project Initiation Document (PID), with the Project Board and meeting monthly (first Monday), alongside key committees including the NHS Lothian Board, Finance and Resources Committee (FRC), Lothian Capital Investment Group (LCIG), Capital Investment Group (CIG), and Local Senior Executive Committee (LSEC), all operating within structured approval and reporting pathways aligned to the Scottish Capital Investment Manual (SCIM). The project follows a staged capital lifecycle, including Strategic Assessment, Initial Agreement, Outline Business Case (OBC), and Full Business Case (FBC), supported by internal governance and external assurance mechanisms such as NHS Scotland Assure and the National Design Assessment Process (NDAP), with formal processes including a Responsible, Accountable, Consulted, and Informed (RACI) matrix and milestone-based approvals through Acute Senior Management Team (SMT) and Estates and Facilities (E&F) SMT prior to Project Board sign-off.

The programme incorporates defined multidisciplinary roles across technical, clinical, and operational functions, supported by structured activities including revalidation of key technical documentation (e.g. Schedule of Accommodation (SoA) and Room Data Sheets (RDS)), design development workshops, contractor mobilisation, and planned service commencement in September 2030. Reporting lines extend from the Project Team through governance structures to the Scottish Government (SG), with the SRO acting as the key link for oversight, funding, and reporting, supported by the Project Director and Senior Programme Manager for coordination and delivery. Structured escalation pathways are in place for financial, risk, and operational matters through governance forums such as LCIG, FRC, and the Project Board. The framework is further supported by external assurance and advisory input, including NHS Scotland Assure and Antimicrobial Resistance and Healthcare Associated Infection (ARHAI), and aligns with the NHS Lothian Capital Assurance Framework, incorporating mechanisms such as a High-Level Assurance Pathway, Assurance Checklist, and a detailed schedule (2026-2029) aligned to Royal Institute of British Architects (RIBA) stages to support coordinated oversight, reporting, and decision-making throughout the project lifecycle.

Engagement with NHS Scotland Assure (NHS SA) is undertaken through monthly touchpoint meetings, with a Case for Assurance (CfA) process planned from mid-January 2027 followed by a 14-week review and Key Stage Assurance Reviews (KSAR), alongside defined New Engineering Contract (NEC4) change control procedures using formal templates and governance thresholds to manage variations in cost, scope, and programme.

Risk Management: NHS Lothian operates a risk management framework for the project, supported by a risk register aligned to the Frameworks Scotland template, maintained by the Project Director, and reviewed monthly. The register captures risks across pre-construction, site, governance, stakeholder, and technical areas, with each risk assessed using a 1-5 probability and impact matrix and categorised through a traffic light system. In addition, NHS Lothian maintains processes for capturing and applying lessons learned, including a formal Lessons Learned Report and a Soft Landings: Lessons Learned Register, covering areas such as design, governance, sustainability, stakeholder engagement, and construction, with these insights integrated into project documentation and design development.

Application of SHI Recommendations: NHS Lothian has established processes for the development, review, and management of technical specifications for the project, including technical briefs and output specifications aligned with healthcare standards, supported by a formal derogation process governed by an operational procedure requiring multidisciplinary review and approval through governance groups such as E&F SMT and the Project Board for deviations from guidance including Scottish Health Technical Memoranda (SHTMs) and Health Building Notes (HBNs).

The project incorporates structured mechanisms to integrate Scottish Hospitals Inquiry (SHI) recommendations through a tracker linked to Project Board reporting, alongside design governance tools such as Design Responsibility Matrices, peer reviews of mechanical and electrical (M&E) strategies, and involvement of Authorised Persons (APs), Authorising Engineers (AEs), and independent reviewers, supported by formal assurance gateways including NHS Scotland Assure Key Stage Assurance Reviews (KSAR), National Design Assessment Process (NDAP), Sustainable Design and Construction (SDaC), and Healthcare Associated Infection - Scribe (HAI SCRIBE) during Outline Business Case (OBC) and Full Business Case (FBC) stages.

The project also defines roles for technical advisors through the New Engineering Contract (NEC4) Professional Services Contract (PSC), covering roles such as Project Manager, Cost Advisor, Technical Advisor, and Building Information Modelling (BIM) Manager, supported by activity schedules for the OBC stage, structured stakeholder engagement, and formal revalidation of key documents including Schedule of Accommodation (SoA) and Room Data Sheets (RDS). Additional arrangements include knowledge sharing and capability development through weekly and fortnightly meetings and NEC4 training initiatives from January 2026, alongside centralised financial and procurement planning processes, including Design and Build (D&B) routes under Frameworks Scotland 3 and updated cost estimates, ensuring coordinated technical development, governance oversight, and programme delivery.



APPENDIX I: BACKGROUND

Stakeholder Engagement and Communication Strategy: In terms of stakeholder engagement and communication, NHS Lothian has established structured processes to involve patient representatives, clinical staff, and community stakeholders throughout the project, including participation from organisations such as the Royal National Institute of Blind People (RNIB) in the development of the Design Statement and Achieving Excellence Design Evaluation Toolkit (AEDET). Engagement is managed through clinical and non-clinical workstreams, with scheduled design workshops from March to September 2026 (including 1:500 and 1:200 stages), defined sign-off points, and user group recap sessions, alongside regular engagement with patient representatives approximately every six weeks and recruitment of additional stakeholders. Formal mechanisms such as engagement logs and workshop records capture feedback, design responses, and action tracking, supported by a Master Engagement and Sign-off Schedule to manage consultations and approvals across workstreams.

Communication processes include staff update sessions every 4-6 months, SharePoint-based document sharing, project board reporting, and stakeholder mailing lists, further supported by a project launch event on 23 February 2026 involving 50-60 participants and introduction of a Project Team Charter, with ongoing feedback gathered through workshops, presentations, and correspondence to inform project planning and design development.

Knowledge Management and Lessons Learnt: Regarding engagement with NHS Scotland Assure (NHS Assure) and the integration of lessons learned, NHS Lothian has established structured processes to support ongoing technical review and management of high-risk areas within the project through regular monthly touchpoint meetings and ad-hoc sessions involving key stakeholders, including the Programme Director, Senior Capital Programme Manager, external advisors, and representatives from Architecture and Design Scotland (A&DS) and NHS Assure covering procurement updates, technical brief reviews, and design quality indicators.

Escalation arrangements are in place for high-risk issues through governance and national channels, including escalation of Infection Prevention and Control (IPC) and microbiology resource challenges to the Scottish Government (SG) and Chief Nursing Officer (CNO), with outputs informing design, specifications, and reporting. In parallel, structured processes are in place to capture and integrate lessons learned from previous projects and the Scottish Hospitals Inquiry (SHI), including the use of a recommendations tracker and supporting tools such as matrices for tracking scope, advisor inputs, and approvals.

Overall Project Management/Readiness: NHS Lothian has established structured project planning, delivery, and monitoring arrangements for the project, supported by a formal delivery plan and a detailed programme aligned to the Pre-Construction Services Agreement (PCSA) Stage 2 Outline Business Case (OBC), spanning 2025-2029 with key

milestones, core completion by 17 September 2027, and overall service commencement by December 2031. The programme is organised into defined workstreams (e.g. admitted care, unplanned eyecare, outpatients, chronic disease management, training, and research) and incorporates scheduled design stages (1:500 and 1:200 layouts), stakeholder engagement workshops, and governance approvals, supported by a schedule detailing task sequencing, durations, float, and milestones such as Royal Institute of British Architects (RIBA) Stage 2, surveys, concept design, and statutory approvals.

Governance and dependency management are defined through the Project Initiation Document (PID), with oversight by committees including the NHS Lothian Board, Finance and Resources Committee (FRC), Lothian Capital Investment Group (LCIG), and Project Board, alongside clearly defined roles for project teams and advisors.

Formal change control processes are in place under the New Engineering Contract (NEC4), including structured procedures, defined thresholds (e.g. >£100,000 or programme changes), and governance approval routes using change forms and design trackers. Monitoring and assurance arrangements include defined roles (Project Manager, Supervisor, technical advisors, and future Authorising Engineers and validators), alignment with the NHS Lothian Capital Assurance Framework, and Post Project Review (PPR) requirements within 12-18 months of completion.

Financial planning and reporting are embedded through monthly reporting cycles to the Project Board led by the Finance Lead, supported by cost advisors and a Finance and Reporting (F&R) Tracker, with updates provided at monthly Project Board meetings, covering budget allocation, expenditure monitoring, financial risks, and development of financial models to support ongoing project oversight.



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 purpose of this review is to provide assurance over the design and operational effectiveness of the key controls in relation to the ongoing capital project the following areas:

- Governance and oversight;
- Compliance with business case and capital investment protocols;
- Risk management;
- Application of Scottish Hospitals Inquiry recommendations;
- Stakeholder engagement and communication strategy;
- Knowledge management and lessons learned;
- Overall project management/readiness

KEY RISKS

1. Insufficient governance structure or unclear responsibilities may lead to poor decision-making and project mismanagement.
2. Non-compliance with SCIM or the Capital Assurance Framework can result in unapproved cost escalations, delays, or the project failing to meet mandated requirements.
3. Failure to identify, monitor, or mitigate key risks could lead to project overruns, delays, or repeated issues from past initiation attempts.
4. Not applying or documenting relevant recommendations can lead to technical non-compliance, patient safety concerns, and reputational damage.
5. Limited stakeholder engagement and ineffective communication can cause resistance, misunderstanding, or insufficient utilisation of the new facilities.
6. Poor knowledge transfer or failure to implement lessons learned may lead to repeated mistakes and increased project risks.
7. Weak project planning or inadequate monitoring and oversight may result in missed milestones, budget overruns, and compromised project outcomes.

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 work is inherently limited by sampling and therefore will not provide assurance over all aspects of the capital project process. We are reliant on the honest representation by staff and timely provision of information as part of this review.



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.

JIM CROMBIE	DEPUTY CHIEF EXECUTIVE	EXECUTIVE SPONSOR
EMMA HEGGARTY	PROGRAMME DIRECTOR	KEY CONTACT
BRUCE BARRON	DIRECTOR OF CAPITAL	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.

Conformance with the Global Internal Audit Standards

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

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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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