

Internal Audit



Property Transactions 2018/19

August 2019

Internal Audit Assurance assessment:

Objective One	Objective Two	Objective Three	Objective Four	Objective Five
Significant Assurance	Significant Assurance	Significant Assurance	Significant Assurance	Significant Assurance

Timetable

Date closing meeting held: 12 July 2019

Date draft report issued: 29 July 2019

Date management comments received: 30 July 2019

Date Final report issued: 5 August 2019

Date presented to Audit and Risk Committee: 26 August 2019

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1. Introduction

- 1.1 NHS bodies are required to conduct property transactions in accordance with guidance in the NHS Scotland Property Transactions Handbook (the Handbook) maintained by the Scottish Government Health and Social Care Directorate (SGHSCD).
- 1.2 The Handbook states that an annual internal audit review of property transactions should be carried out at each NHS body and the results reported to the SGHSCD. The review should include all acquisitions and disposals during the previous financial year, whether by purchase, lease or exchange.
- 1.3 In accordance with section 6.9 of the Handbook, the Board's Internal Auditors are required to categorise the conduct of transactions as follows:
- A - The transaction has been properly conducted;
 - B - There are reservations on how the transaction was conducted;
 - C - A serious error of judgement has occurred in the handling of the transaction.

Scope

- 1.4 This audit considered whether NHS Lothian has fully complied with the relevant provisions set out within the NHS Scotland Property Transactions Handbook. This audit covered the following property transactions which have taken place during 2018/19:

Disposals

- Corstorphine Hospital

Acquisitions

None

Leases

- Acquisition by lease of office space at Edinburgh Bioquarter

- 1.5 The disposal of the former Springwell House social work and health centre was also concluded during 2018/19. This property was jointly owned by NHS Lothian and the City of Edinburgh Council. While the Council was principal owner lead on the sale, we reviewed associated documentation to confirm that NHS Lothian's interests were considered throughout and the best terms achieved from the sale.

Acknowledgements

- 1.6 We would like to thank all staff consulted during this review for their assistance and cooperation.

2. Executive Summary

Summary of Findings

2.1 The table below summarises our assessment of the adequacy and effectiveness of the controls in place to meet each of the objectives agreed for this audit. Definitions of the ratings applied to each action are set out in Appendix 2.

No.	Control Objectives	Assurance Level	Number of Findings			
			Critical	High	Medium	Low
1	The relevant mandatory requirements in Section B of the Handbook have been met.	Significant Assurance	-	-	-	-
2	Appropriate and independent legal and property advisers have been appointed.	Significant Assurance	-	-	-	-
3	Legally binding property arrangements have been signed off by the Chief Executive.	Significant Assurance	-	-	-	-
4	Monitoring pro forma have been completed as transactions progress.	Significant Assurance	-	-	-	-
5	All relevant certification has been completed by the Chief Executive at the appropriate stage of each transaction.	Significant Assurance	-	-	-	-
TOTAL			-	-	-	-

Conclusion

2.2 NHS Lothian has concluded two property transactions during the financial year 2018/19. We are satisfied that the Board has complied with the procedures as set out in the Handbook and each transaction can be rated as “A – The transaction has been properly conducted”.

Main findings

2.3 The audit reviewed all transactions which NHS Lothian concluded during 2017/18:

Property	Transaction type	Internal Audit Opinion
Corstorphine Hospital	Disposal	A
Office Space at Edinburgh Bioquarter	Acquisition (Lease)	A

2.4 Overall, the property transactions have been conducted using appropriate professional advice and at prices and terms that are in the best interests of the Board. The Property Transaction Handbook’s guidance on delegated authority has been followed during the signing of all legal documentation.

2.5 Review of documentation associated with the disposal of Springwell House noted that the property formed part of a larger title which included the Breast Screening Clinic. Consequently there were protracted negotiations between the Board and the City of Edinburgh Council to agree a solution to what had been a complex title situation.

2.6 To support the Board throughout the transaction and ensure that their interests were fairly represented, legal and independent property advisers had been appointed. The transaction was concluded at a price of £2.027m, with £1,237,700 paid to the City of Edinburgh, inclusive of £86,000 which was originally agreed to be paid in exchange for the transfer of the title of the Breast Screening clinic and adjusted to account for annual Retail Price Index increases.

3. Management Action Plan

Control objective 1: The relevant mandatory requirements in Section B of the Handbook have been met

We identified no significant weaknesses in relation to the above control objective.

NHS Lothian has complied with the mandatory requirements as stated in the Property Transactions Handbook which all holding bodies must adhere to.

Control objective 2: Appropriate and independent legal and property advisers have been appointed

We identified no significant weaknesses in relation to the above control objective.

Appropriate professional advice and recommendations have been received and followed for each transaction.

Control objective 3: Legally binding property arrangements have been signed off by the Chief Executive

We identified no significant weaknesses in relation to the above control objective.

Legal documentation associated with the Bioquarter transaction had been signed by NHS Lothian's Director of Finance, which is permitted by the Handbook.

The Board's Legal Adviser was instructed by NHS Lothian to accept on its behalf the formal offer to purchase the Corstorphine Hospital site. Legal documentation associated with this transaction has also been signed by the Director of Finance.

Control objective 4: Monitoring pro forma have been completed as transactions progress

We identified no significant weaknesses in relation to the above control objective.

Monitoring proformas have been completed for each transaction, with the content of each corresponding with transaction timelines and significant dates.

Control objective 5: All relevant certification has been completed by the Chief Executive at the appropriate stage of each transaction

We identified no significant weaknesses in relation to the above control objective.

All relevant certification has been completed at appropriate points by the professional advisers and Chief Executive.

Appendix 1 – Staff Involved and Documents Reviewed

Staff Involved

- Head of Business Support & Asset Management
- Land and Property Manager
- Leases Manager

Documents Reviewed

- NHS Lothian Property and Asset Management Strategy 2018-2023
- Finance & Resources Committee papers and minutes
- Documentation recording communication between the Board and its Professional Advisers.
- Documented recommendations from the Board's Professional Advisers.
- Transaction certification.
- Offer acceptance and supporting legal documentation.

Appendix 2 - Definition of Ratings

Findings and management actions ratings

Finding Ratings	Definition
Critical	A fundamental failure or absence in the design or operating effectiveness of controls, which requires immediate attention
High	A key control failure has been identified which could be either due to a failure in the design or operating effectiveness. There are no compensating controls in place, and management should aim to implement controls within a calendar month of the review.
Medium	A control failure has been identified which could be either due to a failure in the design or operating effectiveness. Other controls in place partially mitigate the risk to the organisation, however management should look to implement controls to fully cover the risk identified.
Low	Minor non-compliance has been identified with the operating effectiveness of a control, however the design of the control is effective

Report ratings and overall assurance provided

Report Ratings	Definition	When Internal Audit will award this level
No assurance	The Board cannot take any assurance from the audit findings. There remains a significant amount of residual risk.	The controls are not adequately designed and / or operating effectively and immediate management action is required as there remains a significant amount of residual risk (for instance one Critical finding or a number of High findings)
Limited assurance	The Board can take some assurance from the systems of control in place to achieve the control objective, but there remains a significant amount of residual risk which requires action to be taken.	<p>This may be used when:</p> <ul style="list-style-type: none"> • There are known material weaknesses in key control areas. • It is known that there will have to be changes that are relevant to the control objective (e.g. due to a change in the law) and the impact has not been assessed and planned for. <p>The controls are deficient in some aspects and require management action (for instance one 'high' finding and a number of other lower rated findings)</p>
Moderate assurance	The Board can take reasonable assurance that controls upon which the organisation relies to achieve the control objective are in the main suitably designed and effectively applied. There remains a moderate amount of residual risk.	<p>In most respects the "purpose" is being achieved. There are some areas where further action is required, and the residual risk is greater than "insignificant".</p> <p>The controls are largely effective and in most respects achieve their purpose with a limited number of findings which require management action (for instance a mix of 'medium' findings and 'low' findings)</p>
Significant assurance	<p>The Board can take reasonable assurance that the system(s) of control achieves or will achieve the control objective.</p> <p>There may be an insignificant amount of residual risk or none at all.</p>	<p>There is little evidence of system failure and the system appears to be robust and sustainable.</p> <p>The controls adequately mitigate the risk, or weaknesses are only minor (for instance a low number of findings which are all rated as 'low' or no findings)</p>