

# NHS Lothian Internal Audit Report 2021/22 Property Transaction Monitoring

Assurance Rating: **Significant Assurance**

Date 11 August 2021

Final Report

# Contents

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1 Executive Summary

2 Management Action Plan

3 Appendices

## Timetable

- Date closing meeting held: 16 July 2021
- Date draft report issued: 16 July 2021
- Date management comments received: 10 August 2021
- Date Final report issued: 11 August 2021
- Date presented to Audit and Risk Committee: 23 August 2021

This report has been prepared solely for internal use as part of NHS Lothian's internal audit service. No part of this report should be made available, quoted or copied to any external party without Internal Audit's prior consent.

# Executive Summary

## Introduction

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).

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.

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

This audit considered whether NHS Lothian has fully complied with the relevant provisions set out within the NHS Scotland Property Transactions Handbook.

## Approach

This audit covered the following property transactions which have were concluded during 2020/21:

### Disposals

Forteviot House  
Blackburn Health Centre

### Leases

Acquisition by lease of Panmure St. Anne's

Through our planning work we identified the following risks which formed the basis of the audit work undertaken.

- The relevant mandatory requirements in Section B of the handbook have not been met.
- NHSL buys, sells or leases property at a price and on other conditions that are not the best obtainable for the public interest.
- The Chief Executive has not agreed to specific contractual or other arrangements when finalising transactions.
- Transactions are not summarised on monitoring documentation to support the selection of cases for detailed examination during the annual monitoring exercise.
- Certification is not completed timely to confirm that the transaction has been carried out appropriately.

A complete list of staff involved in the audit and documents reviewed can be seen at Appendix 1.

## Acknowledgments

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

## Limitations in Scope

Please note that our conclusion is limited by scope. It is limited to the risks outlined above. Other risks that exist in this process are out with the scope of this review and therefore our conclusion has not considered these risks. Where sample testing has been undertaken, our findings and conclusions are limited to the items selected for testing. This report does not constitute an assurance engagement as set out under ISAE 3000.

## Summary of Findings

We have concluded that the controls in place in respect of the reporting, decision making and collaboration in relation to the Board's Property Transactions provides a **SIGNIFICANT** level of assurance. The table below provides a summary of the findings. The ratings assigned are based on the agreed internal audit rating scale (**Appendix 2**).

Detailed findings, recommendations and agreed management actions are found in Section 2 of this report.

SIGNIFICANT assurance with improvement required					
HIGH	MEDIUM	LOW	ADVISORY		
-	-	1	-		
Ref	Issue	H	M	L	A
2.1	Property Certification has not been completed as required	-	-	1	-
TOTAL		-	-	1	-

## Conclusion

NHS Lothian has concluded three property transactions during the financial year 2020/21. 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".

Property	Transaction Type	Internal Audit Opinion
Forteviot House	Disposal	A
Blackburn Health Centre	Disposal	A
Panmure St. Anne's	Acquisition by Lease	A

## Main Findings

While there was sufficient evidence to demonstrate that the Panmure St. Anne's transaction had been carried out with the appropriate professional advice throughout and had achieved the best terms possible for the Board, certification had not been completed until several months after the conclusion of the transaction.

These findings are discussed in full within our Management Action Plan below.

## Follow Up

Approximately two weeks following issue of the final Internal Audit report, a member of the Audit Team will issue an 'evidence requirements' document for those reports where management actions have been agreed. This document forms part of the follow up process and records what information should be provided to close off the management action.

The follow-up process is aligned with the meetings of the Board's Audit & Risk Committee. Audit Sponsors will be contacted on a quarterly basis with a request to provide the necessary evidence for those management actions that are likely to fall due before the next meeting of the Audit and Risk Committee.

# Management Action Plan

## Finding 2.1 – Property Certification has not been completed as required

Low

While there was sufficient evidence to demonstrate that all transactions had been carried out with appropriate professional advice throughout and had achieved the best price and terms possible for the Board, certification had not been signed-off for the Panmure St. Anne's transaction until June 2021, despite the transaction being concluded on 30 October 2020.

Although we can evidence the completeness of the transaction in line with the manual there is a risk that key certification documentation to review and sign off is not obtained as soon as possible following the conclusion of the transaction, which is a requirement within the manual.

A similar finding had been made in our previous report in August 2020, where the management action had included the use of the Certification Action Checklist. While a Certification Action Checklist had been completed for the two disposals, it was not utilised for the Panmure St. Anne's transaction.

### Recommendation

It is advised that property certification is completed and obtained as soon as possible following conclusion of the transaction to provide appropriate transparency and oversight. The Certification Action Checklist should be adhered to for all future transactions.

### Management Response

The issues around delayed certification completion are noted. The Certification Action Checklist spreadsheet for the purpose of monitoring the certification process to be used for all transactions. This will be adhered to for all future transactions.

### Management Action

Individuals responsible for managing the transaction will ensure that certification is ready to be sent for completion at the required times and will follow up if it is not returned within agreed timescales. Any difficulties in the completion of certification will be highlighted to the Lothian Capital Investment Group.

### Responsibility -

Land & Property Manager  
Leases Manager  
Capital Project Manager

### Target Date -

31 August 2021

# Appendices

# Appendix 1 – Staff Involved and Documents Reviewed

## Staff Involved

- Leases Manager
- Senior Project Manager, Capital Planning and Projects Department

## Documents Reviewed

- NHS Lothian Property and Asset Management Strategy 2019-2024
- Finance and Resources Committee papers and minutes
- Lothian Capital Investment Group papers and minutes
- Documentation recording communication between the Board and its professional advisers
- Property valuation and marketing information
- Documented recommendations from the Board's Professional Advisers
- Transaction Certification
- Offer acceptance and supporting legal documentation

# Appendix 2 – Our IA Report assurance levels

The table below shows the levels of assurance we provide and guidelines for how these are arrived at. We always exercise professional judgement in determining assignment assurance levels, reflective of the circumstances of each individual assignment.

Rating	Definition	When Internal Audit will award this level
<b>Significant assurance</b>	<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. 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>
<b>Moderate Assurance</b>	<p>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.</p> <p>There remains a moderate amount of residual risk.</p>	<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>
<b>Limited Assurance</b>	<p>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>	<p>This may be used when:</p> <ul style="list-style-type: none"> <li>There are known material weaknesses in key control areas.</li> <li>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.</li> </ul> <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>
<b>No assurance</b>	<p>The Board cannot take any assurance from the audit findings. There remains a significant amount of residual risk.</p>	<p>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)</p>



# Appendix 2 - Continued

The table below describes how we grade our audit recommendations based on risks

Rating	Description	Possible features
<b>High</b>	Findings that are fundamental to the management of risk in the business area, representing a weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>▪ Key activity or control not designed or operating effectively</li> <li>▪ Potential for fraud identified</li> <li>▪ Non-compliance with key procedures / standards</li> <li>▪ Non-compliance with regulation</li> </ul>
<b>Medium</b>	Findings that are important to the management of risk in the business area, representing a moderate weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>▪ Important activity or control not designed or operating effectively</li> <li>▪ Impact is contained within the department and compensating controls would detect errors</li> <li>▪ Possibility for fraud exists</li> <li>▪ Control failures identified but not in key controls</li> <li>▪ Non-compliance with procedures / standards (but not resulting in key control failure)</li> </ul>
<b>Low</b>	Findings that identify non-compliance with established procedures, or which identify changes that could improve the efficiency and/or effectiveness of the activity or control but which are not vital to the management of risk in the business area.	<ul style="list-style-type: none"> <li>▪ Minor control design or operational weakness</li> <li>▪ Minor non-compliance with procedures / standards</li> </ul>
<b>Advisory</b>	Items requiring no action but which may be of interest to management or which represent best practice advice	<ul style="list-style-type: none"> <li>▪ Information for management</li> <li>▪ Control operating but not necessarily in accordance with best practice</li> </ul>



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