

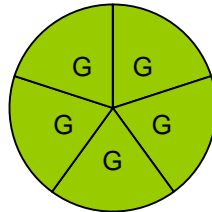
# Internal Audit



## Property Transactions

August 2017

### Report Assessment



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## 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. This audit covered the following property transactions which have taken place during 2016/17:

### Disposals

- 15 Craiglea Place
- 162 Craiglea Drive
- 163 Craiglea Drive
- 151 Morningside Drive

### Acquisitions

- None

The four property disposals listed above have been completed as one transaction.

### Leases

- Lease for Mill Lane Surgery
- Lease for Boroughloch Medical Practice

## Acknowledgements

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

## Executive Summary

### Conclusion

NHS Lothian has concluded three property transactions during the financial year 2016/17. 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”.

### Summary of Findings

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 1.

No.	Control Objective	Control objective assessment	Number of actions by action rating			
			Critical	Significant	Important	Minor
1	The relevant mandatory requirements in Section B of the Handbook have been met.	Green				
2	Appropriate and independent legal and property advisers have been appointed.	Green				
3	Legally binding property arrangements have been signed off by the Chief Executive.	Green				
4	Monitoring pro forma have been completed as transactions progress.	Green				1
5	All relevant certification has been completed by the Chief Executive at the appropriate stage of each transaction.	Green			1	

## Control Objective Ratings

Action Ratings	Definition
<b>Red</b>	Fundamental absence or failure of controls requiring immediate attention (60 points and above)
<b>Amber</b>	Control objective not achieved - controls in place are inadequate or ineffective (21 – 59 points)
<b>Green</b>	Control objective achieved – no major weaknesses in controls but may be scope for improvement (20 points or less)

## Main findings

The audit sampled the following transactions which NHS Lothian concluded during 2016/17:

Property	Transaction type	Internal Audit Opinion
15 Craiglea Place 162 Craiglea Drive 163 Craiglea Drive 151 Morningside Drive	Disposal	A
Lease for Mill Lane Surgery	Acquisition (Lease)	A
Lease for Boroughloch Medical Practice	Acquisition (Lease)	A

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.

However, we identified one important area for improvement during the review:

- While there was sufficient evidence to demonstrate that all three transactions had been carried out with appropriate professional advice throughout and had achieved the best price possible for the Board, certification had not been completed for the two lease acquisitions

Further details of this point, as well as one minor issue, are set out in the Management Action Plan, at page four of this report

## Management Action Plan

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

We identified no significant issues in relation to this control objective.

NHS Lothian has complied with the mandatory requirements as stated in the Property Transactions Handbook which all holding bodies must adhere to, which includes the effective use of professional advisers.

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

We identified no significant issues in relation to this control objective.

Appropriate professional advice and recommendations have been given for each transaction.

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

We identified no significant issues in relation to this control objective.

All legal documentation was signed by NHS Lothian's Director of Finance on behalf of the Chief Executive. This is permitted by the Handbook, which states that any legal documents which require to be signed at the conclusion of any property transaction may be signed by the Chief Executive or the Director of Finance.

<b>Control objective 4: Monitoring pro forma have been completed as transactions progress.</b>	
<b>4.1: Monitoring pro forma have not been completed in all instances</b>	<b>Minor</b>
<p><b>Observation and Risk:</b></p> <p>The Property Transactions Handbook states in Part A at sections 6.7 – 6.11 that holding bodies should complete a monitoring pro forma for every transaction. The pro forma is designed to be used as an aide-memoire for staff to confirm that key steps within the property transaction process have been completed.</p> <p>However, for the three transactions sampled as part of this audit, one of the pro forma had not been completed. Specifically, the pro forma for the lease acquisition for Boroughloch Medical Practice was blank.</p> <p>Where pro formas are incomplete there is a risk that key steps within the property transaction process are not completed.</p>	
<p><b>Recommendation:</b></p> <p>Monitoring pro forma should be fully complete prior to the annual internal audit review.</p>	
<p><b>Management Response:</b> The missing information should have been added and this was an oversight. Staff have been reminded of the benefits of completing monitoring pro forma.</p> <p><b>Management Action:</b> Monitoring forms to be checked prior to submission for audit.</p>	
<b>Responsibility:</b> Property Team	<b>Target date:</b> Immediate

**Control Objective 5: All relevant certification has been completed by the Chief Executive at the appropriate stage for each transaction.**

<b>5.1 Property transaction certification has not been completed as required.</b>	<b>Important</b>
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Observation and Risk

For each transaction, the Handbook requires certification to be completed by professional advisers and the Chief Executive. Both in-house and external professionals who have given property, legal or valuation advice are required to certify that the transaction has complied with any professional advice given. In addition, the Chief Executive is required to certify the appropriateness of each transaction. Certification should take place at two stages: firstly when an offer is accepted, and secondly when the transaction proceeds have been received or paid.

While there was sufficient evidence to demonstrate that all three transactions had been carried out with appropriate professional advice throughout and had achieved the best price possible for the Board, certification had not been completed for the two lease acquisitions.

This has highlighted a wider issue affecting all NHS Boards across Scotland, namely to what extent acquiring a property for GP surgeries in order to retain the service provided should adhere to the requirements of the Property Transactions Handbook. During 2016/17, Scottish Health Boards, including NHS Lothian, have worked with Health Facilities Scotland's Scottish Property Advisory Group (SPAG) and its Property Transactions Sub Group to agree an approach to concluding lease transactions with GP premises in a manner that complies with the fundamentals of the Handbook. A standard suite of documents, in addition to a standard approach developed by NHS Grampian have been drafted up and are awaiting approval by SPAG and the Scottish Government.

However it is noted that as each transaction is unique in its particular circumstances and while a general template will be in place, NHS Boards are likely to make minor adjustments to the documentation depending on the specific nature of the transaction.

While NHS Lothian has a statutory responsibility to ensure access to primary care services for the Lothian population, there is a risk that NHS Lothian completes a property transaction without adhering to all of the conditions of the Handbook. Also, without complying with the proper process, the risk is increased that professional advice is not followed or prices and conditions are not the best obtainable.

Recommendation

Once the standard approach to acquiring GP premises has been approved, NHS Lothian should introduce this immediately for all future transactions of this type.

Until such time it is advised that property certification is completed to provide appropriate transparency and oversight for the transaction.



Management Response

The lack of certification for the two lease acquisitions is acknowledged. However both transactions contained a number of complexities which, following discussion with the Scottish Government meant that the requirements of the property transactions handbook could not be properly met albeit the “spirit” of the manual has been achieved

Management Action

Taking advice from the Scottish Government, NHS Lothian will adopt the standard approach to transactions of this type once it becomes available. Until such time, the transparency and appropriateness of each transaction will be evidenced by completion of all necessary property transaction certification.

Responsibility: Head of Business Support &  
Asset Management – Facilities

Target date: 31 December 2017

## Appendix 1 - Definition of Ratings

### Management Action Ratings

Action Ratings	Definition
<b>Critical</b>	The issue has a material effect upon the wider organisation – 60 points
<b>Significant</b>	The issue is material for the subject under review – 20 points
<b>Important</b>	The issue is relevant for the subject under review – 10 points
<b>Minor</b>	This issue is a housekeeping point for the subject under review – 5 points

### Control Objective Ratings

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