

NHS Lothian

Property Transaction Monitoring

Internal Audit Report - Final
July 2025

Level of assurance:

Design

Substantial

Effectiveness

Moderate

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Report Status

IA delivery team:	Claire Robertson, Gemma Macleod, Russell Richmond-McIntosh
Fieldwork performed:	9 July 2025
Initial findings shared:	18 July 2025
Draft report issued:	29 July 2025
Management responses received:	5 August 2025
Final report issued:	5 August 2025



Executive Summary

Level of assurance: (see appendix II for definitions)		
Design	Substantial	There is a sound system of internal control designed to achieve system objectives.
Effectiveness	Moderate	Evidence of non compliance with some controls, that may put some of the system objectives at risk.

Summary of findings (see appendix xx)				# of agreed actions
M	1			1
Total number of findings: 1				

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

- ✓ Mandatory requirements have not been met
- ✓ Independent legal and property advisers have not been appointed
- ✓ Property arrangements have not been signed off by the Chief Executive
- ✓ Monitoring proforma have not been completed

Background

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 A, subsection 6.9, of the Handbook, the Board's Internal Auditors are required to categorise the conduct of the 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

Purpose

The objective of the audit was to consider whether NHS Lothian has fully complied with the relevant provisions set out within the Handbook. The audit covered the following property transactions:

- 37 Morningside Park - Disposal
- 3 Marchhall Crescent - Disposal
- Unit 26, Stenhouse Mill Wynd - Acquisition

Conclusion

As part of our work we have identified one finding, which was assessed as medium.

NHS Lothian has concluded three property transactions during the financial Year 2024/25. We are satisfied that the Board has complied with the procedures as set out in the handbook and the three transactions can be rated as "A - The transactions has been properly conducted"

We identified transactions carried out within the year were consistent with NHS Lothian's Property and Asset Management Strategy, that Professional Advisors and the Central Legal Office had been involved in transactions as appropriate, that trawl procedures had been completed for disposals prior to same, and that transactions had been appropriately approved.

We did however note that whilst there was sufficient evidence to demonstrate that all transactions had acquired appropriate professional advice and had achieved the best terms possible for the Board, certification for two transactions had not been completed until several months after settlement

As a result of our audit, we are able to provide moderate assurance over the design and operational effectiveness of NHS Lothian's arrangements in place in relation to property transactions.



Executive Summary

Summary of good practice

- ▶ Property transactions concluded during the financial year 2024/25 are consistent with the Board's Property and Asset Management Strategy, or are justified by a particular need
- ▶ Appropriate Professional Advisers had been appointed and consulted throughout each transaction. All negotiations had been conducted by, or with involvement of, the Central Legal Office
- ▶ Additional Professional advice had been obtained where the transaction was likely to be particularly difficult or complex
- ▶ Trawl procedures for the two disposals had been completed prior to sale
- ▶ Space utilisation continues to be reviewed with the Board's focus on addressing the corporate office allocation
- ▶ Certification had been completed to confirm that the transactions had been carried out appropriately
- ▶ All transactions had been notified to and approved by the NHS Lothian Capital Investment Group and Finance & Resources Committee
- ▶ For the two disposals, where proceeds of each sale had exceeded £500k, the Scottish Government Health and Social Care Directorate had been advised, as per the Handbook requirements

Summary of high and medium findings


- ▶ While there was sufficient evidence to demonstrate that all transactions had acquired appropriate professional advice and had achieved the best terms possible for the Board, certification for two transactions had not been completed until several months after settlement

Detailed Findings



Detailed Findings

Risk: All relevant certification has not been completed by the Chief Executive at the appropriate stage of each transaction

Finding 1 - Late Signing of Certification			Type
<p>The purpose of the certification arrangements is to ensure that the responsibility for property transactions given to holding bodies is properly recognised and acted upon by Bodies' Chief Executives who are responsible for the overall management of all property transactions. Chief Executives of Holding Bodies are therefore responsible for ensuring that the property transactions procedures are followed and must be able to demonstrate that the best obtainable outcome for the public interest has been achieved in each case. Certification must be completed for all property transactions with a value of £100k or more and when the offer for the property is accepted.</p> <p>Completed certification for the three transactions was reviewed and while there was sufficient evidence to demonstrate that all transactions had been carried out with appropriate professional advice and had achieved the best price and terms possible for the Board, the late signing of certification by the Legal Adviser had been noted for the Marchhall Transaction. Furthermore, the certification for the Stenhouse Mill Wynd transaction had all been completed after the date of settlement.</p> <p>Our findings have been presented in a table and provided in this report at Appendix 1.</p>			Effectiveness
			
Implication			Significance
<p>Although we can evidence the completeness of the transactions in line with the Handbook, there is a risk that if key certification documentation to review and sign off is not obtained and completed as soon as practicable, the Board is unable to assure itself prior to the transaction completion, and potentially risk not demonstrating that the best obtainable outcome for the public interest has been achieved.</p>			Medium
Recommendations	Action owner	Management response	Completion date
1. 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.	Christopher Van Rietvelde, Land & Property Manager - Facilities	The team will establish an administrative system for future transactions to ensure property certifications are completed as soon as possible.	30 September 2025

Observations



Observations

1. Business Case for Acquisition

The Property Transaction Handbook states that any investment decision must be supported by the preparation of an appropriate business case, including a financial and option appraisal. In the case of the warehouse lease acquisition at 26 Stenhouse Mill Wynd, we found that no business case had been prepared and instead, the Head of Medical Equipment had prepared a Situation, Background, Assessment, Recommendation (SBAR) report. We note that there was a health & safety issue with the storing of medical equipment, inhibiting the placement of further capital orders, and the requirement to address this promptly meant that a SBAR was more appropriate than the development of a full business case which would have taken more time to develop.

Appendices

Appendix I - Certification Review

Transaction	Date of Settlement	Property Adviser	Legal Adviser	Independent Adviser	Director of Finance
37 Morningside Park	13/02/2025	26/11/2024 10/02/2025	26/02/2025	n/a	03/12/2024 01/04/2025
3 Marchhall Crescent	09/05/2024	27/03/2024	20/11/2024	n/a	23/04/2024 09/05/2024
Unit 26, Stenhouse Mill Wynd	19/04/2024	16/05/2024	21/05/2024	n/a	04/06/2024



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.



Appendix III: Terms of reference

Extract from terms of reference

Purpose

The objective of the audit is to consider whether NHS Lothian has fully complied with the relevant provisions set out within the NHS Scotland Property Transactions Handbook. This audit will cover the following property transactions which were concluded during 2024/25:

- 37 Morningside Park - Disposal
- 3 Marchhall Crescent- Disposal
- Unit 26, Stenhouse Mill Wynd - Acquisition by lease

Key risks

- The relevant mandatory requirements in Section B of the Property Transaction Handbook that should be followed by NHS Lothian have not been met.
- Appropriate and independent legal and property advisers have not been appointed.
- Legally binding property arrangements have not been signed off by the Chief Executive
- Monitoring pro-forma have not been completed as transactions progress
- All relevant certification has not been completed by the Chief Executive at the appropriate stage of each transaction

Scope

- We ascertained if all property transactions concluded are consistent with the review of the property portfolio and the Board's Property and Asset Management Strategy (PAMS)
- We confirmed that Trawl Procedures (internal marketing to assess interest) have been carried out for all disposals
- We confirmed that professional advice has been sought on the sale of all properties disposed
- We confirmed that where disposal has been an off-market sale, the professional advisors recommended that this was more advantageous than an open market sale
- We confirmed if surplus property has been leased out (as opposed to disposed) if this is the only option for property management reasons
- We confirmed for all properties disposed of that advice is obtained from the Central Legal Office (CLO) on the title of the properties before they were marketed
- We confirmed for all properties disposed of that they had been professionally valued
- We confirmed for all properties disposed that formal recommendation has been obtained from professional advisers before acceptance of offer / appointment of preferred bidder
- We confirmed for all transactions that a legal adviser has been appointed and that the legal transactions were handled by CLO (central legal office)



Appendix III: Terms of reference

Extract from terms of reference

Scope - continued

- We confirmed that space utilisation is recorded / monitored for current / new properties.
- We confirmed for all acquisitions concluded that a business case has been created and that this has considered if property is available from other holding bodies including a financial and option appraisal
- We confirmed if business cases considered if property is available from other holding bodies, and include a search of the property market to establish list of suitable land / buildings
- We confirmed for all acquisitions that any fitting-out work was based on appropriate advice, and fitting-out work was tendered

Approach

We reviewed documentation generated during the course of each transaction that was inspected. Additional information was requested from the audit contacts where necessary and if further assurances were required. Sample sizes were determined by the audit requirements of the Property Transactions Handbook, which states that 'Up to 50% of transactions should be inspected, or all if there have been only a few transactions'.

Exclusions

There were no exclusions associated with 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.

Anne Marsden	Leases Manager - Facilities	Executive sponsor/key sponsor/action owner
Christopher VanReitvelde	Land & Property Manager - Facilities	Executive sponsor/key sponsor/action owner



Appendix V: 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 II - 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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