

WGH Fire Precautions Works: Phase 1

Final Internal Audit Report

August 2022

Hywel Dda University Health Board

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Review reference:	SSSU_HDU_2122_07
Report status:	Final
Fieldwork commencement:	31 st January 2022
Fieldwork completion:	23 rd March 2022
Debrief meeting:	21 st March 2022
Draft report issued:	13 th April 2022
Draft report meeting:	4 th May 2022
Management response received:	2 nd August 2022
Final report issued:	2 nd August 2022
Auditors:	NWSSP: Audit & Assurance – Specialist Services Unit
Executive sign-off:	Andrew Caruthers– Executive Director of Operations
Distribution:	Rob Elliott – Director of Estates, Facilities & Capital Management Jason Wood – Major Capital Development Manager Joanne Wilson – Board Secretary
Committee:	Audit and Risk Assurance Committee



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Acknowledgement

NHS Wales Audit and Assurance Services would like to acknowledge the time and co-operation given by management and staff during the course of this review.

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Executive Summary

Purpose

The audit was undertaken to review the delivery and management arrangements in place to progress the Withybush General Hospital (WGH) Fire Precautions: Phase 1; and the performance, against its key delivery objectives i.e., time, cost, and quality.

Overall Audit Opinion and Overview

Phase 1 is the latest element of works that contributes to addressing the fire safety notices at WGH in a timescale that is agreeable with the Mid & West Wales Fire Rescue Services (MWWFRS). This review focussed specifically on phase 1, which follows on from earlier investment from the discretionary capital programme and advance works.

Allied with the need to demonstrate immediate action to MWWFRS, the project progressed with several uncertainties. WG recognised this and provided additional contingency sums over and above the UHB contingency provided within the WG approvals.

A lessons-learnt exercise was undertaken at a mid-point with the key learning being the need to undertake robust surveys for works programming, well in advance of construction, so that complications can be adequately accommodated within the programme of works. This will be to the advantage of this and future phases of works at the Withybush; and also similar works at Glangwili General Hospital.

Time: The original completion date has slipped from June 2022 to December 2022, primarily attributed to MWWFRS confirming it required full over-boarding in certain areas (note: contingency sums were set aside by WG for these costs). Discussions are to be held with MWWFRS in April 2022 to confirm that the deadline for the fire notice can be extended accordingly. After audit fieldwork, management advised that confirmation has now been obtained (May 2022) that an extension to December 2022 has been accepted.

Quality: The University Health Board (UHB) has experienced performance issues with the Supply Chain Partner and the appointed architect and raised contractual early warning notices to reflect these concerns. Whilst management advise these issues have improved and a meeting has been planned with Directors of the Supply Chain Partner, the UHB should continue to monitor performance and escalate issues accordingly.

Cost: The project is currently forecast to be delivered on budget i.e £12,957,365 (with £1m of contingency

Report Classification

Reasonable Some matters require management attention in control design or compliance.



Low to moderate impact on residual risk exposure until resolved.

Assurance summary ¹

Assurance objectives	Assurance
1 Governance	Reasonable
2 Contracts	Reasonable
3 Monitoring and Reporting	Reasonable
4 Cost Management	Reasonable
5 Change Management	Reasonable
5 Performance Management	Reasonable
6 Stakeholder Engagement	Substantial

¹ The objectives and associated assurance ratings are not necessarily given equal weighting when formulating the overall audit opinion

remaining in place as of February 2022); however financial challenges remain. Key to demonstrating the ongoing affordability and adequacy of remaining contingencies is the outturn position on the works let to date. It was envisaged this would be concluded by February 2022 but has been extended to April 2022.

Other key matters arising at the project include:

- Seek appropriate approval to the required delegated authority and approval arrangements at the project, appropriately reflecting contract requirements (this has been actioned post audit fieldwork); and
- Noting that significant elements of the costs are based on timesheets, recommendations have been made to confirm the qualifications/ experience of key staff.

Noting the complex nature of works, the form of contract adopted and the statutory nature of the works, given the current forecast outturn position a **reasonable** assurance has been determined.

Matters Arising		Assurance Objective	Control Design or Operation	Recommendation Priority
3.1	MWWFRS approval to extend the fire notice deadline is required.	1	Operation	Medium
4.1	Lessons learnt from delayed contract completion at this project should inform future phases/ projects.	2	Operation	Medium
5.1	Welsh Government dashboard reports should present a consistent message to that being supplied by the Project Managers report.	3	Operation	Medium
6.1	Project specific schemes of delegation are required.	4	Design	Medium
7.1	Enhanced checks are required in the application for payments submitted by the Supply Chain Partner.	4	Operation	Medium
7.2	Any contractual changes should be agreed and appropriately documented.	4	Operation	Medium
9.1	The interim financial assessment is key to confirming the ongoing affordability of the project and adequacy of remaining contingency.	4	Operation	Medium
10.1	Performance issues associated with the design team needs resolved.	5	Operation	Medium

1. Introduction

- 1.1 The review was actioned in accordance with the Integrated Internal Audit Plan agreed within the approved business case for the Withybush General Hospital (WGH) Fire Precaution Works: Phase 1.
- 1.2 The scope of works for the project is to complete fire precautions upgrade and improvement works to comply with Mid & west Wales Fire & Rescue Services (MWWF&RS) Enforcement Notices and Letters of Fire Safety Matters. A phased strategy for completing the work has been agreed with MWWF&RS and Welsh Government funding secured for the same in the sum of £12,957,365 incl. VAT.
- 1.3 At the time of the current audit, the project was midway through the construction phase with completion/handover anticipated in December 2022.
- 1.4 The audit also sought to confirm the mitigation and management of negative impacts to key project objectives, time, cost, and quality of the delivered project.
- 1.5 Noting the impact of Covid-19, the delivery of this assignment included an increased element of remote working.

2. Detailed Audit Findings

Project Performance: Summary of the achievement of the project's key delivery objectives (time, cost, and quality) for the period from the date of the previous audit report.

- 2.1 At a project audit, levels of assurance are determined on whether the project achieves its original key delivery objectives and that governance, risk management and internal control within the areas under review are suitably designed and applied effectively.
- 2.2 At this first audit of the WGH Fire Precautions – Phase 1, when assessing progress against the original delivery objectives, the following was evidenced:

Background

- 2.3 In August & September 2019, Hywel Dda University Health Board (UHB) received fire safety notices requiring urgent action to address fire safety issues at Withybush General Hospital.
- 2.4 The UHB approached Supply Chain Partners from the NHS: Building for Wales framework to appoint a preferred partner to deliver the works. Given the level of uncertainty on the works required and gaps in the existing survey information, the framework contractors elected not to bid for the works – primarily as the risk was unfairly weighted towards the contractor.
- 2.5 Following dialogue with NWSSP: Specialist Estates Services, a number of contractual options were considered to address the Supply Chain Partner's concerns. The utilisation of the NEC Option E: cost reimbursement contract was determined the most appropriate contract methodology, noting the nature of the

works and the associated contractual risks. Under this form of contract, the contractor is reimbursed the actual costs they incur in carrying out the works, plus their own fee. This contract is best suited where the nature or scope of the work to be carried out cannot be properly defined at the outset, and the risks associated with the works are high.

Time

Milestone Event	Planned Dated	Currently Accepted Programme
<i>Construction Start date</i>	<i>21 June 2021</i>	<i>21 June 2021</i>
<i>Anticipated Completion date</i>	<i>20 June 2022</i>	<i>5 December 2022</i>

2.6 The Project Manager’s report (February 2022) indicated that the works were forecast to be delayed by circa six months in accordance with the agreed contract construction programme.

2.7 The principal reason for the time delay is the requirement for additional over-boarding to be undertaken at the request of the Mid & West Wales fire service. The contract was initially let on the basis that this work would not be required as confirmation had not been received in time to submit within the Business Justification Case. However, a contingency sum was provided by Welsh Government in the event of the same being required by the MWWFS (see below).

Cost

2.8 The following table summarises the current financial status as reported in the February 2022 commercial report and maintains that the project is forecast to be delivered within the WG's overall funding award of £12,957,365 (incl. VAT) by using available contingency sums:

Item	Business Justification Case- total of The Prices	Estimated total of the Prices	Variance from Business Justification Case
<i>Total (Excluding Over-boarding)</i>	<i>7,721,428</i>	<i>£7,993,223</i>	<i>£271,795</i>
<i>Total for Over-boarding</i>	<i>£1,157,001</i>	<i>£2,067,691</i>	<i>£910,690</i>
<i>Quantified Risk Contingency held by WG – general risk contingency</i>	<i>£2,036,668</i>	<i>£854,183</i>	<i>(£1,182,485)</i>
<i>Value Added tax</i>	<i>£2,042,268</i>	<i>£2,042,268</i>	<i>£0</i>
Overall totals including VAT	£12,957,365	£12,957,365	£0

Unusually, the Welsh Government funding included three separate provisions for contingency, the status of which are summarised below (as of February 2022) (note the below is inclusive of VAT):

Item	Business Justification Case - Total prices	Remaining Risk Contingency	Variance from Business Justification Case
Quantified Risk Contingency held by HDUHB (incl. VAT)	£708,443	£0	(£708,443)
Quantified Risk Contingency held by WG for over boarding (incl. VAT)	£1,388,401	£0	(£1,388,401)
Quantified Risk Contingency held by WG - general risk contingency (incl. VAT)	£2,444,002	£1,025,020	(£1,418,982)
Total Contingency Including VAT	£4,540,845	£1,025,020	(£3,515,825)

Whilst the significant element of contingency has been committed (77% of original allocations), a significant amount of survey work has been undertaken to reduce the risk of undiscovered issues going forward. There has also been a lower volume of compensation events in recent months (January-April 2022), however there remains uncertainty going forward.

Quality

2.9 Design team performance issues, specifically the Supply Chain Partner’s architect have been identified and raised through the Project Manager’s reports to the Project Group on multiple occasions e.g., resources afforded to the project, timely production of drawings. No resolution had been found (as of March 2022), however, high level talks between the Supply Chain Partner and their architects have taken place to determine a way forward. In the interim, early warning notifications have been raised in accordance with the expected contractual mechanism. It is important that further tangible performance targets are established to resolve the performance issue within the design team. High level meetings between the Supply Chain Partner’s national directors and Health Board senior management were planned to try and resolve these performance issues.

Governance: Adequate governance arrangements are applied at the project, including e.g., project specific governance arrangements, integration with existing UHB structures, accountability to WG.

2.10 The project was monitored and controlled within the UHB via the Project Group as defined within the Project Group Terms of Reference. The Project Group was supported by the Project Team, with these forums meeting regularly through the

design and construction programme. Noting the Option E – cost reimbursement contract operating at this project; the project can change rapidly. Accordingly, to effectively manage the same, the UHB has established (since December 2021) weekly Project Team meetings. This has enabled construction/programming issues to be highlighted and effectively resolved in a timely manner.

- 2.11 Regular attendance at these forums by key members including the Project Director, Finance representatives and the external advisers was observed.
- 2.12 Given the technical compliance nature of the works, the Project Director role was appropriately assigned to the Director of Estates, Facilities & Capital Management. Roles and responsibilities were operating as expected, with clear visibility from the Project Director and internal/ external Project Managers.
- 2.13 The project operated within a defined governance structure, as defined within the Project Execution Plan (PEP). However, the PEP had not been updated to reflect the current stage of the project. Also, the change control processes being applied at the project needed to be defined within the PEP. (See **MA1**).
- 2.14 Time delays due the over-boarding requirements has meant that the planned completion date has been extended to December 2022 (as per Project Manager February 2022 Report). This planned completion date has yet to be formally agreed by the MWWFRS (see **MA3**).
- 2.15 All Welsh Government construction and infrastructure contracts valued at £2m or more which are delivered directly on behalf of Welsh Government Departments are required to have a Project Bank Account (PBA). The PBA for this project is currently not in place, however, it is acknowledged that ongoing discussions are taking place between the UHB, Welsh Government and the Bank in respect of the same. (see **MA2**). After the conclusion of the audit, management have sought clarity from WG on the requirement for PBA at this project. It was confirmed at the most recent Capital Resource Meeting that this would not be required, but formal minutes are yet to be circulated confirming this decision.
- 2.16 Recognising the above, **reasonable assurance** has been determined in relation to the governance arrangements in place at the project.

Contracts: Adviser and Contractor contracts have been completed in a timely manner.

- 2.17 The form of contract that is generally applied at major NHS Wales projects (as set out within the requirements for the NHS Wales national frameworks) is the NEC Option C (Target Contract with Activity Schedule, including pain/gain share mechanism). However, recognising the nature of the works, the NEC Option E: cost reimbursement contract is being applied at this project i.e., the contractor is reimbursed the actual costs they incur in carrying out the works, plus an additional fee.

- 2.18 At the time of audit fieldwork (February/March 2022) all contracts were in place with the Supply Chain Partner, Project Manager, Cost Adviser and Supervisor. However, significant delays in signing the contracts have been highlighted (see **MA4**). Audit notes that the UHB have raised issues surrounding delays with the SCP signing contracts with NWSSP Specialist Estates Services, who manage the Design for Life Building for Wales national framework.
- 2.19 Recognising the above, **reasonable assurance** has been determined in relation to the contractual arrangements in place at the project – lessons should be learnt in respect of future phases of this project and/or future projects with the appointed contractor.

Monitoring and Reporting: Assurance that time, cost, and quality factors are adequately monitored/ reported and escalated as required.

- 2.20 Project Monitoring was undertaken via the weekly and monthly Project Team and monthly Project Group meetings.
- 2.21 The Project Manager's report is produced and submitted monthly to the Project Group this report includes:
- Time and cost position, including balance on contingency.
 - Commercial report supplied by the UHBs Cost Adviser.
 - Project risk register etc.
- 2.22 Internal UHB reporting is via the Project Group to the Capital and Estates and IMT Sub-Committee via highlight reports. There was also regular reporting to the Health and Safety Committee on the progression of the Fire Precautions works across the UHB, including the WGH Phase 1 works.
- 2.23 Welsh Government dashboard reports were submitted on a bimonthly basis and included a breakdown the project's overall financial position. Embedded within the dashboards are the latest Project Manager's Report and the Cost Adviser's Commercial Report. Inconsistencies were noted in the data presented at the January 2022 dashboard submission (see **MA5**).
- 2.24 Recognising the above, **reasonable assurance** has been determined in relation to the monitoring and reporting mechanisms in place at the project.

Cost Management: Assurance that appropriate cost management arrangements are in place to manage the cost reimbursable contract. including the valuation/ certification process and the management of risk/ changes.

- 2.25 As mentioned previously, the NEC Option E: cost reimbursement contract adopted means the contractor is reimbursed the actual costs they incur in carrying out the works, plus an additional fee.
- 2.26 Key to managing costs at such a project is via scrutiny of cost claims and robust performance management.

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- 2.27 The January 2022 application for payment was tested with a cumulative claim of £291,769. Given the nature of the works a significant element was based on Supply Chain Partner and its adviser's timesheets submissions. Generally, supporting information was appropriate and adequately checked. However, two issues had been identified including an amendment to the schedule of cost components (see **MA7**).
- 2.28 The cost/ programme performance of the Supply Chain Partner was monitored and reported monthly. The Cost Adviser reports included an assessment of the total expenditure in month against the fixed prelims – providing an indicator of productive costs against fixed prelims. A key indicator to inform project affordability will be the agreement of the 'interim final account' covering the initial phases of work. It was due in February 2022 but has been delayed due to operational pressures and has been delayed (see **MA9**).
- 2.29 The projects cashflow position is monitored on an ongoing basis and incorporated within the monthly Project Manager's reports submitted to the Project Group. There is a finance group who meet before the project team who scrutinise the cash-flow in a greater detail and provide a summary to the Project Group. The interim final account also provided additional scrutiny.
- 2.30 A project risk register was maintained and reported to the UHB as part of the monthly Project Manager's report. This risk register has been scored, risk owners assigned, and consequences of risks stated (time, cost, quality). Also, costs have been applied to individual risks (where applicable). It was noted that costs were sometime best estimates, as this type of works can be unpredictable. However, routine, and detailed discussions surrounding high level risks was not evidenced at the Project Group (**see MA8**)
- 2.31 Whilst recognising that the cost management of the project is particularly complicated under the circumstances, **Reasonable Assurance** has been determined in relation to the cost management mechanisms in place at the project.

Change Management: appropriate internal and contractual change control mechanisms are applied at the project

- 2.32 Given the type of contract adopted (NEC option E) and the uncertainty at the time of letting the contract, there will be a significant amount of variation as issues are discovered and existing assumptions are confirmed.
- 2.33 In reviewing the internal approvals, it was evident that there was no project specific scheme of delegation in place that would govern how changes are managed, including financial limits.
- 2.34 Management advised that only works that are essential in addressing the Fire Enforcement Notice are instructed, accordingly, any financial implications must therefore be accepted (subject to appropriate challenge and scrutiny).

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- 2.35 Good practice was observed in the challenge, reporting and monitoring of changes at the Project Group – e.g. declining changes that were not specific to fire compliance. Whilst the arrangements observed provide assurance on the management of changes and associated risks, there is a need to ensure that the arrangements comply with the requirements of the UHB’s Standing Financial Instructions (see **MA6**) – note, this issue was addressed post audit fieldwork.
- 2.36 Whilst recognising that the risk associated with contract changes is being managed operationally, allowing a **Reasonable Assurance** to be determined, there is a need to determine the project specific delegation arrangements (ensuring compliance with Standing Order/Standing Financial Instruction requirements) as a matter of priority.

Performance management: Appropriate arrangements are in place to performance manage the internal team, external advisers, and the main contractor – identifying appropriate corrective action to address performance.

- 2.37 Key Performance indicators are produced every 6 months to assess the Supply Chain Partner, Cost Adviser and Project Managers performance. Significant performance issues have been noted within the Supply Chain Partner’s appointed Design Team -with no clear resolution at the time of writing (see **MA 10**). Noting performance issues at other UHB projects it is important that appropriate mitigating action is taken in a timely manner.
- 2.38 An interim lessons learned workshop was undertaken (January 2022) to discuss improvement areas from the first six months of works. The workshop was well attended by stakeholders including the Supply Chain Partner, advisers etc., and an action plan was produced to aid improvements.
- 2.39 Recognising the above, **reasonable assurance** has been determined in relation to the performance management mechanisms in place at the project.

Stakeholder Engagement: Given the intrusive nature of the works proposed in a live hospital environment, an assessment will be made of the arrangements in place to advise users/ key stakeholders of the impact of the programme and any programme changes/ delays.

- 2.40 A clinical liaison officer has been seconded onto the Project Team; this individual has significant experience working within WGH and is ideally placed to engage with clinical colleagues surrounding the project.
- 2.41 The liaison officer and other members of the Project Team understand the clinical needs of the service and communicate with clinicians effectively to resolve potential bottlenecks within the construction phase.
- 2.42 A stakeholder engagement group (the WGH Fire Precautions Works Steering Group) meets monthly. Regular attendance by the key stakeholders, I.e. the Supply Chain Partner, hospital management and clinical staff was noted.

- 2.43 Standard agenda items were defined for the stakeholder group, including the programme plan and updates on the construction works.
- 2.44 Recognising the above, **substantial assurance** has been determined in relation to the stakeholder engagement mechanisms in place at the project.

Appendix A: Management Action Plan

Matter Arising 1: Project Execution Plan (Operation)	Impact	
<p>A Project Execution Plan (PEP) is a governing document that defines how a project is to be executed, monitored, and controlled. It establishes exactly how the project execution phase of the project will be managed to deliver project objectives.</p> <p>The current PEP is still in its first iteration; dated 7th December 2020 having been designed by the external Project Manager prior to construction starting on site in June 2021.</p> <p>Noting the same, there are various elements of the PEP that require review, including:</p> <ol style="list-style-type: none"> 1. Section 1.4 Current Status of the Project: the contracted supervision has not been included. 2. Section 2.1 Project Brief currently states: "The immediate objective is to write a Business Justification Case for submission to the Welsh Government (WG) seeking funding approval to progress with site works to satisfaction of fire service – needs to be in place by end of March 2021". Noting the current construction stage of the project, this is out of date. 3. There is no discrete section that documents how the change control processes will operate. 	<p>Potential risk of:</p> <ul style="list-style-type: none"> • Inability to make decisions in a timely manner. • Reduced ability to make the right decision for all parties. 	
Recommendations	Priority	
<p>1.1 The Project Execution Plan should be reviewed (at appropriate intervals) to ensure it remains relevant to the current stage of the project.</p>	Medium	
Agreed Management Action	Target Date	Responsible Officer

1.1 Agreed. The Project Manager is in the process of updating the Project Execution Plan.	August 2022	Project Director
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Matter Arising 2: Project Bank Account (Operation)		Impact
<p>Welsh Procurement Policy Notes (WPPN) 04 / 21 for deploying Welsh Government (WG) Project Bank Account Policy was issued by WG in May 2021.</p> <p>The Policy states that all Welsh Government construction and infrastructure contracts and any other 'appropriate contracts' valued at £2m or more which are delivered directly on behalf of Welsh Government Departments require a Project Bank Account (PBA) to be applied unless there are compelling reasons not to do so. Where such compelling reasons are identified, a decision report detailing those reasons must be completed and filed to allow for audit.</p> <p>The PBA is currently outstanding; there have been multiple delays including legal clarifications; discussions between the UHB, Bank and WG are ongoing. The UHB has gained assurances from WG that the delay in arranging the PBA does not present a risk to funding, since they recognise the difficulty in gaining the assurances around compliance with the guidance.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> • Non-compliance with Welsh Government requirements.
Recommendations		Priority
<p>2.1 Further work is required to ensure the Project Bank Account is established and operating in line with Welsh Government policy.</p>		Low
Agreed Management Action	Target Date	Responsible Officer
<p>2.1 Agreed.</p> <p>Following initial issues in obtaining a compliant PBA, it now appears that the terms are compliant and can now be established.</p>	<p>August 2022</p>	<p>Project Director</p>

Matter Arising 3: Approvals (Operation) **Impact**

The Business Justification Case was approved by Welsh Government on 16th June 2021. At the time of submission, a decision on whether the MWWFRS required overboarding in certain areas was outstanding. Accordingly, The Business Justification Case was submitted on the basis that the overboarding was excluded but included the potential associated cost and programme implications.

This original programme anticipated completion of works in July 2022. However, having received subsequent confirmation from MWWFRS that overboarding was required, the completion date has been revised to January 2023. The revised completion date was reflected within the February 2022 Project Manager’s Report:

Item	Original Completion Dates	Accepted Programme Dates (February 2022)
<i>Planned Completion</i>	<i>20/06/22</i>	<i>05/12/22</i>
<i>Terminal Float</i>	<i>20/06/22- 22/07/22</i>	<i>05/12/22 - 20/01/23</i>
<i>Project Completion</i>	<i>25/07/22</i>	<i>20/01/23</i>

At the time of fieldwork, the MWWFRS have not advised of any time extension beyond June 2022 for the completion of the works. This is Further dialogue with MWWFRS is planned for March 2022 to seek agreement to extend the notice period.

Noting positive engagement to date, it is fully anticipated that an extension will be granted.

Potential risk of:

- Failure to comply with the fire enforcement notices which has a risk of prosecution and potentially the enforced closure of identified buildings

Recommendations **Priority**

3.1 Confirmation needs to be obtained that MWWFRS are content with the time extension and the new target completion date of December 2021is acceptable.

Medium

Agreed Management Action	Target Date	Responsible Officer
<p>3.1 Actioned since audit fieldwork</p> <p><i>Audit notes that following the issue of the draft report, confirmation of an extension to December 2022 has now been obtained.</i></p>	<p>N/A</p>	<p>N/A</p>

Matter Arising 4: Timely Completion (Operation)				Impact																								
<p>It is important that appropriate contract documentation is completed in a timely manner to protect the interests of the UHB.</p> <p>NEC Contract Status Schedule contained within the February 2022 Project Manager report states:</p> <p><u>Signed by Project Team</u></p> <table border="1"> <thead> <tr> <th>Item</th> <th>Project Manager</th> <th>Cost Advisor</th> <th>Supply Chain Partner</th> </tr> </thead> <tbody> <tr> <td>Call Off Contract</td> <td>21st January 2021</td> <td>Not dated</td> <td>To be advised</td> </tr> <tr> <td>Confirmation Notice 1</td> <td>27th July 2021</td> <td>Completed</td> <td>Completed</td> </tr> </tbody> </table> <p><u>Signed by UHB</u></p> <table border="1"> <thead> <tr> <th></th> <th>Project Manager</th> <th>Cost Advisor</th> <th>Supply Chain Partner</th> </tr> </thead> <tbody> <tr> <td>Call Off Contract</td> <td>13th May 2021</td> <td>11th February</td> <td>July 2021</td> </tr> <tr> <td>Confirmation Notice 1</td> <td>4th October 2021</td> <td>4th October 2021</td> <td>4th October 2021</td> </tr> </tbody> </table> <p>Delays have been acknowledged in signing the Supply Chain Partner call off contract which was drawn up after construction started on site on the 12/06/2021. Confirmation Notice (s) 1 for the Supply Chain Partner, Project Manager and Cost Advisor were also delayed and signed after construction started on site.</p> <p>Within the above table there is no reference to supervisor services on this project. The signing of this contract was also delayed and dated 14th January 2022.</p> <p>We note that the requirement to progress quickly to demonstrate commitment to addressing the Fire enforcement order and the protection afforded by the National Framework arrangements. However, the</p>				Item	Project Manager	Cost Advisor	Supply Chain Partner	Call Off Contract	21st January 2021	Not dated	To be advised	Confirmation Notice 1	27th July 2021	Completed	Completed		Project Manager	Cost Advisor	Supply Chain Partner	Call Off Contract	13th May 2021	11th February	July 2021	Confirmation Notice 1	4th October 2021	4th October 2021	4th October 2021	<p>Potential risk of:</p> <ul style="list-style-type: none"> The project progresses at risk without appropriate contractual cover in place
Item	Project Manager	Cost Advisor	Supply Chain Partner																									
Call Off Contract	21st January 2021	Not dated	To be advised																									
Confirmation Notice 1	27th July 2021	Completed	Completed																									
	Project Manager	Cost Advisor	Supply Chain Partner																									
Call Off Contract	13th May 2021	11th February	July 2021																									
Confirmation Notice 1	4th October 2021	4th October 2021	4th October 2021																									

UHB needs to learn from the delays in executing contracts at this project, as they are likely to resurface at future phases.		
Recommendations		Priority
4.1 Future Contracts - The timely completion of all contract documentation for respective parties involved at the project.		Medium
4.2 The Project Manager’s report should be updated to reflect an accurate assessment of the status of project contract documentation		Low
4.3 The supervisor’s contract should also be included within the Project Managers reports in the NEC contract status schedule (until completion)		
Agreed Management Action	Target Date	Responsible Officer
4.1 Agreed	August 2022	Project Director
4.2 Agreed	August 2022	Project Director
4.3 Agreed	August 2022	Project Director

Matter Arising 5: Welsh Government Dashboard (Operation) **Impact**

Welsh Government dashboard reports are submitted by the UHB on a bimonthly basis and include a breakdown the overall financial position. Embedded within this submission are the latest Project Managers’ Report and the Cost Adviser’s Report.

A review of the January 2022 dashboard submission was undertaken and highlighted inconsistencies in the way figures were being presented; examples include:

	<i>Dashboard (Forecast Outturn - £m)</i>	<i>Commercial Report (£m)</i>
<i>Work Cost - Main Contract</i>	<i>6.958</i>	<i>7.018</i>
<i>Contingency - UHB</i>	<i>0.405</i>	<i>0</i>

There was also a minor administrative oversight whereby the contingency held by Welsh Government was not labelled in the dashboard report and made the figures difficult to reconcile.

Potential risk of:

- An informed decision cannot be taken by relevant parties.

Recommendations **Priority**

5.1 Figures within the Welsh Government Dashboard report should be consistent with the Project Managers, Cost Advisers and any other reports that accompany the submission.

Medium

Agreed Management Action **Target Date** **Responsible Officer**

5.1 Agreed.
The current and additional reporting proposed to WG will reconcile.

August 2022

Project Director

Matter Arising 6: Change Control (Design)	Impact
<p>The UHB’s Standard Financial Instructions (15.1.7) require that the Chief Executive (delegated to the Director of Finance):</p> <p><i>“Issue a scheme of delegation for capital investment management in accordance with the Welsh Ministers’ guidance and the LHB's SOs”.</i></p> <p>The specific scheme of delegation for this project has not been approved or documented (e.g. within the Project Execution Plan - see <i>Matter Arising 1</i>). Accordingly, it is not possible to provide assurance on whether changes at the project are operating as intended.</p> <p>It is recognised that the nature of the works and the associated lack of detailed surveys at the outset provides some ongoing challenges:</p> <ul style="list-style-type: none"> ○ Subsequent detailed survey work either confirms the original assumptions or requires a change to those assumptions by instructing additional/ reduced work to address the Fire Enforcement Notice (FEN). Any other works identified that do not directly address the FEN are considered out of scope. Whilst not formally documented, the criteria for approving/ rejecting changes is understood i.e. it must be linked with the FEN. ○ The associated survey risk resulted in the adoption of the NEC Option E at this project. Under this form of contract, Supply Chain Partner’s costs associated with unforeseen works instructed are fully reimbursable. If the work is identified as essential to clearing the FEN, the UHB are bound to pay the associated costs for any works instructed. The key is ensuring that any instructions to amend the works are scrutinised and challenged and value for money is demonstrated. <p>Management advised that only works that are essential in addressing the Fire Enforcement Notice are instructed, accordingly, any financial implications must therefore be accepted (subject to appropriate challenge and scrutiny).</p>	<p>Potential risk of:</p> <ul style="list-style-type: none"> ● Non-compliance with the UHB’s Standing Orders.

<p>The audit observed that project changes (Compensation Events) were regularly challenged, reported and monitored throughout the project in line with the assumptions above, with evidence of the project group declining changes that were outside of scope (i.e. not specific to fire compliance).</p> <p>Whilst the above highlights an appropriate level of challenge to the change process, there remains a disconnect to the UHB’s corporate governance requirements I.e. SOs/SFIs.</p>		
Recommendations		Priority
6.1 The specific delegated approval requirements will be approved to avoid the risk of any breach of UHB SO/SFI requirements		Medium
Agreed Management Action	Target Date	Responsible Officer
6.1 Actioned since audit fieldwork Director of Finance formally approved the process currently operating and the formal changes to the scheme of delegation at this project.	N/A	N/A

Matter Arising 7: Valuation (Operation)	Impact
<p>The Cost Adviser progressively verifies costs applied at the project by examination of monthly claims of incremental cost from the Supply Chain Partner.</p> <p>The audit tested 68.4% of supporting information for the January 2022 application payment totalling £ 291,769.29.</p> <p>General compliance was noted; however, the following was observed:</p> <ol style="list-style-type: none"> 1. There was no evidence that identity checks have been undertaken on individuals to ensure the correct rates of pay have been applied i.e. curriculum vitae (CV)/payroll checks. We were informed that this is going to take place, but operational pressures have delayed action. 2. The NHS building for Wales framework agreement – National Supply Chain Partner stipulate: <i>"In calculating the hourly rates please refer to Schedule of Components Items 11-14 and associated Z clauses. Items not included in the Schedule of Cost Components are treated as included in the Fee as ECC Clause 52.1".</i> <p>One role that has been added by the CO through their professional judgment to the schedule of cost components (Quality Systems Manager @ £61.28 per hour); this rate is equivalent to a senior Project Manager role contained within the schedule of cost components. Similar identity checks should be undertaken to confirm the skills/ competencies of the individual and appropriate approval from the UHB should be obtained.</p> <p>A minor amendment is suggested to the terminology within the report to separate out disallowed costs and unsubstantiated costs which totalled 74,658 in January 2022. This differentiation will help the Project Group understand which costs will never be approved and those that may be approved if further substantiation is provided.</p>	<p>Potential risk of:</p> <ul style="list-style-type: none"> • Excess sums are paid.
Recommendations	Priority

7.1 Identity checks should be undertaken to ensure correct labour rates are being applied.		Medium
7.2 Additional labour rates should be contractually agreed by the UHB.		Medium
7.3 Additional information should be supplied differentiation disallowed and unsubstantiated costs.		Low
Agreed Management Action	Target Date	Responsible Officer
7.1 Agreed	August 2022	Project Director
7.2 Agreed	August 2022	Project Director
7.3 Agreed	August 2022	Project Director

Matter Arising 8: Risk Management (Operation)		Impact
<p>A project risk register is in place at the project and included within the Monthly Project Managers’ reports that are submitted to the Project Group.</p> <p>Section 2.7 of the February 2022 Project Manager’s report highlights a summary of key risks.</p> <p>However, as highlighted at the most recent Project Group meeting (March 2022), there is a need to routinely focus on the key high risks, to determine the effectiveness of mitigating action and resulting residual risk.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> • Lessons are not learnt from issues experienced at this project.
Recommendations		Priority
<p>8.1 Routine discussions surrounding high level risks contained within the risk register should take place at Project Group and should consider having a discrete agenda item to support this – providing greater transparency.</p>		<p>Low</p>
Agreed Management Action	Target Date	Responsible Officer
<p>8.1 Actioned since audit fieldwork.</p>	<p>N/A</p>	<p>N/A</p>

Matter Arising 9: Cost Benchmarking (Operation)		Impact
<p>Assurance surrounding the affordability of this project is key to knowing if the remaining contingency level is sufficient to ensure completion on budget.</p> <p>An interim cost benchmarking exercise was due to be completed in February 2022 that would provide assurance on the project’s affordability going forward. This is not a contractual requirement but highlights good practice on the part of the Health Board, noting the type of contract utilised. However, this had not been progressed at the time of the audit (March 2022) due to ensuring appropriate information was available to adequately inform the exercise.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> Affordability of the project not being known in a timely manner.
Recommendations		Priority
<p>9.1 The UHB should ensure the interim cost benchmarking exercise is completed, providing assurance on the ongoing affordability (or otherwise) of the project.</p>		Medium
Agreed Management Action	Target Date	Responsible Officer
<p>9.1 Agreed – A draft affordability exercise has been undertaken and will be presented to the Project Group for discussion.</p>	<p>September 2022</p>	<p>Project Director</p>

Matter Arising 10: Performance Management – Assessed Performance (Operation)	Impact
<p>The Project Execution Plan states:</p> <p><i>"A key requirement of the Designed for Life, Building for Wales framework is to carry out KPI workshops at key milestones in the project or every 6 months (whichever occurs sooner). Key Performance Indicators are an aspect of personal & technical performance by Supply Chain Partner, HDUHB, and Support Consultants during the project's duration."</i></p> <p>The latest KPIs (October 2021) were reviewed, and the performance of the Cost Adviser and External Project Manager were consistently scored as green.</p> <p>The Performance of the Supply Chain Partner highlighted three areas that were of significant concern (scored as red)</p> <ol style="list-style-type: none"> 1. The Supply Chain Partner manages the design team efficiently to produce a fully integrated design. 2. The Supply Chain Partner efficiently manages time of the construction and design team members. 3. The Supply Chain Partner proactively engages with the client in setting up and operating the Project Bank Account. <p>A construction phase interim lessons learned workshop was undertaken to discuss improvement areas within the project band for future phases. The workshop was well attended by stakeholders including Internal Audit.</p> <p>An action plan was produced following the workshop (January 2022) to address two out the three performance points above. The remaining point surrounding the Project Bank Account is being progressed separately.</p>	<p>Potential risk of:</p> <ul style="list-style-type: none"> • The UHB may incur increased costs because of the poor performance of appointed experts.

<p>Little progress has been achieved on increasing the performance of the Design Team’s Architect. The February 2020 Project Managers’ report has multiple reference to performance being a major issue/concern.</p> <ol style="list-style-type: none"> 1. <i>Lead designer output and resource remains a major issue.</i> 2. <i>Concerns remain with Supply Chain Partners Lead Designer for several reasons including speed of design output. Escalation meeting held on 31/01/22 with methods for improvement agreed by all parties. However, output remains a major concern still exist. Early Warning Notices raised by Project Manager and Supply Chain Partner to do likewise. Some strategic level plans issued, but construction level detail remains a concern.</i> 3. <i>Various meetings with the architects in the period have been held assuring the necessary level of resource is being applied to the project. The lack of output is a going concern across all projects.</i> <p>Tangible improvements need to be seen as this performance may not only have an impact on the time and cost position of this project, but also on future works.</p>		
Recommendations		Priority
<p>10.1 Further efforts are required to resolve the performance issue within the design team; and an effective audit trail of evidence needs to be maintained that supports the performance issues raised.</p>		Medium
Agreed Management Action	Target Date	Responsible Officer
<p>10.1 Agreed</p> <p>Whilst issues have been consistently raised locally, a meeting has been planned with the Directors/Senior Team of the Supply Chain Partner to further highlight performance issues.</p>	<p>September 2022</p>	<p>Project Director</p>

Appendix B: Assurance opinion and action plan risk rating

Audit Assurance Ratings

We define the following levels of assurance that the project achieves its key delivery objectives (time, cost and quality) and that governance, risk management and internal control within the area under review are suitable designed and applied effectively:

	Substantial assurance	Few matters require attention and are compliance or advisory in nature. Low impact on residual risk exposure.
	Reasonable assurance	Some matters require management attention in control design or compliance. Low to moderate impact on residual risk exposure until resolved.
	Limited assurance	More significant matters require management attention. Moderate impact on residual risk exposure until resolved.
	No assurance	Action is required to address the whole control framework in this area. High impact on residual risk exposure until resolved.
	Assurance not applicable	Given to reviews and support provided to management which form part of the internal audit plan, to which the assurance definitions are not appropriate. These reviews are still relevant to the evidence base upon which the overall opinion is formed.

Prioritisation of Recommendations

We categorise our recommendations according to their level of priority as follows:

Priority level	Explanation	Management action
High	Poor system design OR widespread non-compliance. Significant risk to achievement of a system objective OR evidence present of material loss, error or misstatement.	Immediate*
Medium	Minor weakness in system design OR limited non-compliance. Some risk to achievement of a system objective.	Within one month*
Low	Potential to enhance system design to improve efficiency or effectiveness of controls. Generally issues of good practice for management consideration.	Within three months*

* Unless a more appropriate timescale is identified/agreed at the assignment.



NHS Wales Shared Services Partnership
4-5 Charnwood Court
Heol Billingsley
Parc Nantgarw
Cardiff
CF15 7QZ

Website: [Audit & Assurance Services - NHS Wales Shared Services Partnership](#)