

Glangwili Hospital - Women & Children's Development

Final Internal Audit Report

February 2023

Hywel Dda University Health Board

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Acknowledgement

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Executive Summary

Purpose

The audit was undertaken to review the delivery and management arrangements in place to progress the Women & Children’s redevelopment project at Glangwili Hospital. This is the fourth review of the project. The prior audit determined “reasonable” assurance, though there remained on-going issues in delivery to time and cost arising from contractor performance issues.

Overview

In the period since the last audit, Supply Chain Partner (SCP) performance issues had abated somewhat, as the project was now entering a lower risk fit-out stage and had been progressively handed over and occupied.

Time: The project has faced challenges with the original programme of 110 weeks now extended to 240.8 weeks (the SCP being culpable for 88.6 weeks of the delay - the remaining 42.2 attributed to undiscovered, unforeseen and/or additional work).

In the 12-month period since the prior audit, the forecast completion date had reduced by 7 weeks due to reduction in forecast over-run (efficiencies) on the part of the SCP - although we understand that this time may have been lost following completion of the audit.

Cost: Associated with the above, the current outturn significantly exceeds the original funding, requiring £2.1m to be allocated from the discretionary capital programme over the duration of the project.



Over and above this, the Supply Chain Partner (SCP) was anticipating that it will bear circa £1.9m of additional costs relating to its own inefficiencies.

Forecast costs have reduced since prior audit by £115k, largely due to reduction in risk. However, others have materialised, and over the last year, SCP costs have continued to increase. The overall impact has required an additional £161k of discretionary funding in the 22/23 financial year, with a further £375k reserved for 23/24. However, any unrealised risks will positively impact on the project’s out-turn position, and the potential need for the £375k.







Quality: Health Board and its agents have ensured that the quality of work delivered continues to meet the objectives of the business case.

In conclusion, in the period since the last audit, the SCP has continued to challenge and present additional costs. However, the Health Board have continued to manage cost within approved funding, and control time delivery. Noting prudent risk provisions, there remains scope for further cost reduction.

Report Classification

		Trend
	Reasonable Some matters require management attention in control design or compliance.	
	Low to moderate impact on residual risk exposure until resolved.	2021/22

Assurance summary ¹

Assurance objectives	Assurance	Trend 21/22
1 Project delivery	Reasonable	
2 Previously agreed actions	Reasonable	
3 Project management	Substantial	
4 Change management	Reasonable	
5 Performance management	Substantial	
6 Risk management	Substantial	
7 Final account	Substantial	n/a

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

The audit opinion is derived from an assessment of the project performance in the period since the last audit – providing a **reasonable** assurance.

It should be recognised that prior audits have made a wide range of recommendations which should be captured via a formal post project evaluation for the benefit of future projects – assessing the overall performance of the project.

Key Matters Arising	Assurance Objective	Control Design or Operation	Recommendation Priority	
1	Overall project cost performance should include the additional project sponsorship fees.	3	Operation	Low
2	The Project Manager report should ensure clarity as to the outstanding number of Compensation Events, Early Warnings and other notifications awaiting action by the client and the SCP.	4	Operation	Medium
4	The cost of items of potential challenge, should be separately identified from risk provision e.g. as separate Health Board contingency within the project forecast.	6	Operation	Low

1. Introduction

- 1.1 This audit formed a part of the NWSSP – Audit and Assurance 2022/23 internal audit plan agreed with the University Health Board.
- 1.2 The audit sought to review the management arrangements in place to progress the Women and Children's project (Phase 2) at Glangwili Hospital, and appraise its delivery in accordance with project objectives.
- 1.3 Following an initial development, this second phase will provide additional refurbishment and extension at the Glangwili site to address accommodation requirements for Neonatal, Labour Wards, Obstetric Theatres & Higher Dependency patients.
- 1.4 Works comprise:
 - Obstetric Labour Ward development including a second Obstetric Theatre;
 - A Higher Dependency Obstetric Unit;
 - A Neonatal Unit;
 - External cladding; and
 - Additional car parking.
- 1.5 Works have focussed on enhanced delivery and was being delivered in four phases. The works provide for the refurbishment and extension at the Glangwili site to address accommodation requirements for Neonatal, Labour Wards, Obstetric Theatres & Higher Dependency patients.
- 1.6 This audit is the fourth review of the project. The prior report focused on the period up to January 2022, providing "**reasonable**" assurance.
- 1.7 The current audit focused on the potential risks to the achievement of key project objectives, time, cost and quality of the delivered project and appraised delivery and controls in the period since the prior audit i.e. from January 2022 to December 2022.

2. Detailed Audit Findings

Project Performance:

- 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 area under review are suitably designed and applied effectively.
- 2.2 At this audit, when assessing progress against the original delivery objectives, the following was evidenced:

Time

- 2.3 The original programme envisaged a 110-week contract programme, with completion on the 13th November 2020.

- 2.4 The Supply Chain Partner programme now shows completion as 9th June 2023 - extending the original 110-week programme by 130.8 weeks, allowing for public holidays and Christmas shutdown periods). In summary:

Figure 1: Programme Performance (to December 2022)

	Programmed Completion Date	Extensions of Time (EOT) Weeks	Culpable Delay	Total Anticipated Delay Weeks
As at Jan 2022:	28 th July 2023	42.2	95.6	137.8*
Phases 1 & 2			68.9	
Future Phases (3 & 4)			26.7	
As at Nov 2022:	9 th June 2023	42.2	88.6	130.8*
Phases 1 & 2			68.9	
Phases (3 & 4)			19.7	

* The total delays also allow for public holidays and Christmas shutdown periods.

- 2.5 In the period since the prior audit, the contractor's forecast completion had reduced by 7 weeks. This was indicative of a marginally improved performance at the project since the prior audit. However, since the conclusion of the audit fieldwork, it has been reported at Health Board committees that the 7 weeks saving had been lost.

Cost

- 2.6 The following summary outlines movement in costs from commencement and the movement in the period since the last audit:

Figure 2: Funding and Forecast SCP Out-turn Position

	Original Budget	Forecast Outturn Jan-22	PM report Nov-22	Variance (12 months)
	£	£	£	
WG funding	26,087,000	26,087,000	26,087,000	
Discretionary Funding:				
Inflation		1,169,000	1,169,000	
Asbestos removal		40,000	40,000	
Pharmacy Dispenser		23,521	23,521	
Anticipated top-up funding		611,000*		
Approved top-up funding			511,000	
Total Funding	26,087,000	27,930,521	27,830,521	(100,000)
SCP	17,406,000	19,321,731	19,570,159	
Other	7,898,000	7,626,599	7,602,895	
Risk	783,000	990,730	650,610	
Total Costs	26,087,000	27,939,060	27,823,664	(115,396)
<i>Out-turn position</i>	<i>0</i>	<i>8,539</i>	<i>(6,857)</i>	

* Of the £611k anticipated additional discretionary funding, £511k had been pre-approved in January 2022 (at prior audit). Current forecasts anticipate a £100k reduction in the forecast requirement for discretionary funding.

- 2.7 The project is currently £1.737m over the original funding approval from Welsh Government (**Figure 3**). In the last 12 months, outturn cost has reduced by £115k, resulting in the current overall position of £6,857 below the adjusted funding. However, this reflected reduction in large risk provisions, rather than reduction in SCP costs.
- 2.8 The following funding has been made available from the discretionary programme to support the project to date:

Figure 3: Total Discretionary Funding

	(£)	
Inflation	1,169,000	
Asbestos Removal	40,000	
Pharmacy Dispenser	23,521	
Additional Discretionary Funding	<u>511,000</u>	
	<u>1,743,521</u>	(as per Figure 2)
Less:		
Forecast Reduced Outturn Cost	<u>(6,857)</u>	(as per Figure 2)
	<u>1,736,664</u>	

- 2.9 Of the approved £511k of top-up discretionary funding, £161k has been allocated to 22/23, with £375k forecast as required in 23/24 if risks materialise in the sums provided.
- 2.10 In addition to the above, Internal Fees (£375k) are not currently included within the project reporting but are listed within the Welsh Government reporting as potentially funded from discretionary funding. These will increase further through to project completion (potentially as much as £45k pro-rata). (See **Project Management** below and **MA 1**).
- 2.11 Welsh Government will provide match funding for Covid costs subject to scrutiny and approval by NWSSP: Specialist Estates Services. The current estimated Covid funding requirement has reduced through Health Board scrutiny and challenge from £1.526m to £0.692m in the period. The Health Board will also seek to recover a previously committed £24,323 from discretionary capital as part of the above.
- 2.12 To 24th October 2022, £19.7m of construction cost had been claimed by the SCP however this exceeded the current target cost of £19.07m. Accordingly, the sum in excess of the Target Cost was disallowed. If further Compensation Events are agreed in the future, these may increase the Target Cost, and additional payments will be due to the SCP.
- 2.13 In summary, while the overall cost provision has marginally reduced, this has been due to reduction in risk. SCP costs have continued to increase (by £248k) over the last year. While forecast discretionary funding has reduced, a further £161k was required during 2022/23.

Quality

- 2.14 It is acknowledged that the key issues identified within the Royal College of Paediatrics and Child Health's report (September 2015) have been largely addressed by works completed to date.
- 2.15 Design review and construction oversight on the part of the Health Board and its agents have ensured the quality of work delivered. Careful scheduling has ensured that clinical delivery has not been impacted, and that at each stage of project delivery, services have been enhanced.
- 2.16 Overall cost increases have been managed within corresponding risk provisions, funded from the additional discretionary funding allocation. While there will be additional in-house costs, noting the improved forecast delivery date, and reduction in the forecast outturn costs since the prior audit, **reasonable assurance** has been determined in relation to project delivery since prior audit.
- 2.17 The following sections of the report further outline the key observations that have contributed to the above – matters which require management attention, with moderate impact on residual risk exposure until resolved.

Follow up: *confirmation that previously agreed recommendations have been appropriately actioned by management (Appendix B).*

- 2.18 The table below provides an overview of progress in implementing the previously agreed management actions in relation to the 2021/22 audit report.

Original Priority Rating	Number of Recommendations	Implemented	Partially implemented / Ongoing	Outstanding
High	-	-	-	-
Medium	5	3	2	-
Low	3	3	-	-
Total	8	6	2	-

- 2.19 Ongoing / partially actioned items related to:

- A Parent Company Guarantee is a required part of national framework contracts. This was not put in place at Phases 1 & 2 of the project, subsequent to which the SCP re-structured. While the SCP has subsequently supplied a Parent Company Guarantee, they included a limitation of liability based on the point of re-structure (as challenged by the Health Board project officers, and referred to framework management). Accordingly, the Health Board have requested revision, but have been unable to gain a response from the SCP. As a result the Health Board effectively have a Parent Company Guarantee,

relating only to the latter works of Phases 3 & 4 (notably the Theatres). Phases 1 & 2, relating to the wards, and neo-natal area would not be covered.

As framework managers, NWSSP: Specialist Estates Services (SES) have been asked to support and advise, noting this will impact all organisations employing the SCP (previously agreed **item 5.1**). Accordingly, the role of the national framework in this is also recognised in appraising this matter, together with the actions of the Health Board during the last year.

- Specialist advice to be obtained regarding contractor performance in the period when the contractor will be operating without payment ("in pain"). While advice had been obtained, it was agreed with management, that this action should remain open until project completion, noting the need for ongoing monitoring and the potential need for ongoing specialist advice/input (previously agreed **item 7**). Noting the Health Board choice that this matter remain "open" for on-going advice, this matter does not impact the opinion on controls in this section of the report.

2.20 Full details of recommendations requiring further action are provided at **Appendix B**.

2.21 Noting the significance of the Parent Company Guarantee, a **reasonable** assurance is provided in relation to follow-up actions.

Project Management: *Assurance that funding, costs, and contractual issues have been reasonably controlled, and reported, and that appropriate management tools have been applied.*

2.22 The Project Board continued to operate in the period, supported by the Project Team, and Finance Group.

2.23 Detailed project reporting was observed providing both project summaries, and supporting information on funding, projected out-turn, assessed risks and programme implications - with Exception Reports provided to relevant committees.

2.24 Compensation Events (client instructed changes) have continued to materialise (in the sum of £248k – as at the Cost section). These relate primarily to the realisation of known risks as provided at the risk register – and provided for from within the discretionary capital funding.

2.25 As previously noted, the forecast discretionary funding requirement has reduced by circa £100k since the prior audit in line with reductions in the anticipated out-turn costs.

2.26 In addition to the above, Internal Fees (£375k) are not currently included within the project reporting but are listed within the WG reporting as potentially funded from discretionary funding. These will increase further through to project completion (potentially as much as £45k pro-rata). Noting the quantum of this sum, arising from additional in-house work required for this project, it is important that this impact is appropriately recognised when reporting overall project performance (**MA 1**).

- 2.27 While risks totalling £650k remain at the project, these are already provided for within the total allocated funding (including discretionary funding contribution). In the event that identified risks do not materialise, there will be an associated reduction in discretionary funding requirements.
- 2.28 At the prior audit, there was considerable risk relating to the potential of non-delivery in the period of contractor "pain" (non-payment for works above the agreed price). The audit observed positive engagement from the SCP during the period and improved performance – with a potential for 7 weeks of additional efficiency identified. Accordingly, the potential risks of the SCP operating below expected performance standards whilst in "pain" had not materialised at the time of the current audit.
- 2.29 While recognising the above matters, also noting a substantial reduction in risk (**Figure 2**); a range of appropriate controls; and improved out-turn since the prior report; **substantial** assurance is currently determined in relation to project management since the prior audit.

Change management: *To review the control and reporting of any project changes, including the potential time and cost impact.*

- 2.30 Of 211 Compensation Events raised at the project to date, only 5 were reported to remain outstanding. However, supporting tables showed 49 items requiring resolution, without apportioning the required action to the Health Board and/ or the Supply Chain Partner (**MA 2**).
- 2.31 Five of these were high value Compensation Events unresolved since the prior audit. The SCP has not accepted the Project Manager's rationale for rejecting these Compensation Events but have yet to invoke the contractual mechanism for dispute/ arbitration. In the interim, circa £400k of the discretionary funding allocated to the project has been set aside for potential dispute (**see risk management**). Management have commented that their robust challenge of such matters has been appropriate, and while denoted "open" at project reporting, the Project Manager has contractually rejected these items.
- 2.32 The prior audit found minimal changes, with appropriate treatment, determining "reasonable" assurance. Accordingly, the current issues would not represent an enhanced position.
- 2.33 Noting the need for enhanced clarity in the reporting of Compensation Event monitoring, **reasonable** assurance has been determined in relation to change control since the prior audit.

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.*

- 2.34 Bi-monthly Key Performance Indicators (KPIs) were provided to NWSSP: Specialist Estates Services (as national construction framework managers) and additionally reported to the Project Board for scrutiny. They were shared with all parties to the project to facilitate improvement.

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- 2.35 Positive performance was identified for both the Health Board and its advisers. However, a range of on-going issues continue to be reported at KPIs relating to SCP performance.
- 2.36 The November 2022 Project Manager report advised that "*The issue with designers not providing an adequate resource level remains a concern*" (as contracted to / managed by the SCP). While there have remained issues with the SCP during the period (notably continuing challenge of the Project Manager's cost assessments, and design and resources issues), these have lessened in impact since the prior audit report.
- 2.37 As noted, risks associated with poor / non-delivery are now reduced as the project enters its final (fit-out) stage. However, this has been the first project to progress for a significant period with SCP "pain", contractor re-organisation, and the associated requirement to interface with the national construction framework on SCP performance.
- 2.38 We endorse the Health Board position that a full lessons-learnt exercise will be undertaken post completion of the project. We have made a recommendation supporting this approach, ensuring that the action appears at the Health Board audit tracker and is monitored accordingly. However, this recommendation does not impact the overall opinion.
- 2.39 Noting the current position and enhanced delivery, **substantial** assurance has therefore been determined in relation to performance management since the prior audit.

Risk management: *An assessment of the arrangements to oversee the management of project risks, including the action taken by management to mitigate/ manage key risks.*

- 2.40 A risk register was updated at the monthly Project Manager's report and submitted regularly to the Project Board. The remaining values of risk and project contingency were also clear at the project reporting.
- 2.41 Exception Reports have also been produced to support the risk register e.g. the November 2022 report detailed the treatment and issues relating to the top five risks.
- 2.42 The November report detailed £400k of risk provisions for disputed Compensation Event Notifications – some dating back to August 2020. In these cases the SCP had informally advised the Health Board (advisers) that they disagreed with Project Manager's assessments, but had not formally challenged the position. Accordingly, at the time of audit, the Health Board were seeking legal advice in relation to the largest such item.
- 2.43 Under the NEC contract (excepting formal dispute), the Project Manager determination is considered final. However, risk allowances continue to be inflated by these sums. While reserving discretionary finance for such matters may be prudent (external to the project), these sums have also inflated the forecast out-turn cost.

2.44 Accordingly, it has been recommended that such sums are separately identified within the forecast out-turn to enhance clarity in project reporting e.g. separately shown as a contingency (**MA 4**).

2.45 Note, the timely treatment of Compensation Events has been assessed at prior sections. Accordingly, while recognising the above complexities, a managed reduction of forecast risk and controls in place, **substantial** assurance has been determined in relation to risk management since prior audit.

Final account: *Noting the contractor is in pain and payments have ceased, an assessment will be made to ensure costs incurred to date are adequately supported, challenged and scrutinised to support the certification of the final account.*

2.46 The contract required on-going substantiation of additional costs claimed by the Supply Chain Partner (SCP). Monthly claims have therefore been progressively scrutinised by the advisers to date – contributing to the final account.

2.47 To 24th October, £19.7m had been claimed by the SCP against a contractual price cap of £19.07m.

2.48 While a value of £23,410 was paid at the October 2022 valuation, a sum of £679,290 was dis-allowed, being in excess of the contract price. However, where further Compensation Events are agreed, these may result in associated payments.

2.49 The SCP was forecast to deliver works at £1.9m above the contracted price i.e. delivery of the last £1.9m would not be paid by the Health Board. Noting that the is SCP "pain", the SCP is not required to substantiate the full costs, reducing the work required to verify the final account.

2.50 A sample of items were examined from the October 2022 valuation (the most recently certified by the Cost Adviser at the time of audit), as follows:

	Claimed sum £'m	Sample £'m
Staff	2.589	0.482
Plant & materials	0.834	0.475
Sub-contractors	13.211	10.349
Other	3.066	-
Total	19.700	11.306
Percent sample		57%

2.51 Staff changes were appropriately reconciled to contracted charge rates, and time sheets, and appropriate invoice substantiation was provided for remaining items

2.52 Accordingly, **substantial** assurance was determined in relation to the work completed to date to contribute to the agreement of the final account.

Appendix A: Management Action Plan

Matter Arising 1: Health Board Project Sponsorship Fees (Operation)		Impact
<p>NHS Wales Infrastructure Investment Guidance WHC 2018 (043) outlines the need to monitor "time, cost and quality".</p> <p>It further states that In-House Project Sponsorship Fees "will be supported up to a value of 1% of the works cost, subject to Welsh Government agreement of a detailed resource schedule".</p> <p>Accordingly, Health Board Project Sponsorship Fees of £157,176 were included within the approved Business Case. However, noting additional management time required at this project, to the date of the audit, a further requirement of £375,414 was identified (as reported at WG Project Progress Return).</p> <p>It is recognised that there has been historic recognition of the need to support In-House project fees. These are scrutinised and challenged as part of the wider discretionary programme (e.g. at the independently chaired Strategic Development and Operational Delivery Committee).</p> <p>Finance officers provided derivation of charges for the £375k to date, with the potential for further 6 months of costs to forecast completion. However, the forecast element is not currently being reported (this would equate to an additional £45k utilising a simple pro-rata calculation).</p> <p>It is important that the cost performance of the project includes these amounts to support the Health Board assertion that this project has required significantly more internal resource than comparable projects.</p>		<p>Potential risk that:</p> <ul style="list-style-type: none"> Funding is not appropriately budgeted
Recommendations		Priority
1.1	Overall project cost performance should include the additional project sponsorship fees.	Low
Agreed Management Action		Responsible Officer
		Target Date

1.1	Agreed. Project cost performance reporting will include additional project sponsorship fees.	March 2023	Project Director
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Matter Arising 2: Reporting the number of outstanding Compensation Events (Operation)	Impact																				
<p>The NEC contract favours parties seeking timely agreement of change. To further this aim, it requires changes to be notified by the SCP within eight weeks of when the need becomes apparent, with a set response time (a week, or two weeks following a prompt). The SCP similarly has three weeks to provide a quotation. However, following initial responses there can be protracted correspondence between the parties.</p> <p>Of 211 Compensation Events raised at the project to date, only 5 remained outstanding. The November 2022 report provided a monthly update as:</p> <table border="1" data-bbox="257 655 1408 965"> <thead> <tr> <th>Type</th> <th>New in month</th> <th>Total raised</th> <th>Total resolved</th> <th>Total outstanding</th> </tr> </thead> <tbody> <tr> <td>Compensation Event</td> <td>0</td> <td>211</td> <td>206</td> <td>5</td> </tr> <tr> <td>Early Warning Notice</td> <td>0</td> <td>141</td> <td>137</td> <td>3*</td> </tr> <tr> <td>Project Manager Instruction</td> <td>9</td> <td>224</td> <td>222</td> <td>2</td> </tr> </tbody> </table> <p>* As reported</p> <p>However, a supporting table of "Compensation Event Notifications" listed a total of 10 Compensation Events listed as un-agreed (though it is recognised that four were valued at £0, and the remainder individually below £9,000).</p> <p>A further table of "Anticipated Changes" in respect of "Quotations requested / received" highlighted a further 39 items, variously awaiting action e.g. client assessment or SCP quotation, though in some cases the position was not commented. While the total value of items £65,621, it was stated that some of these also related to Compensation Event Notifications.</p>	Type	New in month	Total raised	Total resolved	Total outstanding	Compensation Event	0	211	206	5	Early Warning Notice	0	141	137	3*	Project Manager Instruction	9	224	222	2	<p>Potential risk of:</p> <ul style="list-style-type: none"> Changes not being appropriately controlled
Type	New in month	Total raised	Total resolved	Total outstanding																	
Compensation Event	0	211	206	5																	
Early Warning Notice	0	141	137	3*																	
Project Manager Instruction	9	224	222	2																	

<p>While dates raised were recorded at the tables, it was not evident from reported information whether matters were being resolved in accordance with contractual time frames, and numbers requiring action by the Health Board or the Supply Chain Partner were not stated.</p> <p>Noting ongoing issues, the Project Board have instructed legal advice to facilitate closure. It is important therefore that the Project Board are appropriately informed as to the full position regarding Compensation Events, to facilitate appropriate scrutiny and action.</p>		
Recommendations		Priority
2	The Project Manager's report should ensure clarity as to the outstanding number of Compensation Events, Early Warnings and other notifications awaiting action by the client and the SCP.	Medium
Agreed Management Action	Target Date	Responsible Officer
2	Agreed. The Project Manager will clearly report the outstanding number of Compensation Events, Early Warnings and other notifications awaiting action by the client and the SCP.	Project Director


Matter Arising 3: Lessons learnt (Operation)	Impact
<p>Welsh Health Circular (WHC) 043 (2018) – NHS Wales Infrastructure Investment Guidance, requires Health Boards to undertake a post project evaluation of design and construction.</p> <p>Both Early Warning and Risk Reduction meetings have been utilised at the project to advise on site issues. This is the key forum to discuss issues that could have potential time and cost implications, and agree any associated mitigating actions. An interim lessons learnt report was also published to the Capital, Estates And Information Management & Technology Sub-Committee in July 2021 to inform on-going project management. Management have also commented that a Capital Governance Review also in 2021 has picked up on learnings from previous audit reports on the scheme (recognising that the final lessons learnt exercise won't be carried out until 6-12 months after scheme conclusion in line with best practice).</p> <p>To the date of prior audit, recurring issues had included e.g.:</p> <ul style="list-style-type: none"> • insufficient damages at the contract; • inaccurate reporting of site progress; • excessive and unjustified claims; and • lack of supporting information. <p>While both time and costs have been actively challenged, fifty-two program revisions have been accepted to date, most to recognise delays already incurred. The November 2022 Project Manager report advised that <i>"The issue with designers not providing an adequate resource level remains a concern"</i>.</p> <p>Noting on-going issues at the project and the complexities involved, it is recommended therefore that a full lessons learnt exercise is undertaken at the end of the project.</p>	<p>Potential risk that:</p> <ul style="list-style-type: none"> • Lessons are not learnt to inform future projects
Recommendations	Priority


3	<p><i>Future Assurance</i></p> <p>Management should undertake a lessons learnt review of the project following completion.</p>	Low	
Agreed Management Action		Target Date	Responsible Officer
3	<p>An interim lessons learnt exercise was undertaken in 2021. A Capital Governance Review was also undertaken in 2021 which has picked up on learnings from previous audit reports on the scheme.</p> <p>Agreed. A lessons learnt exercise will be carried out 6-12 months after scheme completion in line with best practice.</p>	December 2024	Project Director


Matter Arising 4: Dispute resolution (Operation)						Impact
<p>The NEC contract requires disputed matters to be formally raised "as soon as reasonably possible after becoming aware of the circumstances giving rise to the dispute."</p> <p>In November 2022, an Exception Report was published to the Project Board highlighting 5 on-going risks. These were represented within the Project Manager monthly report as:</p>						<p>Potential risk of:</p> <ul style="list-style-type: none"> Restricting discretionary funding availability Project out-turn uncertainty
Item	Claimed	CE No.	Date raised	Closed	Comments	
Switch room fire gas suppression	£20k	059	15/8/20	N		
Isolation room fire rating	£38k	113	25/8/20	N		
Bedhead gas outlets	£30k	111	15/8/20	N		
Column strengthening	£135k	164	24/8/21	N		
Shear wall	£200k	074	21/10/21	Y	Rejected by the Project Manager	
Total	£423k					
<p>Both the shear (supporting) wall and column strengthening remain within the Risk Register at maximum risk levels of 25 (utilising scales of 1 – 5 of impact * 1 – 5 probability).</p> <p>The Exception Report clarified that while these five items had been rejected by the Project Manager, the SCP did not accept the reasons for rejection. Accordingly, this presented some uncertainty as to whether these items should be appropriately closed. As noted above, the Project Manager report showed one as closed and four open.</p> <p>It was confirmed that none of these disputed structural matters (which have been completed), and that remaining risks (for these items) only relate to settlement of time and cost implications.</p> <p>In the cases of the column strengthening and shear wall, further substantiation of the claims have been made by the SCP, and in both cases continue to be refuted. However, neither have been referred to arbitration and therefore present ongoing uncertainty at the project. The Project Manager therefore produced the Exception Report as a basis for the Project Board to approve legal advice on this matter</p>						


<p>(i.e. contractual requirement for timely settlement, as relating to the Sheer Wall). It is acknowledged that such an approach, including approval by the Project Board represents good practice.</p> <p>However, the result of the above, is that risk the forecast out-turn, continues to be inflated by these sums. While reserving discretionary finance sums for such matters may be prudent, the NEC contract does not require such reserves where the Project Manager has made a determination. Accordingly, these sums have both inflated risk provision, and forecast out-turn cost at current reporting.</p> <p>Noting that the SCP has been assessed as not having a valid claim, there is potential to identify that such sums are in effect being retained as Health Board contingency.</p>		
Recommendations		Priority
4	The cost of items of potential challenge, should be separately identified from risk provision e.g. as separate Health Board contingency within the project forecast.	Low
Agreed Management Action		Target Date
4	Agreed. We will identify this sum separately from the risk provision.	March 2023
		Responsible Officer
		Project Director


Appendix B: Status of previously agreed recommendations (2021/22)

Glangwili Hospital Women & Children's Development (April 2022)				Previously providing 	
Ref	Area	Previously agreed Action	Current Status	Revised Responsibility & Timescale	Priority Rating
Monitoring & reporting					
1.1	Cash flow variance	<p>Project monitoring should continue to include monitoring SCP cash flow in the period of project completion at SCP cost liability.</p> <p>ACTION - Noting the recommendation the Health Board will submit evidence that SCP cashflow is being monitored to project completion. Monitoring of on-site works against Accepted Programme will be increased.</p>	<p>Actioned</p> <p>A graph of cumulative cash flow variance for the entire project is now provided, supported by date comparing actual to forecast.</p>	N/A	Low
2.1	Time reporting	<p>Management should report any disparity with the SCP's assessment of agreed and unagreed weeks of programme duration.</p>	<p>Actioned</p> <p>Prior reporting provided different assessments of project duration between both the advisers and the SCP.</p> <p>Reporting by both the Project Manager and Cost Adviser now corresponds as to project duration, end dates, and agreed extensions of time.</p>	N/A	Medium

Glangwili Hospital Women & Children's Development (April 2022)				Previously providing 
Cost Management				
3.1	Valuation claims	Insurance charges should be paid in accordance with the contract.	Actioned Insurance charges were confirmed to be paid in accordance with the contract.	N/A Medium
3.2		Additional labour rates should be contractually agreed.	Actioned. Additional labour rates were subsequently contractually agreed.	N/A Low
Supply Chain Partner, Adviser and Health Board Performance				
4.1	KPIs	The Health Board should formally record at Key Performance Indicators if appropriate controls are not operated at forthcoming meetings and delivery.	Actioned The Health Board has now appended Key Performance Indicator returns to dashboard reports to Welsh Government, and has recorded deficiencies with SCP performance.	N/A Low
5.1	Parent Company Guarantee	The Health Board should confirm provision of a Parent Company Guarantee in respect of Phase II of the Women and Children's project at Glangwili.	Ongoing While the SCP has supplied a Parent Company Guarantee, they included a limitation of liability based on the point at which the firm re-structured. NWSSP: Specialist Estates Services are to provide advice across the NHS Building for Wales framework on this issue, and further action awaits this advice. While the Health Board have endeavoured to action this matter, it remains ongoing.	Project Director March 2023 Medium

Glangwili Hospital Women & Children's Development (April 2022)			Previously providing 
Programme Management			
6.1	Risk monitoring & reporting	<p>During the period that the contractor will no longer be paid by the Health Board, associated risks and mitigations should be advised to Welsh Government at the Project Progress Return Dashboard.</p>	<p>Actioned</p> <p>This risk has reduced since the prior audit report, and accordingly, while still recognised within project reporting has been de-escalated.</p> <p>Note - at the time of prior report, while the general risk of non-delivery / poor delivery in this period was recognised, this was contained within a generic risk, without detailing more specific consequential risks / impacts e.g.</p> <ul style="list-style-type: none"> Non-completion of circa £2m of works; Re-tender of remaining works; Significant increase in costs above £2m to cover design assessment of incomplete works etc.; and Requirement for a new business case to Welsh Government for the remaining works with associated delay in service provision. <p>However, structural elements of the works have largely been completed and the project is entering the fit-out stage. As such, risks associated with a change of contractor are reduced.</p>
			N/A
			Medium






Glangwili Hospital Women & Children's Development – Phase II (April 2021)				Previously providing 	
Ref	Area	Previously agreed Action	Current Status	Revised Responsibility & Timescale	Priority Rating
7	Performance management	Management will seek NWSSP:SES Framework support in dealing with the SCP performance – particularly for the anticipated period where the SCP will be operating without payment	<p>Ongoing</p> <p>NWSSP:SES advice was sought as reported to the June 2021 PPPAC Committee, which stated:</p> <p><i>"Discussions with NWSSP: SES have occurred with regards to this point which has included seeking legal opinion on the formal contractual options that may be available to the HDD Health Board to influence performance. The advice given is that HDD Health Board's options appear to be limited to:</i></p> <ul style="list-style-type: none"> <i>• Ensuring that the Project Manager is as proactive as possible.</i> <i>• Instruct the SCP to quote for acceleration of works at an increased price.</i> <i>• Refusal by the SCP to progress the work would be a breach of contract. HDD Health Board would then have the right to terminate the contract. The SCP have, at meetings with the Framework Managers, stated</i> 	<p>Project Director</p> <p>To request of NWSSP:SES at project completion</p>	Medium

Glangwili Hospital Women & Children's Development – Phase II (April 2021)				Previously providing 	
			<p><i>their commitment to completing the works, and they will be meeting with the SCP bi-monthly".</i></p> <p>However, it has been agreed with management, that as the required advice relates on on-going monitoring of contractor performance, that it would be appropriate to leave this action open until project completion.</p>		

Appendix C: 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 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.



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