

Glangwili General Hospital - Fire Precautions Phase 1

Final Internal Audit Report

April 2024

Hywel Dda University Health Board



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Executive Summary

Purpose

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

This was the second audit of the GGH Phase 1 project; the previous review having determined Reasonable Assurance.

Overall Audit Opinion and Overview

Phase 1 was the current element of works that contributes to addressing the fire safety notices at GGH in a timescale that was agreeable with the Mid & West Wales Fire Rescue Services (MWWFRS).



Allied with the need to demonstrate immediate action to MWWFRS, the project progressed with several uncertainties. Noting the nature of the works and the inability to undertake extensive intrusive surveys pre-approval; additional time and cost implications were envisaged from the outset.

The project was progressing materially outside of the original Business Justification Case (BJC) parameters i.e., significantly beyond the original programme completion date and over the original budget (see below). The time and cost position had also materially changed from that previously reported during 2022/23.

The SCP had not been providing regular or timely information in relation to programme and cost. In the absence of timely information, the Health Board and its advisers had been producing time and cost estimates to inform the Project Group of likely scenarios. In the context of the above, the programme and financial risks remain as follows:

- Our previous (2022/23) review of this project identified that the original completion date of June 2022 had slipped to December 2022. Further programme slippage had materialised since the last review further extending the completion deadline to 28 November 2024. These delays have been attributed to additional works required post survey – but a detail assessment of causality had not been undertaken. The November 2024 completion date was based on unrestricted access. Noting the works are being undertaken in a live hospital environment, the University Health Board (UHB) advisers had prudently advised of a potential January 2025 completion to reflect further potential disruption.
- The current expiry date of the fire notice was July 2024 and with an agreed delivery programme extended to 28 November 2024 further engagement

Report Classification

		Trend (original report 2022/23)
	More significant matters require management attention.	
		Moderate impact on residual risk exposure until resolved.

Assurance summary ¹

Assurance objectives	Assurance
1 Project Delivery	Limited
2 Previously Agreed Actions	Substantial
3 Approvals	Reasonable
4 Financial Management	Reasonable
5 Programme Management	Reasonable
6 Performance Management	Reasonable
7 Supervisor Role	Reasonable

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

with MWWFRS was required. While ultimately the potential risk remains that future extensions to the fire safety notices may not be agreed, management consider the level of risk of the same materialising to be low. These risks were mitigated by the regular and positive ongoing dialogue with the MWWFRS (the most recent site meeting held in November 2023). Management confirmed that MWWFRS had outlined a change in approach going forward whereby fire notice deadlines would only be extended when they were due to expire.

- The previous audit report highlighted a forecast £0.98m underspend including agreed Compensation Events (CEs) and pending CEs/risks. At the time of this audit, the latest cost analysis (March 2024) identified a best realistic outturn cost ranging between £4.84m - £5.40m overspend (with a sensitivity analysis highlighting a worst-case scenario of a £7.58m overspend). The additional amount required was unfunded at the time of the audit, although post audit fieldwork an additional funding request had been submitted and scrutinised by Welsh Government but had not been formally agreed (April 2024). The current estimated overspend at this review is material and currently unaffordable for the UHB from its existing financial resources e.g. discretionary capital programme. Accordingly, whilst recognising the ongoing UHB actions, there remains a potential risk to the UHB and programme until a funding solution is agreed.
- The UHB continued to experience performance issues with the Supply Chain Partner (SCP), specifically the timely supply of information to inform a realistic programme and associated cashflow forecast. The UHB had been proactive in raising issues across its fire projects, and formally meeting with the contractor on multiple occasions. As a result of these management actions, there had been positive steps in improving performance. However, at the time of reporting, issues with the timely supply of information continued and accordingly, there remained a need to continually monitor and escalate performance issues.

An overall **limited assurance** had been determined, attributed to the financial risk associated with the unfunded forecasted overspend. If the additional funding requested is provided in full, the associated risk would be reduced and would have a positive impact on the assurance determined. It is acknowledged that the UHB faced similar issues at the WGH fire precautions phase 1 project and successfully secured additional Welsh Government funding (given the nature of the works).

Key Matters Arising	Assurance Objective	Control Design or Operation	Recommendation Priority
1 Funding arrangements for the forecast overspend requires confirmation.	1,4	Design	High
3 Derogations require conformation	3	Operation	Medium
4 The Project Bank Account arrangements require review to ensure its effective application	4	Operation	Medium
5 Confirmation of a realistic construction programme was required, to include engagement with the SCP.	1,5	Operation	Medium
6 A performance review was required to learn lessons for future phases/projects.	6	Design	Medium
7 Active tracking and reporting of snags, defects etc was required.	7	Design	Medium

1. Introduction

- 1.1 The review was actioned in accordance with the Integrated Audit Plan agreed within the approved business case for the Glangwili General Hospital (GGH) Fire Precaution Works: Phase 1.
- 1.2 The scope of works for the project was to complete fire precautions upgrade and improvement works to comply with the Mid & West Wales Fire & Rescue Services (MWWF&RS) Enforcement Notices and Letters of Fire Safety Matters. A phased strategy for completing the work had been agreed with MWWF&RS and Welsh Government (WG) with funding secured for the same in the sum of £16,449,503 (incl. VAT). Similar multi-phased work was being planned/ progressed across all the University Health Board's (UHB) major acute sites.
- 1.3 This was the second review of the project, with the first review providing reasonable assurance (published in February 2023).
- 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.

2. Detailed Audit Findings

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

Background

- 2.1 The NHS Building for Wales framework was approached to appoint a preferred partner to deliver the works. Given the level of uncertainty of 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 SCP.
- 2.2 Following dialogue with NWSSP: Specialist Estates Services, several contractual options were considered to address the SCP 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 i.e., effectively a cost-plus contract allowing the contractor to recharge the costs of any works undertaken with the addition of a pre-tendered profit and overhead allowance. This form of contract offered far greater assurance to the contractor on financial risks, but the compliance fire risk around standards would remain with the contractor. Despite this, only one bidder confirmed interest in the project which highlighted the lack of market appetite for a project of this complexity.
- 2.3 A Business Justification Case (BJC) was produced in July 2021 and approved by WG in November 2021, with a capital cost estimate of £16,449,503 incl. VAT. This included both the quantified risk contingency allocated to the Health Board and an

additional quantified risk contingency to be allocated by WG (reflecting the level of uncertainty associated with the project) – see **figure 2** below.

2.4 At this audit, when assessing progress against the original delivery objectives, the following was evidenced:

Time

2.5 The latest Project Manager’s report (February 2024) outlined that programme update AP12 was approved extending the contract completion date to 28th November 2024. This programme was based on unrestricted access and noting the live hospital environment there was a high likelihood that further extension may be necessary (**MA5**).

2.6 **Figure 1: Programme dates**

Milestone Event	Original Planned Date	Agreed Programme (Previous Review)	Current Accepted Programme
	April 2022	November 2022	February 2024
Construction Start Date	4 April 2022	12 April 2022	12 April 2022
Anticipated Completion Date	24 April 2023	4 December 2023	28 November 2024*

*The current accepted programme does not allow for local disruption and/ or discovery of unknowns when works are fully inspected. The UHBs advisers had prudently reported potential additional slippage to the programme until 31st January 2025.

2.7 Since the previous audit, the project had suffered additional prolongation of circa twelve months. The principal reason for the prolongation being attributed to additional works required post surveys, which were not known at the time of developing the approved programme. All the changes to the delivery programme had been reviewed by the UHB’s advisers prior to agreement.

2.8 The assessment of delays has been impacted by the SCP failing to provide timely contractual programme updates – with the UHB relying on its independent adviser’s assessment.

Cost

2.9 The project funding, inclusive of Welsh Government contingency, was stated as:

Figure 2: Project Funding

Current Funding Position	(£M)
Works Costs	8.875
Fees	1.002
Non-Works	0.316
Health Board Contingency	0.906

WG Contingency	2.759
VAT (including reclaim)	2.592
Overall	16.450

2.10 The table below summarises the current financial position and includes a sensitivity analysis requested by NWSSP: Specialist Estates Services (pessimistic scenario included for reference). Noting the forecast delivery programme to 28 November 2024 was based on free, unrestricted access, the UHBs advisers had also based figures on a forecast completion of January 2025 (based on current and historical cash flow, percentage and type of works remaining, known risk items such as underground ducts etc).

Figure 3: Project Forecast Outturn Cost (Based on Adviser’s Assessment March 2024)

Current Financial Summary Position	Assumed Completion Date November 2024		Assumed Completion Date January 2025	
	Estimated Outturn Cost (Incl VAT)	Variance from approved funding (inc VAT)	Estimated Outturn Cost (inc VAT)	Variance from approved funding (inc VAT)
Forecast Outturn Cost including agreed CEs to date and pending CEs /risks This was the best realistic case.	£21.29m	+£4.84m	£21.85m	+£5.40m
Sensitivity analysis – This was the pessimistic plus case where costs are 10% understated.	£23.42m	+£6.97m	£24.04m	+£7.59m

2.11 The latest cost analysis provided to the Project Group (March 2024) identified a best realistic outturn cost ranging between £4.84m - £5.40m overspend. Either assessment provides a material increase from the original approved budget and was being attributed to e.g. additional works required post survey, the identification of additional fire door replacement costs etc.

2.12 It was apparent that an additional funding provision needed to be identified given that existing funds were likely to be fully allocated by an estimated date of July/August 2024. At the time of reporting, an additional funding request had been submitted and scrutinised by Welsh Government but had not been formally agreed (April 2024). **(MA1)**.

2.13 Whilst recognising the ongoing Health Board actions, there remains a material risk, that works may need to cease or discretionary funding applied until a funding solution can be found/agreed.

Quality

- 2.14 The Health Board had directly appointed a supervisor to undertake quality reviews of the work carried out on an ongoing basis. However, the level of performance information being provided through monthly reporting required improvement (**MA7**).
- 2.15 The Project Manager was tracking the performance of the design team (specifically the timely redesign and implementation of notified issues). The current position (February 2024) highlighted a positive position.
- 2.16 In conclusion, the project was progressing materially outside of the original time and cost parameters set within the original Full business Case (FBC) approval with the potential for further prolongation (and associated cost escalation). Noting that the unfunded position poses a financial, patient safety and/ or reputational risk, **limited** assurance had been determined in relation to the time, cost and quality position to date. It was acknowledged that management were working proactively with their advisers and MWWFRS to manage/mitigate the various potential outturn scenarios.
- 2.17 The following sections of the report further outline the key observations that had contributed to the above – matters which require management attention, with moderate impact on residual risk exposure until resolved.

Previously Agreed Actions: *confirmation that previously agreed recommendations had been appropriately actioned by management.*

- 2.18 The UHB's internal audit team systematically examined the recommendations stemming from the February 2023 report as a component of the regular tracker updates submitted to the UHB's Audit and Risk Assurance Committee (ARAC). The audit team completed their evaluation, closing all but one recommendation. The remaining recommendation pertains to ensuring the prompt signing of contracts at future projects i.e. this particular action cannot be executed in the context of this project. The ARAC's audit recommendation tracker aligns with the same.
- 2.19 Noting that the previously agreed recommendations applicable to this project had been implemented/closed, **substantial** assurance was provided in relation to follow-up actions. The remaining recommendation will be tracked as part of the internal audit team's regular review of prior recommendations.

Approvals: *Assurance that effective mechanisms were in place internally and with MWWFRS for any extensions to the issued fire notices.*

- 2.20 The Health Board had maintained regular and ongoing engagement with MWWFRS. The latest formal meeting was held in November 2023 where the overall programmes of all of the UHB's fire safety schemes were discussed across WGH, GGH etc, including the phased approach, and received positive feedback from the MWWFRS.
- 2.21 The MWWFRS had outlined a change in approach during 2023, whereby fire notice deadlines will only be extended when they are due to expire. While there was a potential risk of not securing an extension to a notice, this was offset by the UHB's

regular and positive ongoing dialogue with the MWWFRS. However, noting the currently accepted programme of 28 November 2024 and the potential for further delays, formal notification of this was advisable (**MA2**).

- 2.22 A schedule had been prepared by the UHB to record derogations from current building regulations and WHTM/WHBN standards. At the time of the audit fieldwork, only twenty nine out of the sixty proposed derogations were approved by MWWFRS (**MA3**). However, the post completion of the audit fieldwork, all current derogations had been approved by MWWFRS.
- 2.23 A schedule had also been generated to identify tasks that cannot be accomplished as initially planned within the phase 1 works programme due to their impact on current hospital operations. Consequently, these tasks were proposed to be addressed as part of the phase 2 works (with a potential consequential impact on the costs/programme for phase 2). At the time of audit fieldwork, all proposed transfers had been signed off by MWWFRS.
- 2.24 Noting the positive ongoing engagement with MWWFRS, **reasonable** assurance was determined in relation to the approval mechanisms applied (between the Health Board and MWWFRS) at this project.

Financial Management: *Appropriate arrangements were in place for items such as: contingency management, VAT reclaim and the development of cost benchmarking exercises.*

- 2.25 The financial position of the project was monitored and scrutinised monthly at both the Project Group and at project specific UHB finance meetings. See **figure 3** for the latest financial outturn scenarios, with the March 2024 best "realistic" overspend position being £4.84m or £5.40m depending on the forecast methodology applied (**MA1**). The range in financial scenarios was reducing as more cost certainty was being built into the programme, therefore the risks of future material cost escalation was being reduced.
- 2.26 The project cashflow position and costs attributed to the SCP were incorporated within the monthly Project Manager's reports submitted to the Project Group. However, the February 2024 commercial report highlighted that the accepted programme was 28 November 2024 but the cashflow provided by the SCP was based on a previous completion date of May 2024 (**MA1**). There had been ongoing issues associated with the timely submission of the SCP's financial information to inform the Project Group.
- 2.27 The project's financial position i.e. forecast overspend) had also been regularly reported to Welsh Government via the Capital Review Meetings and internally to the UHB's Capital Sub-Committee. It was highlighted within the March 2024 report that the RAG rating being applied was RED.
- 2.28 Approval had been received from HMRC to recover VAT at 31.89%, this was being recovered at the point of invoice and was factored into reporting and forecasting.
- 2.29 All Welsh Government contracts valued at £2m or more, which are delivered directly on behalf of Welsh Government Departments must apply a project bank account (PBA) unless there are compelling reasons not to do so. At this project, a

PBA was in place, however, one of the minimum requirements stated within the Welsh Government's Project Bank Account Policy states that payments should typically be made within 3-5 working days. Over the period August – November 2023 regular delays for payments to subcontractors (up to 40 days) were highlighted. (**MA4**).

- 2.30 The Supply Chain Partner has repeatedly failed to provide timely/ accurate project cost information, requiring the UHB and its advisers to make its own assessment of costs subject to various risk/ outturn scenarios - over and above the standard expected requirements. The increased forecast cost reported is not attributable to weak financial controls, alternatively it is attributed to unforeseen risks and potential project performance issues noted within earlier section of this report - accordingly a **reasonable** assurance was determined in relation to financial control.

Programme Management: *Effective arrangements were in place to oversee and manage the critical path of the construction programme in line with the fire notices.*

- 2.31 Formal programme reporting was undertaken via the monthly Project Manager's reports to the Project Group. The current contract completion date being 28th November 2024 (**see figure 1**) assumed unrestricted access. Noting that works are progressing within a live hospital environment, there was a high likelihood that a further extension may be required (**MA5**). Since the conclusion of audit fieldwork, extensive work had been undertaken to analysis the programme by the UHB and its advisers who had prudently advised of a potential extension to the completion date based on known programme risks (access issues etc) to 31 January 2025.
- 2.32 Works to the underground ducts had been required from the project's outset. However, the associated designs were only sufficiently completed in January 2024 to allow the work to be instructed. We noted that there was no definitive start date within the agreed programme (AP12) due to a risk reduction/tendering exercise. Accordingly, the impact of the work had yet to be fully incorporated within the programme and reported to Project Group. (**MA5**). Since the conclusion of audit fieldwork, a formal start date had been accepted along with a timeframe for completion.
- 2.33 A previously reported issue surrounding the accreditation of the fire door installer had been resolved (February 2024) with the delivery and installation of fire doors being phased into the programme.
- 2.34 Whilst noting the ongoing scrutiny and reporting of the project's programme i.e. the various scenarios that had been assessed by the advisers, there was a risk that a future extension could cause not only additional financial pressures but also operational service issues. Recognising the issues highlighted, **reasonable** assurance was determined in relation to the arrangements put in place by the UHB to determine the forecast programme.

Performance Management: *appropriate internal and contractual change control mechanisms were applied at the project.*

- 2.35 Key Performance indicators were produced every 6 months to assess the SCP, Cost Adviser and Project Manager's performance. SCP performance issues have been raised throughout the construction period with the latest KPIs October 2023 documenting the following areas that were consistently scored negatively:
- 'Timely delivery of services/information.'
 - 'Appropriate resourcing.'
 - 'Commitment to safety.'
- 2.36 Project performance issues were also documented within the Project Manager's reports. However, there had been no analysis in terms of the time and cost implications; broken down by SCP, Health Board, Advisers responsibilities etc. This would ensure that lessons are learnt and the identification of ways to improve performance on this or other future phases (**MA6**).
- 2.37 Due to the limited pre-construction intrusive surveys / design access, a relatively high number of requests for information (RFI) surrounding the design had been documented during the construction phase. The February 2024 RFI tracker highlighted a much-improved position e.g. response timeframes etc.
- 2.38 Noting the management action to date including:
- Principals meeting with the SCP and supply chain'.
 - Internal reporting to various sub committees.
 - External reporting, including KPIs.
 - Support from advisers.
 - Engagement with NWSSP:SES.

There had been positive steps to improving performance, however, multiple performance issues remain e.g. **MA1, MA4, MA5, MA7**. Noting ongoing issues, management will need to continue to monitor performance via the established mechanisms through to project completion. Accordingly, recognising the nature of the contract; internal controls were in place to monitor performance and additional UHB actions had been recognised in determining **reasonable** assurance in this area. The impact of adverse performance has been included at previous sections of this report.

Supervisors Role: *Appropriate mechanisms were in place to identify, report and take corrective action to any defects or observation identified that prevent handover of areas back to the Health Board.*

- 2.39 The Health Board appointed an external adviser to undertake the supervisor role at the project. While weekly site visits were observed, the frequency of visits-should be monitored as the project progresses, e.g. as the installation of fire door progress additional time may be required on site to ensure timely inspection.
- 2.40 Monthly reports were produced by the supervisor and appended to the monthly Project Manager's reports to the Project Group. However, the following exceptions were noted:
-

- The volume of snags or observations was not recorded in the report.
- The length of time taken to resolve issues was not recorded in the report (**MA7**).

2.41 Rooms were also being reoccupied by Health Board staff around 60% of the time prior to supervisor inspection (note this percentage was an estimate made by the supervisor as this was not a recorded statistic) or being reported to the Project Group. However, the supervisor stated that this was rarely an issue. If an inspection cannot be completed at that time, they would move on and return later in the day (**MA7**).

2.42 Accordingly, **reasonable** assurance was determined in relation to the role of the supervisor at this project.

Appendix A: Management Action Plan

Matter Arising 1: Financial - Budget Position (Design)					Impact
<p>The March 2024 financial appraisal highlighted a forecast a 'best realistic outturn' overspend position of £4.84 or £5.40m. The table below summarise the financial position. Note the SCP programme to the 28 November 2024 was based on free unrestricted access which was unrealistic in a live acute hospital environment. Therefore, the UHB's Advisers had based the below figures on a forecast completion of January 2025.</p>					<p>Potential risk that:</p> <ul style="list-style-type: none"> Additional funding is required but not secured.
Current Financial Summary Position	Assumed Completion Date November 2024	Variance from approved funding (inc VAT)	Assumed Completion Date January 2025	Variance from approved funding (inc VAT)	
	Estimated Outturn Cost (Incl VAT)		Estimated Outturn Cost (inc VAT)		
Forecast Outturn Cost including agreed CEs to date and pending CEs /risks This was the best realistic case.	£21.29m	+£4.84m	£21.85m	+£5.40m	
Sensitivity analysis – This was the pessimistic plus case where costs are 10% understated.	£23.42m	+£6.97m	£24.04m	+£7.59m	

<p>The UHB internal cost reports highlighted circa £3.034m funding remaining from the original approval including the risk contingency (January 2024). Monthly expenditure had averaged approximately £0.47m over the past year, accordingly, if this level of expenditure was maintained the UHB would require additional approved funding from circa September/October 2024. However, the cost adviser was reporting an anticipated increase in monthly project expenditure i.e. as works to the fire doors and underground ducts was realised (with associated estimated additional monthly costs of circa £0.15m). This would effectively mean that additional approved funding would be required from July/August 2024. This estimated cashflow impact was provided by the Cost Adviser in the absence of an updated cashflow forecast from the SCP.</p> <p>Accordingly, whilst recognising the ongoing UHB actions, there remains a material risk, that works may need to cease or discretionary funding applied until a funding solution is agreed. This remains a high priority item requiring early resolution. In the event of additional funding not being approved, the NEC Option E contract incorporates procedures for cancelling contracts, however, it is recognised that this could result in an associated claim by the SCP. Compliance with the MWWFRS fire notices would also be adversely impacted.</p>		
Recommendations		Priority
1.1	The Health Board should evaluate and source possible funding options (if full, partial, or no additional funding is realised) as a matter of priority.	High
1.2	Management should exert pressure on the SCP to supply a realistic cash flow projection. This was essential to facilitate effective financial management of the project and ensure accurate planning through to project completion.	Medium
Agreed Management Action		Target Date
		Responsible Officer

1.1	Agreed. An additional funding request has been submitted and scrutinised by Welsh Government. The UHB had responded with additional information requested. The UHB awaits confirmation of a decision. In the (anticipated unlikely) event that additional Welsh Government funding is not approved in full a decision will need to be taken on halting the project and engaging with MWWFRS on the current enforcement notice in place.	June 2024 (Subject to WG decision)	Project Director
1.2	Actioned since audit fieldwork	N/A	N/A

Matter Arising 2: Approval– Extension to Fire Notice (Operation)		Impact	
<p>Regular and ongoing engagement was evident between the UHB and the MWWFRS. The latest formal meeting was held in November 2023 where the overall programmes of all UHB fire safety schemes were discussed across WGH, GGH etc, including the phased approach. Positive feedback was received from the MWWFRS.</p> <p>The MWWFRS had outlined a change in approach going forward whereby fire notice deadlines would only be extended as and when they were due to expire. The MWWFRS also visit the site(s) monthly and were provided with further ongoing updates on the anticipated completion programmes. However, recognising the current July 2024 expiry date for the current fire notice and the revised approved programme (AP12 – accepted February 2024) that identifies a completion date 28 November 2024; with the potential for further delays highlighted the necessity for further formal engagement with the MWWFRS.</p>		<p>Potential risk that:</p> <ul style="list-style-type: none"> • Non-conformance to the fire notice deadline. 	
Recommendations		Priority	
2	Management should notify MWWFRS of the potential scenarios i.e. agreed Supply Chain Partner programme vs Cost Adviser’s assessed programme.	Low	
Agreed Management Action		Target Date	Responsible Officer
2	Actioned since audit fieldwork. A formal presentation was given to MWWFRS senior management on forecast completion dates for GGH phase 1. This was fully supported by MWWFRS.	N/A	N/A

Matter Arising 3: Approvals – Derogations (Operation)		Impact	
<p>In the intricate landscape of the ongoing fire enforcement works, the diligent scrutiny and subsequent approval of derogations play a pivotal role in ensuring the objectives of the investment are achieved.</p> <p>A schedule had been prepared to record derogations from current building regulation and WHTM/WHBN standards associated within the fire precaution works at Glangwili Hospital (phase 1). At the time of the audit fieldwork, 31 proposed derogations out of a total of 60 were awaiting formal MWWFRS sign off. Additionally, the document lacked substantive information on the timelines for the proposal of derogations, hindering the ability to determine any delays in the approval processes. However, post completion of audit fieldwork all current derogation had been approved by MWWFRS.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> Uncertainty surrounding the derogation position. 	
Recommendations		Priority	
3.1	Formal confirmation or rejection of the derogations by the MWWFRS should be officially endorsed.	Medium	
3.2	The derogation schedule should be enhanced to accurately depict the timelines for when each derogation was proposed, internally approved and sign off by the MWWFRS.	Low	
Agreed Management Action		Target Date	Responsible Officer
3.1	Actioned Since Audit Fieldwork	N/A	N/A
3.2	Agreed. Derogation schedule will be updated accordingly.	July 2024	Project Director

Matter Arising 4: Financial – Project Bank Account (Operation)	Impact																									
<p>A Project Bank Account (PBA) was in operation at the project - the primary purpose of a PBA was to ensure prompt and fair payments to contractors, subcontractors, and suppliers.</p> <p>WPPN 04/21 Guidance for Deploying Welsh Government Project Bank Account Policy includes within Appendix 1 the Government’s Cabinet Office minimum requirements for the PBA (Minimum requirement 7 states):</p> <p style="padding-left: 40px;">‘All of the contractors and subcontractors signed up to the PBA Trust Deed should be paid at the same time, once authorisation had been given by the Trustee(s), payments were typically made within 3-5 working days.’</p> <p>Over the period September 2023 – December 2023 the PBA statement highlighted the following:</p> <table border="1" data-bbox="107 805 1599 1088"> <thead> <tr> <th>Month</th> <th>Payment Due Date</th> <th>Date Deposited Within PBA</th> <th>Latest Subcontractor Payment Run</th> <th>Cumulative days from payment due date to payment run.</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>26th July</td> <td>27th July</td> <td>5th September</td> <td>40 Days</td> </tr> <tr> <td>2</td> <td>25th September</td> <td>15th September</td> <td>10th October</td> <td>15 Days</td> </tr> <tr> <td>3</td> <td>26th October</td> <td>25th October</td> <td>14th November</td> <td>20 Days</td> </tr> <tr> <td>4</td> <td>25th November</td> <td>16th November</td> <td>19th December</td> <td>24 Days</td> </tr> </tbody> </table> <p>Regular delays of greater than (3-5 days) from when monies deposited within the PBA to when subcontractors were paid were highlighted. Also, there was evidence of subcontractors being paid at different intervals i.e., differing payment runs throughout the month.</p> <p>WPPN 04/21 also outlines that:</p> <p style="padding-left: 40px;">‘As sub-contractors / suppliers cannot be compelled to join a PBA, should they opt out, Welsh Public Sector should confirm and document the reasons for opting out with those sub-10</p>	Month	Payment Due Date	Date Deposited Within PBA	Latest Subcontractor Payment Run	Cumulative days from payment due date to payment run.	1	26 th July	27 th July	5 th September	40 Days	2	25 th September	15 th September	10 th October	15 Days	3	26 th October	25 th October	14 th November	20 Days	4	25 th November	16 th November	19 th December	24 Days	<p>Potential risk of:</p> <ul style="list-style-type: none"> Project non-compliance with Welsh Government guidelines.
Month	Payment Due Date	Date Deposited Within PBA	Latest Subcontractor Payment Run	Cumulative days from payment due date to payment run.																						
1	26 th July	27 th July	5 th September	40 Days																						
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3	26 th October	25 th October	14 th November	20 Days																						
4	25 th November	16 th November	19 th December	24 Days																						

<p><i>contractors / suppliers. This will provide an audit trail should businesses opting out subsequently encounter payment / cash-flow issues and allow WPS to check that contractors / suppliers opting out were clear about how PBAs operate and the potential benefits to them and to ensure that they had not been put under any pressure to opt out by any third party.'</i></p> <p>The Health Board had also not received any opt-out forms from subcontractors, creating uncertainty regarding their adherence to the provided guidance. This was brought to the attention of the SCP, NWSSP:SES, and Welsh Government during 2023. Regrettably, no progress had been reported in resolving these issues at the time of this report.</p>		
Recommendations		Priority
4.1	Management should continue to work with the Supply Chain Partner to ensure that subcontractors are promptly paid for certified work.	Medium
4.2	Efforts should be increased to obtain opt-out forms from subcontractors that chose not to participate in the Project Bank Account.	Low
Agreed Management Action		Target Date
4.1	Agreed. The timely payment of subcontractors will continue to be monitored and raised with the SCP.	June 2024
4.2	Agreed. The SCP will be asked again to provide the opt-out forms for appropriate subcontractors.	July 2024
		Responsible Officer
		Project Director
		Project Director

Matter Arising 5: Programme Management – Amendments (Operation)	Impact
<p>A programme update (AP12) was approved in February 2024 extending the contract completion date to 28th November 2024. As previously noted, this programme was based on unrestricted access across UHB sites, which is unlikely in a live hospital environment – with a high likelihood that further extensions may be necessary.</p> <p>The UHB, in conjunction with its advisers, had prepared various scenarios based on spend profiles to date to estimate a more realistic completion date (May 2025 – see table MA1)</p> <p>Proactive project management action was recognised in the consideration and development of these programme scenarios. However, there had been no input from the SCP’s planners or construction managers into this process i.e. inputting their knowledge and experience from this project and lessons learned from the fire precautions works undertaken at WGH.</p> <p>Works to the underground ducts had also been required from the project outset. An instruction to proceed with the associated works had only been issued to the SCP at a review meeting held at the end of January 2024; with a definitive start date not being included within the current programme AP12:-</p> <p>Since the conclusion of audit fieldwork, an extensive programme review had been prioritised that had given increased assurance on the extent of future potential prolongation. There was also confirmation of the timeframes for the start and finish to the underground duct works.</p>	<p>Potential risk that:</p> <ul style="list-style-type: none"> The Health Board may incur prolonged programme and increased costs due to the unrealistic programme.
Recommendations	Priority
<p>5.1 The current programme should be reviewed to ensure the experience of all parties (including the supply chain partner) is considered, to enable a more robust completion date to be determined.</p>	<p>Medium</p>
<p>5.2 Works surrounding underground ducts should be fully defined and specific dates included within the programme.</p>	<p>Medium</p>

5.3	Assurance should be sought that any delays attributed to the Supply Chain Partner (or it's appointed design team) in relation to the underground ducts that impact the overall programme (and any associated cost impact) will not be the responsibility of the UHB.	Medium	
Agreed Management Action		Target Date	Responsible Officer
5.1	Actioned since audit fieldwork	N/A	N/A
5.2	Actioned since audit fieldwork	N/A	N/A
5.3	Agreed. The UHB's advisers will be instructed to seek assurances from the SCP surrounding any potential delays to the underground ducts.	July 2024	Project Director

Matter Arising 6: Performance Management – Performance Information (Design)		Impact
<p>The project had experienced continuing time delays and was forecasting an outturn overspend position. Performance issues had been raised throughout construction and documented within the Project Manager’s report. Examples of performance issues are detailed below:</p> <ul style="list-style-type: none"> • Performance issues with the design team (architects) e.g., timely and accurate surveys. This had been raised within the previous audit report (February 2023). • Productivity of the SCP subcontractors/suppliers in terms of achieving target cashflow. • SCP unable to access areas within the hospital in accordance with the programme. • Relationships with the SCP and subcontractors e.g., replacement fire doors <p>It was evident that management had sought to take actions to mitigate the issues identified e.g. by escalating concerns within the SCP and holding direct meetings with the SCP’s subcontractors.</p> <p>However, it was unclear what impact the various performance issues had on the project i.e., quantified breakdown of time and cost impacts where attributed to the SCP, Health Board and/ or adviser performance.</p> <p>The project would benefit from an interim evaluation of the performance of all parties to date, the contract mechanism and internal controls applied to provide increased assurance on the delivery of the remaining elements of the project.</p>		<p>Potential risk that:</p> <ul style="list-style-type: none"> • The Health Board may incur prolonged timescales and increased costs because of the poor performance of appointed experts.
Recommendations		Priority
6	An evaluation of performance to date should be undertaken to inform future phases of the fire enforcement works.	Medium
Agreed Management Action		Target Date
		Responsible Officer

6	Agreed. An initial meeting had been held to discuss lessons learned and the arrangements for future phases to inform phase 2 works. This will be completed and reported to the Project Group. This is a joint task and finish group with NWSSP.	August 2024	Project Director
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Matter Arising 7: Supervisor Role – Performance Information (Design)		Impact
<p>At the initiation of the project, the UHB engaged an external contractor to serve as the supervisor. Regular site visits occurred, accompanied by the production of monthly reports submitted to the Project Group. However, these reports lacked the necessary details regarding the quantity of snags, defects, or observations essential for the SCP to address. Consequently, the ability to proactively monitor/ manage the SCP's performance in rectifying issues was constrained.</p> <p>Furthermore, there was limited proactive notification about the availability of rooms or areas for inspection by the supervisor, except for rooms that were not easily accessible post-completion. In mid-January 2024, an improvement was implemented through the SCP recording available rooms on a notice board. Weekly meetings involving the Project Manager, UHB operational staff, and the SCP were held to discuss a three-week lookahead for planned work. Historically, this information had not been shared with the supervisor. During audit fieldwork, this issue was raised with management, actioned and, the supervisor was subsequently included in the distribution of this information.</p>		<p>Potential risk that:</p> <ul style="list-style-type: none"> The Health Board may incur time prolongation and increased costs due to snagging not being timely rectified.
Recommendations		Priority
7	Performance management information regarding the prompt rectification of snags, defects, etc., should be consistently provided, highlighting trends monthly. This reporting should include details on completed items, outstanding issues, and other relevant updates.	Medium
Agreed Management Action		Target Date
7	Agreed. The supervisor will be requested to provide the required additional performance information as part of their June 2024 report. Note reports received from MWWFRS had been hugely supportive of the quality of workmanship report within this phase 1 fire programme.	June 2024
		Responsible Officer
		Project Director

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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 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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