

Withybush General Hospital - Fire Precautions Phase 1

Final Internal Audit Report

April 2023

Hywel Dda University Health Board

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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 Programme: Phase 1; and the performance, against its key delivery objectives i.e., time, cost, and quality.

This is the second audit of the Phase 1 project, the previous review having determined **Reasonable Assurance**.

Overall Audit Opinion and Overview

Phase 1 is the current 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).



Allied with the need to demonstrate immediate action to MWWFRS, the project progressed with several uncertainties.

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). 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. These factors were partially addressed through the additional contingency provisions within the BJC. Management was working proactively with the SCP, their advisers and MWWFRS to manage/mitigate the various potential outturn scenarios.

Whilst acknowledging the above, programme and financial risks remain as follows:

- Our previous (2021/22) 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 July 2023. These delays related to additional works required post survey. All changes to the delivery programme had been assessed and scrutinised by the UHB and its advisers prior to their agreement and MWWFRS advised accordingly. 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 are mitigated by the regular and positive ongoing dialogue with the MWWFRS (the most recent site meeting held in May 2023). The MWWFRS has outlined a change in approach going forward whereby fire notice deadlines will only be

Report Classification

		Trend
 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 Project Delivery	Limited
2 Previously Agreed Actions	Substantial
3 Approvals	Substantial
4 Financial Management	Reasonable
5 Performance Management	Reasonable
6 Change Management	Reasonable
7 Risk Management	Substantial

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

extended when they are due to expire (rather than the piecemeal approach currently in place).

- Cost reports currently identify a forecast project overspend of between £0.68m and £3.66m. Positive ongoing engagement with Welsh Government (WG) and discussions re: the potential overspend were acknowledged. At the time of reporting an additional funding request was being prepared for submission and consideration by WG (April/May 2023). Accordingly, whilst recognising the ongoing UHB actions, there remains a potential risk (again considered low by management), that works may need to cease or discretionary funding applied until a funding solution is agreed.
- The UHB continued to experience performance issues with the Supply Chain Partner (SCP), specifically the relationship it had with its fire door subcontractors and the timely and appropriate redesign of notified issues. The UHB had been proactive in raising issues across its fire projects. As a result of management actions, there had been positive steps in improving performance, however, there remains a need to continually monitor performance and escalate accordingly.

Noting management actions to date, an overall **reasonable assurance** has been determined.

Key Matters Arising		Assurance Objective	Control Design or Operation	Recommendation Priority
1.1	Funding arrangements for the forecast overspend requires confirmation.	4	Operation	High
2.1	Further efforts are required to ensure the VAT reclaim position is affirmed.	4	Operation	Medium
3.1	Fire door costs required full assessment to confirm value for money.	4	Operation	Medium
4.1	The information within WG dashboard reports required updating to ensure transparency.	4	Operation	Medium
5.1	A performance review is required to learn lessons for future phases/projects.	5	Design	Medium
6.2	Further efforts are required to ensure design resolutions are delivered in a timely manner.	5	Design	Medium
7.1	Tracking of community benefits required enhancement.	5	Design	Medium

1. Introduction

- 1.1 The review was actioned in accordance with the Integrated Internal Audit Plan agreed within the approved BJC 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 (MWWFRS) Enforcement Notices and Letters of Fire Safety Matters. A phased strategy for completing the work had been agreed with MWWFRS and WG funding secured for the same in the sum of £12,957,365 incl. VAT.
- 1.3 This was the second review of the project, with the first review providing reasonable assurance (published in August 2022). At the time of the current review, work was ongoing within multiple areas across the hospital, including some particularly challenging areas i.e. Pharmacy, Day Theatres, St Caradogs etc; with a planned completion date now agreed for July 2023.

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 utilised 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 £12,957,365 incl. VAT. This included both the quantified risk contingency allocated to the UHB 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 report (February 2023) indicated that the works were forecast to be delayed by circa thirteen months against the original contract construction programme.

2.6 **Figure 1: Programme dates**

Milestone Event	Planned Date	Agreed Programme as at March 2022	Current Accepted Programme
Construction Start Date	21 June 2021	21 June 2021	21 June 2021
Anticipated Completion Date	25 July 2022	5 December 2022	21 July 2023

2.7 Since our previous review the project had shown additional prolongation of circa seven months. The principal reason for this is being attributed to additional works required post surveys and pest control issues. All the changes to the delivery programme had been progressively assessed as they arise and scrutinised by the UHB and its advisers prior to their agreement.

2.8 The UHB has maintained effective engagement and communication with MWWFRS throughout the period, advising of any programme changes. A meeting was held in December 2022 to outline the latest programme slippage, which was accepted. Subsequently a further four-week slippage had been incurred (due to pest control issues); and MWWFRS advised accordingly (April 2023).

2.9 MWWFRS had outlined a change in approach going forward whereby fire notice deadlines will only be extended when they are due to expire (rather than the piecemeal approach currently in place). While there is a potential risk of not securing an extension to a notice, this is offset by the UHB’s regular and positive ongoing dialogue with the MWWFRS.

Cost

2.10 The project funding is currently stated as:

Figure 2: Project Funding

Current Funding Position	(£M)
Works Costs	5.072
Fees	1.533
Non-Works	0.525

UHB Contingency	0.590
WG Contingency	3.833
VAT (including reclaim)	1.404
Overall	12.975

2.11 The following table summarises the current financial position with a sensitivity analysis, requested by NWSSP-SES, and produced by the UHB's Cost Adviser, of best and worst-case total outturn costs:

Figure 3: Project Forecast Outturn Cost

Current Financial Summary Position	Estimated Outturn Cost (Incl VAT)	Variance from approved funding (inc VAT)
Current Welsh Government funding allocation	£13.29m *	N/A
Forecast Outturn Cost including agreed CEs to date	£14.83m	+£1.54m
Forecast Outturn Cost including agreed CEs to date and pending CEs /risks	£15.29m	+£1.99m
Sensitivity analysis – best case	£13.97	+£0.68m
Sensitivity analysis – worst case	£16.65m	+£3.66m

*The funding assumptions above include the addition of circa £300k brought forward from Phase 2 for work in theatres.

2.12 The forecasted outturn overspend position reported above (including agreed compensation events to date) was stated as £1.54m. This is a significant increase from the previous months report (a forecast overspend of £0.26m) and was being attributed to the realisation of fire door costs.

2.13 It was apparent that the funding application needed to be prioritised given that existing funds were likely to be fully allocated by the end of May 2023. There had been positive/ongoing engagement with WG on the potential project overspend and at the time of reporting, an additional funding request was being prepared for submission and consideration by WG (April/May 2023). Accordingly, whilst recognising the ongoing UHB actions, there remains a potential risk (again considered low by management), 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 (**MA1**).

2.14 Also, it is acknowledged that once items such as the value of the VAT reclaim are agreed, the forecast overspend would become more certain. (**MA2**).

Quality

2.15 Design team performance issues (specifically the timely redesign and implementation of notified issues) continued to be an issue. The Project Manager was tracking the issues and was to raise concerns with the respective team members. An updated position was provided at draft report stage (April 2023) highlighting a much-improved position.

- 2.16 Design review and construction oversight on the part of the UHB and its agents had ensured the quality of work delivered. Careful scheduling had ensured that clinical delivery had not been adversely impacted-
- 2.17 The project is progressing materially outside of the original parameters set within the BJC. Accordingly, **limited** assurance has been determined in relation to the time, cost and quality position to date. However, this needs to be taken in the context that, as a consequence of the nature of the works, additional time and cost implications were envisaged from the outset of the project. These factors were partially addressed through the additional contingency provisions within the BJC. It is acknowledged that management were working proactively with the SCP, their advisers and MWWFRS to manage/mitigate the various potential outturn scenarios.
- 2.18 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.

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

- 2.19 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/ closed	Partially implemented / Ongoing	Outstanding
High	-	-	-	-
Medium	6	5	1	-
Low	4	4	-	-
Total	10	9	1	-

- 2.20 The one partially implemented action related to the need to demonstrate an auditable trail of identity checks for the SCP staff costs to ensure the correct rates had been applied and to avoid overpayment. Full details are provided at **Appendix B.**
- 2.21 Noting that the previously agreed recommendation had been largely implemented/closed, **substantial** assurance is provided in relation to follow-up actions. It should be noted that the remaining action is not unimportant and requires management attention prior to conclusion of the project.

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

- 2.22 Regular engagement was evident between the UHB and MWWFRS; a meeting was held in December 2022 where the overall programmes of all UHB fire safety schemes were discussed. At this meeting, the agreed completion date at WGH Phase 1 was detailed as July 2023. However, a further 4-week delay had

subsequently been incurred due to pest control issues. MWWFRS also confirmed they were comfortable with the ongoing communication with the UHB.

- 2.23 The MWWFRS visit the site monthly and are provided with further ongoing updates on the anticipated completion programme.
- 2.24 Noting the positive ongoing engagement with MWWFRS, **substantial** assurance was determined in relation to the approval mechanisms applied (between the UHB 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 on a monthly basis at both the project group and at project specific finance meetings.
- 2.26 The project cashflow position and costs attributed to the SCP were incorporated within the monthly Project Manager reports submitted to the project group.
- 2.27 The financial position had also been regularly reported internally to the UHB's Capital Sub-Committee. It was highlighted in the January 2023 report that there was a likely overspend against the total funding allocated of circa £1.54m.
- 2.28 A key indicator to inform project affordability will be the agreement of the 'interim final account' covering the phases of work which were last updated and included within the February 2023 report. We noted that the production of the interim final accounts was ongoing. Whilst not contractual, this had been initiated at the request of the UHB, highlighting good practice.
- 2.29 The UHB's appointed VAT advisors had assessed the possible VAT reclaim on the SCP's costs as £666,391. However, at the time of the current review there had been little engagement by HMRC to confirm the VAT reclaim position. At the time of reporting, management were continuing to prompt HMRC for a timely resolution, particularly recognising the imminent additional funding request to WG (**MA2**).
- 2.30 A significant element of the forecast project overspend was being attributed to additional fire door costs. Delays in receiving full fire door cost breakdowns from the supplier were being experienced. The UHB had met formally with the supplier (March 2023) to address the issue. Cost breakdowns had subsequently been provided on a phased basis. At the time of reporting a value for money exercise was being undertaken by the UHB's Cost Adviser (**MA3**).
- 2.31 The UHB reports to WG on project progress e.g., via Capital Resource Meetings, bi-monthly dashboard reporting etc. The WG dashboards include a breakdown of the project's overall financial position. Noting the same, the dashboards could be enhanced to better explain the project's sensitivity cost analysis; thereby enhancing transparency and ensuring consistency of reporting (**MA4**).
- 2.32 Whilst noting the ongoing scrutiny and reporting of the project's financial position, there remains an inherent risk of available funding from WG. Recognising dialogue is ongoing with WG, **reasonable** assurance had been determined in relation to financial control since the prior audit.

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

2.33 Key Performance indicators were produced every 6 months to assess the SCP, Cost Adviser and Project Manager's performance. SCP performance issues were raised throughout construction e.g. the following criteria was consistently scored negatively:

- *"The SCP manages the programme proactively and has put systems and procedures into place to mitigate delay and ensure change request impact is managed."*
- *"The SCP has adequate time to spend on the project and invests the necessary time to discharge their duties."*

Performance issues were 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, UHB, Advisers etc. This would ensure that lessons are learnt and identification of ways to improve performance on this or other UHB projects (**MA 5**).

2.34 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. Issues surrounding the timely responses to the information requests had been highlighted (**MA6**).

2.35 The SCP provided updates via the contractor's report and detailed the achievements against the project benchmarks. Issues surrounding the timely achievement of community benefits were noted (**MA7**).

2.36 Management advised that following proactive discussions with the SCP and supply chain members, there had been positive steps in improving performance. Management will need to continue to monitor performance via the established mechanisms through to project completion. Accordingly, **reasonable** assurance had therefore been determined in relation to performance management since the prior audit.

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

2.37 The uncertainty at the time of letting the contract and the assumption that there would be a significant amount of variation to the contract as issues were discovered and existing assumptions were confirmed was recognised (and reflected within the form of contract applied (NEC Option E).

2.38 Noting the form of contract utilised, the Director of Finance had agreed a unique set of delegated limits covering the fire projects at GGH and WGH. These arrangements allow the externally appointed Project Manager to instruct works of any value that fall within the original scope of the works and associated project objectives (i.e., work required to lift the fire notices). Other works require formal UHB sign off.

- 2.39 The UHB and its advisers had determined that none of our sampled changes required UHB formal approval. In our opinion the requirement for a general programme update of £561,410 should have been formally approved by the UHB due to the value (it is acknowledged that that this programme update was subject to scrutiny by the Project Manager prior to its agreement) (**MAS**).
- 2.40 The above issue was also highlighted at the recently issued Glangwili fire precaution report (February 2023). Accordingly, **reasonable** assurance has been determined for the change management arrangements since the prior review.

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.*

- 2.41 A project risk register was maintained and reported to the UHB as part of the monthly Project Manager's report to the project group. This risk register had been scored, risk owners assigned, and consequences of risks stated (time, cost, quality). Also, costs (best estimates, noting the nature of the works) had been applied to individual risks (where applicable).
- 2.42 Additionally, it was evident that the monthly finance meetings provided additional scrutiny of the costed risk register together with the top-rated risks. These meetings have limited membership but included the Project Director, Project Manager, Cost Adviser amongst others.
- 2.43 As at the February 2023 Project Manager's report, the cumulative remaining financial risk was detailed as £458k. We noted these forecast financial risks, were best estimates based on information provided by the SCP. The final scope and costs were still being reviewed by the Cost Adviser and would be validated, approved, or disallowed in accordance with the contract.
- 2.44 Accordingly, **substantial** assurance was determined in relation to the risk management arrangements operating at this project.

Appendix A: Management Action Plan

Matter Arising 1: Financial - Budget Position (Operation)	Impact																		
<p>The February 2023 Project Manager report forecasted an outturn overspend position, including agreed compensation events to date of £1.54m. The table below summarises the financial position including a sensitivity analysis requested by NWSSP: Specialist Estates Services, of the best and worst-case scenarios that highlight an expected overspend position in all scenarios.</p> <table border="1" data-bbox="125 624 1621 895"> <thead> <tr> <th data-bbox="125 624 824 691">Current Financial Summary Position</th> <th data-bbox="824 624 1205 691">Estimated Outturn Cost (Incl VAT)</th> <th data-bbox="1205 624 1621 691">Variance from approved funding (inc VAT)</th> </tr> </thead> <tbody> <tr> <td data-bbox="125 691 824 724">Current Welsh Government funding allocation</td> <td data-bbox="824 691 1205 724">£13.29m</td> <td data-bbox="1205 691 1621 724">N/A</td> </tr> <tr> <td data-bbox="125 724 824 758">Forecast Outturn Cost including agreed CEs to date</td> <td data-bbox="824 724 1205 758">£14.83m</td> <td data-bbox="1205 724 1621 758">+£1.54m</td> </tr> <tr> <td data-bbox="125 758 824 825">Forecast Outturn Cost including agreed CEs to date and pending CEs /risks</td> <td data-bbox="824 758 1205 825">£15.29m</td> <td data-bbox="1205 758 1621 825">+£1.99m</td> </tr> <tr> <td data-bbox="125 825 824 858">Sensitivity analysis - best case</td> <td data-bbox="824 825 1205 858">£13.97</td> <td data-bbox="1205 825 1621 858">+£0.68m</td> </tr> <tr> <td data-bbox="125 858 824 895">Sensitivity analysis - worst case</td> <td data-bbox="824 858 1205 895">£16.65m</td> <td data-bbox="1205 858 1621 895">+£3.66m</td> </tr> </tbody> </table>	Current Financial Summary Position	Estimated Outturn Cost (Incl VAT)	Variance from approved funding (inc VAT)	Current Welsh Government funding allocation	£13.29m	N/A	Forecast Outturn Cost including agreed CEs to date	£14.83m	+£1.54m	Forecast Outturn Cost including agreed CEs to date and pending CEs /risks	£15.29m	+£1.99m	Sensitivity analysis - best case	£13.97	+£0.68m	Sensitivity analysis - worst case	£16.65m	+£3.66m	<p>Potential risk that:</p> <ul style="list-style-type: none"> <li data-bbox="1704 507 2143 574">Funding is not appropriately budgeted <p>Management had been in regular dialog surrounding the expected overspend position with WG and had been set a deadline of the end May 2023 to submit an additional funding request. There had also been internal reporting to the Capital Sub- Committee surrounding advising of an expected overspend.</p> <p>At the time of reporting an additional funding request was being prepared for submission and consideration by WG (April/May 2023). Accordingly, whilst recognising the ongoing UHB actions, there remains a potential risk (again considered low by management), 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 enables the UHB to stop works and mitigate the financial risk. However, compliance with the WWFRS fire notices would be reduced.</p>
Current Financial Summary Position	Estimated Outturn Cost (Incl VAT)	Variance from approved funding (inc VAT)																	
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Sensitivity analysis - best case	£13.97	+£0.68m																	
Sensitivity analysis - worst case	£16.65m	+£3.66m																	

Recommendations		Priority	
1.1(a)	An additional funding request should be made to Welsh Government.	High	
1.1(b)	An option appraisal should be undertaken highlighting the various scenarios with associate risks if additional full, partial or no additional funding is realised.		
Agreed Management Action		Target Date	Responsible Officer
1.1 (a)	Agreed – the additional funding request is currently being compiled for consideration by Welsh Government. Welsh Government has requested this be submitted by May 2023.	May 2023	Project Director
1.1 (b)	Agreed – Should funding support not be forthcoming, an assessment will be undertaken of alternative means of funding this deficiency, with a report issued to Executive Directors.	July 2023	Project Director

Matter Arising 2: Financial – VAT Reclaim (Operation)		Impact	
<p>The UHB VAT Advisers predicated a 29.18% VAT reclaim and were currently seeking approval from HMRC. The Cost Adviser had set out two scenarios within the monthly reporting</p> <ul style="list-style-type: none"> Scenario 1 (best case) reclaim at 29.18%: £666,391. Scenario 2 (prudent sensitivity analysis) reclaim at 15.0%: £342,559. <p>The VAT reclaim process had been ongoing for several months and there had been little engagement feedback from HMRC despite multiple requests being made by the UHB. However, without confirmation from HMRC, it remained difficult to accurately forecast the outturn position. This could positively impact the current reported overspend.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> Uncertainty surrounding the projects financial position 	
Recommendations		Priority	
2.1	Further efforts are required to gain assurance surrounding the level of VAT reclaim at this project.	Medium	
Agreed Management Action		Target Date	Responsible Officer
2.1	Agreed – We will continue to contact HMRC monthly to determine a guide date from HMRC to when they will respond.	September 2023	Project Director

Matter Arising 3: Financial – Value for Money (Operation)		Impact	
<p>As at the February 2023 Project Manager report, the forecast overspend was reported as £1.54m; this was compared to the previous months report of £0.26m. Most of this increase (circa £1.3m) was attributed to the additional replacement fire door costs. The reports also highlighted further potential additional costs of £320k relating to additional fire door replacement.</p> <p>The SCP had provided a costed schedule for the replacement of the fire doors; however, a full breakdown of the costs was not provided. Management had met with the door supplier (March 2023) to discuss and had gained assurance that a detailed cost breakdown would be provided so that appropriate scrutiny could be undertaken.</p> <p>At the time of reporting, passed information was being provides by the suppliers, however, at the time of reporting a value for money exercise was being undertaken by the UHB’s Cost Adviser.</p>		<p>Potential risk that:</p> <ul style="list-style-type: none"> The UHB may incur increased costs because of the poor performance of appointed experts. 	
Recommendations		Priority	
3.1	Costs associated with replacement fire doors should be appropriately determined with an effective audit trail being maintained.	Medium	
Agreed Management Action		Target Date	Responsible Officer
3.1	<p>Agreed – Additional information had been provided to the cost adviser by the supply chain partner to sufficiently enable the placing of orders for part of the project</p> <p>The remaining part of the project is still subject to review with additional evidence in preparation for assessment by the cost adviser.</p>	July 2023	Project Director

Matter Arising 4: Financial – External Reporting (Operation)				Impact	
<p>The latest Project Manager and Cost Adviser’s reports were embedded within the WG dashboards. The February 2023 dashboard entries were noted below:</p>				<p>Potential risk of:</p> <ul style="list-style-type: none"> Restricting discretionary funding availability Project out-turn uncertainty 	
Description	Approved budget £m Inc approved in year adjustments	Forecast out-turn £m	Variance £m		Headline Comments
Works cost					The scheme is now forecast to overspend against budget.
Main Contract	5.406	10.017	-4.611		
Secondary Contract (if applicable)	0	0	0		
Fees	1.533	1.147	0.386		
Non-Works	0.525	0.231	0.294		
Equipment (Grps 2-4)	0	0.012	-0.012		
Contingency					
SCP	0.590	0.590	0		
WG Contingency	3.833	3.833	0		
VAT (Inc and Reclaim if applicable)	1.404	2.141	-0.737		
HEALTH BOARD BUDGET SUMMARY	13.921	13.548	-0.257		
<p>The forecast outturn UHB budget summary was presented as a forecast overspend position of £257k. However, at the associated project reports, a range of forecasted outturn costs (overspend) were being reported between £340k and £2.69m based on a sensitivity analysis. There was no reference of this within the notes section of the dashboard.</p>					

It was acknowledged that this was one of a range of reports prepared and presented to WG and a level of assurance may be attained that the sensitivity analysis had been reported via NWSSP: SES and via the Capital Review Meetings. However, reporting should be transparent and consistent.		
Recommendations		Priority
4.1	Enhancement should be made to the dashboard reports, to ensure a full range outcome are appropriately presented.	Medium
Agreed Management Action		Responsible Officer
4.1	Agreed – additional details will be provided through the dashboard return.	Project Director
		Target Date
		June 2023

Matter Arising 5: Performance – Project Management (Operation)		Impact	
<p>The project had experienced continuing time delays and forecasting an outturn overspend position. Performance issues had been raised throughout construction and documented within the Project Manager 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 (August 2022). • Productivity of the SCP subcontractors/suppliers; over the period July 2021 – January 23 it was highlighted an average 8.72% shortfall in productivity compared to the BJC. • Adverse Performance of the UHB appointed specialist e.g., pest control. • 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 as the issues identified e.g. by escalating concerns within the SCP and holding direct meetings with the SCP’s subcontractors. However, it was unclear how much impact the various performance issues have had on the project i.e., quantified breakdown of time and cost impacts associated with SCP, UHB and adviser performance.</p>		<p>Potential risk that:</p> <ul style="list-style-type: none"> • The UHB may incur increased costs because of the poor performance of appointed experts. 	
Recommendations		Priority	
5.1	A review should be undertaken to analyse and learn lessons of performance issues at this project, so that similar issues and other similar projects can be mitigated at an early stage.	Medium	
Agreed Management Action		Target Date	Responsible Officer
5.1	Agreed – a lessons learned exercise will be undertaken covering the performance issues raised above and results used to inform future projects of this type. We will contact NWSSP SES to	February 2024	Project Director

	discuss the facilitation of this exercise given the wider learning possible.		
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Matter Arising 6: Performance – Request for Information (Operation)		Impact								
<p>The request for information process was administered by the UHB’s Project Manager. As of March 2023, there had been 170 requests for information, which were broken down as follows.</p> <table border="1"> <thead> <tr> <th>Responded/closed</th> <th>Responded/overdue</th> <th>Overdue</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>65</td> <td>70</td> <td>35</td> <td>170</td> </tr> </tbody> </table> <p>The following was highlighted from our review of the tracker:</p> <ol style="list-style-type: none"> Of the 35 overdue requests for information, none had a revised target date or commentary surrounding the rationale for the delay. Three of the overdue actions had no documented description of the request. <p>It was unclear whether the responded/overdue requests for information were outstanding or was an administrative oversight surrounding timely close out. We noted that the Project Manager had subsequently requested a meeting with all parties involved to review the data thus ensuring a more accurate position going forward. Following the issue of the draft report, an updated position had been established that highlighted an improved position.</p>		Responded/closed	Responded/overdue	Overdue	Total	65	70	35	170	<p>Potential risk that:</p> <ul style="list-style-type: none"> The UHB may incur increased costs because of the poor performance of appointed experts.
Responded/closed	Responded/overdue	Overdue	Total							
65	70	35	170							
Recommendations		Priority								
6.1	A review of the information contained within the tracker should be undertaken to ensure an accurate position was being presented.	Low								
6.2	Project group should proactively monitor timely resolution of the request for information process.	Medium								
Agreed Management Action		Responsible Officer								
		Target Date								

6.1	Agreed – this was completed during April 2023.	N/A	N/A
6.2	Agreed – This will form a specific part of the PM report and will receive scrutiny at the monthly Project Group meetings.	June 2023	Project Director


Matter Arising 7: Performance – Community Benefits (Operation)			Impact								
<p>The SCP had outlined their approach to community benefits within their Confirmation Notice 01. The February 2023 Project Manager report (which included the contractor’s report) detailed the achievement against the project benchmarks. However, the following was noted:</p> <table border="1"> <thead> <tr> <th>Numbers of community benefit identified</th> <th>Achieved/on track</th> <th>Outstanding/In Progress</th> <th>Not achieved</th> </tr> </thead> <tbody> <tr> <td>22</td> <td>10</td> <td>10</td> <td>2</td> </tr> </tbody> </table> <p>It was observed that:</p> <ul style="list-style-type: none"> • There was an absence of meaningful target dates for the achievement of identified benefits. • At three of the community benefits that were reported as in progress there was little meaningful commentary as to how these would be progressed/achieved e.g. “Although we have yet to undertake anything within the community, we have made good community connects to reach this target”. 			Numbers of community benefit identified	Achieved/on track	Outstanding/In Progress	Not achieved	22	10	10	2	<p>Potential risk that:</p> <ul style="list-style-type: none"> • Lessons are not learnt to inform future projects
Numbers of community benefit identified	Achieved/on track	Outstanding/In Progress	Not achieved								
22	10	10	2								
Recommendations			Priority								
7.1	Tracking of the community benefits should be updated to reflect target dates with meaningful commentary as to the current position.		Medium								
7.2	A summary position of the performance for implementing community benefits should be routinely reported.		Low								
Agreed Management Action		Target Date	Responsible Officer								
7.1	Agreed – an updated position will be provided through the commercial reports that are submitted to the Project Group.	June 2023	Project Director								


7.2	Agreed – This will form a specific part of the PM report and will receive scrutiny at the monthly Project Group meetings.	June 2023	Project Director
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Matter Arising 8: Change Management (Operation)	Impact
<p>The Project Manager oversees the operation and monitors the effectiveness of the change management and authorisation system. Due to the nature of the Option E contract, changes will inevitably occur. It is therefore imperative that robust mechanisms are implemented to provide a controlled and informed means of varying the project scope.</p> <p>A sample of changes totalling circa £600,000 was reviewed. All changes were administered in accordance with the contract and sufficient backing evidence was provided in support of the anticipated costs.</p> <p>From the total sample of changes, the UHB and its advisers had determined that none required UHB formal approval. Generally, this assessment was accepted, except the requirement for a general programme update, with an associated cost of £561,410, which noting its value, in our opinion should have been formally approved by the UHB.</p> <p>Reporting of project changes was via the monthly Project Manager’s reports (commercial report annex) whereby a tracker was produced and updated regularly that highlighted details of the changes.</p> <p>This tracker was reviewed, and the following observations were made:</p> <ul style="list-style-type: none"> • Most compensation event descriptions reviewed were vague and ambiguous e.g., a number noted as “observations from site surveys” with no further details supplied. • There was no provision for recording compensation events that were outside of the scope of the originally intended fire precautions upgrade works. <p>The agreed value for compensation events was based on quotations; however, under the NEC Option E contract, the UHB pays the actual cost. Accordingly, the amount paid may not reflect the quoted price and would be agreed in line with the monthly valuation. The Project Manager report should be updated to clarify the status of the same i.e., quotation/final agreed costs.</p> <p>Similar issues had been reported at the Glangwili fire precautions phase 1 project audit (February 2023).</p>	<p>Potential risk that:</p> <ul style="list-style-type: none"> • Inadequate controls to manage project changes

Recommendations		Priority	
8.1	No specific recommendation made noting previous issues raised at the Glangwili project reported to the February 2023 ARAC meeting.	N/A	
Agreed Management Action		Target Date	Responsible Officer
8.1	See Glangwili Hospital Fire Precautions Phase 1 project audit (February 2023).	-	-

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

WGH Fire Precautions – Phase I (August 2022)				Previously providing 	
Ref	Area	Previously agreed action	Current Status	Revised Responsibility & Timescale	Priority Rating
Governance Arrangements					
1.1	Project Execution Plan	The Project Execution Plan should be reviewed (at appropriate intervals) to ensure it remains relevant to the current stage of the project.	Implemented -An updated Projected Execution Plan had been produced.	N/A	Medium
2.1	Project bank Account	Further work is required to ensure the Project Bank Account is established and operating in line with WG policy.	Closed – a Project Bank Account was not required at this project. This was also communicated as part of the WG dashboard reports.	N/A	Low
Contract management					
4.1	Accurate Assessment	The Project Manager report should be updated to reflect an accurate assessment of the status of project contract documentation	Implemented – The Project Manager report now includes the status of contracts.	N/A	Low
4.2	Completeness of reporting	The supervisor’s contract should also be included within the Project Manager reports in the NEC contract status schedule (until completion)	Implemented – The Project Manager report now includes details of the supervisor’s contract.	N/A	Low
Monitoring and Reporting					


WGH Fire Precautions – Phase I (August 2022)					Previously providing 
Ref	Area	Previously agreed action	Current Status	Revised Responsibility & Timescale	Priority Rating
5.1	Dashboard Reporting	Figures within the WG Dashboard report should be consistent with the Project Manager, Cost Adviser and any other reports that accompany the submission.	Implemented – An updated position had been provided.	N/A	Medium
Cost Management					
7.1	Valuation - Identity Checks	Identity checks should be undertaken to ensure correct labour rates are being applied	Partially implemented – it was clear that the external project manager had scrutinised CV of SCP staff. However, noting the labour-intensive nature of the works and the SCP intention to change a number of key staff, it is important that a fully auditable trail is maintained linked to staff rates being applied.	July 2023 Project Director	Medium
7.2	Valuation - Labour Hours	Additional labour rates should be contractually agreed by the UHB.	Implemented –appropriate deductions had been made.	N/A	Medium
7.3	Valuation - Disallowed Costs	Additional information should be supplied differentiation disallowed and unsubstantiated costs.	Implemented – Cost reporting had been appropriately updated	N/A	Low
9.1	Cost Benchmarking	The UHB should ensure the interim cost benchmarking exercise is completed, providing assurance on	Implemented – An interim cost benchmarking exercise was completed. Audit notes this process is ongoing and as the	N/A	Medium

WGH Fire Precautions – Phase I (August 2022)					Previously providing 
Ref	Area	Previously agreed action	Current Status	Revised Responsibility & Timescale	Priority Rating
		the ongoing affordability (or otherwise) of the project.	project progresses the affordability of the project becomes clearer.		
Performance management					
10.1	Architects Performance	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	Implemented – Multiple meetings had taken place and improvement had been documented with the Project Manager monthly reports.	N/A	Medium

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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