

Financial Safeguarding – Maintenance Team Led Work

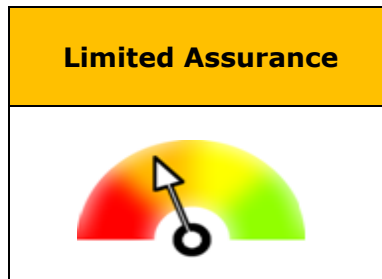
Final Internal Audit Report

2019/20

Hywel Dda University Health Board

NHS Wales Shared Services Partnership

Audit and Assurance Services



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Audit and Assurance Services conform with all Public Sector Internal Audit Standards as validated through the external quality assessment undertaken by the Chartered Institute of Internal Auditors.

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

Please note:

This audit report has been prepared for internal use only. Audit & Assurance Services reports are prepared, in accordance with the Service Strategy and Terms of Reference, approved by the Audit Committee.

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1. Introduction and Background

Fraud within the NHS Capital, Estates and Facilities functions has been more prevalent in recent years, with two recent examples being:

- A well-publicised incident within NHS Wales where three Estates officers were jailed in November 2018 after being found guilty of defrauding the NHS of £822,000; and
- Another in Gloucestershire Hospitals NHS Foundation Trust where a senior Estates official was similarly sentenced for abusing his position and defrauding the NHS of £870,490.

Therefore, in accordance with the agreed 2019/20 internal audit plan, the financial safeguarding review sought to affirm that there were effective controls and systems operating to deter and safeguard against potential fraud within Hywel Dda University Health Board's ('the UHB') capital, estates and facilities function.

This review focuses on projects / contracts led by the Maintenance Team and should be read in conjunction with the separate report produced on the Design Team.

2. Scope and Objectives

The objective of the audit was to evaluate and determine the adequacy of the systems and controls in place for governance at the project, in order to provide reasonable assurance to the Audit Committee that appropriate arrangements were in place to achieve the desired objectives / outcomes.

The scope of the audit was limited to procurement exercises associated with capital projects which were financed by discretionary funding [below £1m], pre-planned maintenance and reactive maintenance programmes.

The audit did not cover major capital projects, or the purchase of medical devices.

Accordingly, the scope and remit of the audit included the following:

- **Declarations of interest** – assurance that:
 - Appropriate guidance and procedures exist for the declarations of interest and compliance is demonstrated in respect of the same; and
 - Appropriate arrangements are in place to enable concerns and breaches to be raised; and
 - Appropriate training is afforded to relevant staff.
- **Quotation / Tender / Local Order processes** – assurance that:

- An appropriate governance framework is in place in respect of the procurement, tender, contract letting, local order processes (both manual and automated); and
- Compliance is demonstrated against established internal control framework (and best practice) for selection and appointment
- **Segregation of duties / delegated authority** - assurance that:
 - Appropriate guidance and procedures exist for segregation of duties in the management and selection of quotes/tenders/local orders; and compliance is demonstrated in respect of the same.
 - All approvals are appropriately sought and decisions are appropriately authorised and adequately informed.
- **Verification of contractor / supplier arrangements** – assurance that:
 - Verification is undertaken, prior to the appointment of contractors/suppliers, including adequate financial vetting, verification of positions held by key directors; and
 - Information is produced on the award of contracts, fair rotation of contractors, analysis of key suppliers etc. – allowing analysis of tender/quotation returns and to identify any patterns of unusual behaviour.
- **Monitoring and reporting** - reporting and accountability lines are well defined, understood and applied.
- **Verification of works completed** – assurance that works are completed in accordance with award criteria.
- **Stock control** – assurance that appropriate stock control systems are in place [including re-ordering, issue and return] to manage the materials utilised in delivery of pre-planned and reactive maintenance; and projects managed by Maintenance.
- **Other** – review of any other issues relevant to the general objectives above which may arise during the review.

3. Associated Risks

The potential risks considered in the review are as follows:

- Breach of mandatory regulations;
- Non-compliance with established internal controls impacting the achievement of project objectives;

- Tender arrangements did not comply with local/national requirements and value for money was not demonstrated;
- Tender processes were not sufficiently robust to minimise / mitigate collusion and/or fraud;
- Personal interests, or interests that they owe to another body, influenced or affected the individual's decision making;
- Poor risk identification and management resulted in the UHB being un-informed in relation to cost, time and quality performance; and
- Failure to prioritise high-risk areas in the estate.

OPINION AND KEY FINDINGS


4. Overall Assurance Opinion

We are required to provide an opinion as to the adequacy and effectiveness of the system of internal control under review. The opinion is based on the work performed as set out in the scope and objectives within this report. An overall assurance rating is provided describing the effectiveness of the system of internal control in place to manage the identified risks associated with the objectives covered in this review.

Some compliance was noted with the established control framework. However, application of the expected standards was lacking in all of the objective areas reviewed:

- There is a need to develop local procedures for the appointment of contractual arrangements that sit beneath the framework of Standing Financial Instructions and Standing Orders;
- Compliance with the Single Tender Procedure was not consistently evident;
- The arrangements for declarations of interest need improving;
- The requirement for completion of a declaration of non-collusion needs to be included at tendered contracts;
- The segregation of duties in discretionary capital tendered / quoted projects needs strengthening;
- The local decision in relation to thresholds for financial vetting need review;
- Further details are required within the monitoring reports prepared for all areas [discretionary capital projects, pre-planned maintenance and reactive maintenance]; and
- The management of stock, albeit now at a low level, needs improving.





Against the context of the matters detailed above, the overall level of assurance has been assessed as **limited**.

RATING	INDICATOR	DEFINITION
Limited Assurance		The Board can take limited assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with moderate impact on residual risk exposure until resolved.

The overall level of assurance that can be assigned to a review is dependent on the severity of the findings as applied against the specific review objectives and should therefore be considered in that context.

5. Assurance Summary

The summary of assurance given against the individual objectives is described in the table below:

Assurance Summary					
1	Declarations of interest		✓		
2	Quotation / Tender / Local Order processes		✓		
3	Segregation of duties / delegated authority		✓		
4	Verification of contractor / supplier arrangements		✓		
5	Monitoring and reporting			✓	
6	Verification of works completed			✓	
7	Stock control		✓		

* The above ratings are not necessarily given equal weighting when generating the audit opinion.

Design of Systems/Controls

The findings from the review have highlighted **8** issues that were classified as weaknesses in the system control/design for Financial Safeguarding (Maintenance Team led work).

Operation of System/Controls

The findings from the review have highlighted **9** issues that were classified as weaknesses in the operation of the designed system/control for Financial Safeguarding (Maintenance Team led work)

6. Summary of Audit Findings

The key findings are reported within the Management Action Plan (**Appendix A**).

To focus the audit testing on external contractual appointments made by the UHB since April 2019, schedules were requested to determine the number of contracts in place and total value. See below:

Area	Led by	Number	Approved allocation / value
Pre-planned maintenance	Maintenance Team	Not defined	Circa £449,450
Reactive maintenance [PPH]	Maintenance Team	Not defined	Circa £7,000
Reactive maintenance [GGH]	Maintenance Team	Not defined	Circa £41,000
Discretionary Capital Projects <£1m	Design Team	4	Circa £704,620
Discretionary Capital Projects <£1m (Environmental)	Maintenance Team	26	Circa £411,000
Discretionary Capital Projects <£1m [Infrastructure]	Maintenance Team	15	Circa £334,000

Concerns relating to the adequacy and accuracy of the above information is highlighted within this report.



6.1 Declarations of interest

We sought assurance that appropriate guidance, procedures were available for declarations of interest, and compliance was demonstrated in respect of the same. We also sought assurance that appropriate arrangements were in place to enable concerns and breaches to be raised; and assurance that appropriate training is afforded to relevant staff.

A governance framework was in place for declarations of interest, namely the Standards of Behaviour Policy, which was available for all members of UHB staff via the intranet.

The policy stated that *'all staff employed in areas of deemed specific 'high risk' will be asked to complete a declarations of interest form'*. Included in

the 'high risk' category were Facilities Operational Services staff and Facilities Specialists Services staff. To confirm compliance, our review was limited to those named officers involved in the appointment processes of external contractors sampled during this audit.

With the exception of two projects, both of which had the contractor selection process managed by NWSSP: Procurement Services, there was no evidence of such declarations having been obtained.

It was noted that this had been raised, as a recommendation within the Estates Directorate Internal Audit, therefore will not be replicated in this report (see **recommendation 1**).

Noting the recommendation raised in the Estates Directorate Internal Audit review [19/20] for a log to be maintained centrally and interests to be reported quarterly to the Directorate team meeting, **limited assurance** has been determined.

6.2 Quotation / Tender / Local Order processes



We sought assurance that an appropriate governance framework was in place in respect of the procurement, tender, contract letting and local order processes (both manual and automated); and that compliance was demonstrated against an established internal control framework (and best practice) for selection and appointment.

Governance framework

Standing Financial Instructions, Standing Orders and the Single Tender Procedure were all readily available to provide guidance in respect of procurement processes.

There was no evidence of any operational procedures specific to the Maintenance team to assist in progressing procurement processes; nor evidence of adherence to the Capital Investment Procedure when managing capital projects (**recommendation 2**).

Compliance with Procedures

Details of the projects / contracts reviewed are set out within the report as follows:

- Appendix C: Pre-planned Maintenance (8 contracts);
- Appendix D: Reactive Maintenance (5 contracts);
- Appendix E: Discretionary Capital Projects [Maintenance] (8 contracts).

The procurement routes followed by the UHB for the appointment to the 21 contracts / projects were as follows:

- Bravo platform: 2
- Multi Quote platform: 1

- Quotation exercise: 5
- Single Tender: 3
- Not competitively tendered (below £5k): 10

Compliance with procedures was confirmed in the management of the number of contractors selected for tender / quotation and the evaluation process prior to appointment. Deviation from governance framework was noted for Maintenance led DCP projects:

- The invitation to tender for three of the projects reviewed had been via a telephone conversation, rather than formal written communication. There was no evidence that parties had been provided with the same brief; or the deadline for submission **(recommendation 3)**.
- For all eight of the DCP Maintenance led projects, there was no evidence of formal notification of award by an appropriate officer **(recommendation 4)**.
- For sixteen of the projects led by maintenance there was no evidence of an evaluation report to further inform, and support, the authorising officer's decision **(recommendation 4)**.
- Three of the eight PPM maintenance contracts reviewed had been appointed under a Single Tender Action. Compliance against the Single Tender Procedure was reviewed and deviation noted for two **(recommendation 5)**:
- As cited, in the Standing Financial Instructions and Capital Investment Procedure, competitive exercises are required for work above £5k. There is an expectation that tender/quotation documents should contain standard statements governing rules regarding bribery and corruption. For all tenders received for DCP [Design] projects, there was a signed certificate of non-collusion from the relevant contractor. However, similar certificates were not evidenced for the remaining sampled contracts **(recommendation 6)**.

Noting the absence of the controls for specification, evaluation and notification of tenders / quotations, the risk of fraudulent activity / collusion is heightened. Therefore, **limited assurance** has been determined.

6.3 Segregation of duties / delegated authority



We sought assurance that appropriate guidance and procedures were available for segregation of duties in the management and selection of quotes / tenders / local orders and that compliance was demonstrated in respect of the same. We also sought assurance that approvals were appropriately sought and decisions were appropriately authorised and adequately informed.

For all of the DCP (Maintenance) projects, it was noted that a single officer was responsible for undertaking the majority of the steps in the tender / quotation process (**recommendation 7**).

For the appointment of pre-planned maintenance contracts, in certain instances segregation was evident through the involvement of NWSSP: Procurement Services (two of the eight contracts reviewed: values more than £25k) and use of the MultiQuote system (one of the eight contracts reviewed: value less than £25k).

Application of the delegated limits for approval of contracts was evident. For two of the pre-planned contracts reviewed, delegation to another officer during a period of absence was noted. Confirmation was sought that this was in accordance with Oracle procedures.

Noting the lack of adequate segregation of duties for work managed by the maintenance team; and non-compliance with expected delegated authority **limited assurance** has been determined.

6.4 Verification of contractor / supplier arrangements



We sought assurance that appropriate verification was undertaken prior to the appointment of contractors / suppliers, including adequate financial vetting and verification of positions held by key directors. We also sought assurance that information was produced on the award of contractors, analysis of key suppliers etc. - allowing analysis of tender / quotation returns and to identify any patterns of unusual behaviour.

Financial vetting

Section 5 of Schedule 1 to the Standing Financial Instructions states '*it is the responsibility of the Director of Finance, Planning & Performance to establish that all firms on the tender list are financially sound and professionally competent through a pre-qualification / financial vetting process undertaken by a suitably qualified and experienced procurement officer*'

For the 21 appointment processes reviewed relating to the maintenance team, financial vetting was only identified as having been undertaken for one pre-planned maintenance contract. This was an exercise managed by Procurement; for which, two years of financial statements were requested on the basis that the contact value was above £50k.

NWSSP: Procurement Services stated that minimal financial vetting is undertaken for contracts of low to medium value (i.e. below circa £30k) largely due to the use of legacy contractors. However, this is contrary to the UHB's Standing Financial Instructions (**recommendation 8**).

Of the 21 projects / contracts reviewed, 14 were below the implied £25k limit therefore would not be subject to a financial vetting exercise. However, the UHB should not lose sight of the potential strategic importance of these lower value appointments and the impact issues with

financial stability could have on the operational activity of the UHB
(recommendation 9).

Reporting on award of contractors

Schedule 1 (Section 7.25) of the UHB's Standing Financial Instructions state that '*overall monitoring of the contracts awarded shall be the responsibility of the Director of Finance, Planning and Performance, who shall present a report annually to the Board detailing the number and value of all contracts placed during the previous financial year in excess of the Health Board's tender limit*'.

The above implies that this is required only for tendering exercises entered into which are above the £25k threshold.

Listings of contracts let for pre-planned and reactive maintenance were not maintained centrally. Whilst records were maintained by individual sites, there was a lack of standardisation in the documentation retained
(recommendation 10).

An annual report was prepared addressing the capital investment plans; key investments through the DCP; capital projects being undertaken; acute and other project developments; infrastructure/statutory projects; property performance; and estates key performance indicators.

To enhance existing reporting, reports prepared by other UHBs were reviewed. It was noted additional details including the number of suppliers / contractors approached; details of the suppliers / contractors who provided a return; and detail of the successful supplier / contractor are usually provided. The provision of such information should allow further reporting on patterns of tendering, as well as total UHB spend by supplier
(recommendation 11).

It is appreciated that the SFI requirement for reporting implies this applies to awards above £25k, but no summary information was maintained by the Maintenance team to provide similar management information on either pre-planned or reactive activities **(recommendation 11).**

Noting the lack of evidence of financial vetting of contractors prior to appointment; and no comprehensive and up to date listing of contractors appointed to undertake both pre-planned and reactive maintenance **limited assurance** has been determined.



6.5 Monitoring and reporting

We sought assurance that reporting and accountability lines were well defined, understood and applied.

The Capital Monitoring Forum received monthly DCP project updates for those managed by Maintenance. Comprehensive reporting included details of responsible officers, timelines, capital allocations and progress to date.

A review of DCP Maintenance reporting noted that the procurement route was not included. Where the work had been undertaken by Direct Labour Organisation (DLO) this was stated. However, there were projects where there had been tender / quotation exercises for the appointment of contractors to either assist / lead on the work, in addition to DLO, but no such information was reported (**recommendation 11**).

The Operational Delivery Group received monthly updates on the efficiency of completion of high and low risk pre-planned maintenance in accordance with the requirements of the Operational Maintenance Policy. However, there was no reporting on details of the contracts held, the scope of the tender / quotation exercise undertaken, nor the value attributed to the contract (**recommendation 12**).

As cited, in the Operational Maintenance Policy, a key performance indicator for reactive maintenance is reporting on the breakdowns [priority 1, 2 & 3] to the delivery meetings. There was no evidence to confirm this level of reporting had been undertaken nor provision of management information for instances where the work had required the appointment of an external contractor to reach a stage of completion (**recommendation 12**).

Taking into account the current level of monitoring and reporting undertaken, and recommendations for improvement, **reasonable assurance** has been determined.



6.6 Verification of works completed

We sought assurance that works were completed in accordance with award criteria.

Of the eight DCP Maintenance projects reviewed, all had been completed; but there were no certificates of practical completion. Photographic evidence was, however, provided for one project to demonstrate completion (**recommendation 15**).

Where external contractors had been used to undertake reactive work, there was no evidence to confirm physical and actual completion other than payment of the invoice. Whilst the job had been raised on the RAM system, upon issue of the request for external contractor, the job was closed at that date, rather than left as pending until physical completion (**recommendations 13 & 14**).

Whilst cognisant of minimal certificates of practical completion, the payment of the contractors invoice is taken as recognition of completion of work. As such, the level of assurance determined in this area is **reasonable**.



6.7 Stock Control

We sought assurance that appropriate stock control systems were in place [including re-ordering, issue and return] to manage the materials utilised in the delivery of maintenance work.

It was evident from the sample of Maintenance led contracts / projects, that stock was accessed. Therefore, we reviewed the arrangements in place to ensure appropriate records were maintained.

Generally, minimal stock was held by Estates following the decision taken by the UHB to reduce the overall level held, with regular recurring items being maintained by the relevant tradesman or onsite.

A review was undertaken of the processes followed at the storeroom located at Glangwili General Hospital.

As at 31 March 2019, its value was cited at £58k. Re-performance of the stock count was undertaken; however, items could not be located as the stock locations were inaccurate and the descriptions of items provided were not representative. Whilst acknowledging the level of stock held is diminishing, a full review needs to be undertaken (**recommendation 16**).

There was no control evident in the issue and return of stock items. Management provided details of a stock issue sheet, but the site visit confirmed this was not in use. Should items be used from the stock currently held, there was also no record as to whether they were all used for the required job or returned if superfluous to requirements. Re-ordering of stock was not a defined process, rather a visual review of current items (**recommendation 17**).

Furthermore, whilst the store room was locked, and noting that it was only manned for a short period at the start and end of the day, there was no log recording use of the key during the intervening periods (**recommendation 18**).

Although stock levels are being reduced, the expectation for control remains prevalent. Therefore, **limited assurance** has been determined.

7. Summary of Recommendations

The audit findings, recommendations are detailed in Appendix A together with the management action plan and implementation timetable.

A summary of these recommendations by priority is outlined below:

Priority	H	M	L	Total
Number of recommendations	8	7	2	17
Recommendation included in Estates Directorate report				1
Total recommendations				18

Finding: Declarations of interest	Risk
<p>A governance framework was in place for declarations of interest, namely the Standards of Behaviour Policy, which was available for all members of UHB staff via the intranet.</p> <p>The policy stated that <i>'all staff employed in areas of deemed specific 'high risk' will be asked to complete a declarations of interest form'</i>. Included in the 'high risk' category were Facilities Operational Services Staff and Facilities Specialists Services Staff. To confirm compliance, review has been limited to those named officers involved in the appointment processes of external contractors sampled during this audit.</p> <p>With the exception of two projects, both of which had the contractor selection process managed by Procurement, there was no evidence of such declarations having been obtained.</p> <p>It was noted that this had been raised, as a recommendation within the Estates Directorate Internal Audit, therefore will not be replicated in this report.</p>	<p>Key staff in positions of influence do not declare potential conflicts of interest.</p>
Recommendation 1	Priority level
<p>See Estates Directorate Internal Audit report issued October 2019</p>	

Finding: Governance Framework	Risk
<p>There is an appropriate governance framework in place via the Health Board’s Standing Orders and Standing Financial Instructions, which requires:</p> <p><i>11.9.1 To ensure that the LHB is fully compliant with EU Directives, UK Regulations and Welsh Ministers’ guidance, the LHB shall ensure that it shall have procedures that set out:</i></p> <ul style="list-style-type: none"> <i>a) Requirements and exceptions to formal competitive tendering requirements;</i> <i>b) Tendering processes including post tender discussions;</i> <i>c) Requirements and exceptions to obtaining quotations;</i> <i>d) Evaluation and scoring methodologies</i> <i>e) Approval of firms for providing goods and services.</i> <p><i>11.9.2 All procedures shall reflect the Welsh Ministers’ guidance and the Model Standing Orders, Reservation and Delegation of Powers for LHBs.</i></p> <p>There is also a Capital Investment Procedure, which was developed to provide an overview of how the Health Board bids, receives, prioritises and utilises its capital resource. This was not implemented at the Maintenance Team led projects.</p> <p>Furthermore, there were no alternative operating procedures in place for maintenance staff to follow when appointing contractors to undertake pre-planned and / or reactive maintenance.</p>	<p>Non-compliance with expected internal controls.</p>

Recommendation 2	Priority level
Operational procedures should be defined for maintenance staff to follow in the appointment of contractual arrangements. (D)	Medium
Management Response	Responsible Officer/ Deadline
Agreed. Management will develop an operational flow chart and supporting procedures. These will be 'rolled-out' as part of a training programme to key officers across the sites. A validation exercise will be undertaken after six months to review compliance to procedures.	Interim Head of Operations January 2020

Finding: Compliance with Procedures	Risk
<p><u>Tendering Process [DCP Projects]</u> (refer to Appendix E)</p> <p>Deviation from the governance framework was noted as follows:</p> <ul style="list-style-type: none"> • The invitation to tender for three of the projects reviewed had been via a telephone conversation, rather than formal written communication. There was no evidence that parties had been provided with the same brief; or the deadline for submission. • For all DCP Maintenance projects, there was no evidence of formal notification of the award by an appropriate officer. <p>In addition to the above, for all projects led by maintenance, there was no evidence of an evaluation report to further inform and support the authorising officer's decision and to provide assurance that due process had been followed. For example:</p> <ol style="list-style-type: none"> 1) The MultiQuote system had been used for one of the PPM maintenance contracts reviewed. The MultiQuote system is used to ensure the proposed spend is subject to competition; however, in this instance, only one return was received. There was no evidence of the output of this return [i.e. not reflective of the market place] being communicated to the authorising officer. 2) Quotations received for the refurbishment of the Amman Valley dining room provided a variation of information i.e. daily rates including materials; daily rates excluding materials; and rates per sq. metre [but with no reference to the size of the applicable area]. There was no evidence of a meaningful comparison of the data being communicated to the authorising officer. 	<p>Non-compliance with expected internal controls.</p>

<p><u>Single Tender Procedure</u></p> <p>Three of the eight PPM maintenance contracts (<i>refer to Appendix C</i>) reviewed had been appointed as Single Tender Actions. Compliance against the Single Tender Procedure was reviewed and deviation noted for two:</p> <ul style="list-style-type: none"> • CHP maintenance contract: the single tender form had been prepared by Estates, rather than Procurement; and • Maintenance of staff attack system: the single tender form had been completed retrospectively [contract for the period 1 November 2018 to 31 October 2019; returned from Procurement March 2019; and purchase order raised April 2019]. <p>It was noted, in both instances, the forms had been appropriately authorised at Executive level.</p>	
<p>Recommendations 3, 4 & 5</p>	<p>Priority level</p>
<p>3. The procurement process should be formalised, within the maintenance team, to ensure all invitations to tender and their return, are managed on a fair and equitable basis. (D)</p>	<p>High</p>
<p>4. All tender exercises should be supported by a formal evaluation report for consideration by the approving officer prior to issue of notification of award. (O)</p>	<p>High</p>
<p>5. Staff should be reminded of the requirements of the Single Tender Procedure to ensure compliance in all instances. (O)</p>	<p>Medium</p>

Management Response	Responsible Officer/ Deadline
<p>3. Agreed. The requirements for the procurement process will be addressed in the procedures [as per recommendation 2]. The procedures will set out the procurement routes i.e. Multi Quote or Bravo; the requirements for independent review; and a detailed evaluation report for recommendation and sign off.</p>	<p>Assistant Director of Estates, Facilities & Capital Management Interim Head of Operations January 2020</p>
<p>4. As above.</p>	<p>Assistant Director of Estates, Facilities & Capital Management Interim Head of Operations January 2020</p>
<p>5. Agreed. A briefing session will be given to key officers across the sites to reflect the requirements of the procedure; and to provide support where applicable. A validation exercise will be undertaken after six months to review compliance to the procedure.</p>	<p>Assistant Director of Estates, Facilities & Capital Management Interim Head of Operations January 2020</p>

Finding: Declaration of non-collusion	Risk
<p>Standing Financial Instructions state: <i>11.5.2 The main legal and governing principles guiding public procurement and which are incorporated into these SFIs are:</i></p> <ul style="list-style-type: none"> <i>Integrity: there should be no corruption or collusion with suppliers or others;</i> <p>As part of a selective tendering process, tenderers should be required to complete a declaration of non-collusion. This is to assist in mitigating the risk of corruption in the tender process by requiring a specific relevant declaration.</p> <p>Standing Financial Instructions, and Capital Investment Procedure, outlines this requirement for competitive exercises above £5k.</p> <p>However, no such practice was evident for competitive exercises managed by the Maintenance team.</p>	<p>Collusion of parties in preparation of tender / quotation.</p>
Recommendation 6	Priority level
<p>All competitive exercises pursued should issue the standard declaration of non-collusion for return to the UHB. (O)</p>	<p>Medium</p>
Management Response	Responsible Officer/ Deadline
<p>Agreed. The standard template will be issued to all contractors when asked to quote / tender for a value greater than £1k.</p>	<p>Interim Head of Operations January 2020</p>

Finding: Segregation of Duties	Risk
<p>Standing Financial Instructions (Schedule 1) state:</p> <p><i>3.7 As soon as practicable after the date and time stated as being the latest time for receipt of quotations they shall be opened by two persons as set out in the LHB’s scheme of delegation and who are independent of the person who has issued the request for quotation.</i></p> <p>As outlined in Appendix E (Maintenance Led DCP Projects) there was no evidence of segregation of duties.</p> <p>It was noted that a single officer was responsible for undertaking the majority of the steps in the tender / quotation process and that segregation of duties was only noted when payments were made via Oracle [where it is deemed that delegated limits will apply].</p>	<p>Non-compliance with SFI’s.</p>
Recommendation 7	Priority level
<p>The procurement process should be formalised within the maintenance team to ensure adequate segregation of duties is achieved. (D)</p>	<p>High</p>
Management Response	Responsible Officer/ Deadline
<p>Agreed. The procedures [as per recommendation 2] will define a hierarchical chart, with named officers, for approval of quotations. A validation exercise will be undertaken after six months to review compliance to the procedure.</p>	<p>Interim Head of Operations January 2020</p>

Finding: Financial Vetting	Risk
<p>Schedule 1 (Section 5.1) of the Standing Financial Instructions states that: <i>It is the responsibility of the Director of Finance, Planning & Performance to establish that all firms on the tender list are financially sound and professionally competent through a pre-qualification / financial vetting process undertaken by a suitably qualified and experienced procurement officer.</i></p> <p>The tender route is for contract / project values greater than £25k. Three contracts / projects of this threshold were included in our sample.</p> <ul style="list-style-type: none"> • All three of the projects / contracts were for pre-planned maintenance contracts; but there was only evidence of financial vetting having been completed for one of these [Mitie Landscapes - noting the tender exercise had been managed by NWSSP: Procurement]. • There was no specific requirement for quotations i.e. lower than £25k [14 of the projects / contracts reviewed during the course of the audit]. The UHB should be mindful of the aggregate value over the course of the financial year with key strategic repeat appointments – accordingly, appropriate arrangements should be made for such appointments. 	<p>The UHB’s financial interests are not adequately protected. Financial risk in the event of contractor failure.</p>
Recommendations 8 & 9	Priority level
<p>8. Financial vetting should be undertaken prior to entering into any contractual arrangements greater than £25k. Evidence of the vetting should be retained in the evaluation report. (O)</p>	<p>High</p>

<p>9. Financial vetting requirements should be defined where the anticipated aggregate value of work exceeds a pre-determined quantum over a pre-defined period (D)</p>	<p>High</p>
<p>Management Response</p>	<p>Responsible Officer/ Deadline</p>
<p>8. Agreed. Management will confirm with NWSSP Procurement Services that vetting will be undertaken and evidenced as part of all procurement exercises over £25k.</p>	<p>Assistant Director of Estates, Facilities & Capital Management Interim Head of Operations January 2020</p>
<p>9. Agreed. A review of reactive maintenance expenditure, undertaken by external contractors, for the nine-month period to December 2019 will be undertaken. Where expenditure for that time-period, for any one contractor has exceeded £10k, management will undertake a financial vetting exercise [in consultation with NWSSP Procurement Services].</p>	<p>Assistant Director of Estates, Facilities & Capital Management Interim Head of Operations January 2020 [for review] March 2020 [to complete vetting]</p>

Finding: Maintenance – Contracts Monitoring	Risk
<p><u>Pre-planned maintenance</u></p> <p>To assist in the review of the appointment process for those contracts let as pre-planned maintenance ('PPM'), a central listing was requested from the UHB of the current contracts in place. Through discussion, it was noted that such listing had not been maintained as standard and was requested to be produced in readiness for the agreed audit.</p> <p>The listing that was subsequently provided was an aggregate list of contracts held across the UHB sites, contract value and method of appointment.</p> <p>A high level review of the listing presented noted:</p> <ul style="list-style-type: none">• No uniformity in the financial information presented;• Current contract values were not included in all instances; and• There was no confirmation of date of renewal / date of expiry of the contracts. <p>Furthermore, testing of contracts from the listing identified the following:</p> <ul style="list-style-type: none">• Contract types were incorrect e.g. classification of 'local contract' should have been Single Tender; and• Not all contracts held were recorded in the listing. <p>Management confirmed that contract listings are maintained by the area Operational Leads for individual sites. However, when reviewed, there was an evident lack of standardisation in documentation retained.</p> <p><u>Reactive maintenance</u></p> <p>As noted with PPM, there was no central monitoring / reporting of the number of reactive jobs, which required the appointing of an external contractor.</p>	<p>Monitoring is not sufficiently robust to inform the UHB of its contractual and financial commitments.</p>

<p>As confirmed through discussion, reactive maintenance work is logged through the Facilities Helpdesk. A member of the maintenance team will undertake the first review; and if further work is required by an external contractor, the necessary engagement will be made.</p>	
<p>Recommendation 10</p>	<p>Priority level</p>
<p>A central, standardised, record of maintenance areas [pre-planned and reactive] outlining associated contractual arrangements (including expiry dates) should be maintained. (D)</p>	<p>Medium</p>
<p>Management Response</p>	<p>Responsible Officer/ Deadline</p>
<p>Agreed. Separate spreadsheets will be developed for:</p> <ul style="list-style-type: none"> • Pre-planned maintenance • Reactive maintenance • Emergency call out <p>Each spreadsheet will have tabs for the four acute sites and a summary to collate the information in a standardised format. These spreadsheets will be reviewed on a monthly basis for ensure data is up to date; but with the expectation that the data will be updated as soon as the need for external contractors arises.</p>	<p>Interim Head of Operations February 2020</p>

Finding: Procurement Activity Reporting – Capital Monitoring Forum	Risk
<p>Reporting of Maintenance-led DCP’s to the Capital Monitoring Forum replicated that of DCP [Design] with the exception of data regarding the procurement route. Reference was made to those projects that were DLO led. However, the suite of information provided no further reference to the projects where work (and associated value) was split between DLO and external appointments; nor the projects for which external contractor appointments had been made.</p>	<p>Tender arrangements do not comply with local requirements and value for money not demonstrated. Fair rotation of contractors is not evident in the appointments made.</p>
Recommendation 11	Priority level
<p>Reporting on DCP [Maintenance] should be reviewed and strengthened to align with DCP [Design] reporting (O)</p>	<p>Low</p>
Management Response	Responsible Officer/ Deadline
<p>Agreed. The existing reporting template will be modified to provide details on contractors and split contractor/DLO delivery.</p>	<p>Interim Head of Operations February 2020</p>

Finding: Reporting	Risk
<p>The Operational Delivery Group is the forum for reporting on pre-planned maintenance ('PPM').</p> <p>Review of the minutes noted that reporting focuses on the efficiency of completion of the high and low risk PPM's [percentage of completion of the weekly and monthly requirements by site].</p> <p>Discussions with management noted that external contractors undertake a significant number of PPMs; however, there was no reporting of this information (<i>refer to recommendation 12</i>).</p> <p>As per the Operational Maintenance Policy [Section 6.1, Table 1], there is an expectation that monitoring of reactive breakdowns / maintenance is reported to delivery meetings. However, there was no evidence of such.</p>	<p>The UHB is un-informed in relation to cost, time and quality performance.</p>
Recommendation 12	Priority level
<p>In accordance with the Operational Maintenance Policy, reporting should be undertaken to the appropriate forum to allow routine assessment of the reactive maintenance contract arrangements. (O)</p>	<p>Low</p>
Management Response	Responsible Officer/ Deadline
<p>Agreed. The Quality, Safety and Experience Assurance Committee currently receives data on reactive maintenance. However, this is for information purposes only and is not scrutinised. The monthly Operational Management team meetings will now receive performance reporting on reactive work with exceptions to be brought to the attention of the Operational Delivery Group.</p>	<p>Interim Head of Operations March 2020</p>

Finding: Practical completion of works	Risk
<p>As confirmed through discussion, reactive maintenance work is logged through the helpdesk. An internal member of the maintenance team undertakes the first review of the required work; and if further work were required, the necessary engagement would be made.</p> <p>From the current system perspective, the work was marked as complete on the RAM system, but with no flag identified as to whether it was fully complete or complete pending work by another party. Work was deemed complete upon receipt and authorisation for payment of the invoice.</p> <p>For the DCP projects, managed by Maintenance, there was no evidence of practical completion [other than a photograph of the completed dining room at Amman Valley]. Expectation would be that a signed certificate of completion should be maintained, (similar to the process used by the Design team).</p>	<p>UHB is un-informed in relation to cost, time and quality performance.</p>
Recommendations 13, 14 & 15	Priority level
<p>13. Noting the proposed future upgrade / replacement of the current Facilities Management system [RAM] management should review the possibility of identifying / flagging those reactive jobs, which are not closed until work has been addressed by an external contractor. (D)</p>	<p>Medium</p>
<p>14. In the interim period, management should review the spreadsheet recording system so that clear timing of completion is accurately measured. (O)</p>	<p>Medium</p>

15. Certificates of practical completion should be completed for all discretionary capital projects. (0)	Medium
Management Response	Responsible Officer/ Deadline
13. Agreed. Once confirmation of funding has been received for a new system, discussions will be held with the supplier as to the available functionalities to address the recommendation.	Interim Head of Operations Subject to financial approval
14. Agreed. There is a spreadsheet currently maintained which records the call-out work. This will be further developed to provide reference to the initial job number provided and the date of close out of the work.	Operational Site Leads December 2019
15. Agreed. All schemes will be signed off on practical completion by an appropriate officer.	Operational Site Leads December 2019

Finding: Stock Accuracy and Valuation	Risk
<p>It is a requirement of the Standing Financial Instructions that <i>16.2.4 Stocktaking arrangements shall be agreed with the Director of Finance, Planning & Performance and there shall be a physical check covering all items in store at least once a year.</i></p> <p>The stock count for stores maintained at GGH, as at 31 March 2019, was a value of £58k. Review of the supporting stock sheet found little accuracy when the sample was checked – stock locations were no longer valid; item descriptions not clear; and minimal monitoring and recording of stock used.</p> <p>Whilst recognising the value of stock cited is not material, there was an expectation that controls should still be prevalent.</p> <p>Discussions with management also identified that the value signed off would not necessarily relate to 'stock' items. It was advised that items of stock relating to a specific project might be maintained within the storeroom. Their usage is restricted to the project but may well have been included in the annual count.</p> <p>In addition, discussions held with the Head of Operational Services [in post at commencement of the audit] highlighted the stock value cited being higher than anticipated, therefore noting that the management of stock [albeit minimal] needs to be improved. It was acknowledged that the aim of the Estates department was to reduce the level of stock held to a minimum. However, whilst there was still stock maintained, the quantity and value needed to be reviewed for financial reporting.</p>	<p>Ineffective controls and non-compliance leading to fraud / misappropriation of materials.</p>

Recommendations 16 & 17	Priority level
16. A full review of the existing stock should be undertaken to clear any obsolete parts currently held; and assess the necessary consumables to have and the level that should be maintained based on current usage. (O)	High
17. Following completion of the review, a robust stock count procedure should be embedded which includes evidence of review of relevant supporting information to confirm the accuracy of the reported figure. (D)	High
Management Response	Responsible Officer/ Deadline
16. Agreed. A full review is currently being undertaken; with the view to provide a clear list of obsolete parts for disposal in liaison with finance under the disposal policy.	Head of Operations December 2019
17. Agreed. A stock count will be undertaken every two months, and at year-end, until the operation procedures [as per recommendation 18] have been embedded.	Assistant Director of Estates, Facilities & Capital Management Head of Operations March 2020

Finding: Stock Management	Risk
<p>Standing Financial Instructions outline: <i>16.2.3 The Director of Finance, Planning & Performance shall set out procedures and systems to regulate the stores including records for receipt of goods, issues, and returns to stores and losses.</i></p> <p>There was no evidence of issues / returns [where appropriate] from stock being recorded on either a stock issue sheet or on a RAM work order.</p> <p>The records currently maintained were of poor quality making it difficult to confirm accuracy of the stock in situ.</p> <p>Testing was undertaken to confirm the location of the most expensive item:</p> <ul style="list-style-type: none"> • Power packs: Quantity 4: £538.40 each <p>At the date of the audit, none of the packs could be located. However, subsequent to our site review, management advised that two were held in the storeroom [in another location to that advised during the audit] and two on site [PPH and GGH]. These locations were ascertained following discussion with Estates officers, rather than through a review of records.</p> <p>Whilst the store room was locked, and noting that it was only manned for a short period at the start and end of the day, there was no log recording use of the key during the intervening periods.</p>	<p>Ineffective controls and non-compliance leading to fraud / misappropriation of materials.</p>
Recommendation 18	Priority level
<p>Operational procedures should be actioned for recording of issue and return of stock items; including physical access controls to the storeroom. The Health Board's 'Non Controlled Stores' procedure should be used as a basis for developing the required operational procedures. (D)</p>	<p>High</p>

Management Response	Responsible Officer/ Deadline
<p>Agreed. An electronic fob system has been installed to monitor access to the storeroom. This went live on 11 November 2019.</p> <p>Operational policies have been re-introduced for issue and return of stock. The effectiveness of this process will be reviewed through the year-end stock count. The procedure will be further extended to ensure there is recording mechanism for all goods delivered to the storeroom to be logged accordingly to facilitate the reconciliation process.</p>	<p>Interim Head of Operations March 2020</p>

Audit Assurance Ratings



Substantial assurance - The Board can take **substantial assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with **low impact on residual risk** exposure.



Reasonable assurance - The Board can take **reasonable assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with **low to moderate impact on residual risk** exposure until resolved.



Limited assurance - The Board can take **limited assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with **moderate impact on residual risk** exposure until resolved.



No Assurance - The Board has **no assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Action is required to address the whole control framework in this area with **high impact on residual risk** exposure until resolved

Prioritisation of Recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows.

Priority Level	Explanation	Management action
High	Poor key control design OR widespread non-compliance with key controls. PLUS Significant risk to achievement of a system objective OR evidence present of material loss, error or misstatement.	Immediate*
Medium	Minor weakness in control design OR limited non-compliance with established controls. PLUS Some risk to achievement of a system objective.	Within One Month*
Low	Potential to enhance system design to improve efficiency or effectiveness of controls. These are generally issues of good practice for management consideration.	Within Three Months*

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

Pre-Planned Maintenance: summary of testing

Contract	Value per PPM listing	Annual value from testing [inc. VAT]	Variance to listing	Procurement route	Number of contractors invited to tender	Financial vetting ¹	Segregation of duties	Authorised appropriately	Declarations of Interest	Matters arising
Fire Systems Consultancy [WGH]	£29,210	£35,052	£5,842	Bravo	2	x	✓	✓	✓	No financial vetting undertaken by Procurement Difference noted is the value of VAT.
Mitie Landscapes [PPH]	£49,627	£49,627	-	Bravo	11	✓	✓	x	✓	Whilst DOI requested, one not returned
Aerocom UK [GGH]	£3,360	£3,624	£264	STA	1	x	✓	✓	✓	STA form completed incorrectly - £18,520 for 3-year contact rather than £18,900 for the 3-year contract [value quoted relates to more than one site]. Explanation for variance noted unknown.
Ener-G [BGH]	£21,209	£25,451	£4,242	STA	1	x	✓	✓	x	Reviewed the market but due to system compatibility could only be maintained by Ener-G. STA form completed by Estates rather than Procurement; as required by the UHB's Single Tender procedure.
Johnson Controls [PPH]	£13,351	£13,351	-	Multi quote	2	x	✓	x	x	No evidence of summary of communication of the procurement exercise to the approving officer noting that whilst MultiQuote method used, only one company submitted a return.

¹ As implied by the Standing Financial Instructions, financial vetting relates to those contracts tendered competitively therefore > £25k

Contract	Value per PPM listing	Annual value from testing [inc. VAT]	Variance to listing	Procurement route	Number of contractors invited to tender	Financial vetting ¹	Segregation of duties	Authorised appropriately	Declarations of Interest	Matters arising
Canda Copying [PPH]	£2,488	£1,098	(£1,390)	Call / email	1	x	✓	✓	x	PPM listing shows value for the previous financial year. Finalised amount is £4,576 exc. VAT [5-years paid quarterly]. Explanation for variance noted is unknown [noting annual figure calculated].
NPL Medical [PPH]	£4,320	£4,536	£216	Call / email	1	x	✓	x	x	PPM listing shows value for the previous financial year. Further variance noted between Oracle value [£3,825] and reduced quote value obtained [£3,780].
Pinpoint Ltd [GGH] <i>[NB: split across 4 departments on listing but covered in one contract]</i>	£8,376	£8,376	-	STA	1	x	✓	x	x	STA form completed retrospectively. No narrative on the STA form stating that various financial options were presented by the contractor and the basis for the option chosen. As per the UHB's Single Tender procedure, evidence should be provided that the STA option is 'fit for purpose and value for money'

Reactive Maintenance: summary of testing

Contract	Value per reactive listing	Procurement route	Financial vetting ²	Number of contractors invited to quote	Segregation of duties	Authorised appropriately	Declarations of Interest	Matters arising
Merlin Fire: testing fire alarms [PPH]	£700	Call	x	1	Due to the fast nature of appointment, segregation is only noted at the point of approval on Oracle.	✓	x	-
Steeplejacks: leak through ceiling [PPH]	£2,968	Call	x	1		✓	x	-
Carmarthen Automotive: Replacement Heat Exchanger [GGH]	£1,992	Call	x	1		✓	x	-
Building Maintenance: Control Danfoss Inverter [GGH]	£1,085	Call	x	1		✓	x	-
Edmunds Webster: replacement of ceiling tiles [GGH]	£4,408	Call	x	1		✓	x	-

² As implied by the Standing Financial Instructions, financial vetting relates to those contracts tendered competitively therefore > £25k. Not applicable to the contracts reviewed above.

Discretionary Capital Projects [DLO]: summary of testing

Contract	Budget cost	Total actual cost	Value of goods / services sampled	Procurement route	Number of contractors invited to tender	Financial vetting ³	Segregation of duties	Authorised appropriately	Declarations of Interest	Matters arising
Amman Valley: Dining Room Refurbishment – painting	£6,800	£6,702	£600	Quote	2	N/A	x	✓	x	No evidence of standard specification being provided to contractors invited to quote. Varying information provided so award not assessed on comparative data.
Amman Valley : Dining Room Refurbishment – flooring	£6,800	£6,702	£4,578	Quote	2	N/A	x	✓	x	No evidence of standard specification being provided to contractors invited to quote. Varying information provided so award not assessed on comparative data.
Bronglais: upgrade disabled WC - ceiling	£10,000	£4,698	£330	Quote	1	N/A	x	✓	x	In house labour accounted for circa £3.5k
Bronglais: upgrade disabled WC - flooring	£10,000	£4,698	£690	Quote	1	N/A	x	✓	x	In house labour accounted for circa £3.5k
Glangwili: C4C upgrade works	£62,000	£53,391	£19,614	Quote	3	N/A	x	✓	x	
Withybush: front canopy remedial works	£15,000	£7,980	£7,980	Quote	3	N/A	x	✓	x	
Glangwili: junior doctor accommodation upgrade works	£87,700	£84,370	£22,958	Quote	3	N/A	x	✓	x	

³ As implied by the Standing Financial Instructions, financial vetting relates to those contracts tendered competitively therefore > £25,000. Not applicable to the projects reviewed above.

Contract	Budget cost	Total actual cost	Value of goods / services sampled	Procurement route	Number of contractors invited to tender	Financial vetting ³	Segregation of duties	Authorised appropriately	Declarations of Interest	Matters arising
Glangwili: bedrooms remedial works	£15,000	£15,310	£3,024	Quote	1	N/A	x	✓	x	In house labour accounted for circa £11k of the project total