

## Bundle Public Board 30 July 2020

2.5

Report of the Audit & Risk Assurance Committee / Adroddiad y Pwyllgor Archwilio a Sicrwydd Risg

*Presenter: Paul Newman*

ARAC Update Report from meetings on 27 May and 23 June 2020

Glangwili Hospital Women & Children's Development Phase 2 Internal Audit Report

|   |  |
|---|--|
| <b>Enw'r Pwyllgor:</b><br><b>Name of Committee:</b>   | Audit and Risk Assurance Committee                                   |
| <b>Cadeirydd y Pwyllgor:</b><br><b>Chair of Committee:</b>  | Mr Paul Newman, Independent Member                                   |
| <b>Cyfnod Adrodd:</b><br><b>Reporting Period:</b>   | Meetings held on 27 <sup>th</sup> May and 23 <sup>rd</sup> June 2020 |
| <b>Y Penderfyniadau a'r Materion a Ystyriodd y Pwyllgor:</b><br><b>Key Decisions and Matters Considered by the Committee:</b>   |  |
| <p>In accordance with the guidance provided in the NHS Wales Audit Committee Handbook, the Board should look to their Audit Committee to review and report on the relevance and rigour of the governance processes in place and the assurances provided to the Board. Hywel Dda University Health Board's Audit and Risk Assurance Committee's (the Committee) primary role is, as such, to ensure the system of assurance is valid and suitable for the Board's requirements and to support the Board by seeking and providing assurance that controls are in place and are working as designed, and to challenge poor sources of assurance.</p> <p>This report summarises the work of the Audit and Risk Assurance Committee at its meetings held on 27<sup>th</sup> May and 23<sup>rd</sup> June 2020, in monitoring, reviewing and reporting to the Board on the processes of governance, and facilitating and supporting the attainment of effective processes. At its meeting on 27<sup>th</sup> May 2020, the Committee critically reviewed governance and assurance processes for a number of service/business areas, with the following highlighted:</p> <ul style="list-style-type: none"> <li>• <b>COVID-19 Single Tender Action Review</b> – the Committee received a report on the COVID-19 Single Tender Action Review, which had also been presented to the Finance Committee and Gold Command Group, highlighting a number of orders outside normal procurement arrangements. Whilst it was not possible to provide assurance that all potential suppliers were consulted, Members were informed that the market was scoped to assess who could provide the services and equipment required, whilst recognising that circumstances precluded a full evaluation of the market. However, it was suggested that additional narrative be included when a more extensive review of the COVID-19 response takes place in due course. With regards to the field hospitals, it was noted that whilst certain items will be in excess of the UHB's normal use (eg ventilators, bariatric beds), most can be re-used. It was noted that, in situations where the UHB has sought to cancel contracts, it has been able to do so without penalty. Noting that there is usually a procurement framework against which services and goods would be obtained, which would include likely cost, there was a query in terms of comparison between costs. In most cases, the UHB has been able to benchmark against previous purchases or national frameworks.</li> <li>• <b>Internal Audit (IA) Progress Report</b> – the IA Progress Report was reviewed, noting developments since the previous meeting. The IA team are making progress with a number of other reports, which will be finalised in time for the 23<sup>rd</sup> June ARAC meeting. The team is also working with UHB management to finalise the Internal Audit Plan for 2020/21, to present to the June meeting. The ARAC Chair was grateful for the assistance of the Executive Team and management in finalising outstanding IA reports.</li> </ul> |  |

- **Internal Audit (IA)** – the Committee reviewed the following final IA reports:
  - Estates Assurance – Water Safety Bronglais General Hospital (Reasonable Assurance)
  - Estates Assurance – Water Safety Follow-up Withybush General Hospital (Reasonable Assurance)
  - Nursing Medication Administration & Errors (Reasonable Assurance)
  - Review of PADR Process Follow-up (Reasonable Assurance)
  - Estates Directorate Governance Review Follow-up (Reasonable Assurance)
  - Health & Care Standards (Reasonable Assurance)
  - Annual Quality Statement 2019/20 (Substantial Assurance)
- **Estates Assurance – Control of Contractors (Limited Assurance)** – the Committee discussed this IA report, conducted across three of the four acute hospital sites, with a key finding being an over-reliance on the knowledge and experience of individual Estates Officers which was acknowledged by the Director of Estates, Facilities and Capital Management. The directorate is developing a policy to formalise this process, which will require contractors to provide various documentation and responses to a questionnaire. Concern was expressed that there was no sense of a single unified system in place across the UHB and in response, it was suggested that this is a ‘cultural’ issue, with different parts of the UHB continuing individual historical arrangements from previous organisations. It was, however, acknowledged that this situation should have been reviewed and processes standardised.
- **Contracting (Limited Assurance)** – the Committee discussed this IA report, which had considered the adequacy of the systems and controls in place for the management of contract arrangements. A range of systems requiring strengthening had been identified. The findings of the audit were welcomed, with the Director of Finance acknowledging that this was an area requiring improvement; whilst the direction of travel has been appropriate, the pace has been insufficient. Assurance was provided that a Contracts Register is being developed, which will allow the UHB to ensure that the required governance is in place and will provide oversight of Long Term Agreements (LTAs) and Service Level Agreements (SLAs). The need to ensure that all significant agreements are in sight of the Board, and issues/risks are reported to the Finance Committee, was recognised.

At its meeting on 23<sup>rd</sup> June 2020, the Committee critically reviewed governance and assurance processes for a number of service/business areas, with the following highlighted:

- **Matters Arising** – it was agreed that updates on Radiology and Cyber Security would be provided to the next meeting.
- **Declaring, Registering and Handling Interests, Gifts, Hospitality, Honoraria and Sponsorship** – the Committee reviewed the adequacy of the arrangements in place during 2019/20, and noted the proposed actions for 2020/21 to promote and improve the adequacy of these arrangements, for onward assurance to the Board.
- **Summary of Single Tender Actions 2019/20** – the Committee received and discussed the Summary of Single Tender Actions (STAs) 2019/20 report, noting, for assurance, that

all requests for STAs are reviewed and authorised as part of a formal process, with a full audit trail of decisions.

- **Audit Wales Update** – the Committee received an Update on the Auditor General for Wales' programme of NHS Performance Audit work.
- **Audit Wales Structured Assessment Report and Management Response for Structured Assessment 2019 and Revised Responses to Previous Recommendations that are 'not yet complete'** – an update on progress was presented, with the Committee recognising the need for an update on the re-establishment of Executive Performance Reviews which the Director of Finance agreed to update at the next meeting. .
- **Internal Audit Progress Report** – the Committee reviewed the IA Progress Report, noting developments since the previous meeting.
- **Internal Audit Plan 2020/21** – the Committee received and approved the updated IA Plan for 2020/21. It was agreed that specific timings for audits and details of any slippage in delivery must be indicated in future Internal Audit Progress Reports.
- **Internal Audit** – the Committee reviewed the following final IA reports:
  - Glangwili Hospital, Women & Children's Development Phase 2 (Reasonable Assurance)
  - Mortality Rates (Reasonable Assurance)
  - IM&T Assurance Follow-up (Reasonable Assurance)
  - Health & Safety (Reasonable Assurance)
  - Variable Pay (Reasonable Assurance)
  - Capital Assurance Follow-up (Reasonable Assurance)
  - Estates Assurance Follow-up (Substantial Assurance)
  - National Standards for Cleaning (Reasonable Assurance)

Following discussion of the above reports, further clarification was requested regarding a number of issues, findings and management responses.

- **Glangwili Hospital, Women & Children's Development Phase 2 (Reasonable Assurance) IA Report** – concern was expressed that the Committee should not take the level of reasonable assurance, based on the report, given particular concerns around the delays, delay damages, and the lack of financial impact/consequence for contractors. With regard to delays, Members were reminded that this is a phased project, with a number of delays as a result of access to specific areas and avoidance of disruption to existing services. It was agreed that this matter should be highlighted in ARAC's Update Report to Board, with a copy of the IA report to be appended with the Board Secretary and Director of Finance reviewing the position with relevant Health Board officers within the next two weeks.
- **Finance Committee Report around the Discharge of their Terms of Reference** – the Committee received a report detailing Finance Committee activities during 2019/20 and was assured that the Finance Committee is operating in accordance with its Terms of Reference and discharging its duties effectively on behalf of the Board.

- **Charitable Funds Committee Report around the Discharge of their Terms of Reference** – the Committee received a report detailing Charitable Funds Committee (CFC) activities during 2019/20 and was assured that the CFC is operating in accordance with its Terms of Reference and discharging its duties effectively on behalf of the Board.
- **Audit Tracker** – the UHB Central Tracker, which tracks progress against audits and inspections undertaken within the UHB, was presented. Whilst acknowledging the challenges involved in obtaining updates due to the pressures caused by COVID-19, the need for progress in those areas where there is a lack of clarity regarding dates was emphasised. For assurance purposes, it was agreed that a more detailed update would be provided at the next meeting.
- **Head of Internal Audit Opinion & Annual Report** – the Committee received the Head of Internal Audit Opinion & Annual Report 2019/20, noting the Reasonable Assurance rating.
- **Overview and Performance Report (Section of HDdUHB Annual Report)** – the Committee considered the draft Overview and Performance Report chapter, which forms part of the Hywel Dda University Health Board Annual Report 2019/20. The Committee approved the Overview and Performance Report chapter for onward ratification by Board at its 23<sup>rd</sup> June 2020 meeting, and subsequent presentation (as part of the HDdUHB Annual Report 2019/20) to the Annual General Meeting on 30<sup>th</sup> July 2020.
- **Accountability Report** – the Committee approved the Accountability Report for onward ratification by the Board at its 23<sup>rd</sup> June 2020 meeting.
- **Audit Enquiries to Those Charged with Governance and Management** – the Committee discussed the proposed response and approved its submission to Audit Wales.
- **Audit Wales Audit of Accounts Report - Hywel Dda University Health Board 2019/20 (ISA 260) and Letter of Representation** – the Committee noted the Audit of Accounts Report - Hywel Dda UHB 2019/20 (ISA 260) and Letter of Representation.
- **Final Accounts for 2019/20** – the Committee approved the Final Accounts for 2019/20 for onward ratification by the Board at its 23<sup>rd</sup> June 2020 meeting.
- **Counter Fraud Update** – an update on Counter Fraud activity to date was received.
- **Audit Wales Structured Assessment 2020** – the Committee received for information a briefing note outlining the planned approach to the Structured Assessment for 2020.
- **Audit Committee Work Programme** – The Committee received for information the ARAC work programme for 2020/21.

**Materion y Mae Angen Ystyriaeth neu Gymeradwyaeth Lefel y Bwrdd ar eu Cyfer:  
Matters Requiring Board Level Consideration or Approval:**

- **Declaring, Registering and Handling Interests, Gifts, Hospitality, Honoraria and Sponsorship** – to note that the Committee reviewed the adequacy of the arrangements currently in place and noted the proposed actions for 2020/21 to promote and improve the adequacy of these arrangements.
- **Internal Audit Plan 2020/21** – to note ARAC's approval of the Internal Audit Plan.
- **Internal Audit Reports** – to note the request that Executive Directors be available to speak to IA Reports at future ARAC meetings, in order to provide clarification regarding findings and management responses.
- **Year End Documentation** – all documentation relating to year end was approved for onward ratification by the Board at its meeting on 23<sup>rd</sup> June 2020.

**Risgiau Allweddol a Materion Pryder:  
Key Risks and Issues/Matters of Concern:**

- Concerns in relation to the findings of the IA report into **Control of Contractors**, particularly an over-reliance on the knowledge and experience of individual Estates Officers and the lack of a single unified system across the UHB;
  - A new system is being implemented;
  - There will be a follow-up audit during Quarter 1 of this year.
- Issues regarding the findings of the IA report into **Contracting**, particularly the need to strengthen various processes;
  - A Contracts Register is being developed;
  - There will be a follow-up audit in early 2021.
- Concerns around the assurance offered by the **Review of PADR Process Follow-up** IA report, in view of the limited sample size of PADRs reviewed;
  - It was agreed that the follow-up report and the original report would be shared with the Chair of the People, Planning & Performance Assurance Committee (PPPAC), and that a discussion between the Chairs of ARAC and PPPAC would be facilitated.
- Concern that the information in the **Declaring, Registering and Handling Interests, Gifts, Hospitality, Honoraria and Sponsorship** report is significantly understated;
  - It was agreed that this area will require an increased focus.
- Concern at the current lack of a **formal performance review structure**;
  - It was agreed that an update would be required at the next meeting.
- Concerns around the findings of the **Glangwili Hospital, Women & Children's Development Phase 2 (Reasonable Assurance)** IA report;
  - It was agreed that this issue would be highlighted to Board and a copy of the IA report appended to ARAC's Update Report to Board;
  - It was agreed that this matter would be referred to the People, Planning & Performance Assurance Committee (PPPAC) for detailed discussion;
  - It was agreed that the Executive Director of Nursing, Quality & Patient Experience would be consulted with regards to possible quality and safety impacts;
  - It was suggested that there be enhanced discussion of capital projects at Board level when significant investment is involved.

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| <b>Busnes Cynlluniedig y Pwyllgor ar Gyfer y Cyfnod Adrodd Nesaf:<br/>Planned Committee Business for the Next Reporting Period:</b>  |
| <b>Adrodd yn y Dyfodol:<br/>Future Reporting:</b>  |
| In addition to the items scheduled to be reviewed as part of the Committee's work programme, following up progress of the various actions identified above will be undertaken. |
| <b>Dyddiad y Cyfarfod Nesaf:<br/>Date of Next Meeting:</b>   |
| 25 <sup>th</sup> August 2020   |

## **Glangwili Hospital Women & Children's Development Phase 2**

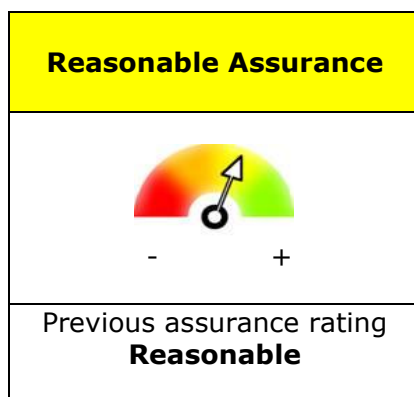
### **Final Audit Report**

**2019/20**

**Hywel Dda University Health Board**

**NHS Wales Shared Services Partnership**

**Audit and Assurance Services**





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| <b>Review reference:</b>          | SSU HDU 1920 02  |
| <b>Report status:</b>             | Final  |
| <b>Fieldwork completion:</b>      | 11 <sup>th</sup> March 2020  |
| <b>Draft report issued:</b>       | 19 <sup>th</sup> March 2020  |
| <b>Draft Report meeting:</b>      | 7 <sup>th</sup> May 2020   |
| <b>Draft Report feedback:</b>     | 12 <sup>th</sup> May 2020  |
| <b>Proposed final report:</b>     | 13 <sup>th</sup> May 2020  |
| <b>Final management feedback:</b> | 1 <sup>st</sup> June 2020  |
| <b>Final report issued:</b>       | 5 <sup>th</sup> June 2020  |
| <b>Auditor/s:</b>                 | NWSSP: Audit & Assurance –<br>Specialist Services Unit   |
| <b>Executive sign off:</b>        | Karen Miles, Director of<br>Planning, Performance and<br>Commissioning   |
| <b>Distribution:</b>              | Rob Elliot, Director of<br>Estates, Facilities & Capital<br>Management<br>Paul Williams (Asst. Director<br>of Strategic Planning)<br>Eldeg Rosser (Senior<br>Business Partner)<br>Keith Jones (Project Director) |
| <b>Committee:</b>                 | Audit Committee  |

## **ACKNOWLEDGEMENT**

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.

Audit reports are prepared by the staff of the NHS Wales Shared Services Partnership – Audit and Assurance Services, and addressed to Independent Members or officers including those designated as Accountable Officer. They are prepared for the sole use of the Hywel Dda University Health Board and no responsibility is taken by the Audit and Assurance Services Internal Auditors to any director or officer in their individual capacity, or to any third party.



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

## 1. Introduction and Background

The audit was undertaken to evaluate the processes and procedures established to support the management and control of the Women and Children's project (Phase 2) at Glangwili Hospital.

The investment objectives for this development were identified as:

**Objective 1:** to support the delivery of safe, sustainable and accessible services, and facilitate high standards of patient care.

**Objective 2:** to promote the maximum efficient use of assets and improve asset condition and performance.

**Objective 3:** to promote the use of innovation to improve the quality of care, to reduce costs and deliver the necessary service change.

Following the completion of Phase 1 of the development, this second phase will provide additional refurbishment and extension at the Glangwili site to address accommodation requirements for Neonatal, Labour Wards, Obstetric Theatres, and Higher Dependency patients. It particularly seeks to address shortcomings in the provision within these areas.

Works comprise:

- Obstetric Labour Ward development including a second Obstetric Theatre;
- A Higher Dependency Obstetric Unit;
- A Neonatal Unit;
- External cladding; and
- Additional car parking.

Original programme requirements envisaged a 111-week contract programme, with completion on the 13<sup>th</sup> November 2020.

### Funding

The Full Business Case was submitted to Welsh Government (WG) in September 2017, with approval provided in April 2018 in the sum of £25.277m.

The value of the FBC was updated for inflationary increases in the period between submission and approval of the FBC (c.9 months), resulting in an updated project sum of £26.446m. There was a shortfall of £1.169m

between the updated project sum of £26.446m and the WG scheme allocation of £25.277m.

The Health Board identified potential savings of £1.169m to mitigate the shortfall in funding (indicative VAT recovery, use of survey cost allowances, savings from risk allowances), and agreed that Discretionary Funding would be allocated if these proved insufficient.

In October 2018, a further £0.81m additional funding was provided to enhance cladding, providing total funding of £26.087m.

## 2. Scope and Objectives

The review was undertaken to determine the adequacy of, and operational compliance with, the systems and procedures of the UHB, taking account of relevant NHS and other supporting regulatory and procedural requirements, as appropriate.

The audit evaluated the systems and controls in place within the UHB with a view to delivering assurance to the Audit Committee that risks material to the objectives of the areas covered were appropriately managed.

Accordingly, the scope and remit of the audit was directed to the following areas:

- **Previously Agreed Audit Recommendations:** All but one recommendation, from the previous audit, had been separately followed up and closed in April 2019. The status of the remaining recommendation was confirmed at this review.
- **Project Governance:** To ensure that appropriate organisational and governance arrangements have been maintained, reflective of the current phase of the Project.
- **Cost Monitoring & Reporting:** Assurance that costs have been reasonably budgeted, contractually agreed and controlled.
- **Change Management:** To confirm the adequacy and application of the change management processes applied to the project.
- **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.
- **Other** - Any other issues identified at the project affecting project delivery.

## 3. Associated Risks

We sought to confirm the mitigation and management of potential negative impacts to time, cost and quality of the delivered projects.

## **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 audit.

It is acknowledged that this is a highly-complex, multi-phased refurbishment project, impacting the service delivery and operating within a live acute setting.

The key issues for management attention are:

#### **Governance**

- Generally the governance arrangements observed were robust, however the project would benefit from a review of the allocation of project roles to ensure effective ongoing control (see **Recommendation 1**).

#### **Cost**

- Whilst the cost position is reported as within the revised budget, cost savings (£1.049m) and an allocation of discretionary funding (£446k) have been required to date (noting the shortfall in funding highlighted previously (Section 1 - Funding) (also see **finding 3**).

#### **Change Management**


- The significant issue at the project, at the time of the current review, was reported delays of 31 weeks. Of this, 12.3 weeks have been reported as agreed, but Compensation Events (requesting agreed delay / additional cost) have not been submitted by the contractor in respect of the remaining 18.7 weeks, which are consequently un-agreed delay.
  - While incremental delays are reported to the Project Group, there is merit at this mid-point in the project for additional analysis. Accordingly, the Project Manager should produce an analysis for the Project Group on the delays incurred to date, detailing the cause, time/ cost implications and determination of acceptance/ rejection of each Compensation Event (**Recommendation 6**).

- It is suggested that the Supervisor may be uniquely placed to provide input on the assessment of delays – noting the technical nature of the same (**Recommendation 7**).
- Future reporting to the Project Group should be enhanced to provide more granular detail on the programme delays (e.g. earlier access to phases, greater overlap of phases, changes to phase duration and completion dates etc.) (**Recommendation 8**).
- In the absence of detailed guidance, the UHB made specific decisions on the calculation of delay damages, and the level of cost/detail supplied by the Supply Chain Partner. Whilst neither can be addressed at this project without a corresponding increase in cost it has been recommended that the UHB obtain clarification from NWSSP: SES on the expectations for future projects (see **Recommendations 9 & 10**).

### **Risk Management**

- There was need to update the risk assessment to more accurately assess the adequacy of residual contingency (see **Recommendation 11**).





It is recognised that this is a particularly complex project within a live hospital environment (maintaining current service provision throughout). In this context, the level of assurance given as to the effectiveness of the system of internal control in place to manage the risks associated with the project is assessed as **Reasonable Assurance**. However, the determination and assessment of delays to date should be seen as a priority to affirm the impact on programme/ cost.

| RATING               | INDICATOR   | DEFINITION  |
|----------------------|---|---|
| Reasonable Assurance |  | The Board can take <b>reasonable assurance</b> 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 <b>low to moderate impact on residual risk</b> exposure until resolved. |

The overall level of assurance that can be assigned to an audit is dependent on the severity of the findings as applied against the specific audit 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                 | Previously agreed audit recommendations |   |  |   | ✓   |
| 2                 | Governance                              |   |  | ✓   |   |
| 3                 | Cost Reporting                          |   |  | ✓   |   |
| 4                 | Change management                       |   | ✓  |   |   |
| 5                 | Risk Management                         |   |  | ✓   |   |

\* 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 **one** issue that were classified as weaknesses in the system control/design.

### Operation of System/Controls

The findings from the review have highlighted **ten** issues that were classified as weaknesses in the operation of the designed system/control.

## 6. Summary of Audit Findings

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

### Previously agreed management actions



**To assess the status of previously agreed management actions.**

All of the previously agreed audit recommendations (arising from the May 2018 audit report) have now been actioned (**Appendix E** details the one recommendation outstanding as at the commencement of this audit).

Accordingly, a **substantial assurance** is determined in this area.



## Governance



***To affirm that appropriate organisational and governance arrangements have been maintained, reflective of the current phase of the Project.***

Formal acceptance of defined duties was evidenced for key officers, notably the Senior Responsible Officer and Project Director. All project roles were additionally defined within a formally approved governance document, and further summarised at the Project Execution Plan.

The Chief Executive Officer was designated as the Senior Responsible Owner (SRO). However, the SRO did not attend Project Group meetings, accordingly consideration should be given to re-assigning the role to a nominated lead executive (**Recommendation 1**).

The Project Group was established in accordance with the governance arrangements documented within the Project Execution Plan. This met with appropriate frequency and attendance, and was supported by a Project Team, and other project related bodies (e.g. equipping groups).

While the Project Group was generally well informed relating to key decisions, improvements to the reporting of phased completion and the implications of the delay damages have been recommended (as further assessed below at **Change Management** - see **Recommendations 6 - 9**).

In accordance with the provisions of the framework, external advisers were engaged to supplement the internal team in delivering the project. Contract documentation is important in defining the rights and obligations of parties, protecting parties' interests and liabilities. However, at the time of the current review, contract documentation had not been completed for the Project Manager, Supervisor and the Cost Adviser – the latter refusing to sign the contract due to an ongoing dispute on fees. Whilst noting the same, it is acknowledged that the responsibilities/ activities of the external advisers were accepted by all parties (as specified within the overarching framework contracts), and that performance to date was in accordance with expectations. The only element of dispute at the present time related to the Cost Adviser's fees/rates, which management have highlighted as being appropriately challenged (**Recommendation 2**).

Noting operation of the defined governance arrangements, a **reasonable assurance** is determined in relation to governance.



## Cost Monitoring and Reporting



**Assurance that costs have been reasonably budgeted, contractually agreed and controlled.**

Detailed cost reports were provided and presented to the Project Group by the UHB's Project Manager and Cost Adviser, including concise cost summaries (e.g. **Appendix C**). These were supplemented by internal (UHB authored) "Highlight Reports" (utilising information provided from existing cost reports).

The UHB additionally provided regular cost reporting to the Welsh Government via project dashboard reports.

### Overall Project Cost Position

As noted previously, the Full Business Case was submitted in September 2017, with approval provided by Welsh Government in April 2018 in the originally requested sum. However, contractor quotations only remained valid for 90 days, and accordingly, fresh market quotations were obtained. This increased project costs by c. £1.169m (4.6%) providing an un-funded cost pressure at the project

Accordingly the latest out-turn position was reported as:

|                                   | £          | £            |
|-----------------------------------|------------|--------------|
| Original WG Business Case Funding | 25,277,000 |              |
| Additional WG Funding             | 810,000    |              |
| Discretionary Capital Funding     | 446,000    |              |
|                                   | 26,533,000 |              |
| Forecast Total Project Cost       |            | 26,653,786*  |
| Balance of Mitigating Action      |            | (120,375)    |
|                                   |            | 26,533,000** |

\* Inclusive of additional £0.81m Cladding Costs and £1.049m savings achieved to date

\*\* Note minor rounding error.

Overall project costs were therefore currently projected to be within the revised project budget, assuming the remaining £120k of saving can be achieved (see **Appendix C** for further details).

However, the following was noted:

- 1) Within the savings achieved to date is the assumption that VAT recovery (targeted at £540k) will be fully retained by the UHB. In accordance with NHS Wales Infrastructure Investment Guidance, confirmation of WG approval is required to utilise the same. In the event that approval was not forthcoming, the CEIM&T<sup>1</sup> Sub-committee approved the application of Discretionary Capital Funding (**Recommendation 3**).

<sup>1</sup> Capital and Estates, Information Management & Technology subcommittee

*Subsequent to the audit fieldwork, WG approved the UHB's application to retain these funds.*

- 2) The project has also been subject to significant delays which had not been fully assessed at the time of the current review (see **change management** section below).
- 3) There was need to update the risk assessment to more accurately assess the adequacy of residual contingency. (see **risk management** section below).

Noting the continued forecast delivery of the scheme within the approved budget allocation (and additional funding sources), **reasonable assurance** has been determined for this area, subject to the resolution of the issues highlighted.

## Change Management



***Confirm the adequacy and application of the change management processes applied to the project.***

### General

Change control was seen to be appropriately approved and advised at project reports, and Compensation Events appropriately signed/authorised. All Compensation Events (variations to Target Cost) were agreed within contractual time frames (with the exception of only 2 of 61 remaining outstanding)(**Recommendations 4 & 5**).

### Sectional Completion

The NEC option C contract adopted at the project also includes clause X5 for sectional completion. The Supply Chain Partner, has increasingly absorbed delays through earlier start dates and longer delivery programmes at each phase – i.e. without significantly impacting the overall start/ completion dates.

### Programme Implications

Changes to the project should recognise the potential implications on the programme on a progressive basis.

The programme has been subject to significant delays to date as follows:

| Phase                   | Contract Completion Dates | Anticipated Completion Dates | Delay Weeks |
|-------------------------|---------------------------|------------------------------|-------------|
| 1 - Labour ward         | 16/08/2019                | 30/01/2020                   | 23.9        |
| 2 - Neo natal           | 10/02/2020                | 04/11/2020                   | 38.3        |
| 3 - Theatres 1 & 2      | 17/08/2020                | 11/03/2021                   | 29.4        |
| 4 - Changing rooms      | 06/11/2020                | 04/06/2021                   | 30.0        |
| <b>Overall contract</b> | <b>13/11/2020</b>         | <b>18/06/2021</b>            | <b>31.0</b> |

The current forecast is an overall delay of 31 weeks against the original (111 week) programme as follows:

- 12.3 weeks agreed; and
- 18.7 weeks unassessed.

(A further breakdown of delays per phase is provide at **Appendix D**).

It has been recommended that the UHB should:

- require the Project Manager to produce a detailed assessment of the delays to date in accordance with the requirements of the NEC contract (to include cause, time/cost impact and determination of acceptance/rejection of delay etc.)(**Recommendation 6**);
- Engage the Supervisor to support the assessment of the delay (**Recommendation 7**);
- Improve the granularity of the information presented to the Project Group to include programme/delay information per phase rather than overall project reporting. It was noted that whilst the Cost Adviser had been monitoring on this basis, the information was not routinely reported to the Project Group (**Recommendations 8**).

#### Future projects

In the absence of detailed guidance, the UHB made specific decisions on the calculation of delay damages (set at £1 to promote a no-blame culture), and also the level of detail required from the Supply Chain Partner in support of programme / cost assumptions. Amending contractual arrangements at this stage of the current project would likely incur additional costs, accordingly it has been recommended that the UHB obtain clarification from NWSSP: SES on the expectations for future projects (**Recommendations 9 & 10**).

Noting the need for comprehensive analysis of the delays to date, a **limited assurance** has been determined in respect of change management.



## 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.***

A risk register of appropriate format was maintained at the project (as most recently updated and presented to the September 2019 Project Group). At the time of the current review, while approximate calculations had been made, it awaited full re-appraisal pending review of (the delayed) Phase I completion. There was need therefore to update the risk assessment to more accurately assess the adequacy of residual contingency. (**Recommendation 11**).

The forecast of remaining risks compared to remaining funds is fundamental to project control. Noting approximate calculations ahead of a fuller review, a **reasonable assurance** has been determined in respect of risk management.

## 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     |
|---------------------------------------|---|----|---|-----------|
| <b>Number of recommendations</b>      | 1 | 10 | 0 | <b>11</b> |
| <b>Actioned since audit fieldwork</b> | - | 1  | - | <b>1</b>  |
| <b>Recommendations to be actioned</b> | 1 | 9  | 0 | <b>10</b> |

*Note – Management agreement has been provided to all of the recommendations arising at this report. The target implementation dates will be reviewed on an ongoing basis recognising current operational pressures.*

## Governance

| Finding 1: Roles and responsibilities   | Risks  |
|---|--|
| <p>Roles and responsibilities of key in-house parties were defined and accepted by signed certificates in accordance with best practice. The function of the Project Group was also defined within approved governance arrangements.</p> <p>However, the Chief Executive Officer, as the Senior Responsible Owner (SRO), did not attend the Project Group (Project Group), and was therefore reliant on an effective chain of communication.</p> <p>While Project Director chaired the Project Group, he did not attend the various capital and planning committees of the UHB to facilitate onward communication to the Executive. Management advised that onward communication to the various committees was by way of update report.</p> | <p>The project is not appropriately governed.</p> <p>Officers do not fulfil / act beyond their remit.</p> <p>Project groups do not fulfil their remit.</p> |
| Recommendation 1  | Priority level   |
| <p>The allocation of project roles at the current stage of the project should be reviewed to ensure effective control. (O)</p>  | <p><b>Medium</b></p>   |
| Management Response 1   | Responsible Officer/ Deadline  |
| <p>Agreed.<br/>The Health Board will carry out a review of the allocation of project roles to ensure effective control.</p>   | <p>Project Director<br/>September 2020</p>   |

## Finding 2: Contracts

### Contract Completion

National capital guidance (WHC 2018-043) states that there should be a formal contract in place in advance of any works / duties.

Stage 4 (construction) commenced on 17/7/18 (noting associated commencement of advisory duties). No key contracts were in place at the time of commencement of their duties i.e.

|                  | Contract value | External signature requested | Signed by contractor | Signed by UHB | Comments        |
|------------------|----------------|------------------------------|----------------------|---------------|-----------------|
| Contractor (SCP) | £16,718,156    | -                            | Not dated            | 12/2/19       | 6 months late   |
| Project Manager  | £53,000        | 16/10/19                     | -                    | -             | To be completed |
| Cost Adviser     | £41,455        | 16/10/19                     | -                    | -             | To be completed |
| Supervisor       | £17,502        | -                            | -                    | -             | To be completed |

### SCP Contract

The contract specified commencement of the works on 27<sup>th</sup> July 2018

The SCP refreshed their Target Cost quotation ahead of contract (being beyond its 90 day period of validity), this included a review of inflationary uplifts. Technical advice relating to the same extended into works period. Accordingly, the contract was not signed until February 2019, though this was within four weeks of concluding the advice. The works were instructed via a Purchase Order,

## Risk

Longer-term liabilities may not be adequately addressed until the main contract is finalised and executed.

The UHB may be exposed to increased risk/liabilities.

|   |   |
|---|---|
| <p>and reliance was also placed on over-arching framework contracts in the interim period (governing general terms and liabilities at all stages).</p> <p><b><u>Adviser Agreements</u></b></p> <p>All three of the adviser contracts were outstanding at the time of the current review. It was not envisaged by management that the completion of the Project Manager and Supervisor agreements would be problematic.</p> <p>However, it is understood that issues with the cost adviser relate to the project cost extending beyond those envisaged for this framework (i.e. the framework being intended for projects of £4 - £10m). However, under framework rules, contractual routes were agreed for the parties at the design stage, when a simpler project was envisaged.</p> <p>Management emphasised that whilst the rates/ costs remain to be agreed, the duties, responsibilities and activities are agreed by both parties, and that parties have performed accordingly.</p> <p>Management are clear that the demands of the Cost Adviser are inflated and/or unreasonable, and therefore have elected not to enter contract until this issue has been resolved.</p> |   |
| <p><b>Recommendation 2</b></p>  | <p><b>Priority level</b></p>                |
| <p>Contract documentation for the various parties should be appropriately completed in a timely manner. (O)</p>   | <p><b>Medium</b></p>                        |
| <p><b>Management Response 2</b></p>   | <p><b>Responsible Officer/ Deadline</b></p> |

Agreed.

Both the Project Manager and Supervisor contracts have now been completed.

The Health Board are currently in discussion with the Cost Adviser concerning their contract. The Cost Adviser contract will be resolved.

Project Director to coordinate signatures.

July 2020



## Cost Monitoring and Reporting

| Finding 3: VAT Funding  | Risk             |                  |                |               |              |         |         |         |   |         |         |   |                         |         |   |         |               |   |         |          |  |                  |                  |                |  |
|---|------------------|------------------|----------------|---------------|--------------|---------|---------|---------|---|---------|---------|---|-------------------------|---------|---|---------|---------------|---|---------|----------|--|------------------|------------------|----------------|--|
| <p>Welsh Health Circular 2018 (043) (NHS Wales Infrastructure Investment Guidance) states:</p> <p><i>Where organisations are in receipt of a VAT reclaim, there is potential for this to be recycled. Organisations need to notify the Deputy Director of NHS Capital, Estates and Facilities Division so that appropriate consideration can be given to the treatment of any VAT refund and whether the resource can be added to the CRL/CEL subject to Ministerial approval.</i></p> <p>At FBC there was a shortfall of c.£1.169m between the forecast project out-turn cost and the current WG funding allocation. Good practice was noted in that the UHB determined a funding mitigation plan, the current status of the same is summarised as follows:</p> <table><tr><th></th><th>Propose (£)</th><th>Achieved (£)</th><th>Remaining (£)</th></tr><tr><td>VAT Recovery</td><td>540,000</td><td>407,625</td><td>132,375</td></tr><tr><td>Utilisation of 5-facet survey budget from non-works</td><td>300,000</td><td>300,000</td><td>-</td></tr><tr><td>Review of risk register</td><td>329,000</td><td>-</td><td>329,000</td></tr><tr><td>DCP draw-down</td><td>-</td><td>341,000</td><td>-341,000</td></tr><tr><td></td><td><b>1,169,000</b></td><td><b>1,048,625</b></td><td><b>120,375</b></td></tr></table> <p>Confirmation of WG approval to utilise the VAT recovery was required. However, it is acknowledged that CEIM&amp;T<sup>1</sup> subcommittee approval was sought (in July</p> |                  | Propose (£)      | Achieved (£)   | Remaining (£) | VAT Recovery | 540,000 | 407,625 | 132,375 | Utilisation of 5-facet survey budget from non-works | 300,000 | 300,000 | - | Review of risk register | 329,000 | - | 329,000 | DCP draw-down | - | 341,000 | -341,000 |  | <b>1,169,000</b> | <b>1,048,625</b> | <b>120,375</b> | <p>Costs are not appropriately forecast.</p> |
|   | Propose (£)      | Achieved (£)     | Remaining (£)  |               |              |         |         |         |   |         |         |   |                         |         |   |         |               |   |         |          |  |                  |                  |                |  |
| VAT Recovery  | 540,000          | 407,625          | 132,375        |               |              |         |         |         |   |         |         |   |                         |         |   |         |               |   |         |          |  |                  |                  |                |  |
| Utilisation of 5-facet survey budget from non-works   | 300,000          | 300,000          | -              |               |              |         |         |         |   |         |         |   |                         |         |   |         |               |   |         |          |  |                  |                  |                |  |
| Review of risk register   | 329,000          | -                | 329,000        |               |              |         |         |         |   |         |         |   |                         |         |   |         |               |   |         |          |  |                  |                  |                |  |
| DCP draw-down   | -                | 341,000          | -341,000       |               |              |         |         |         |   |         |         |   |                         |         |   |         |               |   |         |          |  |                  |                  |                |  |
|   | <b>1,169,000</b> | <b>1,048,625</b> | <b>120,375</b> |               |              |         |         |         |   |         |         |   |                         |         |   |         |               |   |         |          |  |                  |                  |                |  |

|   |                                      |
|---|--------------------------------------|
| <p>2018), to secure discretionary capital funding as a contingency measure should VAT reclaim not be permitted.</p> <p><sup>1</sup> <i>Capital and Estates, Information Management &amp; Technology subcommittee</i></p>                  |                                      |
| <b>Recommendation 3</b>   | <b>Priority level</b>                |
| The UHB will obtain formal approval from WG to utilise the VAT recovered (O).   | <b>Medium</b>                        |
| <b>Management Response 3</b>  | <b>Responsible Officer/ Deadline</b> |
| <p>Agreed.</p> <p>Actioned since audit fieldwork.</p> <p>Since the time of the audit Welsh Government have agreed the retention of VAT to mitigate the forecast shortfall within the scheme. This was confirmed on the 11th May 2020.</p> | N/A                                  |

## Change management

| Findings 4 & 5: Project Manager Instructions   | Risk   |
|--|--|
| <p>Change control was seen to be appropriately administered and advised at project reports and Compensation Events appropriately signed/authorised.</p> <p>Provisional contract changes were instructed in accordance with the contract via Project Manager Instructions (PMI's) with an assessed cost advised at project reports.</p> <p>The decision was taken to instruct and undertake certain work ahead of firm costs being obtained, given the minor nature of many of these works and to avoid potential delay and associated preliminary costs at £30,000 per week. Only two (of 61) such costs remain to be agreed, being the:</p> <ul style="list-style-type: none"> <li>• relocation of switch room (£100,000) (<i>quote raised 11/4/19</i>) - <i>cost of original build not netted from contractor claim</i>; and</li> <li>• roof walkway (£61,637) (<i>quote raised 30/11/19 - and under review</i>).</li> </ul> <p>The examples outlined above were known to the UHB and were appropriately challenged.</p> <p>The Project Manager has delegated authority relating to items below £15,000 where values are assigned at the risk register. Subsequent to the audit, examples of UHB advance authorisation for such low value PMI's were provided. Review of a fuller sample was not available during the time frame of the audit.</p> <p>There was need therefore to confirm the authorisation process for un-costed PMI's of a non-urgent nature and potentially high value, instructed by the Project</p> | <p>Costs are not appropriately controlled.</p> |

|  |   |
|--|---|
| Manager. These require confirmation of the process of agreement of cost parameters with the parties and UHB involvement pre-instruction.   |   |
| <b>Recommendations 4 &amp; 5</b>   | <b>Priority level</b>   |
| 4. Costs will be agreed as a matter of priority for the remaining change costs. (O)  | <b>Medium</b>   |
| 5. UHB management will review the delegated arrangements for the appointed Project Manager and confirm appropriate definition and operation. (D)   | <b>Medium</b>   |
| <b>Management Responses 4 &amp; 5</b>  | <b>Responsible Officer/ Deadline</b>                                    |
| Both Agreed.<br><br>Recommendation 4 – Costs for the two Compensation Events cited have since been agreed and information will be provided to audit to affirm the same.<br><br>Recommendation 5 - The Project Group will undertake a review of the process for authorising un-costed PMI's of a non-urgent nature and potentially high value to ensure effective control of costs. | Project Director<br>June 2020<br><br>Project Director<br>September 2020 |

| Finding 6 - 9: Delay reporting  | Risk              |            |               |            |                    |            |                    |            |                         |                   |                          |            |                                       |            |                             |            |   |  |   |
|---|-------------------|------------|---------------|------------|--------------------|------------|--------------------|------------|-------------------------|-------------------|--------------------------|------------|---------------------------------------|------------|-----------------------------|------------|---|--|---|
| <p><b><u>Context:</u></b></p> <p>As per clause X5 of the NEC Contract adopted, the contract assumes sectional completion dates as follows:</p> <table data-bbox="448 550 1075 742"> <tr> <td>1 - Labour ward</td><td>16/08/2019</td></tr> <tr> <td>2 - Neo natal</td><td>10/02/2020</td></tr> <tr> <td>3 - Theatres 1 &amp; 2</td><td>17/08/2020</td></tr> <tr> <td>4 - Changing rooms</td><td>06/11/2020</td></tr> <tr> <td><b>Overall contract</b></td><td><b>13/11/2020</b></td></tr> </table> <p>The following assessment of delays was observed:</p> <table data-bbox="291 805 1366 941"> <tr> <td>Original Completion Date</td><td>13/11/2020</td></tr> <tr> <td>Extended Completion Date - 12.3 weeks</td><td>07/02/2021</td></tr> <tr> <td>SCP Planned Completion Date</td><td>18/06/2021</td></tr> <tr> <td colspan="2">(represents 18.7 weeks beyond the revised contract completion date)</td></tr> </table> <p><b><u>Assessment of Delays</u></b></p> <p>The NEC contract provides for the assessment of delays to be considered at the issue of individual Compensation Events – allowing an incremental assessment of the impact on the programme to be considered per instruction. This approach has not been applied at this project, with delays being consolidated for assessment.</p> <p>In summary, the delays at the time of writing the report were reported as:</p> <ul style="list-style-type: none"> <li>• 12.3 weeks agreed;</li> <li>• 18.7 weeks yet to be assessed.</li> </ul> | 1 - Labour ward   | 16/08/2019 | 2 - Neo natal | 10/02/2020 | 3 - Theatres 1 & 2 | 17/08/2020 | 4 - Changing rooms | 06/11/2020 | <b>Overall contract</b> | <b>13/11/2020</b> | Original Completion Date | 13/11/2020 | Extended Completion Date - 12.3 weeks | 07/02/2021 | SCP Planned Completion Date | 18/06/2021 | (represents 18.7 weeks beyond the revised contract completion date) |  | <p>Management are not appropriately informed.</p> <p>Ineffective implementation of contractual controls (of time and cost).</p> |
| 1 - Labour ward   | 16/08/2019        |            |               |            |                    |            |                    |            |                         |                   |                          |            |                                       |            |                             |            |   |  |   |
| 2 - Neo natal   | 10/02/2020        |            |               |            |                    |            |                    |            |                         |                   |                          |            |                                       |            |                             |            |   |  |   |
| 3 - Theatres 1 & 2  | 17/08/2020        |            |               |            |                    |            |                    |            |                         |                   |                          |            |                                       |            |                             |            |   |  |   |
| 4 - Changing rooms  | 06/11/2020        |            |               |            |                    |            |                    |            |                         |                   |                          |            |                                       |            |                             |            |   |  |   |
| <b>Overall contract</b>   | <b>13/11/2020</b> |            |               |            |                    |            |                    |            |                         |                   |                          |            |                                       |            |                             |            |   |  |   |
| Original Completion Date  | 13/11/2020        |            |               |            |                    |            |                    |            |                         |                   |                          |            |                                       |            |                             |            |   |  |   |
| Extended Completion Date - 12.3 weeks   | 07/02/2021        |            |               |            |                    |            |                    |            |                         |                   |                          |            |                                       |            |                             |            |   |  |   |
| SCP Planned Completion Date   | 18/06/2021        |            |               |            |                    |            |                    |            |                         |                   |                          |            |                                       |            |                             |            |   |  |   |
| (represents 18.7 weeks beyond the revised contract completion date)   |                   |            |               |            |                    |            |                    |            |                         |                   |                          |            |                                       |            |                             |            |   |  |   |

In confirming whether each delay is accepted/ rejected, the NEC form of contract requires the Project Manager/ Cost Adviser to provide a report on the delays at each phase, referencing Compensation Events as appropriate. The report should also be cognisant of the additional time awarded to the Supply Chain Partner from early access to phases, overlapping of phases, and extended duration of phases. A detailed assessment as outlined has not been provided to the Project Group.

The Supervisor, as the key adviser on site activities, provides expert technical commentary on their progress, including specialist mechanical and electrical works. Noting this, it is suggested that he may be best placed to support the Project Manager in any analysis of delay.

A fully costed activity schedule would assist in the consideration and assessment of project delays (see **Appendix F**). Alternative arrangements were applied at this project which were deemed appropriate given the size/ complexity and based on the advice of the external advisers. Prior to future projects, clarification should be sought from NWSSP: SES on the framework expectations in respect of activity schedules.

### **Reporting**

Reporting was provided to the Project Group of incremental delay and individual task analysis against the overall programme for information and discussion.

| <p>While an analysis of changes from the original sectional contract dates was maintained by the Cost Adviser, he had not published this to the Project Group – relying on reporting against the overall programme.</p> <p>It is suggested that sectional reporting is shared with the Project Group, to additionally include:</p> <ul style="list-style-type: none"> <li>• Analysis of changes to the critical path (end-time) with reference to agreed Compensation Events.</li> <li>• Benefits from earlier access to phases,</li> <li>• Overlapping of phases and</li> <li>• Extended duration of phases (between 5 and 25 weeks across each phase).<br/>(see <b>Appendix F</b> or further details).</li> </ul> |                       |
|---|-----------------------|
| <b>Recommendations 6 - 9</b>  | <b>Priority level</b> |
| <p>6) In accordance with the NEC contract, the external advisers should provide a detailed assessment report of the delays to date (to include contributing factors, programme and cost implications, acceptance/ rejection etc.). <b>(O)</b></p>   | <b>High</b>           |
| <p>7) Noting the nature of the delays, the supervisor should be asked to provide input on the assessment. <b>(O)</b></p>  | <b>Medium</b>         |

|   |                                      |
|---|--------------------------------------|
| 8) Reporting to the Project Group should be extended to include: <ul style="list-style-type: none"> <li>mitigating factors e.g. Compensation Events;</li> <li>early access to phases;</li> <li>extended programmes for individual phases;</li> <li>economies generated from overlapping phases;</li> <li>the impact of delays from prior phases and forward impact on remaining phases;</li> <li>remaining potential for phase over-lap; and</li> <li>delay damages arising (O).</li> </ul> | <b>Medium</b>                        |
| 9) <i>Future</i><br><br>Clarity should be obtained from NWSSP:SES on framework expectations in respect of activity schedules. (O)   | <b>Medium</b>                        |
| <b>Management Responses 6 - 9</b>   | <b>Responsible Officer/ Deadline</b> |
| All agreed  |                                      |
| Recommendation 6 – The Project Manager will produce a detailed retrospective assessment of the delays to date in accordance with the requirements of the NEC contract (to include cause, time/cost impact and determination of acceptance/rejection of delay etc.)  | Project Director<br>July 2020        |
| Recommendation 7 – The Project Manager will engage the Supervisor to support the assessment of delays.  | Project Director<br>June 2020        |



|   |                                 |
|---|---------------------------------|
| Recommendation 8 – The Project Manager will produce more detailed reports to the Project Group in future, to include the points listed in the audit report.   | Project Director<br>June 2020   |
| Recommendation 9 – The Project Manager, supported by the Cost Adviser, will produce a report explaining the arrangements that have been put in place to facilitate the effective assessment of project delays in lieu of a fully costed activity schedule. The Health Board will obtain clarification from NWSSP-SES on framework expectations in respect of activity schedules prior to future projects. | Project Director<br>August 2020 |

| Finding 10: Delay damages  | Risk   |
|--|--|
| <p>Delay damages are paid by the contractor if he fails to complete the works by the specified completion date. They may also be applied to sectional completion if key dates are specified.</p> <p>The Designed for Life: Building for Wales framework does not currently provide guidance on the expected level of damages to be specified at the contract.</p> <p>Delay damages of only £1 per week were specified at the contract (and £0 for late phase completion). Management advised that their understanding was that delay damages were set at this level at framework level to promote a "no blame" working culture – and their understanding was that this was comparable with other projects.</p> <p>The project currently has 18.7 weeks delay that have yet to be assessed, i.e. if approved, forecast damages recoverable of £18.70 to date.</p> <p>Management have observed that, at this stage, any changes to the contract would require explicit agreement from all parties, and likely lead to an increase in the Target Price.</p> <p>The Project Director noted that whilst delays were unfortunate, the new service model was being implemented from the current decant/ temporary accommodation. Accordingly, any assessment of damages would need to be cognisant of this.</p> | <p>The UHB is not compensated appropriately for SCP failure to meet contractual obligations.</p> |
| Recommendation 10  | Priority level   |

|  |  |
|--|--|
| <p><i>Future</i></p> <p>Noting that limited action can be taken at this project, management should include commercially assessed delay damages within future contracts in accordance with national framework guidance. (O)</p> | <p><b>Medium</b></p>                                 |
| <p><b>Management Response 10</b></p>   | <p><b>Responsible Officer/ Deadline</b></p>          |
| <p>Agreed</p> <p>The Health Board will seek clarification from NWSSP-SES on the expectations in respect of delay damages for future projects.</p>  | <p>Director of Estates</p> <p>At future projects</p> |

## Risk management

| Finding 11: Residual risk v residual contingency  | Risk                         |                      |      |      |                            |             |  |                       |     |  |                        |  |      |                              |             |   |                         |                    |   |
|---|------------------------------|----------------------|------|------|----------------------------|-------------|--|-----------------------|-----|--|------------------------|--|------|------------------------------|-------------|---|-------------------------|--------------------|---|
| <p>The NHS Wales Infrastructure Investment Guidance states:</p> <p><i>"Risk registers for each individual project/programme must be completed, shared and monitored, with reference not only to time, cost and quality but also operational/service impacts, functionality and benefits realisation. It is therefore important that NHS bodies not only consider construction risks, but wider operational/implementation risks which have to be managed and mitigated over the lifespan of a scheme. Where necessary, scheme risk registers should also be submitted to Welsh Government in addition to the reports referenced at Section 4.2 above".</i></p> <p>As work is carried out, and commitments become firmer, so the risks in future works and commitments are reduced, the contingency estimate should be periodically updated to reflect this.</p> <p>Use of contingency to date has been:</p> <table><tr><td></td><td>Original contingency</td><td>£930</td></tr><tr><td>Less</td><td>Compensation Events (CE's)</td><td><u>£864</u></td></tr><tr><td></td><td>Remaining contingency</td><td>£66</td></tr><tr><td></td><td>(at project mid-point)</td><td></td></tr><tr><td>Plus</td><td>top up discretionary funding</td><td><u>£341</u></td></tr><tr><td>=</td><td>Replenished contingency</td><td><b><u>£407</u></b></td></tr></table> |                              | Original contingency | £930 | Less | Compensation Events (CE's) | <u>£864</u> |  | Remaining contingency | £66 |  | (at project mid-point) |  | Plus | top up discretionary funding | <u>£341</u> | = | Replenished contingency | <b><u>£407</u></b> | <p>Management are not appropriately informed.</p> <p>The project delivery to budget is not appropriately monitored.</p> |
|   | Original contingency         | £930                 |      |      |                            |             |  |                       |     |  |                        |  |      |                              |             |   |                         |                    |   |
| Less  | Compensation Events (CE's)   | <u>£864</u>          |      |      |                            |             |  |                       |     |  |                        |  |      |                              |             |   |                         |                    |   |
|   | Remaining contingency        | £66                  |      |      |                            |             |  |                       |     |  |                        |  |      |                              |             |   |                         |                    |   |
|   | (at project mid-point)       |                      |      |      |                            |             |  |                       |     |  |                        |  |      |                              |             |   |                         |                    |   |
| Plus  | top up discretionary funding | <u>£341</u>          |      |      |                            |             |  |                       |     |  |                        |  |      |                              |             |   |                         |                    |   |
| =   | Replenished contingency      | <b><u>£407</u></b>   |      |      |                            |             |  |                       |     |  |                        |  |      |                              |             |   |                         |                    |   |

*(note - the corresponding impact on the discretionary programme is reported at the various capital forums).*

The Risk Register was last presented to the Project Group in September 2019. At that time risks remained in the sum of £904k.

The following was observed:

- Within the reported figures above, instructed and estimated CE's were removed from the original risk allocations. However, the risk register sums were not adjusted where the sums incurred differed to the provision (e.g. if the risk materialised in the sum of £25k from a provision of £100k, then only the costs incurred are removed from the risk register, meaning that the specific risk remains within the risk register at £75k). Accordingly, expired risks may be overstated at the risk register. Similarly, excess may be incurred and removed, leaving to under-stated risks, as only the overall value has been adjusted.
- Where new risks materialise, they should be added to the risk register. One such adjustment was included within the above calculation (for instructed asbestos removal).

Noting the above, the risk register requires full re-assessment to act as a dynamic project control in accordance with NHS capital guidance, rather than being approximated by calculation.

It was noted that the approach adopted above, reports that remaining contingency continues to be sufficient to address remaining risk.

| Recommendation 11   | Priority level                           |
|---|--|
| <p>A reconciliation should be undertaken of identified/remaining project risks, affirming both the programme and available contingency, and reported to the Project Group through to project completion. (O)</p>  | <p><b>Medium</b></p>                     |
| Management Response 11  | Responsible Officer/ Deadline            |
| <p>Agreed.</p> <p>A reconciliation of identified/remaining project risks, affirming both the programme and available contingency, has been completed. The outcome was reported to the Project Group on Tuesday 12th May 2020. The risk register will be updated regularly (at least every two months), and at key project stages, to the end of the contract.</p> | <p>Project Director</p> <p>July 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    |
|----------------|---|----------------------|
| <b>High</b>    | Poor key control design OR widespread non-compliance with key controls.<br>PLUS<br>Significant risk to achievement of a system objective OR evidence present of material loss, error or misstatement. | Immediate*           |
| <b>Medium</b>  | Minor weakness in control design OR limited non-compliance with established controls.<br>PLUS<br>Some risk to achievement of a system objective.  | Within One Month*    |
| <b>Low</b>     | Potential to enhance system design to improve efficiency or effectiveness of controls.<br>These are generally issues of good practice for management consideration.                                   | Within Three Months* |

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

## Appendix C - Project Cost Adviser Report – January 2020

| This Financial Report covers the period from 3rd December 2019 to 6th January 2020      |                                       |             |                  |                   |                   |
|---|---------------------------------------|-------------|------------------|-------------------|-------------------|
| Project Wide Cost Summary   |                                       |             |                  |                   |                   |
|        | BUDGET                                |             |                  |                   |                   |
|   | INITIAL PROJECT FUNDING               |             |                  |                   | £25,277,000       |
|   | ADDITIONAL FUNDING APPROVALS          |             |                  |                   | £810,000          |
|   | DISCRETIONARY CAPITAL FUNDING 2019/20 |             |                  |                   | £446,000          |
|   | CURRENT PROJECT FUNDING               |             |                  |                   | £26,533,000       |
|   | TOTAL APPROVALS                       |             |                  |                   | £26,533,000       |
| FORECAST COSTS TO BUDGET RECONCILIATION   |                                       | Funding     | Forecast Outturn | Forecast Variance | Mitigating Action |
| Works Cost  |                                       |             |                  |                   |                   |
| SCP Target Price  |                                       | £17,690,213 | £17,519,813      | (£170,400)        |                   |
| Approved Changes - CENs   |                                       |             | £892,765         | £892,765          |                   |
| Anticipated Changes (to be funded from HB Risk)   |                                       |             | £423,552         | £423,552          |                   |
| Early Warnings (to be funded from HB Risk)  |                                       |             | £35,386          | £35,386           |                   |
| Works Cost Gain Share (SCP current forecast is Nil)                                     |                                       |             | £0               | £0                |                   |
| Health Board  |                                       |             |                  |                   |                   |
| Fees  |                                       | £954,324    | £989,263         | £34,939           |                   |
| Non-Works   |                                       | £850,388    | £603,388         | (£247,000)        |                   |
| Equipment   |                                       | £1,844,273  | £1,844,273       | £0                |                   |
| Risk  |                                       | £930,928    | £407,614         | (£523,314)        |                   |
| VAT   |                                       |             |                  |                   |                   |
| Standard Rate   |                                       | £4,262,874  | £4,345,358       | £82,484           |                   |
| VAT Recovery on SCP Costs   |                                       | £0          | (£407,625)       | (£407,625)        |                   |
| Balance on Mitigating Actions (Current Overspend)                                       |                                       |             |                  |                   | £120,375          |
| FORECAST TOTAL PROJECT COSTS  |                                       | £26,533,000 | £26,653,786      | £120,786          | £120,375          |
| Current remaining Health Board Risk Pot provision                                       |                                       |             | £407,614         |                   |                   |
| Current overspend in Forecast Outturn over Budget - if remaining risk is fully expended |                                       |             | £120,786         |                   |                   |



## Appendix C (Contd.) - Project Cost Adviser Report – January 2020 – Supporting commentary

| Cost Commentary |  |
|-----------------|--|
| 1               | The current level of Approved Welsh Government funding is £26.087m. An additional top-up of £466k has been authorised from the Health Board DCP, so that the current budget is now reported as £26.533m. <i>Refer to Section 2 of this Report.</i>   |
| 2               | The cost report reflects a forecast out-turn project cost of £26.653m ( <i>assumes all remaining Health Board Risk Pot is expended</i> )   |
| 3               | There is a current reported shortfall of c£120k between the forecast project out-turn cost and the current Budget allocation. The initial Funding shortfall of £1.169m has been mitigated from the following sources:<br>(i) Indicative VAT Recovery on SCP Costs - <i>Health Board has received an agreement at 10.8% which currently equates to c£407k. This is below the original figure expected of £540k</i><br>(ii) Utilisation of survey costs included in the FBC to contribute to the inflationary increase - <i>mitigation measure confirmed by HB and included in reported costs above</i><br>(iii) Additional items to be provisionally funded from the risk / contingency allocation. <i>Risk Register reviews continue, but no monies have been confirmed for release by the Health Board to date.</i><br>(iv) should the shortfall not be fully met through the mitigating actions highlighted in (i) to (iii) above, then a request to draw down funding from the Discretionary Capital Programme, in line with the paper sent to CE&IM&T Sub Committee in July 2018, will be made. <i>To date a sum of £341k has been transferred from the Health Board DCP for 2019/20 financial year.</i> |
| 4               | The total forecast cost of instructed changes to the Stage 4 works to date is £892,765, an increase of c£13k in the period. <i>Refer to CE's under Section 4 of this Report</i>  |
| 5               | The forecast value of anticipated (pipeline) and early warning items is c£459k, an increase of c£35k in the reporting period. <i>These represent budget figures subject to confirmation as CEs. Refer to sections 5 and 6 of this Report</i>   |
| 6               | The forecast gain share allocation reported by the SCP is currently nil. <i>Refer to Section 7 of this Report</i>  |
| 7               | The current remaining value of the Health Board Risk Pot is £407,614, a reduction of c£48k in the reporting period to fund then additional instructed and anticipated changes. <i>Refer to Section 8 of this Report</i>  |

The Cost Adviser provided a formal evaluation report of the revised target cost and attributed the cost increases to:

- changes in regulations – c. £200k additional quoted for Mechanical and Electrical works;
- upgrade to BREEAM excellent (sustainability), including a maintenance provision and additional risk allowances;
- increase in certain key price indices, notably steel, aluminium and bitumen in this period; these included:
  - 12% steel
  - 7 – 10% aluminium (a three year high);
  - 10% fall in the pound against the Euro; and
  - fuel price increases.

An associated increase in adviser fees (noting the increased target cost), and design development in the period to FBC approval also adversely impacted on project costs.

Accordingly the UHB has sought to identify cost savings and additional funding to address the £1.169m projected funding shortfall. However, a shortfall of £120k remains:

## 2A FUNDING MITIGATION

At FBC there was a shortfall of c£1.169m between the forecast project out-turn cost and the current WG funding allocation. The Health Board have identified an approach to deal with this shortfall from other allocation sources as follows:

- (i) Indicative VAT Recovery on SCP Costs
- (ii) Utilisation of survey costs included in the FBC to contribute to the inflationary increase
- (iii) Additional items to be provisionally funded from the risk / contingency allocation

Should the shortfall not be fully met through the mitigating actions highlighted in (i) to (iii) above, then a request to draw down funding from the Discretionary Capital Programme, in line with the paper sent to CE&IM&T Sub Committee in July 2018, will be made.

The following table reports the status of the funding mitigation realised to date:


| PROPOSED FUNDING MITIGATION SOURCE  | PROPOSED SAVING   | SAVING ACHIEVED TO DATE | REMAINING SAVING REQUIRED |
|---|-------------------|-------------------------|---------------------------|
| <b>1.0 VAT Recovery</b>   | <b>£540,000</b>   | <b>£407,625</b>         | <b>£132,375</b>           |
| 1.1 No reported VAT Recovery Agreement to date  |                   |                         |                           |
| <b>2.0 Utilisation of 5-Facet Survey Budget from Non-Works</b>  | <b>£300,000</b>   | <b>£300,000</b>         | <b>£0</b>                 |
| 2.1 Confirmed by Health Board 20th November 2018 that these works will not proceed. Sum included in Non-works to be omitted |                   |                         |                           |
| <b>3.0 Review of Risk Register Items</b>  | <b>£329,000</b>   |                         | <b>£329,000</b>           |
| 3.1 No current release of Risk Register monies against the Initial Funding Shortfall Mitigation                             |                   |                         |                           |
| <b>4.0 Discretionary Capital Programme Funding Draw-down</b>  |                   | <b>£341,000</b>         | <b>-£341,000</b>          |
| 4.1 Top-Up from Health Board DCP Funding - confirmed by Health Board 19th November 2019                                     |                   |                         |                           |
|   | <b>£1,169,000</b> | <b>£1,048,625</b>       | <b>£120,375</b>           |

## Appendix D - Phasing

As per clause X5 of the NEC Contract adopted the contractual sectional completion dates have been agreed as below. The contractors programme is further assessed to determine the duration of each section under the revised programme:

| Phase                   | Contract Dates    |                      |                          | Latest Reported   |                      |                          | Audit Comments           |                         |
|-------------------------|-------------------|----------------------|--------------------------|-------------------|----------------------|--------------------------|--------------------------|-------------------------|
|                         | Sectional Start   | Sectional Completion | Programme Duration Weeks | Sectional Start   | Sectional Completion | Programme Duration Weeks | Extensions Granted Weeks | Unassessed delays Weeks |
| 1 - Labour ward         | 01/10/2018        | 16/08/2019           | 45.6                     | 01/10/2018        | 30/01/2020           | 69.4                     | 12.3                     | 11.6                    |
| 2 - Neo natal           | 02/07/2019        | 10/02/2020           | 31.9                     | 12/08/2019        | 04/11/2020           | 64.3                     | 12.3                     | 26.0                    |
| 3 - Theatres 1 & 2      | 31/03/2020        | 17/08/2020           | 19.9                     | 04/08/2020        | 11/03/2021           | 31.3                     | 12.3                     | 17.1                    |
| 4 - Changing rooms      | 02/09/2020        | 06/11/2020           | 9.3                      | 30/11/2020        | 04/06/2021           | 26.6                     | 12.3                     | 17.7                    |
| <b>Overall contract</b> | <b>01/10/2018</b> | <b>13/11/2020</b>    | <b>110.6</b>             | <b>01/10/2018</b> | <b>18/06/2021</b>    | <b>141.6</b>             | <b>12.3</b>              | <b>18.7</b>             |

## Appendix E - Status of previously agreed management actions

| Women and Childrens Development Phase II (May 2018) |   |  |                 | Previously providing  |
|---|---|--|-----------------|--|
| Ref   | Recommendation  | Responsibility & Timescale                                 | Current Status  | Updated responsibility, timescale & rating   |
| 11  | The cost per meter squared of the target cost adjusted for abnormals will be provided for scrutiny. | Project Director to request of Cost Adviser<br>Immediately | <b>Actioned</b> | N/A  |

## Appendix F - Activity Based Schedules

The NEC form of contract utilised within the NHS national framework, is "NEC Option C with Activity Schedule". This costs each activity (labour hours / costs, materials etc.). Thus an accurate cash flow can be produced to monitor the progression of costs against activities, acting as a key project control.

The formal NEC contract applied at this scheme states:

*"the contractor provides information which shows how each activity on the Activity Schedule relates to the operations on each programme which he submits for acceptance."*

While cash flows may be otherwise estimated and monitored, an Activity Based Schedule of appropriate detail can facilitate better understanding of project costs and changes to them.

The NEC C Option C Contract "with Activity Schedule" – as operated under the Designed for Life:Building for Wales framework 1 (D4L1) specifies at Clause 54.3 that "a reason for not accepting a revision to an Activity Schedule is that any changed Prices are not reasonably distributed between the activities."

D4L1 (for use in conjunction with an NEC Option C contract) states that for cost of the Stage 4 works (construction) that:

*"An Activity Schedule will again be used supported by a breakdown of activities into labour, plant, and materials, with the Contractor inserting costs against each item. This is to be done in conjunction with the Cost Adviser, who must be satisfied that the costs inserted are fair and reasonable and comparable with market rates."*

Activity Schedules, constructed in this matter are utilised by Cost Advisers of the national framework at projects throughout Wales.

### NEC guidance

NEC guidance (Managing Reality – 2.13.6) in addressing the issue of "what happens when activities on the revised programme do not match the Activity Schedule" states:

*"the contract requires that the activities on the activity schedule must relate to the programme. If they do not, at this point the programme*

*fails to be a useful management tool. If this occurs, the Project Manager should not accept the revised programme assuming that the start and finish dates of each activity are shown, he should ask the contractor under clauses 32.2 and 54.2 to submit a revision of the activity schedule to the Project Manager for acceptance.*

*The Contractor is at a disadvantage at this stage because if the Project Manager has not accepted a revised programme, he can make his own assessment of a Compensation Event".*

### Application to the Women & Children's project

In the case of the Women and Children's project, the activities the "Activity Schedule" was derived from an estimation of monthly cash flow itemised by trade, rather than built up from all the activities within the programme. Consequently, it was not possible to determine whether the costed cash flow derived from costed activities. However, an Activity Schedule it can be at a variety of levels, and the essence, is to facilitate appropriate project control. It should demonstrate the ongoing relation between the costed activities of revised programmes, and cash flow.

By way of example, an activity such as the "Block 9 courtyard plant room" would require use of various trades, and has been subject to delay and cost change. Management advised that these changes were appropriately justified, but note that the Project Manager did not reference agreed changes to original allocations to this task.

It is recognised that a Phase could be deemed to be an appropriate level of activity to control. In this case, a cash flow by trade was preferred as a more practical solution. While analysis of the relation between changes in programme and cost can still be analysed, this would not be facilitated / justified in the same way by reference to a detailed Activity Schedule. It is also appreciated, that depending on the level of detail, that such a schedule this could become onerous to maintain. If dynamic changes of staff or changes in daily tasks were monitored at too detailed a level, this could detract from its purpose, and add considerably to project administration. An appropriate balance is therefore required, but facilitating understanding of relating between programme activities and changes in cost profile.