

Princess of Wales Theatres Fire Safety Works: Final Internal Audit Report

July 2022

Cwm Taf Morgannwg University Health Board

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Executive Summary

Purpose

The audit was undertaken to review the delivery and management arrangements applied to the development of proposals for fire safety works at the Princess of Wales Hospital theatres.

Overall Audit Opinion and Overview

A Fire Enforcement Notice (FEN) was issued in December 2018, requiring compliance, extended from December 2021 to 31st December 2023.

While some build matters had been addressed, more intrusive works, and those requiring significant capital investment, remained. An options paper was presented to Welsh Government in April 2021, advising that works could be in the order of £36.4m for an interim solution. Accordingly, Welsh Government approved progression of the budget estimates into a fully costed proposal.

Welsh Government were therefore appraised of the preferred solution at an early stage, and approved £720k to progress detailed design.

Cost: Development stage costs remained within budget. However, cost estimates for the overall project had been revised from £36.4m provided at the April 2021 proposal submitted to Welsh Government, to £52m as of December 2021. In part, revisions to cost estimation arose from more detailed design, additionally informed by newly defined procurement arrangements (as directed by Welsh Government). Noting the cost escalation, Welsh Government have requested that all other options are re-considered. The project does not presently benefit from approved funding for a design solution.

Time: The FEN had been extant from December 2018, and a delivery plan to address the issues by the revised deadline of December 2023 was not in place. However some of the other available options now being explored could reduce the delivery programme.

The fundamental issues impacting the project are:

- The need to address the requirements of the Fire Enforcement Notice by December 2023; and
- To satisfy NWSSP: SES and WG that all options to address the FEN have been appropriately considered.

A number of control issues have also been identified at the project (some being recommendations for enhanced control). These included:

- The need to improve the general governance arrangements notably the need to establish a Project Board (to reflect the size, value and complexity of the project);
- The need for appropriately detailed cost reporting and variance analysis to a Project Board; and
- The need to determine how the Cost Adviser will be appointed for the construction phase to comply with procurement regulations, Standing Financial Instructions, and to demonstrate value for money.

Accordingly, the **limited** assurance is presently determined based on the absence of an agreed plan to address the FEN within the defined timescales, and an approved and funded design solution. At the close of fieldwork, there was positive dialogue with WG in appraising all of the available options.

Matters for management consideration have been detailed at **Appendix A**

Report Classification

Limited More significant matters require management attention.



Moderate impact on residual risk exposure until resolved.

Assurance summary ¹

Assurance objectives	Assurance
1 Governance	Limited
2 Contractual arrangements	Reasonable
3 Project management	Limited
4 Design development	Reasonable
5 Risk management	Reasonable

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

Key Matters Arising		Assurance Objective	Control Design or Operation	Recommendation Priority
1	A Project Board should be established as the accountable body for project scrutiny and delivery of the options appraisal.	1	Design	High
	<i>Future Assurance</i>			
3	The Health Board should ensure timely completion of contracts.	2	Operation	Medium
	<i>Future assurance</i>			
4.1	The Health Board should assess the methodology of awarding direct contracts at design and construction projects.	2	Operation	Medium
4.2	The Health Board should confirm appropriate contractual arrangements for the Cost Adviser.	2	Operation	Medium
	<i>Future assurance</i>			
4.3	The Health Board should determine how value for money will be assured at the letting of the construction stage award for a Cost Adviser.	2	Operation	Medium
5	Delivery should be monitored against costed activity schedules.	2	Operation	Medium
8	Appropriate cost reports should be published to enable the monitoring and scrutiny of the current (and future) stages.	3	Operation	Medium
10	A risk register and associated reporting should be provided for the current stage	5	Operation	Medium
Matters Dependent on the outcome of the options appraisal				
<i>(i.e. dependent on the revised proposal being large or small scale)</i>				
	<i>Future assurance</i>			
6	Key Performance Indicators should be utilised.	2	Operation	Medium
	<i>Future Assurance</i>			
9	Pending the outcome of the options appraisal, in the circumstance that Theatres re-provision remains within the preferred option, the Project Board should re-assess procurement options to ensure value for money.	4	Operation	Medium

In total, 9 observations have been made, resulting in 17 recommended control actions, prioritised as follows:

Priority	High	Medium	Low	Total
Total recommendations	1	14	2	17
For current action	1	9	-	10
For future action	-	5	2	7

Note – while certain actions can now only be applied at future project stages, these also largely related to current control issues at the project.

1. Introduction

- 1.1 This audit formed part of the 2021/22 internal audit plan. The audit was undertaken to evaluate the processes and procedures established to support the management and control of proposed fire safety works to the theatres at the Princess of Wales Hospital.
- 1.2 A Fire Enforcement Notice was issued in December 2018 to the former Abertawe Bro Morgannwg University Health Board (ABMUHB), from the South Wales Fire & Rescue Service. This required the ABMUHB to address fire safety arrangements at the Princess of Wales (POW) Theatres. Responsibility for the Princess of Wales Hospital was passed to the Cwm Taf Morgannwg University Health Board (the Health Board) in April 2019 as part of the transfer of services in the Bridgend area.
- 1.3 While some matters outlined at the Fire Enforcement Notice have been addressed, more intrusive works, and those requiring significant capital investment, remain. A proposal was presented to Welsh Government in April 2021, advising that works could be in the order of £36.4m for an interim decant solution. Accordingly, funding was provided in the requested sum of £720k to progress these budget estimates into a fully costed business case proposal.
- 1.4 The audit has focused on the potential risks to the achievement of key project objectives, including time, cost and quality of the delivered investment proposal.
- 1.5 Noting the ongoing impact of Covid 19 at the time of audit, the audit included an increased element of remote working.

2. Detailed Audit Findings

Context:

- 2.1 While the opinion has considered control issues at the project, key to the opinion in this case was consideration of achievement the fundamental project objective i.e. compliance with the Fire Enforcement Notice within its extended time frame. The notice had been extant from December 2018, and a delivery plan to address the issues within this time frame was not in place.
- 2.2 At the time of audit, the previously proposed plan (as of January 2022), including delays, showed delivery three months ahead of the December 2023 deadline. Subsequently, the Supply Chain Partner and their design team were stood down pending an agreed solution. This period has now extended for over five months, rendering the prior plan un-deliverable within the required time-frame.
- 2.3 Funding for an agreed design solution remains to be put in place.
- 2.4 While a number of control issues have also been identified, it is appreciated that management have been actively seeking resolution of this issue. By way of context, management have further advised:
 - The Health Board, with full Welsh Government support, are working to ensuring that as a minimum that theatres can be decanted by this date to lift the FEN

from with remedial above ceiling works proposed to complete shortly thereafter. As unoccupied space, the FEN could be withdrawn.

- The preferred option will be confirmed with Welsh Government and compiled within a business case for submission in winter 2022.
- South Wales Fire and Rescue Service are being provided with all information as well as bi monthly meetings to discuss any risks or concerns.

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

2.5 At a project audit, levels of assurance are determined on whether the project achieves its original key delivery objectives and that governance, risk management and internal control within the areas under review are suitably designed and applied effectively.

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

Quality

2.7 The key driver for the project is to discharge the Fire Enforcement Notice issued in December 2018 for the Princess of Wales Hospital (by December 2023).

2.8 Within the Health Board's original proposal submitted to Welsh Government in April 2021, the preferred solution was for modular theatres to be utilised as an interim decant solution, with the existing theatre space remaining unoccupied. A further business case was to be developed for remedial work, allowing the lifting of the notice. A meeting took place with South Wales Fire and Rescue Service (SWFRS) on 16th April 2021, attended by Welsh Government, where SWFRS confirmed their support for the scheme, and that the Fire Enforcement Notice could be withdrawn if the theatre block remained empty.

2.9 During the subsequent design / budget development, the following was also identified:

- the existing theatres were deemed too small – as highlighted by one of the failings of the fire regulations - storage in corridor areas (the fire escape route).
- mechanical and electrical provisions, notably ventilation, were also at their end of their useful life, meaning that a simple decant option would leave an area of the hospital with ongoing occupancy issues due to residual non-compliance / equipment failure.
- the Health Board (and its advisers) have subsequently determined that the current area of six theatres could house only four compliant theatres. The initial proposal to Welsh Government also identified increasing demand for throughput, and therefore included potential future additional theatre capacity.

2.10 As at 4th February 2022, Welsh Government (via NWSSP: Specialist Estate Services - SES) had directed a further appraisal of all potential options prior to the further progression of the design.

Time

2.11 Draft delivery milestones were determined within the April 2021 proposal to Welsh Government (with delivery via an off-site modular construction solution).

2.12 Original and revised time frames were as follows:

	WG Approval	Start on site	Completion
April 2021 Proposal	May 2021	March 2022	July 2022
Latest Accepted Programme	June 2022	March 2023	September 2023

2.13 The original FEN required completion of works by December 2021, however a December 2021 briefing paper to the Executive confirmed that an extension had been granted to 31st December 2023.

2.14 The November 2021 progress meeting detailed the Supply Chain Partner (SCP) as being 9 weeks behind this latest accepted programme. Noting also delay for re-appraisal, at the time of reporting there was uncertainty as to whether the FEN requirements by December 2023 could be achieved.

2.15 Subsequently, Welsh Government (via NWSSP:SES) requested the UHB to revisit all available options. The implications on the programme have yet to be determined, however parties have been stood-down for a period of five months rendering the prior plan un-deliverable within the required time-frame.

Cost

2.16 The initial proposal prepared by the Health Board (with support of a team of design advisers) and submitted to Welsh Government in April 2021 included anticipated costs of £36.4m. Costs included the need for drainage and associated ground works to extend the hospital building (including the potential ongoing use of the extension); the two-story nature of the build (emergency patients being co-located on the first floor with Theatres); and the need to provide linkage into the main hospital for the two-floor extension).

2.17 Following this initial proposal, funding of £720k was granted by Welsh Government to further develop the design and costs. The latest fee expenditure reported at the time of audit was £297,464.

2.18 However, the anticipated project costs had escalated from £36.4m to £52m prior to the development of the detailed design. A detailed variance analysis was provided, including comparison to the original square meterage estimate for the build element. This outlined that the increases were attributable to:

- 14 months additional programme;
- increased material prices;
- decarbonisation; and
- the original estimate being based on overall floor area, rather than a more detailed assessment.

Governance: Assurance that adequate governance arrangements are applied at the project, including reporting and approval arrangements etc.

- 2.19 The governance structure for this stage of the project was defined within the Project Execution Plan. It included a project Progress Meeting (chaired by an external adviser), and user sub-groups (considered at the *Design Development* section below).
- 2.20 The Project Execution Plan (PEP) also defined the key project roles including the Project Director and Project Manager. The Senior Responsible Officer was the Executive Director of Strategy and Transformation (though this role was not defined within the PEP).
- 2.21 Investment decisions and accountabilities were described within the PEP as operating via a Project Board. However, reliance was being placed on the Executive Capital Management Group (ECMG) to provide this role.
- 2.22 Noting the size and complexity of the project, the ECMG could not be expected to provide the full scrutiny and accountability role of a Project Board (**MA 1**).
- 2.23 At the time of audit, the preferred build and procurement option had resulted in significantly escalated costs. However, as noted, full scrutiny and accountability by an established Project Board had yet to operate. Welsh Government have subsequently requested a full project review to re-appraise options. The project would therefore benefit from a dedicated and accountable Project Board to fully re-consider options. Management have confirmed that this will be the case.
- 2.24 Two senior Health Board project officers had been assigned to the project, supported by external advisers (as overseen by the Project Director and ECMG). Excepting the need for resource commitment to a Project Board, no issues were noted in relation to internal resource. However, there will be further opportunity to consider internal resource requirements going forward once options are re-appraised (**MA 2**).
- 2.25 Regarding external support, Health Board correspondence with the SCP in December 2021 raised concerns with their performance, including missing key dates to cost the design by some seven weeks. As a result, the Health Board requested that the SCP commit additional resource to the project. The adequacy and the effectiveness of scrutiny of project reports is also more fully considered at the *Project Management* section.
- 2.26 As noted, the project is currently paused, while options are re-appraised. While recognising the above observations, management have commented that appropriate governance arrangements moving forward will depend on the scale of the chosen solution. While recognising, this, noting the scale and complexity of the

project, and absence of a Project Board to date, a **limited** assurance has presently been determined in this area.

Contractual arrangements: Assurance of appropriate appointments and contractual arrangements including monitoring of contractual performance.

Contracts

- 2.27 The present arrangements consisted of the appointment of a Supply Chain Partner (SCP) in July 2021, and the Project Manager and Cost Adviser in September 2021.
- 2.28 The SCP commenced duties on the 2nd August 2021, however, the SCP contract was executed on 11th January 2022, providing full contractual cover some five months after their appointment (**MA 3**).
- 2.29 A Project Manager contract was in place; appointed from the Building for Wales national framework).
- 2.30 The Cost Adviser was initially procured only for feasibility assessment and was below the UHB's Standing Financial Instruction requirements for competitive quotations. This appointment was extended to the Business Case Phase via Single Quotation Action approved by the Director of Finance.
- 2.31 At the time of the current review, a decision on any future stage appointments had yet to be made, however there would be a concern on the value for money and compliance with procurement regulations if the existing appointments are further extended into the construction phase (**MA 4**).

Contract performance monitoring

- 2.32 At the time of the audit, contracted parties were being monitored by the Project Manager (as reported to the Project Group). However, they were not being monitored against itemised delivery of priced tasks against their contractual/appointment defined duties. However, the need for this has been recognised and requested by the Health Board (e.g. agreement for this to demonstrate application of additional resource).
- 2.33 The contracts include a break clause (after submission of the Business Justification Case). There is therefore the opportunity to agree the inclusion of contractual activities within future appointment stages (**MA 5**).
- 2.34 Key Performance Indicators (KPIs) submission at the six month stage has been delayed by the stand-down of SCP duties while the project is re-appraised (**MA 6**). However active monitoring and management of the SCP was identified via correspondence. Upon recommencement of the project it is important that KPIs are completed to reflect issues experienced to date.
- 2.35 A **reasonable** assurance has been determined at this time, however the recommendations made relate to the avoidance of any future exposure to risk.

Project Management: Assurance that the investment proposal is being appropriately planned, monitored and progressed within allocated funding and target time scales etc.

Monitoring & reporting

- 2.36 As previously noted (at the Cost section above), by December 2021 estimated costs for the construction stage had escalated from £36.4m (at the April 2021 proposal) to £52m.
- 2.37 A project of this size would typically benefit from monthly Project Manager and Cost Adviser reports to both a Project Team and Project Board (e.g. including monitoring of variances to budgeted cash flow).
- 2.38 The cash flow budget for monitoring purposes would be derived by pricing the project activities. Variance commentary would advise whether this was caused by delayed or changed tasks, or price changes.
- 2.39 In this case progress monitoring included regular summary briefings to the ECMG, reviews of capital costs, and monthly Project Manager's reports circulated amongst the project team. While a costed activity schedule was not included (with associated variance analysis of current expenditure), this was formally requested by the Health Board in January 2022 to evidence additional resource (**MA 5**). Project cost reporting comprised periodic analysis of the design costs. Project Manager reports had similar focus, and did not profile time or cost progression against the £720k development budget. While these costs were included within monitoring extracts from the financial systems, these did not provide associated commentary (**MA 8**).

Project methodologies

- 2.40 The Project Execution Plan states that it will utilise "Prince 2" project management methodologies in accordance with NHS Wales Capital Investment Guidance. This utilises "stage" boundaries (periodic project reviews with approval to proceed to the next stage). These are reflected within the business case process utilised by the Welsh Government, but should also be adopted within the management of the project. However, while milestone summaries have been published, the current request for project re-appraisal has been driven from outside the project.
- 2.41 While noting general reporting of project and design progression, there was a need to ensure more detailed monitoring of time, cost and performance to an accountable body. At the time of audit, the available options required re-appraisal, and therefore an agreed plan ensuring delivery within the Fire Enforcement Notice expiry date and within allocated funding, was absent. Additionally noting significantly increased project costs, a **limited** assurance is presently provided in relation to project management and the ability to deliver a solution within agreed funding and timescales.

Design Development: Assurance that a robust design has been developed e.g. based on appropriate surveys and user input.

Business Case development

- 2.42 The original April 2021 proposal submitted to Welsh Government anticipated a modular theatre solution with associated decant arrangements. It outlined the initial requirement of £36.4m for a decant theatre facility, with a further application to follow (relating to rectification of the vacated areas). The Health Board did not anticipate a fuller business case being required for the decant element.
- 2.43 In response, Welsh Government provided £720k funding award for design development and to develop a “business case”; referring the Health Board to the NHS Wales Infrastructure Investment Guidance.
- 2.44 Welsh Government subsequently issued further guidance on 4th February 2022 to require an options appraisal ahead of the business case. The development route envisaged by the Health Board has therefore been revised significantly. However, it is recognised that the more detailed assessment of design requirements will well place the Health Board to re-appraise options.

Design development

- 2.45 This RIBA 2 (concept) design was agreed with the Clinical Director of Anaesthetics, ITU and Theatres, and the Health Board Executive Team were provided with an associated briefing paper and costings. These included options for the utilisation of the ground floor. However, comparisons / analysis of current to proposed accommodation for these provisions was not identified.
- 2.46 Following user agreement of the RIBA 2 design, the Project Manager requested that user meetings should be re-convened to conclude RIBA 4 (technical) design. However, as of 6th January 2022, a Health Board (Covid related) directive cancelled all non-essential meetings. These have since been re-convened to inform the options appraisal as of 26th May 2022.
- 2.47 To ensure that value for money is demonstrated in the procurement process, NWSSP:SES requested that the appointed SCP tender the Modular build element should be based on a detailed design (RIBA 4). Only two of the eight potential suppliers responded to the request for expressions of interest for the modular theatre supply. A tender response report was provided, referencing the size and complexity of the project, together with market conditions as key reasons for this limitation. However, noting a good tender response for similar modular procurements at other Health Boards, it has been recommended that procurement options are re-assessed following the options re-appraisal (and in the circumstance that Theatres reprovision remains within the preferred option) **(MA 9)**.
- 2.48 As of December 2021, surveys remained ongoing, and a RIBA 2 design had been prepared and costed at £52m. As noted, analysis of increases from the April 2021 proposal was limited due to the initial estimate being only of overall square meterage allowances. Management advised that the design had not changed

significantly from the original proposal, however the extent that enhancements may have contributed to the uplift could not be determined.

- 2.49 The direction to consider wider options (at the request of NWSSP: SES) has been appraised at the Project Management section.
- 2.50 Noting the future nature of recommendations made, and progression of design in accordance with approved funding, a **reasonable** assurance is determined in relation to design development.

Risk Management: Assurance that appropriate risk management arrangements are applied at the project and managed through the project's lifecycle.

- 2.51 A risk register was maintained and scrutinised at the monthly progress meetings (as provided by the external Project Manager). This assigned costed risks between the SCP and the Health Board (to inform formulation of a Target Cost).
- 2.52 While it included design and survey risks, together with mitigating risk actions, its use and formulation could be enhanced to provide additional and more dynamic project controls e.g.:
- it could separate risks applicable to the current phase (developing a business case) from those of the construction phase (such as adverse weather);
 - show mitigated risk values; and
 - specify officers responsible for action.
- 2.53 This could facilitate enhanced summary reporting of current phase:
- risk value as compared to £720k of funding;
 - risk mitigations outstanding; and
 - top risks (**MA 10**).
- 2.54 As previously noted, there was also a need for such reporting to a forum to which Health Board officers were accountable (as assessed at the Governance section).
- 2.55 Noting that a current risk register had been compiled including risks relevant to the current project phase and that this was subject to monthly publication and scrutiny at project progress meetings a **reasonable** assurance is therefore assessed in relation to risk management.

Appendix A: Management Action Plan

Matter Arising 1: Project Board (Design)	Impact
<p>Best practice would indicate that projects discretely funded by Welsh Government would typically benefit from a Project Board, as the accountable body for delivery, scrutiny, and approval.</p> <p>In accordance with this, proposed governance arrangements were defined within a Project Execution Plan, and confirmed the key role of the Project Board (Appendix B). However, while it referenced general responsibilities of the Health Board and key project members (such as the Project Director and Project Manager), it did not provide terms of reference for the Project Board, or linkage to the Senior Responsible Officer.</p> <p>The project was being progressed via monthly progress meetings. These were convened by the external Project Manager, and attended by the Supply Chain Partner (SCP), Cost Adviser and the Health Board. Health Board input has included both the Service and Estates leads (the latter typically undertaking detailed scrutiny of technical proposals to inform the meetings).</p> <p>The Health Board Executive Capital Management Group received monthly project updates via the Major Capital Update report and reports specific to this project. It was attended by the Senior Responsible Officer and Project Director – the former (the Executive Director of Strategy and Transformation), in addition to the Director of Finance, providing linkage to the Executive. Reports have included design reviews published by the Architect and summaries to the Executive authored by the Health Board project managers. The Senior Responsible Officer did not attend further meetings relating to the project.</p> <p>The Supply Chain Partner also convened weekly progress meetings for more immediate discussions, and bi-monthly design meetings for formal design review. The Project Director did not attend these meetings.</p> <p>However, the full reporting and accountability mechanisms of the Project Execution Plan have yet to operate.</p> <p>Noting size, value and complexity of the project, a Project Board should be established.</p>	<p>Potential risk that:</p> <ul style="list-style-type: none"> • appropriate accountability is not operated; • appropriate project scrutiny is not applied.

Recommendations		Priority
1.1 Management should formulate a Project Board immediately, with appropriate terms of reference and attendance as the accountable body for project delivery (as part of defined project governance).		High
1.2 The Health Board should appropriately define and operate project linkage to the Senior Responsible Officer.		Medium
Agreed Management Action	Target Date	Responsible Officer
1.1 Agreed - This will be put in place to consider the options appraisal. The executive structure and personnel changed across this time. The project involves Health & Safety, Capital, and Strategy & Planning. The role of Senior Responsible Officer was therefore re-allocated. The project is currently being re-appraised. Subsequent to this, and pending the options appraisal to Welsh Government, governance will be further addressed as appropriate for the approved scheme. The CEO has also been in receipt of regular informal briefings from the Project Director.	Immediately	Project Director
1.2 Agreed – comments as above	August 2022	Project Director

Matter Arising 2: Internal Resource (Operation)		Impact
<p>NHS Wales Infrastructure Investment Guidance WHC 2018 (043) states that internal project sponsorship costs:</p> <p><i>"will be supported up to a value of 1% of the works cost, subject to Welsh Government agreement of a detailed resource schedule."</i></p> <p>The funding approval letter, in providing £720k for funding development of a business case did not itemise its application. A break-down of this sum has not been evidenced e.g. via a detailed resource schedule.</p> <p>Management confirmed the allocation of two senior officers to the project, supported by external advisers. No issues were noted in relation to internal resource.</p> <p>Noting potential revisions to the solution, the business case stage represents a further opportunity to appraise project resources (e.g. via a task based resource schedule).</p>	<p>Potential risk that:</p> <ul style="list-style-type: none"> the project does not have appropriate resource to facilitate an optimal outcome. 	
Recommendations	Priority	
<p><i>Future Assurance</i></p> <p>2.1 The Health Board should confirm that resource requirements are appropriately assessed utilising a detailed resource schedule at the business case stage.</p>	<p>Low</p>	
Agreed Management Action	Target Date	Responsible Officer
<p>2.1 Agreed. The project has been adequately resourced with two internal officers to date. Formal application for resources would be made at a formal business case, and we will look to make appropriate application at that time.</p>	<p>At the business case</p>	<p>Project Director</p>

Matter Arising 3: Timely contracts (Operation)					Impact									
<p>Appropriate contractual arrangements should be in place to minimise liabilities for the Health Board, and to facilitate optimal performance (e.g. as per issues arising at MA 10).</p> <p>The Supply Chain Partner was appointed from the NHS Wales Building for Wales framework. Accordingly, general obligations of performance and charge rates pre-exist under the framework contract. Specific works and pricing are agreed by subsequent Health Board call-off contracts with the respective parties.</p> <p>While a parent company guarantee was signed on 18th August 2021, the works were not contractually agreed for over five months:</p>					<p>Potential risk of:</p> <ul style="list-style-type: none"> project progression at risk without appropriate contractual cover in place; and non-compliance with the Health Board’s Standing Financial Instructions. 									
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #d9e1f2;">Contract</th> <th style="background-color: #d9e1f2;">Value</th> <th style="background-color: #d9e1f2;">Works start date</th> <th style="background-color: #d9e1f2;">Call-off Contract returned</th> <th style="background-color: #d9e1f2;">Delay in execution</th> </tr> </thead> <tbody> <tr> <td>Supply Chain Partner business case duties.</td> <td style="text-align: center;">£169,466</td> <td style="text-align: center;">2/8/2021</td> <td style="text-align: center;">11/1/2022</td> <td style="text-align: center;">6 months</td> </tr> </tbody> </table>						Contract	Value	Works start date	Call-off Contract returned	Delay in execution	Supply Chain Partner business case duties.	£169,466	2/8/2021	11/1/2022
Contract	Value	Works start date	Call-off Contract returned	Delay in execution										
Supply Chain Partner business case duties.	£169,466	2/8/2021	11/1/2022	6 months										
<p>Noting in both the parent company guarantee, and standing framework contract with the SCP, the Health Board has benefitted from reasonable contractual cover, and with fully signed contracts in place at the time of audit. However, agreed contract tasks can assist for reference in case of disputed performance.</p>														
Recommendations					Priority									
<i>Future Assurance</i>					Medium									
3.1 The Health Board should ensure timely completion of contacts.														
Agreed Management Action			Target Date	Responsible Officer										
3.1 Agreed – though in this case, due to the bespoke nature of the contract – a single phase business case, this did not align with			At future contracts	Project Director										

the national framework contract stages - requiring additional edit prior to issue. Covid also impacted timely return.		
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Matter Arising 4: Contract Award (Operation)	Impact												
<p>The Welsh Government provided £720k in June 2021 to fund fees for the development of a business case. The supporting letter stated:</p> <p><i>“If you decide to buy any goods and/or services to deliver the Purposes, they must be purchased in a competitive and sustainable way so as to demonstrate that you have achieved best value in the use of public funds”.</i></p> <p>Health Board Standing Orders require:</p> <table border="1" data-bbox="107 694 1559 842"> <thead> <tr> <th>Value</th> <th>Market testing</th> <th>Authorisation</th> </tr> </thead> <tbody> <tr> <td>> £5,000</td> <td>Demonstrate best value</td> <td>Tier 5 (Head of department or equivalent)</td> </tr> <tr> <td>£5,000 - £24,999</td> <td>3 quotes</td> <td>Head of Procurement / Finance / CEO</td> </tr> <tr> <td>£25,000 - £189,330</td> <td>4 tenders</td> <td>Any single tender action authorised by CEO</td> </tr> </tbody> </table> <p>Payment of £2,940 was made to the Cost Adviser for feasibility assessment work in December 2020.</p> <p>A Single Quotation Tender was subsequently approved for work on the business case by the Director of Finance on 20th September 2021. The justification for this was the earlier engagement, resulting in familiarity with the project, which would result in lower rates, and quicker delivery. It is recognised that the chosen party is one routinely utilised at the Building for Wales national framework, however, comparison with such rates was not identified. A payment was subsequently authorised and made to the Cost Adviser of £38,470 in October 2021 (£40,960 in total).</p> <p>However, procurement thresholds refer to the likely aggregate award value i.e. including future contract stages. Awarded values may further increase significantly if the procurement is similarly extended through the construction phase.</p> <p>It such procurement arrangements are replicated moving forward, then Single Tender Quotations would become the norm for all direct appointments all the latter phases of design and construction projects.</p>	Value	Market testing	Authorisation	> £5,000	Demonstrate best value	Tier 5 (Head of department or equivalent)	£5,000 - £24,999	3 quotes	Head of Procurement / Finance / CEO	£25,000 - £189,330	4 tenders	Any single tender action authorised by CEO	<p>Potential risk that:</p> <ul style="list-style-type: none"> • the project is in breach of Standing Orders; • value for money is not obtained; and • the Health Board is in breach of Welsh Government funding requirements.
Value	Market testing	Authorisation											
> £5,000	Demonstrate best value	Tier 5 (Head of department or equivalent)											
£5,000 - £24,999	3 quotes	Head of Procurement / Finance / CEO											
£25,000 - £189,330	4 tenders	Any single tender action authorised by CEO											

A formal contract also remains to be put in place with the Cost Adviser to define duties.			
Recommendations		Priority	
<i>Future assurance</i>			
4.1	The Health Board should assess the methodology of awarding direct contracts at design and construction projects.	Medium	
4.2	The Health Board should confirm how value for money will be assured at the letting of the construction stage award for a Cost Adviser.	Medium	
<i>Future assurance</i>			
4.3	The Health Board should ensure appropriate contractual arrangements are in place for the Cost Adviser.	Medium	
Agreed Management Action	Target Date	Responsible Officer	
4.1	Agreed – we will ensure this at future awards. However, in the early stages of this project, we did not want to contractually commit to the full scheme at the outset, until the position had been appraised.	At future contract awards	Project Director
4.2	Agreed	August 2022	Project Director
4.3	Agreed	August 2022	Project Director

Matter Arising 5: Contract monitoring (Operation)	Impact
<p>NHS Wales Infrastructure Investment Guidance WHC 2018 (043) states: <i>"After selection of the appropriate Advisers, Designers and Contractor (if applicable), the LHB or Trust shouldinclude the priced activity schedules submitted by each successful organisation."</i></p> <p>As stated within the Project Execution Plan, this not only acts as a system of cost control but can <i>"pin-point where targets are not being achieved"</i>.</p> <p>The project currently relies on the external parties of Project Manager and Cost Adviser for oversight of SCP contractual delivery. While the Executive Capital Management Group were appraised of total expenditure, progress, and issues, the project has yet to benefit from detailed budgetary monitoring by a group accountable for project delivery.</p> <p>Typically, a project of this size would benefit from both Project Manager and Cost Adviser reporting. Additional to detailed updates of progress, these would typically include detailed cost, and cash flow monitoring updated risk registers; contract changes; and pending changes and early warnings.</p> <p>While the SCP contract contained a priced activity schedule, the December 2021 request for payment by the SCP did not reference activities performed.</p> <p>At the November 2021 progress meeting, the external Project Manager stated that that <i>"there is a lack of back up to show what activities a number of (SCP) personnel will be undertaking."</i> An invoice from the SCP on 20th December 2021 (the first received) for £112,340 (Net of VAT), included only four sums, two of which were <i>"People £33,095"</i>, and <i>"Supply Chain Members £67,440"</i>. Payment requests could not therefore be related to the agreed programme of activities. Accordingly, while an extract of the accepted programme was presented in the Project Managers report, progress was not itemised against it. Rather it was narrated by way of summary update.</p> <p>Similarly, there was a need for the Health Board to monitor both Project Manager and Cost Adviser delivery against their respective contracts.</p> <p>The contracts include a break clause post submission of the Business Justification Case. Moving forward, there is therefore the opportunity to agree revision to contractual activities.</p>	<p>Potential risk that:</p> <ul style="list-style-type: none"> • Parties are not appropriately monitored. • Payments are made in excess of duties performed

Recommendations		Priority	
5.1	Payments for contracted parties should be monitored against contracted activity schedules.	Medium	
5.2	Management should utilise any project re-set to ensure that appropriately detailed costed activity schedules are included within contacts.	Medium	
Agreed Management Action	Target Date	Responsible Officer	
5.1	Agreed. These issues of performance were also been raised in the key Directors meeting in December 2021.	August 2022	Project Director
5.2	Agreed	August 2022	Project Director

Matter Arising 6: Key Performance Indicators (Operation)	Impact
<p>The Designed for Life (national construction framework) contracts require that bi-annual assessment of company performance will be made on the following parties:</p> <ul style="list-style-type: none"> • Project Manager; • Cost Adviser; and • Supply Chain Partner; <p>and that areas to be assessed will be:</p> <ul style="list-style-type: none"> • quality of core service; • timely delivery of service & information; • commitment to project objectives; • collaborative approach; • appropriate resourcing; • commitment to safety; and • overall performance. <p>Accordingly, the Project Execution Plan committed that Key Performance Indicators (KPIs) would be submitted in accordance with this frequency with input by the SCP, and collation by the Project Manager.</p> <p>Key Performance Indicators (KPIs) submission at the six month stage has been delayed by the stand-down of SCP duties while the project is re-appraised.</p> <p>Issues with the Supply Chain Partner were detailed at the November 2021 team meeting, including:</p> <ul style="list-style-type: none"> • being 9 weeks behind schedule; • <i>"lack of cost information.. simply not good enough"</i>; • <i>"many costs not submitted in correct detail / format"</i> with <i>"a lot of assumptions"</i>; • client dissatisfaction with information received; • need to postpone a meeting with NWSSP:SES to discuss costs; • mis-stating their role as assisting the Cost Adviser to derive costs, rather than being responsible for their derivation; and 	<p>Potential risk that:</p> <ul style="list-style-type: none"> • Management are not appropriately informed. • Contracted parties performance is not appropriately controlled.

<ul style="list-style-type: none"> not submitting Early Warning Notices as required by the contract. <p>These returns are utilised both to formalise performance feedback and also monitor performance of parties on the national framework. They can also be a useful means of escalation and point of reference in any dispute.</p> <p>Noting that due to a stand-down period, a full six months of performance had yet to elapse since SCP appointment (in August 2021), this matter is for future application.</p>		
Recommendations		Priority
<p><i>Future Assurance</i></p> <p>6.1 Upon recommencement of the project, management should utilise Key Performance Indicators in accordance with the contract.</p>		Medium
Agreed Management Action	Target Date	Responsible Officer
6.1 Agreed. These will be applied as required.	Upon re-engagement with the SCP	Project Director

Matter Arising 7: Performance Bond (Design)		Impact
<p>The NHS Building for Wales framework contracts utilise the NEC3 contract (New Engineering Contract version 3). This includes provision for inclusion of a Performance Bond (NEC clause X13).</p> <p>It is recognised that these are not often used, as the contractor typically charges for the increased liability within the contract price. However, the context of the above performance issues, and the critical nature of Theatres should also be considered.</p> <p>Note – delay damages can be separately applied, and guidance on this matter has been issued by NWSSP: Specialist Estates Services. This additional matter has not been made subject to separate recommendation, being part of the standard completion of the construction stage contract in accordance with best practice guidance.</p>		<p>Potential risk that:</p> <ul style="list-style-type: none"> contractor performance issues impact service delivery. performance issues cause the Health Board additional cost.
Recommendations		Priority
<p><i>Future assurance</i></p> <p>7.1 The Health Board should obtain advice from NWSSP: Specialist Estates Services in relation to a performance bond for construction works.</p>		Low
Agreed Management Action	Target Date	Responsible Officer
7.1 Agreed	August 2022	Project Director

Matter Arising 8: Cost monitoring (Operation)	Impact
<p>Welsh Health Circular 2018 (043) - NHS Wales Infrastructure Investment Guidance in its requirements for reporting to the Welsh Government, states that:</p> <p><i>"It is essential that organisations ensure that the information from Supply Chain Partners is up to date and contains realistic forecasts in terms of completed works and valuations."</i></p> <p>Financial monitoring of payments against approved orders, showed expenditure of £297,464 to date. However, noting the early stage of the project associated cost reporting of this monitoring to a project group had yet to commence.</p> <p>Payment monitoring has also included overall scheme forecasts, and summary reporting to the ECMG. However:</p> <ul style="list-style-type: none"> • the first SCP request for payment of £112,340 (made on 21st December 2021) had yet to be included within the financial reporting (of a total SCP contract of £169,465); <ul style="list-style-type: none"> ○ the Stage 2 Briefing paper to NWSSP; Specialist Estates Services (published in January 2022) showed movement in cost estimates from £36.4m to c.£52m, including detailed analysis of changes in fees and non-works costs. Commentary attributed the increase in works cost to 14 months additional programme; increased material prices; and decarbonisation measures. It would also be useful therefore for a more comprehensive cost analysis, to be provided for scrutiny by Health Board management (e.g. including the effect of any movement in cost indices or benchmarks, and dis-aggregated across such causes). • as of February 2022, a full project cost report had yet to be published. <p>Project Manager reporting profiled progression of the design work and the forecast costs of the preferred option. However, it did not profile time or cost delivery of the design phase itself (e.g. against the £720k budget).</p>	<p>Potential risk that:</p> <ul style="list-style-type: none"> • Management are not appropriately informed. • Costs are not appropriately controlled

<p>While internal monitoring of design phase expenditure was identified, this was as extracted from financial systems, rather than presented as a formal report with commentary.</p> <p>As the project progresses to more formalised internal governance arrangements, enhanced monitoring and reporting arrangements would assist appropriate project management and scrutiny.</p>		
<p>Recommendations</p>		<p>Priority</p>
<p>8.1 Management should ensure appropriate reporting, forecasting and management of project costs, for each project phase, to a project group, accountable for delivery, including overall project reporting of:</p> <ul style="list-style-type: none"> • contacted sums; • cash flow budgeted to date; • expenditure to date; • forecast out-turn; and • associated variance commentary. 		<p>Medium</p>
<p>Agreed Management Action</p>	<p>Target Date</p>	<p>Responsible Officer</p>
<p>8.1 Agreed. However, profiled costs are provided from the Supply Chain Partner. There is formal cost monitoring in terms of performance against funding to ECMG and monthly reviews of capital costs. Further reporting of the formats suggested will follow as appropriate upon review pending scale of the revised proposal.</p>	<p>August 2022</p>	<p>Project Director</p>

Matter Arising 9: Value for Money (Operation)		Impact
<p>NHS Wales Infrastructure Investment Guidance WHC 2018 (043) outlines the need to monitor “<i>time, cost and quality</i>”.</p> <p>The April 2021 proposal had been for a decant solution utilising modular theatres. To assure value for money, NWSSP:SES requested that the appointed SCP tender this aspect based on a detailed design. Only two of the eight modular suppliers responded to the request for expression of interest for modular Theatre supply. A tender evaluation report was provided by the Cost Adviser, referencing the size and complexity of the project, together with market conditions as key reasons for this limitation. While the Executive were updated, scrutiny and approval of these arrangements by a Project Board was not in place. There remains a risk, based on such market limitations, that best value may not be assured by the modular proposals.</p> <p>Noting a good tender response for similar modular procurements at other Health Boards, it has been recommended that procurement options are re-assessed following the options re-appraisal.</p>	<p>Potential risk that:</p> <ul style="list-style-type: none"> Value for money is not assured. 	
Recommendations	Priority	
<p><i>Future Assurance</i></p> <p>9.1 Pending the outcome of the options appraisal, in the circumstance that Theatres reprovision remains within preferred option, the Project Board should re-assess procurement options to ensure value for money.</p>	<p>Medium</p>	
Agreed Management Action	Target Date	Responsible Officer
<p>9.1 Agreed. This will be undertaken at the future procurement.</p>	<p>At confirmation of the preferred option</p>	<p>Project Director</p>

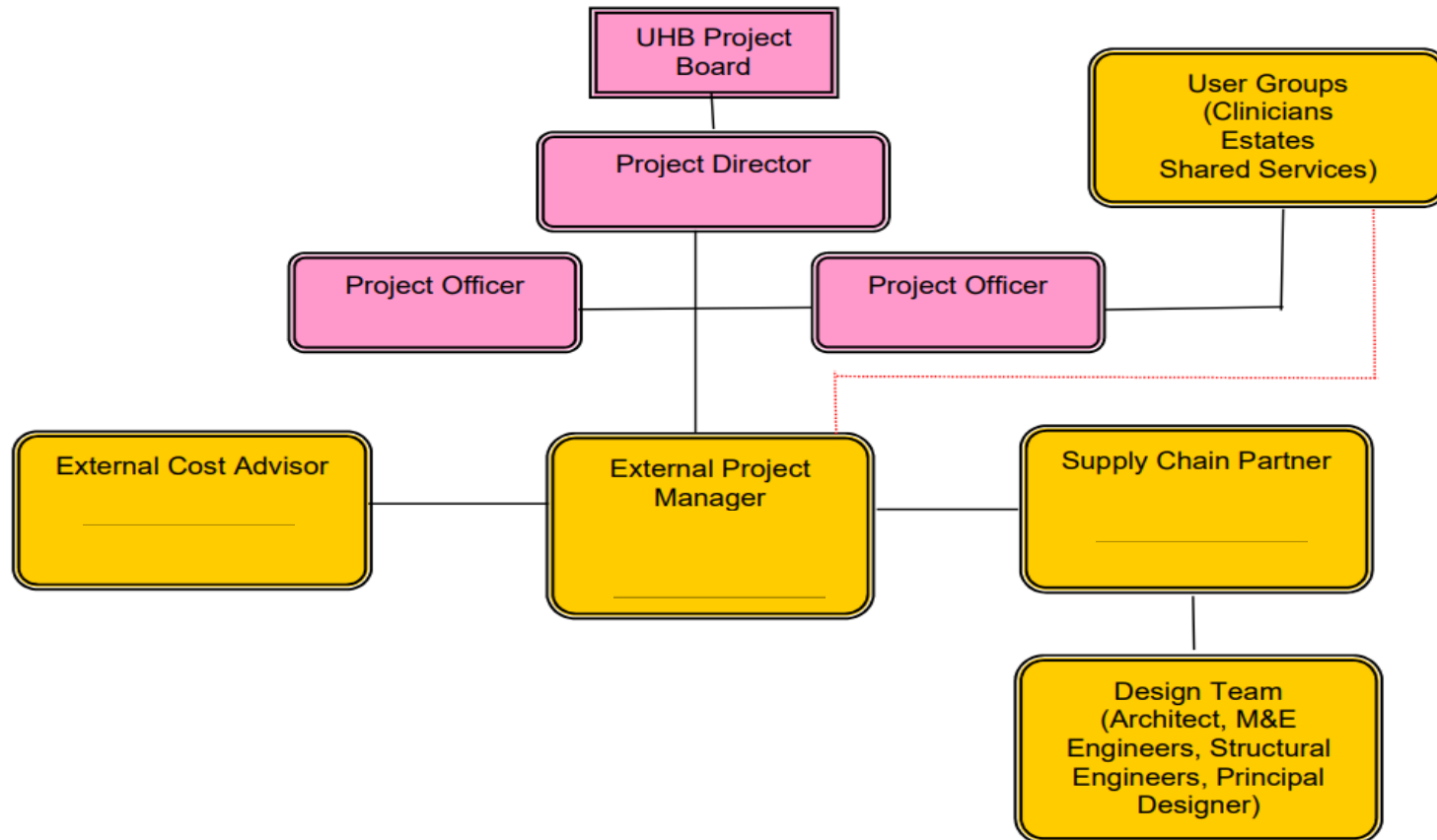
Matter Arising 10: Risk Register(Operation)	Impact
<p>NHS Wales Infrastructure Investment Guidance WHC 2018 (043) states:</p> <p><i>“Risk registers for each individual project/programme must be completed, shared and monitored, with reference ..to time, cost and quality”.</i></p> <p>The Project Execution Plan further states:</p> <p><i>“A project risk register will be maintained and updated throughout the BJC stage of works.....to inform the level of contingency required ... and the possible cost associated with the items.”</i></p> <p>A costed risk register was provided at the (external) Project Manager’s report. However, this was focussed on construction stage risks (e.g. weather), and did not contain individual assignment or action dates for the current phase. Accordingly, a costed risk register for the current (development) phase was not evidenced. This could usefully compare remaining funding with residual risks for the current phase. Similarly top risks and non-actioned risks could usefully be reported to enhance the use of the risk register as an active project control.</p>	<p>Potential risk that:</p> <ul style="list-style-type: none"> risks are not appropriately assessed and managed at the current phase.
Recommendations	Priority
10.1 A costed risk register should be regularly maintained and reported, as applicable to the current project phase.	Medium
10.2 Management should actively monitor and report the value of residual risk v remaining contingency.	Medium
10.3 Risks should be individually assigned to those best placed to control them, with time parameters for action.	Medium
10.4 An exception report should be published of targeted risk mitigations not achieved.	Medium

Agreed Management Action	Target Date	Responsible Officer
10.1 Agreed	August 2022	Project Director
10.2 Agreed	August 2022	Project Director
10.3 Agreed	August 2022	Project Director
10.4 Agreed	August 2022	Project Director

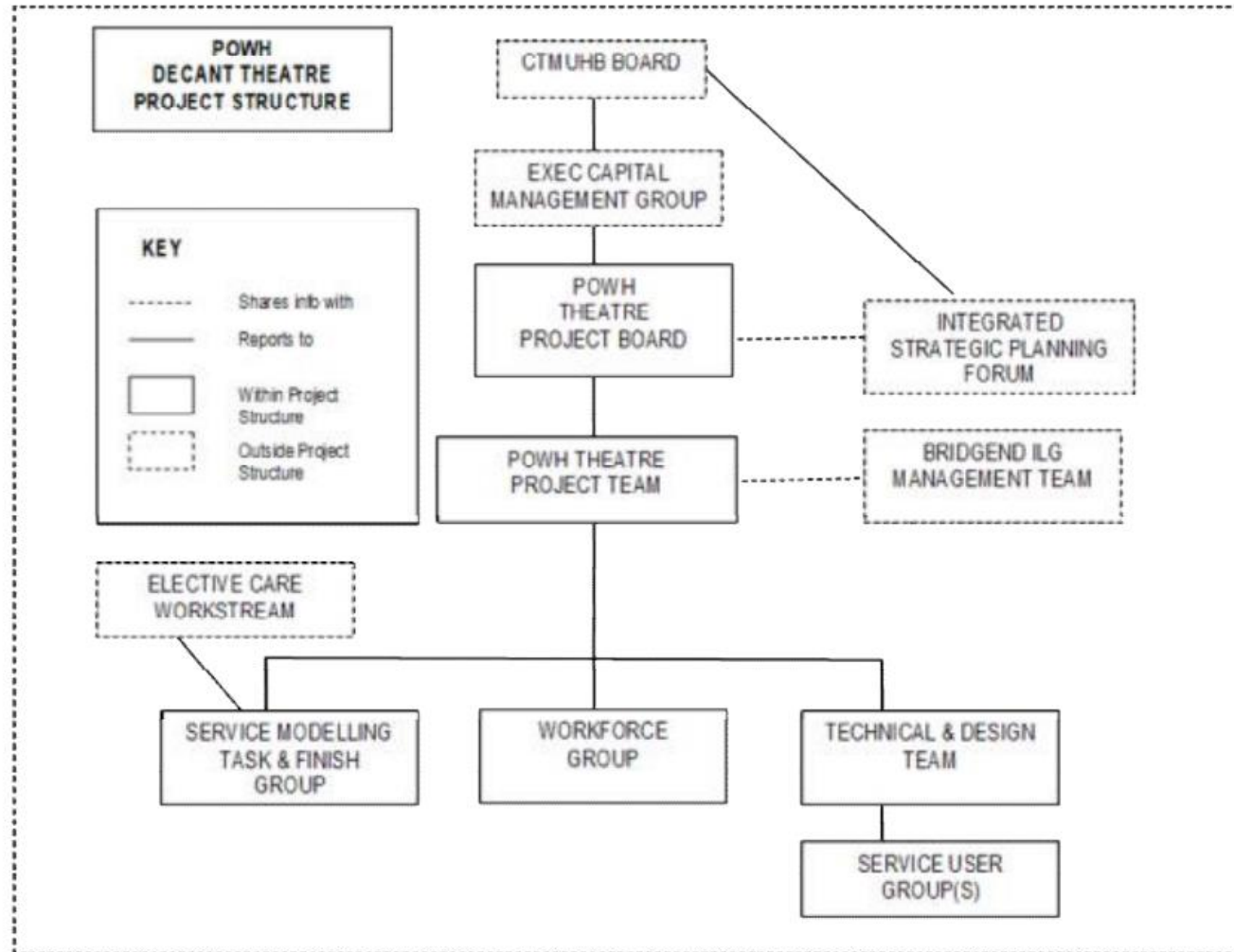
Appendix B: Planned governance structures (as per Project Execution Plan)

The following organisational structure highlights the primary reporting structure within the University Health Board for the Princess of Wales Hospital Modular Decan Theatres Project. *Secondary lines of communication are shown with a red dotted line.*

University Health Board Strategic Project Team Structure:








CTM UHB
Project Management Structure & Governance Arrangements



Appendix C: Assurance opinion and action plan risk rating

Audit Assurance Ratings

We define the following levels of assurance that the project achieves its key delivery objectives and that governance, risk management and internal control within the area under review are suitable designed and applied effectively:

	Substantial assurance	Few matters require attention and are compliance or advisory in nature. Low impact on residual risk exposure.
	Reasonable assurance	Some matters require management attention in control design or compliance. Low to moderate impact on residual risk exposure until resolved.
	Limited assurance	More significant matters require management attention. Moderate impact on residual risk exposure until resolved.
	No assurance	Action is required to address the whole control framework in this area. High impact on residual risk exposure until resolved.
	Assurance not applicable	Given to reviews and support provided to management which form part of the internal audit plan, to which the assurance definitions are not appropriate. These reviews are still relevant to the evidence base upon which the overall opinion is formed.

Prioritisation of Recommendations

We categorise our recommendations according to their level of priority as follows:

Priority level	Explanation	Management action
High	Poor system design OR widespread non-compliance. Significant risk to achievement of a system objective OR evidence present of material loss, error or misstatement.	Immediate*
Medium	Minor weakness in system design OR limited non-compliance. Some risk to achievement of a system objective.	Within one month*
Low	Potential to enhance system design to improve efficiency or effectiveness of controls. Generally issues of good practice for management consideration.	Within three months*

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



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