

Prince Charles Hospital Redevelopment: Phase 1b Final Account

Final Internal Audit Report

October 2022

Cwm Taf Morgannwg University Health Board



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

Acknowledgement

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Executive Summary

Purpose

The overall objective of this audit was to determine the adequacy of information provided in support of the Stage 4 (construction) defined costs claimed by the Supply Chain Partner for Phase 1b of the Prince Charles Hospital Redevelopment Project.

Overview

The total final account sum certified by the Cost Adviser provided for audit was £29,446,939 (exc. V.A.T).

Based on the sample selected, we are content that the cost adviser has obtained sufficient supporting evidence and provided challenge to support the current assessment of the final account sum.

While some matters requiring management attention are included within the detail of the report, no errors in determination of the final account were identified; and accordingly substantial assurance has been determined in relation to its derivation and support.

Report Classification



Few matters require attention and are compliance or advisory in nature.

Low impact on residual risk exposure.

Assurance summary ¹

Assurance objectives	Assurance
1 SCP Fees	Substantial
2 Subcontractor costs	Substantial
3 Equipment and materials	Substantial
4 Gain Share	Substantial
5 Other Issues	Substantial

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

1. Introduction

- 1.1 This audit originated from the 2021/22 integrated audit plan for the Prince Charles Hospital (PCH) Redevelopment, agreed with management and approved by the Audit Committee.
- 1.2 Construction works on Phase 1b of the PCH Redevelopment was completed on the 3rd September 2021.
- 1.3 The contract was let via the New Engineering Contract (NEC); Option C (Target Cost with pain / gain). This form of contract charges defined costs (i.e., actual costs incurred, as defined to be eligible under the contract), up to the agreed (Target) price, with a share of any savings in the event of under-spend. Any over-spend is borne by the contractor (denoted "pain"), being capped by the Target Price.
- 1.4 The sum due at the account presented for audit was £29,446,939, as follows:

	(£)
Original Target Cost	24,633,364
Compensation Events	7,022,453
Total of the Prices	31,655,817
Price for Work Done to Date at Completion	29,051,241
Estimated contractors Share payable	395,698
Total to be Paid to the Contractor at Completion	29,446,939

- 1.5 The audit was undertaken to determine the adequacy of the information provided in support the level of Stage 4 (construction) costs at the final account.
- 1.6 The risks considered within this audit included expenditure not being appropriately supported; the account being over-paid; and the account being disputed.

2. Detailed Audit Findings

	(£)
People	3,887,256.77
Semi-Skilled Labour	468,863.93
Materials, Equipment & Other	861,258.31
Subcontract	22,863,255.18
Fee	912,620.61
Insurance	57,986.51
Gain share	395,697.71
Total	29,446,939.02

Rates and fees: Assurance that the SCP rates/fees are in accordance with national framework provisions and the signed contract.

2.1 Fees applied by the Supply Chain Partner were found to be in accordance with the contract and framework.

People and Semi-skilled Staff Costs: Assurance that these are in accordance with national framework provisions and the signed contract.

2.2 All staff rates utilised during the duration of construction were checked for accuracy. Rates applied were reconcilable with original and uplifted staff rates in accordance with the framework and contract requirements.

2.3 Timesheet records were sampled over a two-month period of the construction phase to verify hours charged at the project. Again, a full record was available for review and no issues were identified within the sample.

Equipment, materials and other costs: Assurance that equipment, materials and other costs have been appropriately charged.

2.4 A total sample of £424,502 of Materials and Equipment was tested, representing 49% of the total cost.

2.5 Invoices were provided in support of all the sampled costs.

Sub-contractor costs: Assurance that sub-contractor costs are appropriately supported and agreed.

2.6 A sample of £15,508,463 sub-contractor accounts were reviewed during the audit representing 68% of the total sub-contractor costs at the account. The most significant element of this being the Mechanical & Electrical subcontractor account.

2.7 Noting that sub-contractor claims can be subject to adjustment prior to final agreement, the audit sought signed agreement from sub-contractors accepting the final sum. These were available in most cases, however 10 subcontractors had yet to sign/ return their respective statements of final account (totalling £617,840) **(MA 1)**.

2.8 From our sample it was evident that, in certain instances, works had commenced on additional works instructed prior to the costs being agreed. In such instances, the negotiation position of the UHB is significantly weakened if the Supply Chain Partner has already incurred costs. This is not material to the agreement of the final account but will be further checked at future audits of the PCH Programme **(MA 2)**.

Gain Share: Assurance that the gain share calculation has been correctly assessed (with reference to authorised Compensation Events and taking account of any delay damages due).

2.9 Gain share was found to be appropriately calculated, capped and included within the final account presented for audit.

Matter Arising 1: Subcontractor Statements of Final Account (Operation)		Impact
<p>An important stage in validating the payments made by the Supply Chain Partner to their subcontractors is obtaining confirmation from the respective subcontractors on the amounts paid – this is usually confirmed with a signed statement of final account.</p> <p>Whilst several examples were evidenced, 10 remained to be obtained at the time of our review.</p> <p>Upon receipt of the outstanding subcontractor statements of final account, the appointed cost advisor should provide assurances to the UHB that these align with that being recovered at the Supply Chain Partner at the main final account.</p>		Potential overpayment of the Supply Chain Partner.
Recommendations		Priority
1.1	The remaining subcontractor statements of final account will be obtained, and assurances provide to the UHB that these reconcile with the amounts claimed by the Supply Chain Partner.	Low
Agreed Management Action		Target Date
1.1	Agreed	November 2022
		Responsible Officer
		Responsible Officer, PCH Construction Programme






Matter Arising 2: Changes (Operation)							Impact
<p>The NEC contract utilised at this project sets out strict timelines in which the Supply Chain Partner and Client need to respond to project changes. These are in place to ensure that works are not commenced prior to the cost of the work being agreed. The following was noted from our sample:</p>							<p>Delays in agreeing costs can reduce the ability to challenge SCP costs.</p>
CE Ref	PMI Ref	PMI Date	CE Date	PMN Date	Value (£)	Comments	
3	3	03/12/18	03/12/19	07/04/20	782,070	Length of time from PMI to CE was 1 year then further 13 weeks to issue PMN – note this is a large value and scrutiny did take place. There was evidence to suggest that works relating to this PMN was also being undertaken prior to official notification i.e. Enabling works (June-October 19), Piling works completed in August 19, plant room foundation, drainage and exterior works. This was supplemented by timesheets covering the period March – September 2019.	
6	6	03/12/18	03/06/20	26/06/20	482,502	Length of time from PMI to CE was circa 18 months. There was evidence to suggest that works relating to this PMN was undertaken prior to official notification e.g. application for payment of items including scaffold, kitchen propping towers, hoist hire over the period November 19-March 20. There were also timesheets for chargehands, ground-workers, carpenters and engineers covering Jan – March 20 with associated material costs.	
168	177	30/9/20	17/11/20	11/2/21	60,235	Length of time taken from CE to PMN was circa 12 weeks.	
83	86	26/9/19	2/12/19	7/4/20	245,006	Length of time taken from CE to PMN was circa 18 weeks.	
<p>It is important that the costs for works are agreed promptly and prior to works commencing, as this potentially reduces the negotiation power of the Client if the costs have already been incurred by the Supply Chain Partner.</p>							<p>Priority</p>
Recommendations							

2.1	The cost of changes to the Target Cost should be agreed promptly and prior to work commencing.	Medium	
Agreed Management Action		Target Date	Responsible Officer
2.1	Due to the need to maintain programme it is not always possible to obtain costs prior to work commencing. This is recognised in the NEC contract under clause 61.1 where the Contractor is charged with putting an instructed Compensation Event into effect despite costs not having been agreed. That said, the timescale for determining actual cost should not be as long as found in the testing. Performance has improved on the project in this respect.	November 2022	Responsible Officer, PCH Construction Programme

Appendix A: Assurance opinion and action plan risk rating

Audit Assurance Ratings

We define the following levels of assurance 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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