

University Hospital Llandough Endoscopy Development Final Internal Audit Report

February 2024

Cardiff & Vale University Health Board



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Audit and Assurance Services conform with all Public Sector Internal Audit Standards as validated through the external quality assessment undertaken by the Chartered Institute of Public Finance & Accountancy in April 2023.

Acknowledgement

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

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Executive Summary

Purpose

The purpose of the audit was to review the delivery and management arrangements for the University Hospital Llandough (UHL) Endoscopy Development project, and the performance against its key delivery objectives i.e., time, cost, and quality. This second review of the project covered the period from October 2022 onwards.

Overall Audit Opinion and Overview

At the time of the current review, the project remained within the approved budget allocation. However, a significant number of design changes had impacted contingency funds. Savings made elsewhere within the project have ensured a balanced financial position had been maintained.

Project changes had been managed via both the NEC contractual requirements and the UHB's Project Issues Form (PIF) process, with appropriate approvals in place in line with the Scheme of Delegation.

Contractual completion had been delayed by thirteen weeks; however, this was not expected to have an undue impact on existing service delivery.

The significant matters arising at the project include:

- The need to undertake a post-completion review of the design and change processes applied, to learn lessons for future projects;
- The application of contract conditions (at future projects) in accordance with the applied form of contract; and
- The development of a performance framework for monitoring of contractor and adviser performance at future projects.

Reasonable assurance has been determined at this review.

Report Classification

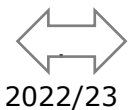
Trend

Reasonable



Some matters require management attention in control design or compliance.

Low to moderate impact on residual risk exposure until resolved.



2022/23

Assurance summary ¹

Assurance objectives	Assurance
1 Project Performance	Reasonable
2 Validation of Management Action	Limited
3 Financial Assurance	Reasonable
4 Technical Assurance	Reasonable
5 Change Control	Reasonable
6 Equipping	Reasonable
7 Quality Assurance	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
2.1	The risk register should be reviewed to determine any further potential impact to the project budget (and associated need for approval of additional funding).	3	Operation	Medium
4.1	Capital & Estates should liaise with NWSSP Accounts Payable on the matter of late payments.	4	Operation	Medium
5.1	On project completion, a review should be undertaken into the design / change process applied, with any lessons learnt for application at future projects.	5	Design	Medium
6.1	The UHB and external Project Manager should support the timely execution of the change management processes.	5	Operation	Medium
7.1	The warranty arrangements for the main equipment should be confirmed, with retention of associated documentation.	6	Operation	Medium
8.1	A performance management framework should be developed to support the monitoring and reporting of Contractor and adviser performance.	7	Design	Medium

Future Key Assurance Matters ²		Assurance Objective	Control Design or Operation	Recommendation Priority
2.1	At future projects, the contract conditions applied should conform with the form of contract applied.	3	Operation	Medium
7.2	At future projects, the risks associated with the equipment approach (e.g. storage / warranties) should be included on the project risk register to ensure visibility at Project Team / Project Board.	6	Operation	Medium

² Future assurance matters are for management action at future (appropriate) projects. Noting current action cannot be taken, the Audit Committee is requested to exclude from the audit tracker and the matters arising included in this report for management information. They have, however, been taken into consideration when determining the assurance rating at this report

1. Introduction

- 1.1 This audit reviewed the delivery and management arrangements in place to progress the development of the Endoscopy Unit at University Hospital Llandough (UHL). The audit was commissioned in accordance with the agreed Audit Plan provided within the approved Business Justification Case for this project.
- 1.2 The development will enable the University Health Board (UHB) to increase capacity and deliver multi-disciplinary, patient focused care to include diagnosis, treatment and endoscopic surveillance procedures for inpatients and outpatients, whilst supporting sustainable endoscopy services as part of the Welsh Government National Endoscopy Programme.
- 1.3 The risks considered in this review included:
 - Potential failure to achieve key project objectives (e.g., delivery to time, cost, and quality).
 - Poor performance may not be identified and addressed.
 - Potential failure to achieve value for money in equipment procurement.
 - Insufficient readiness for handover.
- 1.4 This was the second audit of the project, with the first (reported in October 2022), determining reasonable assurance. At the time of this second review, the project was nearing completion (forecast for 23rd October 2023).

2. Detailed Audit Findings

- 2.1 Our detailed audit findings are set out below. All matters arising and the related recommendations and management actions are detailed in **Appendix A**.

Project Performance: Summary of the achievement of the project's key delivery objectives (time, cost and quality) for the period from the date of the previous audit report.

- 2.2 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 area under review are suitably designed and applied effectively.
- 2.3 The project was progressed via the UHB's Local Framework, using the NEC Short Contract. Further detail is discussed within the relevant sections of the report below.
- 2.4 At this interim audit of the UHL Endoscopy Development Project, when assessing progress against the original delivery objectives, the following was evidenced:

Time

2.5 The latest Project Manager’s progress report (September 2023) states the current position as follows:

- Construction start date 4th July 2022
- Original contract duration 55 weeks
- Original contract completion 24th July 2023
- Revised contract completion 23rd October 2023
- Additional time awarded 13 weeks
- Contractor’s forecast planned completion date 20th November 2023 (noting this programme had not yet been accepted at the time of the PM’s report).

2.6 The additional time awarded can be summarised as follows:

Table 1

PMN ref	Date issued	Reason	No. weeks awarded	Revised contract completion date
008	24/8/22	Redesign work following change in structural engineer	7	11/9/23
012	16/11/22	Delay to steel procurement following change in structural engineer	3	2/10/23
062	15/6/23	Delay due to late issue of design items and procurement of doors, fixtures and fittings	3	23/10/23

2.7 The contract duration had therefore been extended by 24% to date, which is a significant prolongation. It is recognised that most of this delay was outside the control of the UHB, being due to the insolvency and replacement of the original UHB appointed structural engineer, and associated design and procurement delays (with the initial 7-week delay previously discussed in the 2022/23 Audit report).

2.8 In considering the impact to the Endoscopy Service, it was noted that a phased approach had been taken at the project, with key areas handed over incrementally ahead of final contract completion. To date, the Ty Glas refurbishment and the Main Extension have been handed over to the UHB and are now in use (the contractual approach associated with this has been discussed at **MA2**). Whilst the overall achievement of the expected benefits set out in the business case will be delayed until all areas have been completed, management confirmed that the Service continued to operate throughout the duration of the works and the delays

have not therefore had any undue impact on existing service delivery. Whilst as above the Contractor was forecasting an additional one month of delay, management advised this outstanding work was minimal and all main areas would be handed over by the agreed (extended) contractual completion date.

Cost

2.9 The latest cost report (October 2023) presented the cost position at the project as follows:

Table 2

	Forecast Costs £	WG Approvals £	Variance £
Works	4,106,362	3,770,651	335,711
UHB Fees	333,935	478,289	-144,354 ¹
Non-works costs	208,424	211,855	-3,431
Equipment	991,092	882,671	108,421 ²
Contingency	(31,852)	310,000	-341,852
VAT	1,054,805	1,035,035	19,770
Project Total	6,662,766	6,688,501	-25,735

¹ The reduction in fees is due the delivery in-house of certain professional disciplines, including the Architect and Supervisor roles, that were originally budgeted to be appointed externally.

² The increase in equipment costs is simply the movement of a provisional sum from the Works contract to the equipment budget, due to the UHB procuring this equipment directly.

2.10 The project was forecast to be delivered within budget, due to savings in certain budget areas. These included UHB fees (see above) and removal of a mobile decontamination unit from the contract.

2.11 The UHB returned £1.556m to Welsh Government from the 2022/23 Capital Resource Limit, due to slippage in the construction programme. Noting the agreed contractual completion date of October 2023, no further cash flow risks were envisaged.

Quality

2.12 Quality assurance over the works undertaken was provided by the in-house Supervisor: routinely reporting quality issues and defects to the project team. No

significant matters of quality have been raised in the reports or in the progress meeting minutes reviewed.

2.13 Issues have been noted in other areas of the Contractor’s performance (e.g. in response times to contractual instructions), and in the performance of the appointed external advisers in managing the contract. Recommendations have been made to ensure the UHB has a robust framework in place for monitoring and reporting performance at future projects (**MA7**).

2.14 Whilst recognising the project was delayed by an agreed 13 weeks at the time of review, the UHB has benefited from progressive handover of key elements of the project, further minimising the impact on service delivery. This is reflected in the **reasonable assurance** determined in respect of project performance for the period reviewed. The following sections of the report further outline the key observations that have contributed to the above – matters which require management attention, with low to moderate impact on residual risk exposure until resolved.

Validation of Management Action: *To determine whether previously agreed actions have been appropriately actioned by management.*

2.15 The table below provides an overview of progress in implementing the previously agreed management actions contained within the prior audit report (see **Appendix B** for supporting detail).

Original Priority Rating	Implemented	Outstanding	Total
High	-	-	-
Medium		4	4
Low	1		1
Total	1	4	5

2.16 Noting only one of five recommendations for action at this project has been implemented, **limited assurance** has been determined.

2.17 Whilst recommendations for application at future projects have not been included in this assessment (but are included within the table at **Appendix B** for reference), it is important these remain on the UHB’s agenda to ensure improvements are appropriately applied where opportunities arise.

Financial Assurance: *To obtain assurance that adequate cost control and reporting systems were operated. Assessment of the ongoing arrangements for the review of risk and associated management of contingency funds.*

- 2.18 The UHB has received monthly cost reports from the external Cost Adviser, presenting a clear and comprehensive overview of the project cost position.
- 2.19 The internal Project Manager also produces monthly progress reports, taking account of the Cost Adviser's reported position, for the Project Team and Project Board (the Acute Infrastructure & Sustainability Capital Programme Board). These reports were generally comprehensive but could be enhanced to provide a clearer picture of the financial position and any financial risks, aiding further scrutiny (**MA1**).
- 2.20 Financial information was reported to Welsh Government on a bi-monthly basis via the Project Progress Reports. Whilst the cost reports are embedded in the returns, an enhancement to the summary cost information presented has been recommended (**MA1**).
- 2.21 As presented at **Table 2**, the project was forecast to be delivered within budget at the time of the current review. A costed risk register was maintained, indicating potential for £70k additional costs, should risks materialise. The risk position should be reviewed to ensure the potential impact on the project budget (and need for approval of additional funding, noting no contingency was remaining) is fully understood (**MA2**).
- 2.22 The sum of £1.556m was returned to Welsh Government from the 2022/23 Capital Resource Limit of £4.703m, due to slippage in project delivery. Noting the project is due to complete by October 2023, no risks to 2023/24 cash flow are envisaged.
- 2.23 Noting the above, **reasonable assurance** is concluded in this area.

Technical Assurance: *To obtain assurance that adequate processes and procedures were in place to validate the costs incurred to date, in accordance with the NEC Short Contract applied at the scheme, through to completion/final account.*

- 2.24 As reported within the 2022/23 audit report, the NEC Engineering & Construction Short Contract has been applied at this project. Associated recommendations made at the prior report are detailed at **Appendix B**.
- 2.25 This audit has reviewed the administration of the chosen contract in line with the agreed contract conditions.
- 2.26 In practice, whilst the Short Contract was adopted, the conditions of the NEC Option A contract have been applied. Management advises this approach was agreed with the external advisers and Contractor. Contractual documentation reviewed during the audit, including in relation to payment applications,

compensation events and stage completion, as well as the external Project Manager's progress reports, all refer to Option A clauses which do not exist in the Short Contract.

- 2.27 Whilst the audit has not identified any areas in which this has had a bearing to date on the liabilities of the UHB, it introduces an unnecessary element of confusion and may be to the detriment of the UHB should any dispute with the Contractor arise. In the management of completion dates, whilst phased completion was not provided for within the contract, a phased completion approach has been applied. It was not clear how contractual issues (e.g., delay damages) would be applied in the event of non-completion etc. (**MA3**). It is recognised however that the approach taken has been beneficial to the UHB in terms of partial possession as areas achieved completion.
- 2.28 To assess the valuation and payments process, valuation no. 12 (in the sum of £220,355) was reviewed. The Contractor's application had been assessed and agreed in accordance with the conditions of the contract (noting these are largely the same for both the Short Contract and Option A).
- 2.29 For a wider sample of four valuations (nos. 9-12), timeliness of payment was assessed. Two of the four payments were made outside the contractual timeframe. The introduction of Project Bank Accounts at future projects may alleviate this issue (**MA4**).
- 2.30 Whilst noting the variance between the agreed contract and the contract conditions being applied throughout the contract management process, this does not appear to date to have impacted the liabilities of the UHB. **Reasonable assurance** has therefore determined in this area.

Change Control: *To obtain assurance that appropriate internal and contractual change control mechanisms have been applied at the project.*

- 2.31 As discussed in the section above, NEC Option A clauses have been applied at the management of changes at the project. However, noting the change management conditions are largely the same at both the Short Contract and Option A, this does not appear to have impacted the agreement of changes as reviewed in this audit.
- 2.32 The project has seen a significant volume of Project Manager's Instructions (PMIs) issued (over 170 at the time of review), stemming largely from the re-phasing and re-design of the works throughout the construction programme. In part this was necessary following the change in UHB appointed Structural Engineer at the start of the project. The changes applied to the construction contract mean the original contingency budget was expended, with additional funds reassigned following savings in other budget areas (see **Table 2**).

- 2.33 The volume of PMIs impacted on the Contractor's response times in providing quotations, and the general progression of the project. It has been recommended that a lesson learnt review be undertaken to assess the pros and cons of the design and change management approach applied (amongst other areas) (**MA5**).
- 2.34 Notwithstanding the above overarching issue, a sample of six Compensation Events, totalling £132,815, were sampled for review. Generally good practice was evidenced in the assessment and agreement of the changes reviewed; however, a recommendation has been made to improve the timeliness of the process (**MA6**).
- 2.35 Noting the above, **reasonable assurance** has been determined in this area.

Equipping: *To obtain assurance that equipment requirements have been appropriately identified. That a suitable programme was in place to afford time for procurement, delivery, installation and commissioning. Procurement arrangements have been managed in accordance with local and national requirements. Warranties / guarantees have been appropriately obtained.*

- 2.36 As per **Table 2**, equipment costs total £991k, representing 15% of the total forecast spend at the project.
- 2.37 Despite equipment not being required until the works in each phase had been completed (July to October 2023), the equipment was procured shortly after Welsh Government approval of the Business Justification Case in February 2022, to utilise available in-year capital funding.
- 2.38 An agreement could not be reached with the main supplier to defer commencement of the warranty period until the equipment was installed, with this therefore commencing on delivery in May 2022. Noting a one-year warranty period has been stated, and in the absence of the UHB being able to confirm alternative arrangements e.g., extended warranty, it is presumed this has therefore now expired ahead of installation.
- 2.39 With insufficient storage space on site, the equipment had to be stored off-site (on UHB premises) until the newly completed works created space within Endoscopy. It has since been relocated to the Endoscopy unit. Management advised that equipment has been stored securely throughout and no additional costs have been incurred associated with the same.
- 2.40 The procurements complied with local and national procurement requirements and were appropriately approved by the Procurement department and within the UHB via the Request for Approval (RFA) process.
- 2.41 Whilst recognising the compliant procurement process and secure storage, a number of issues have been noted regarding the risks associated with the approach and how these have been communicated within the UHB. The UHB also needs to

confirm its understanding as to the current warranty status for the main equipment (**MA7**).

- 2.42 **Reasonable assurance** has been determined in this area. It is however cautioned that the main equipment had not yet been installed and the audit findings indicate a potential for any issues discovered on installation to be outside of the warranty period.

Quality Assurance: *To obtain assurance that arrangements were in place to monitor the achievement of investment objectives and benefits. Appropriate project management controls have been applied in the management of contractor and adviser performance, in line with the Local Framework and contractual requirements.*

- 2.43 Expected benefits of the expanded service were clearly defined within the Benefits Realisation Plan included within the BJC. Baseline metrics were recorded against which improvements will be measured, along with the method of monitoring and benefits owners. Measurement was to commence when the service was fully operational within the new/upgraded facilities.
- 2.44 The UHB has noted frustrations with the performance of both the Contractor and external advisers at the project in certain aspects of the roles being delivered. There is currently however no performance management framework in place with which to formally measure, report and manage performance at Local Framework projects. The absence of NEC professional services contracts (complementary to the NEC works contract) for external advisers further reduced the UHB's control in this area (**MA8**).
- 2.45 The Supervisor role was provided in-house, with monthly reports produced highlighting defects identified and the period with which these had been outstanding. It was noted that no significant quality issues had been identified and reported through this process, for the period reviewed. A recommendation has been made that at future projects, key roles delivered in-house should be clearly defined within the Project Execution Plan (PEP), aiding clarity of responsibilities, monitoring and management (**MA9**).
- 2.46 **Reasonable assurance** has been determined in this area, subject to completion of the benefits realisation exercise post-project completion.

Appendix A: Management Action Plan

Matter Arising 1: Financial Assurance – Financial Reporting (Operation)		Impact
<p>The project's financial position was reported internally to the Project Team and Project Board via the monthly Project Progress Report, incorporating information received from the external advisers.</p> <p>Whilst providing a comprehensive narrative overview of project progress, some areas of financial information lacked sufficient clarity to adequately inform the reader as to the financial position of the project. Areas requiring enhancement were:</p> <ul style="list-style-type: none"> • The 'Overall / Project Stage financial statement' did not provide detail of spend in-year to date against the annual Capital Resource Limit (to indicate risks of slippage and associated potential risk of loss of funding); and • Contingency figures were provided in the Change Control section, however they did not add up to provide confirmation as to whether there was any forecast overspend against the approved contingency budget. <p>The financial position was also reported externally to Welsh Government via the bi-monthly Project Progress Reports. Whilst noting the overall reported position at the most recent returns agreed to the embedded cost reports, the financial information presented at Section 11 ('Overall Project Financial Performance') had not been updated to present the movement in budget areas.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> • Financial risks to the project may not be adequately communicated to key parties to enable effective scrutiny and decision making.
Recommendations		Priority
1.1	Internal financial reporting should be enhanced to clearly show the forecast position against the annual CRL, and the position against the approved contingency budget.	Low
1.2	WG PPRs should be updated to reflect the current allocation of funds across each budget area.	Low

Agreed Management Action		Target Date	Responsible Officer
1.1	Agreed. This matter has already been discussed in project team meetings, and it has been agreed that papers need to be reviewed for accuracy before inclusion in agendas.	January 2024 onwards	Director of Capital Estates and Facilities
1.2	Agreed. The report will be updated to reflect the current allocation of funds across each budget area.	January 2024 onwards	Assistant Director of Finance (Capital)

Matter Arising 2: Financial Assurance – Budget position (Operation)		Impact
<p>At the time of reporting, the latest Cost Adviser’s report (September 2023) presented a forecast £25k underspend. This forecast position included cost estimates for PMIs not yet agreed, ensuring a realistic outturn position has been considered.</p> <p>The latest construction risk register captured costed risks totalling £77k, which should they materialise, would be additional to the above forecast. It is noted that the remaining contingency (underspend) would not fund the potential identified risk issues if they materialised. With the project nearing completion, the risk register should be reviewed to ensure that the risk position is up to date and fully understood, including any potential impact on the project’s financial position – and any requirement for additional project funding provisions.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> • Unsecured Project funding; • Project overspends.
Recommendations		Priority
2.1	<p>The construction risk register should be reviewed alongside the forecast outturn position, to determine:</p> <ul style="list-style-type: none"> • Any remaining risks (and associated costs) which may materialise; • Whether the Contractor’s forecast planned completion date (and associated one month delay) will give rise to any delay damages, and the impact on the budget position (in association with recommendation 3.2); and • Funding source/s, and appropriate approval requirements, to cover any expenditure above WG funding. 	<p>Medium</p>

Agreed Management Action	Target Date	Responsible Officer
<p>2.1 Agreed. We recognise that prior cost reporting was not up to date, noting provisional sums had not been released into contingency. This has now been rectified with the project showing an underspend. Reports will be checked more carefully for accuracy going forward.</p> <p>We confirm no delay damages are envisaged at this stage.</p>	January 2024	Director of Capital Estates and Facilities

Matter Arising 3: Technical Assurance – Contract Management (Operation)	Impact
<p>The NEC3 Engineering & Construction Short Contract (ECSC) had been applied at the project. Commentary regarding the appropriateness of this choice (compared with the options available from the NEC Engineering & Construction Contract (ECC) suite e.g., Option A) was provided in the prior 2022/23 audit report, with associated recommendations made (see Appendix B).</p> <p>At this audit, the administration of the chosen contract in line with the agreed contract conditions was reviewed.</p> <p>In practice, the external Project Manager has applied the conditions associated with an NEC Option A contract, rather than the Short Contract, in managing all aspects of the contract. Management advised this was a decision made in conjunction with the UHB and Contractor. This means that contractual documents issued throughout the works (e.g. Project Manager’s Instructions/Notifications and Sectional Completion Certificates) reference clauses from the Option A contract, which do not exist in the Short Contract.</p> <p>One area in which contract management had notably varied from the agreed contract conditions, was in the management of completion dates. The Short Contract agreed by both parties included one overall completion date, with delay damages of £568 per day should the Contractor not achieve this. However, a Sectional Completion approach had been applied in practice. At the time of reporting, management were unable to confirm how any delay damages would be applied, noting in practice the works have been handed over in phases, and the UHB would be in possession of the majority of areas before the overall contract completion date was reached. It was also noted the Sectional Completion Certificate no. 2 (Main Extension) contained an error in respect of the stated defects period.</p> <p>With the potential exception of delay damages, the audit has not identified any areas (limited to those sampled in the review) in which this variance has had a bearing to date on the liabilities of the UHB (e.g. in the amounts paid/due or changes agreed). However, it introduces an unnecessary element of confusion as to which contract conditions apply – reducing one of the key intended benefits of NEC contracts in providing clarity and simplicity to all parties. This would be particularly relevant should any</p>	<p>Potential risk of:</p> <ul style="list-style-type: none"> • Potential for challenge by the Contractor; • Potential unintended increased liabilities for the UHB; • Lack of clarity should a dispute arise.

disputes arise; however, it is acknowledged there has been no indication to date that this would be likely. It is noted, however, as reported in the prior audit report, the execution of the contract under-hand (as opposed to a deed) reduces the UHB’s liability period from 12 to 6 years.		
Recommendations		Priority
3.1	At future projects, the contract conditions applied in managing the contract should conform with the form of contract in place.	Medium
3.2	The UHB should establish how delay damages will be applied at this project, should the contractor not achieve the contractual completion date.	Low
3.3	The defects period end date should be corrected on Sectional Completion Certificate No. 2.	Low
Agreed Management Action		Target Date
3.1	Agreed. We are seeking to establish a process whereby the contract mechanisms are formally agreed. We will discuss this with team leads to determine how this will be formally managed.	At future projects
3.2	Agreed. At this time, no delay damages are anticipated.	January 2024
3.3	Agreed.	January 2024
		Responsible Officer
		Director of Capital Estates and Facilities
		Director of Capital Estates and Facilities
		External Project Manager

Matter Arising 4: Technical Assurance – Payments (Operation)								Impact																											
<p>As reported in the 2022/23 audit (recommendation 3.1), a Project Bank Account has not been implemented at this project. Management advised it was not possible to implement this, noting the requirement was not built into the Local Framework when it was originally let.</p> <p>Timeliness of payments to the contractor were therefore reviewed, to determine whether they were in line with the requirements of the Short Contract. In the Short Contract, the timing of payments is related to an 'assessment day' (defined as the "third week of each month" at this contract. The Contractor is required to submit to the Employer an application for payment by each assessment day.</p> <p>In practice the dates of submissions from the Contractor have varied month to month and were not generally in accordance with the defined assessment day.</p> <p>Two of the four payments reviewed (applications nos. 10 & 12) were paid outside the contractual timeframe (being 7 and 12 days outside the three-week window from the receipt of the application from the Contractor and from the certified final date for payment stated by the Project Manager).</p> <p>The payment timeline for the delayed payments can be summarised as follows:</p>								<p>Potential risk of:</p> <ul style="list-style-type: none"> • Potential interest due on late payments to the Contractor. 																											
<table border="1"> <thead> <tr> <th>No.</th> <th>Assessment date</th> <th>Payment due (in accordance with contract terms)</th> <th>Payment cert. issued</th> <th>Payment input on DocuSign (Capital & Estates)</th> <th>Payment authorised on DocuSign (Capital & Estates)</th> <th>Received on Oracle (NWSSP Accounts Payable)</th> <th>Paid on Oracle (NWSSP Accounts Payable)</th> <th>Days late</th> </tr> </thead> <tbody> <tr> <td>10</td> <td>10/5/23</td> <td>31/5/23</td> <td>10/5/23</td> <td>16/5/23</td> <td>24/5/23</td> <td>25/5/23</td> <td>7/6/23</td> <td>7</td> </tr> <tr> <td>12</td> <td>5/7/23</td> <td>26/7/23</td> <td>14/7/23</td> <td>21/7/23</td> <td>24/7/23</td> <td>25/7/23</td> <td>7/8/23</td> <td>12</td> </tr> </tbody> </table>									No.	Assessment date	Payment due (in accordance with contract terms)	Payment cert. issued	Payment input on DocuSign (Capital & Estates)	Payment authorised on DocuSign (Capital & Estates)	Received on Oracle (NWSSP Accounts Payable)	Paid on Oracle (NWSSP Accounts Payable)	Days late	10	10/5/23	31/5/23	10/5/23	16/5/23	24/5/23	25/5/23	7/6/23	7	12	5/7/23	26/7/23	14/7/23	21/7/23	24/7/23	25/7/23	7/8/23	12
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12	5/7/23	26/7/23	14/7/23	21/7/23	24/7/23	25/7/23	7/8/23	12																											
<p>It can be seen that the most notable delays were in the time taken for the payment to be made on Oracle once received on the system. Whilst recognising this is outside the control of the Capital &</p>																																			

<p>Estates department to resolve, being the responsibility of NWSSP Accounts Payable, it is suggested the departments discuss the matter and seek a resolution.</p> <p>It is recognised that the UHB has not received any complaints / claims for interest on late payments from the Contractor at this project; however this remains a risk at this and future projects should payments continue to be processed outside contractual timeframes.</p> <p>It is also recognised that the introduction of Project Bank Accounts at future projects may alleviate this issue.</p>		
Recommendations		Priority
4.1	The UHB should liaise with NWSSP Accounts Payable to highlight the importance of project payments being made in line with contractual terms, and identify whether a solution is feasible.	Medium
Agreed Management Action		Target Date
4.1	Agreed. Contact will once again be made.	January 2024
		Responsible Officer
		Director of Capital Estates and Facilities

Matter Arising 5: Change Management (Design)	Impact
<p>The project has seen a significant volume of Project Manager’s Instructions (PMIs) issued (over 170 at the time of the current review).</p> <p>The PMIs largely related to the re-phasing and re-design of the works, which has taken place on an ongoing basis throughout the construction period and required costing by the Contractor on issue by the Project Manager.</p> <p>The latest Project Manager’s progress report (August 2023) highlighted the following key risks in relation to this matter:</p> <ul style="list-style-type: none"> • <i>"Amount of Design Changes still being undertaken;</i> • <i>Supervisor/Designer altering phasing of works;</i> • <i>Contractor falling behind on submitting quotes against PMIs".</i> <p>In addition to the above concerns, the Project Director has also expressed dissatisfaction in the way the external Project Manager has managed the Contractor’s slow response times – noting they have not enforced the contractual timeframes and moved forward with a Project Manager’s assessment (which is permitted within the contract). Adviser performance is discussed further at MA7.</p> <p>To understand the pros and cons of managing the project as above, and to inform delivery of future projects, management should review the approach taken, including:</p> <ul style="list-style-type: none"> • an analysis of the main reasons for the number of PMIs issued at the scheme; • consideration of any impact to the design process of using an internal UHB design team rather than an external appointment; and • assessment of the impact on project performance / delivery, including in relation to the Contractor and external Project Manager and Cost Adviser in their ability to manage the volume of changes in a timely manner. 	<p>Potential risk of:</p> <ul style="list-style-type: none"> • Lessons are not learnt from project experiences; • Reduced performance at future projects.

Recommendations		Priority
5.1	On completion of the project, management should undertake a review of how the design / change process has been managed, with any lessons learnt identified for application at future projects.	Medium
Agreed Management Action	Target Date	Responsible Officer
5.1	Agreed. The Project Director has already challenged the number of PIFS raised at this project and requested a post-project review. However, it is important to note the project remains within budget and the finished product will meet the service requirements. The approach taken was tailored to the style of the project contractor. We are also reviewing our approach to budget management with this Contractor: preparing our own estimates rather than awaiting the Contractor to cost the PMIs. This will improve our ability to make informed decisions based on greater cost certainty surrounding.	Within three months of project completion Director of Capital Estates and Facilities

Matter Arising 6: Change Management (Operation)	Impact
<p>A sample of six Compensation Events were reviewed, totalling £132,815.</p> <p>As discussed at MA3, the contractual documentation reviewed (PMIs/PMNs etc.) all referenced clauses from the Option A form of contract, not from the Short Contract in place. It is recognised however that the principles of change management are largely the same across these forms of contract, and the audit has not identified any instances whereby the UHB’s liabilities have been impacted by this process.</p> <p>The following good practice was evidenced at the sample reviewed:</p> <ul style="list-style-type: none"> • All costs were adequately substantiated; • All costs claimed had been reviewed by the cost adviser and adjusted where considered necessary; • Programme implications had been appropriately considered; • The Project Issues Form (PIF) process provided internal robust control over the review and approval of project changes; and • All Project Issues Forms (PIFs) had been approved within the UHB’s delegated limits. <p>The following areas for improvement were noted:</p> <ul style="list-style-type: none"> • 4 of the 6 quotations were submitted by the Contractor outside the permitted contract timeframe (clause 62.1 requires the contractor to submit a quotation within two weeks of being instructed to do so) - with time periods varying from 20 to 170 days after the PMI was issued. This has been discussed further at MA5 noting this is a wider issue than at these four sampled changes; • 4 of 6 PIFs were not approved in what could be considered a timely manner to support the contract timeframes - with time periods of between 11 and 58 days noted from issuing of the PIF; • 4 of the 6 changes were not responded to by the external Project Manager (via PMN) within the required contract timeframe (clause 62.3 states that the Employer replies within 2 weeks of the 	<p>Potential risk of:</p> <ul style="list-style-type: none"> • Contract timeframes are not adhered to; • Changes are not agreed in a timely manner, reducing certainty over the time/cost position; • Changes are not approved by the UHB before being instructed.

<p>Contractor's submission). This overall period for response incorporates the UHB's approval of the PIF, so the above delays will impact this contractual requirement; and</p> <ul style="list-style-type: none"> • 2 PMNs were issued to the Contractor ahead of the UHB's approval of the PIF. <p>A table has been provided at Appendix B with reference data to support the audit test findings.</p> <p>Whilst noting the above timeliness issues, it is recognised that there has been no impact to date at this project in terms of complaints raised by the Contractor. However, there remains a risk at this and future projects should changes continue to be processed outside contractual timeframes.</p>		
Recommendations		Priority
6.1	<p>The UHB and external Project Manager should support the change management process by completing the following activities in a timely manner:</p> <ul style="list-style-type: none"> • approving PIFs; • accepting quotes (via PMN); and • ensuring PMNs are not issued until PIFs have been approved. 	Medium
Agreed Management Action	Target Date	Responsible Officer
6.1	Immediately	Director of Capital Estates and Facilities and External Project Manager

Matter Arising 7: Equipping (Operation)	Impact
<p>Equipment costs at the project total £991k, including £817k with the main supplier, and representing 15% of the total forecast spend at the project.</p> <p>The procurements complied with local and national procurement requirements and were authorised in accordance with the requirements of the Request for Approval process.</p> <p>Issues were noted in the procurement process as follows:</p> <ul style="list-style-type: none"> • Equipment was ordered and delivered well in advance of being required for the project (circa 1.5 years) to utilise available funding before year end 2021/22. Orders were placed in March 2022, with delivery in May 2022 – but not required for installation until October 2023. • This required storage in two different locations (due to initial limited storage space on site) once the equipment had been delivered, until it could be installed. • Whilst the UHB queried at the time of procurement whether the commencement of the warranty period could be deferred until the equipment was installed, this was not permitted by the main supplier. The main supplier did propose the option of extending the warranty period, but the key contacts within the Endoscopy and Procurement departments could not confirm if this was enacted. Therefore, noting that within the Procurement Report a one-year warranty period is stated, there is a risk this had already expired prior to its installation and operation. • The impact on the warranty arrangements or storage implications were not documented within the Procurement Report or Request for Approval, and therefore it was not clear whether the approving parties were aware of any risks associated with the early procurement, before providing authorisation to proceed. • The above implications were also not seen to be reported to the Project Team or Project Board during the period. Associated risks were not included at the project risk register. 	<p>Potential risk of:</p> <ul style="list-style-type: none"> • Expired warranty period before equipment is installed, reduces UHB protection should equipment be faulty; • Reduced space available for service operations if taken up with storing equipment; • Approvals may not be appropriately informed as to the risks being taken.

Recommendations		Priority	
7.1	The warranty arrangements for the main equipment should be confirmed by the UHB, including confirmation as to whether extended warranty cover is required: with retention of associated documentation.	Medium	
7.2	At future projects, the risks associated with the equipment approach (e.g. storage / warranties) should be included on the project risk register to ensure visibility at Project Team / Project Board.	Medium	
7.3	At future projects, where risks are taken in the early procurement of significant values of equipment (e.g. long periods of storage / warranty implications), these should be clearly understood and set out in the Procurement Report and Request for Approval.	Medium	
Agreed Management Action	Target Date	Responsible Officer	
7.1	Agreed. We have received verbal assurance from the Endoscopy Department that the warranty period is three years, therefore there is no risk to this expiring prior to installation.	January 2024	Endoscopy Department / NWSSP Procurement Services with assurance provided to the Project Director
7.2	Agreed. We recognise this would be an enhancement at future projects, where applicable.	At future projects	Project Director
7.3	Agreed.	At future projects	Executive Procurement Lead, CVU, NWSSP Procurement Services

Matter Arising 8: Quality Assurance – Performance Management (Design)		Impact
<p>UHB management has noted frustrations in the performance of both the Contractor and the external advisers at this project (see the issues noted at MA4 as an example).</p> <p>There was however no formal mechanism within Capital, Estates & Facilities for formally recording performance metrics (e.g. Key Performance Indicators) for contractors appointed from the Local Framework, or external advisers appointed from national frameworks. Similarly, no performance metrics were determined for the UHB internal team (e.g. where key roles at this project are provided internally such as Lead Designer, Supervisor etc.).</p> <p>It was also noted that the NEC Professional Services Contract (PSC) has not been used for the external advisers, with only the Framework Service Level Agreement (SLA) in place. The SLA does not provide sufficient detail as to the scope of adviser duties to support robust performance management in higher risk roles such as the Project Manager / Design team, and use of the NEC PSC in appropriate circumstances would enhance control in this area.</p> <p>Introducing these practices would strengthen the UHB’s ability to monitor and manage the performance of its contractors and advisers.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> • Poor performance may not be adequately identified and addressed; • Adviser performance requirements are not aligned to NEC requirements.
Recommendations		Priority
8.1	Capital, Estates & Facilities should develop an internal mechanism for monitoring and reporting contractor, adviser and UHB internal team performance at projects.	Medium
8.2	Consideration should be given to utilising the NEC Professional Services Contract alongside Framework Service Level Agreements for external advisers, where appropriate.	Low

Agreed Management Action		Target Date	Responsible Officer
8.1	Agreed. We have commenced maintenance of KPIs, based on the Designed for Life Framework as a starting point, and will work on enhancing this process as it progresses. The process includes reporting to the Director of Capital & Estates, with an escalation process where needed.	January 2024	Director of Capital Estates and Facilities
8.2	Agreed - recognising this will be tailored to each project and advisors as appropriate – less complex schemes / appointments can still be managed via the SLA.	At future projects	Director of Capital Estates and Facilities

Matter Arising 9: Quality Assurance – Supervisor Role (Operation)		Impact
<p>The Supervisor role at this project was provided in-house rather than via external appointment.</p> <p>In line with good practice, the Supervisor provided monthly reports highlighting defects identified and the period for which they had been outstanding.</p> <p>However, management advised the requirements of the role were verbally agreed but had not been defined in writing.</p> <p>Noting the professional role being delivered and the importance in ensuring quality, it is recommended that requirements be determined at the initiation of the role. This will also enable review and assessment of performance throughout projects.</p> <p>The inclusion of the same within the Project Execution Plan (PEP), would clarify roles and responsibilities and enhance monitoring and management arrangements.</p>		<p>Potential risk of:</p> <ul style="list-style-type: none"> • Role and responsibilities are not clearly defined, and therefore may not be undertaken appropriately.
Recommendations		Priority
9.1	At future projects, where professional services (e.g. Supervisor) are provided in-house, the duties required for the project should be clearly defined within the Project Execution Plan.	Low
Agreed Management Action		Target Date
9.1	Agreed, we will incorporate this into the PEPs at future projects.	At future projects
		Responsible Officer
		Director of Capital Estates and Facilities

Matter Arising 10: Quality Assurance – External Advisers (Operation)		Impact
<p>On reviewing the external Project Manager’s monthly Progress Reports, a number of points of out-of-date information were noted. Whilst not significant, this could reflect poorly on the perceived level of care and attention given to these reports, and reduce the Project Team and Project Boards’ ability to scrutinise and challenge reported information</p> <p>Issues included:</p> <ul style="list-style-type: none"> Continued reference to Ty Glas having been omitted, despite remaining in the scope of works; Commentary (section 4.1) re. contractor delays in responding to quotations has not been updated in recent months to reflect any progress/ current status (e.g. reports in both January `23 and July `23 state "<i>further delays in response will mean the PM will undertake a PM assessment,</i>" with no narrative explaining whether this has been done); Commentary (section 6.1) re. design of newly added areas hadn't been updated in 6 months. 		<p>Potential risk of:</p> <ul style="list-style-type: none"> Project reports may not provide accurate and up to date information to the reader.
Recommendations		Priority
10.1	External advisers should be reminded of the need to provide accurate and up to date reports.	Low
Agreed Management Action		Target Date
10.1	Agreed, this will be raised with the Adviser’s senior management.	January 2024
		Responsible Officer
		Director of Capital Estates and Facilities

Appendix B: Change Control audit test findings

PIF Ref	Description	Agreed CE Value	Date quote requested	Date Contractor provided quote	Time of contractor providing quote (days)	PIF issue date	Date PIF approved by UHB	Time of PIF approval from PIF issue (days)	PMN date (acceptance of quote)	Timeliness of accepting quote (62.3 - Employer replies within 2 weeks)	PMN issued only after UHB approval granted?
005	Delay to critical path due to changes in steel design and revised drawings	£12,379.00	10/10/2022	17/10/2022	7	24/10/2022	04/11/2022	11	16/11/2022	30	Yes
033	Request for quotation for additional rebar to slab	£52,633.57	29/07/2022	16/01/2023	171	01/03/2023	28/04/2023	58	09/05/2023	n/a PM undertook assessment	Yes
063	Ty Glas - various design changes from revised drawings	£23,986.81	06/01/2023	28/03/2023	81	01/06/2023	13/06/2023	12	25/04/2023	28	N
032	Alternative specification for floors and walls in IT hub room	£9,885.49	05/12/2022	08/02/2023	65	13/02/2023	16/02/2023	3	21/02/2023	13	Y
079	Revised Endoscopy Administrator office worktop arrangement	£6,001.67	26/05/2023	15/06/2023	20	22/06/2023	04/07/2023	12	26/06/2023	11	N
084	Items 4-11 IKM quotation	£27,929.32	20/06/2023	23/06/2023	3	29/06/2023	04/07/2023	5	13/07/2023	20	Y

Appendix C: Validation of Management Action

Recommendations agreed in the 2022/23 audit (published October 2022)

Ref	Recommendation	Priority Rating	Responsibility & Timescale	Current Status
1.1	The Project Board should confirm that the current named SRO has the necessary experience to discharge the role effectively and provide the relevant training as required.	Medium	Director of Capital, Estates & Facilities March 2023	Outstanding There is a wider ongoing process for SROs in the UHB, whereby this will be the Clinical Board Director of Operations. The SROs will be appointed by the Exec. Director of Planning. There has been some change in directors in relation to this project.
1.2	The UHBs Capital Manual will be updated to reflect the requirements and assignment of key project roles (aligning with national guidance).	Medium	Director of Capital, Estates & Facilities March 2023	Outstanding As established at the 2023/24 Capital Systems audit, a full review of the Capital Manual was scheduled, but this had not yet been undertaken. Management should be mindful of recommendations such as these from specific project audits when undertaken the wider review. The Capital Manual update is looking to be completed by March 2024.

Ref	Recommendation	Priority Rating	Responsibility & Timescale	Current Status
6.2	In this instance (changes in contract terms) retrospective approval should be sought through a paper, to a relevant forum, detailing the rationale, risks, benefits etc., associated with the current contractual arrangements (noting particularly in this instance reduced contractual obligations for all parties and reduced contingent liability period (see MA7)).	Medium	Director of Capital, Estates & Facilities January 2023	Outstanding Evidence had not been provided at the time of reporting to confirm whether this has been actioned.
6.3	The Contract Strategy decision making process should be detailed at the Capital Manual including appropriate contract forms to be utilised and the associated advantages, disadvantages, risks, contingent liability periods etc., of the preferred approach. The same will be applied at all future projects.	Medium	Director of Capital, Estates & Facilities March 2023	Outstanding As per recommendation 1.2.
8.1	The cashflow forecast should be incorporated within the established reporting mechanisms, so that scrutiny and challenge can occur.	Low	Project Manager November 2022	Closed The cost reports reviewed included a payment profile of actual against expected payments. The contractor has provided periodic cash flow updates

Ref	Recommendation	Priority Rating	Responsibility & Timescale	Current Status
				which have been included in the bi-monthly reports to Welsh Government.

Future Assurance recommendations (included for reference but not factored into the assurance assessment)



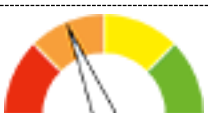
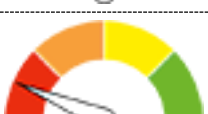

Ref	Recommendation	Priority Rating	Responsibility & Timescale	Current Status
3.1	Further work is required to ensure the Project Bank Account is established and operating in line with Welsh Government policy.	Low	Project Manager March 2023	To be assessed at future projects As indicated in the management response to the prior report, a PBA will not be implemented at this project. This will therefore be assessed at future projects.
5.1	Future Assurance For future projects, in accordance with the Procedure Manual for Managing Capital Projects, a formalised design control process, including signed stage end reports, should be applied, clearly documented, and appropriately reported.	Medium	Director of Capital, Estates & Facilities At Future Projects	To be assessed at future projects.
6.1	Future assurance For future projects, any amendments/virement from approved business cases should be documented, reported to an appropriate forum and approved (with any appropriate risks/benefits highlighted).	Medium	Director of Capital, Estates & Facilities At future projects	To be assessed at future projects.

Ref	Recommendation	Priority Rating	Responsibility & Timescale	Current Status
7.1	<p><u>Future Assurance</u></p> <p>For future projects, all contracts of a significant value/complexity should be completed as a deed i.e., affording the maximum period of contingent liability (12 years).</p>	<p>Medium</p>	<p>Director of Capital, Estates & Facilities</p> <p>At future projects</p>	<p><i>To be assessed at future projects.</i></p>

Appendix D: 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.
	Unsatisfactory 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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