

# PCH Redevelopment: Technical Compliance Final Internal Audit Report June 2022

Cwm Taf Morgannwg University Health Board

NWSSP Audit and Assurance



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## Contents

Executive Summary .....	3
1. Introduction .....	4
2. Detailed Audit Findings .....	4
Appendix A: Management Action Plan.....	7
Appendix B: Assurance opinion and action plan risk rating .....	11

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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

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

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# Executive Summary

## Purpose

The audit sought to ensure that the UHB and its advisers continued to comply with contractual requirements at the PCH Redevelopment Programme.

## Overview

Generally, the arrangements observed were satisfactory in respect of each objective area with adequate challenge, scrutiny, accountability and reporting demonstrated.

The key matters requiring management attention related to:

- The need to recognise the mitigation arrangements that have already been implemented – potentially reducing the exposure to risk; and
- To ensure that payments are made in a timely manner in accordance with contractual timescales, avoiding unnecessary financing charges.

As noted, the more general arrangements observed allow a **reasonable assurance** to be determined.

## Report Classification

Reasonable



Some matters require management attention in control design or compliance.

**Low to moderate impact** on residual risk exposure until resolved.

## Assurance Summary

Assurance objectives	Assurance
1 Risk & Contingency Management	Reasonable
2 Valuation	Substantial
3 Payment	Reasonable
4 Change Management	Substantial

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

Key Matters Remaining		Assurance Objective	Control Design or Operation	Recommendation Priority
1	The risk register should also report residual risk to better understand the risk position against remaining contingencies.	1	Design	<b>Medium</b>
3	Payment processing arrangements should be reviewed to avoid (potential) unnecessary charges for late payments	3	Operation	<b>Medium</b>

## 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.

The audit sought to ensure that the PCH Redevelopment programme continued to progress in accordance with contractual requirements. At the time of this review, the programme status can be summarised as

- Phase 1a & 1b: Works on both phases were complete.
- Phase 2: The business case for Phase 2 was approved by Welsh Government in the sum of £220,060,000 (including variation of price inflation funding of £22.926m). Works on site commenced on the 30<sup>th</sup> of November 2020.
- Phases 3 & 4: The remaining phases remain at a high-level planning stage; costs being estimated at £38.073m and £4.547m for Phases 3 and 4 respectively.

Noting the impact of Covid-19, the delivery of this assignment included an increased element of remote working.

- 1.2 The potential risks considered in the review were that the arrangements do not support effective decision making, contributing to poor programme management and the failure to achieve programme objectives.

## 2. Detailed Audit Findings

**Risk & Contingency Management:** To ensure that risks have been adequately defined and attributed to the UHB and/or SCP and that contingency provisions are regularly monitored/ reported.

- 2.1 Good practice was noted in the establishment and operation of a fully costed risk register, which was subject to regular review by the Project Board and periodic update (the latest update being November 2021). In addition to appending the full register to the Project Manager report, key risks and any movement in the period were highlighted within the main body of the report. The Project Owner also regularly reported a breakdown of the risks based on high/ medium/ low to the Project Board, with the high risks representing circa £4.5m. Noting the above, the register and reporting could be enhanced by the inclusion of the residual risk to reflect the mitigating action taken to date (see **MA 1**) – noting that the identified risks total £9,701,340 against available contingencies of £8,087,697.
- 2.2 The contingency sums were originally developed at the business case stage, derived from the costed risk register. As outlined at **figure 2**, the contingency figure has reduced from £12,034,568 to £8,087,697 since commencement on site

in November 2020, reflective of the early discovery of unforeseen issues generally experienced at capital projects.

- 2.3 The reporting and monitoring arrangements in respect of risk contingencies are deemed as appropriate, subject to implementation of recommendations at this and the earlier Financial Management audit report. **Reasonable assurance** has been observed in this objective area.

**Valuation Arrangements:** A review of the processes applied by the Project Manager/ Cost Adviser to allow them to recommend payments.

- 2.4 Audit testing was undertaken on Valuation 10 (£2,363,349) as follows:
- People (23% of £333,901) – people costs were full supported with timesheets and applied at the relevant framework hourly rates.
  - Subcontractors (75% of £1,898,058 tested) – subcontractor costs were generally well support by invoice/ application for payment.
  - Materials (100% of £31,195 tested) – full support was provided for all costs sampled at the audit.
  - Other (100% of £100,195 tested) – other costs were well supported and applied in accordance with the framework contract.
- 2.5 No issues of significance were noted that required management attention, however, this should be kept under review noting that throughput and associated invoicing is set to increase significantly.
- 2.6 Noting the assurance from this audit, it may be prudent to review the amount of check provided by the Cost Advisor to reflect a sample/ risk-based approach (**MA 2**).
- 2.7 At the time of concluding the current review the final account for Phase 1b was not available for review. Accordingly, this has been included within the 2022/23 Integrated Audit Plan.
- 2.8 Noting, no issues have been raised for management consideration, **substantial assurance** has been determined.

**Payments:** Assurances that appropriate arrangements are in place to ensure the timely payment of the Supply Chain Partner.

- 2.9 All payments made to the Supply Chain Partner in the 12-month period up to February 2022 were tested to ensure compliance with contractual requirements with regard timeliness. It is important that payments are made within agreed timescales given the significant value of payments and the need to avoid the risk of interest charges being applied by the Supply Chain Partner.
- 2.10 Three of the twelve payments were noted as being made outside of the payment terms. In each instance the delay appears to have arisen in processing the payment rather than its approval (see **MA 3**).

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2.11 Please note that timely payment of the supply chain was managed via the Project Bank Account which was reviewed in full at the recent Financial Management audit report (issued April 2022 and providing reasonable assurance).

2.12 Noting that no late payment charges have been applied to date, a **reasonable** assurance has been determined.

**Change Management:** To ensure robust change management arrangements have been established, and compliance with the same is noted at the programme/ project to date.

2.13 Change management arrangements are stipulated within the NEC option C contract utilised at this programme. Appropriate scrutiny, challenge and approval was observed at the sample – with adequate reporting observed. Recommendations were made at the Governance and Financial Management reports (issued in February and April 2022 respectively, both providing reasonable assurance).

2.14 The change control process will also be used to manage contractor failure to achieve the agreed programme. In such circumstances the UHB would normally be entitled to delay damages in accordance with that specified within the contract.

2.15 **Substantial assurance** has been determined (noting issue previously reported issues at the Governance and Financial Management reports).

## Appendix A: Management Action Plan

<b>Matter Arising 1: Risk Management</b>		<b>Impact</b>
<p>Good practice was noted in a fully costed risk register had been developed which was subject to regular review by the Project Board and periodic update (the latest update being November 2021). In addition to appending the full register to the Project Manager report, key risks and any movement in the period was highlighted within the main body of the report.</p> <p>The risk register currently stood at £9,701,340, however the risk costs are included at full value. The register could be enhanced by the inclusion of the residual risk to reflect the mitigating action taken to date.</p>		The true risk position is not clearly understood.
<b>Recommendations</b>		<b>Priority</b>
The risk register should include details of the residual risk to reflect the mitigating action taken to date.		<b>Medium</b>
<b>Agreed Management Action</b>	<b>Target Date</b>	<b>Responsible Officer</b>
Agreed. The mitigated risk position will reported to the Project Board by the Responsible Officer.	August 2022	Responsible Officer

<b>Matter Arising 2: Valuation</b>		<b>Impact</b>
<p>Audit testing was undertaken on Valuation 10 (£2,363,349) to provide assurance that sufficient information was being sought from the Supply Chain Partner and appropriate challenge/ scrutiny was being provided. The following was observed:</p> <ul style="list-style-type: none"> <li>• People (23% of £333,901) – people costs were full supported with timesheets and applied at the relevant framework hourly rates.</li> <li>• Subcontractors (75% of £1,898,058 tested) – subcontractor costs were generally well support by invoice/ application for payment.</li> <li>• Materials (100% of £31,195 tested) – full support was provided for all costs sampled at the audit.</li> <li>• Other (100% of £100,195 tested) – other costs were well supported and applied in accordance with the framework contract.</li> </ul> <p>Noting the assurances obtained, consideration should be given to reducing the level of checking based on a sampling/ risk-based approach.</p>	<p>Programme resource is disproportionately focused on lower-risk areas.</p>	
<b>Recommendations</b>		<b>Priority</b>
<p>Consideration should be given to reducing the level of checking based on a sampling/ risk-based approach.</p>		<p><b>Low</b></p>
<b>Agreed Management Action</b>	<b>Target Date</b>	<b>Responsible Officer</b>
<p>Agreed. A discussion has been held with the external advisers to determine an appropriate approach and how to re-focus resource.</p>	<p>August 2022</p>	<p>Responsible Officer</p>

Matter Arising 3: Payments	Impact																				
<p>Failure to meet the payment terms under the NEC Option C contract adopted can result in the Supply Chain Partner applying interest charges. Noting the number and value of payments due at this programme, the amounts could be significant.</p> <p>The audit sought assurances that payments in the prior 12-month period were paid in accordance with the contractual terms. In the 12-month period, the following late payments were observed:</p> <table border="1" data-bbox="394 635 1238 951"> <thead> <tr> <th>Invoice</th> <th>Value</th> <th>Invoice Date</th> <th>Pay Date</th> <th>Total Days</th> </tr> </thead> <tbody> <tr> <td>10944637</td> <td>£843,133.00</td> <td>31/07/2020</td> <td>26/08/20</td> <td>26</td> </tr> <tr> <td>11077417</td> <td>£866,509.00</td> <td>28/08/2020</td> <td>30/09/20</td> <td>33</td> </tr> <tr> <td>11612587</td> <td>£613,131.00</td> <td>17/12/2020</td> <td>15/01/21</td> <td>29</td> </tr> </tbody> </table> <p>Whilst no charges have been applied to these payments, all parties should be reminded of their obligation to make prompt payments to avoid incurring unnecessary interest charges.</p>	Invoice	Value	Invoice Date	Pay Date	Total Days	10944637	£843,133.00	31/07/2020	26/08/20	26	11077417	£866,509.00	28/08/2020	30/09/20	33	11612587	£613,131.00	17/12/2020	15/01/21	29	<p>There is an opportunity cost of any interest charges payable.</p>
Invoice	Value	Invoice Date	Pay Date	Total Days																	
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Recommendations	Priority																				
<p>All parties should be reminded of their obligation to make prompt payments to avoid incurring unnecessary interest charges.</p>	<p><b>Medium</b></p>																				


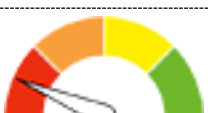

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<b>Agreed Management Action</b>	<b>Target Date</b>	<b>Responsible Officer</b>
Agreed. The issue will be escalated in accordance with existing reporting channels.	August 2022	Responsible Officer

## Appendix B: Assurance opinion and action plan risk rating

### Audit Assurance Ratings

We define the following levels of assurance that 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:

	<b>Substantial assurance</b>	Few matters require attention and are compliance or advisory in nature. <b>Low impact</b> on residual risk exposure.
	<b>Reasonable assurance</b>	Some matters require management attention in control design or compliance. <b>Low to moderate impact</b> on residual risk exposure until resolved.
	<b>Limited assurance</b>	More significant matters require management attention. <b>Moderate impact</b> on residual risk exposure until resolved.
	<b>No assurance</b>	Action is required to address the whole control framework in this area. <b>High impact</b> on residual risk exposure until resolved.
	<b>Assurance not applicable</b>	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
<b>High</b>	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*
<b>Medium</b>	Minor weakness in system design OR limited non-compliance. Some risk to achievement of a system objective.	Within one month*
<b>Low</b>	Potential to enhance system design to improve efficiency or effectiveness of controls. 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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