

PHW Laboratory at IP5 Final Internal Audit Report

January 2022

Public Health Wales

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Acknowledgement

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Executive Summary

Purpose

The audit was a post-completion review of the arrangements put in place to manage the delivery of Laboratory 2 at IP5. It determined the adequacy of the systems/ controls in place and evaluated the overall delivery of the project.

Overview

A reasonable assurance has been determined, primarily attributed to the project being delivered in a short timeframe as part of the Covid response; and within the approved funding envelope (see **section 2.1.6**).

Clearly, experiences in the delivery of Laboratory 1, resulted in processes being further streamlined for Laboratory 2.

Acknowledging the above, the following controls would be expected as a minimum at any project:

- Contract documentation should be appropriately completed prior to the commencement of duties – to adequately protect the interests of Public Health Wales (the contracts were completed post completion in this instance); and
- Minimum governance requirements should be defined for all projects (including fast-track projects), which would include basic project management tools. This would provide an appropriate audit trail.

Report Classification

Reasonable



Some matters require management attention in control design or compliance, having

Low to moderate impact on residual risk exposure until resolved.

Assurance summary ¹

Assurance objectives	Assurance
1 Governance	Substantial
2 Contractual Arrangements	Reasonable
3 Project Management	Reasonable
4 Project Delivery	Substantial

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
MA 1	Contract documentation is appropriately completed prior to the commencement of duties.	1	Operation	Medium
MA 2	Appropriate Project Management Tools are utilised for future schemes.	3	Operation	Medium

1. Introduction

- 1.1 In response to the global public health emergency arising from the Covid-19 infection, the need for testing became a critical factor in the response and was deemed essential for the Welsh Government 'Test Track Trace' strategy.
- 1.2 To meet this increased demand, arrangements were put in place to deliver Laboratory 2 at IP5. It was envisaged that the laboratory would enable Public Health Wales to provide an additional capacity of circa 7,000 PCR tests per day. In June 2020, Welsh Government approved £5m funding to deliver the project. The Project was progressed between August 2020 and December 2020, with the laboratory becoming operational in January 2021.
- 1.3 The potential risks considered at this review were as follows:
 - The project did not deliver the objectives determined within the business case;
 - The project was not effectively managed;
 - The project over-runs on time and cost; and
 - Failure to achieve the required quality or anticipated benefits.

2. Detailed Audit Findings

Governance Arrangements: assurance that adequate governance arrangements operated, including defined roles & responsibilities, clearly defined accountability & delegation arrangements. That appropriate reporting and approval arrangements were in place.

- 2.1 Due to the nature of the project and the short timescale within which it had to be delivered, the proposed governance structure of the project and associated reporting lines were defined via an organogram.
- 2.2 The Senior Responsible Officer provided strong corporate linkage to the Executive, through fortnightly reports to the Business Executive Team (BET) in the form of a Delivery Confidence Assessment.
- 2.3 An active Project Programme Board operated, attended by the Senior Responsible Officer (the Director of NHS Quality Improvement and Patient Safety/Director Improvement Cymru) the Programme Manager, the Deputy Director of Finance, Head of Estates and Health & Safety, Programme Manager Microbiology, and Head of Resourcing and Talent.
- 2.4 The Project Board meetings were held bi-weekly for the duration of the build and were well attended. Comprehensive updates for the members on the progress of the scheme were noted along with robust discussions and arising actions.
- 2.5 **Substantial** assurance has therefore been determined in relation to project governance.

Contractual Arrangements: assurance that appropriate contractual arrangements were in place for the main contractor and advisers.

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- 2.6 The construction element was procured using the DFL4 Framework Agreement. The form of the contract being NEC 3 with a proposed project start date of 7th August 2020 and a completion date of 7th December 2020.
- 2.7 The main contracts for the construction stage were signed post project start with the parties signing three months after the completion of works. Adviser contracts were however completed in a timely manner. A recommendation has been made for future projects, to ensure that contacts are in place prior to the commencement of works/services to adequately protect the interests of Public Health Wales (**MA 1**).
- 2.8 Equipment with a budget of £582k was procured through a mixture of Draw off from National Procurement Frameworks, along with utilising NWSSP Procurement to source items through the obtaining of several quotations from potential suppliers. In the sample of purchases reviewed it was also noted that there was a single tender waiver to the value of £73,900, appropriately authorised due to the short lead-in time for the project.
- 2.9 Accordingly, **reasonable** assurance has been determined in relation to the contractual arrangements applied at the project.

Project Management: assurance that appropriate project management controls were applied, including in the management of contractor and adviser performance, project risks and change control.

- 2.10 This project followed on from an earlier identical project now known as Laboratory 1, which was completed just prior to this project commencing on site. The same external consultants were employed, and the experience gained at the earlier project provided Project Board confidence in the successfully delivery of this project.
- 2.11 With the established working relationships in place, the Project Board were content with a more informal Project Management style with weekly update meetings taking place where verbal updates were provided by the External Project Manager, supplemented by email updates. These updates would then be verbally provided to the bi-weekly Project Board meetings by the Estates Lead. However this informal style has meant a reduced audit trail through which evidence of decisions and discussions are recorded, and presents a significant risk in the event of any issues arising compared with more robust controls over recording of updates etc.
- 2.12 Whilst a Project Execution Plan was not utilised, the External Project Manager maintained the risk register along with a Management Control plan in the form of a Gantt chart (that outlined the critical path and key milestones for the project).
- 2.13 Compliance with the NEC contract change management requirements was overseen by the external Project Manager. In terms of internal approvals, we were advised that the Project Manager incrementally communicated via email to PHW and agreed by SRO where required - substantiating information to support this was not provided. It is acknowledged that total changes were approved/ accepted as part of the closing cost position, however the record maintained may have been insufficient had there been a dispute/ performance issue.

- 2.14 Although the project was successfully delivered, if the delivery of the scheme had been problematic then our assessment is that the audit trail was not sufficiently robust. Noting the above, the performance of the project on time/cost has allowed a **reasonable** assurance to be determined, however, it would be prudent to establish the expected minimum Capital Project requirements for all future projects.

Project Delivery: Assurance that the project was delivered in accordance with defined time, cost and quality parameters, including the achievement of anticipated benefits and identification of lessons learnt.

Time:

- 2.15 This project was delivered within a shortened period of 3-months. The target date for completion was 7th December 2020 with this being met and handover from the Main Contractor to PHW taking place on the 10th December 2020.

Cost:

- 2.16 The project was granted funding of £5m, detailed in a letter from Welsh Government dated 2nd June 2020. The funding included a substantial £1m capital contingency (25% of costs) – reflecting the risks associated with the project – access to which would be subject to NHS Wales Shared Services: Specialist Estates Services agreement. Given, the opening contingency position, the forecast Project Outturn as per the last report to Welsh Government (M11) 2020/21 detailed the overall spend as being within the funding envelope (i.e. £4.792m of £5m).

Quality:

- 2.19 A “Lab Implementation Project Closure Report” was produced by the Programme Management Office and presented at a Business Executive Team (BET) meeting in early March 2021. Within the closure report, the only outstanding issue of quality related to the roof leak – this being an issue with the IP5 facility and not specifically relating to this project.

Lessons Learned:

- 2.19 The “Lab Implementation Project Closure Report”, reflected upon the project as a whole and considered issues of time, quality and cost. Highlighting where milestones had or had not been met along with whether deliverables had been attained. The report concluded with a list of lessons learnt and best practice to be adopted for future projects.
- 2.20 The project was delivered in accordance with defined time, cost and quality parameters, including the achievement of anticipated benefits reporting, accordingly a **substantial** assurance has been determined in this area.

Appendix A: Management Action Plan

Matter Arising 1: Contracts (Operation)	Impact	
<p>NHS Wales Infrastructure Investment Guidance WHC 2018 (043) requires formal contracts to be in place in advance of works/ services progressing. This would enable confirmation of the liabilities and obligations of the parties.</p> <p>Contracts were signed for the construction works with the Supply Chain Partner on 4th March 2021, and with the Project Manager on 23rd November 2020.</p> <p>However, construction works commenced on site on 7th August 2020 (seven months in advance of executing the works contract by the Supply Chain Partner and three months in respect of the Cost Advisers).</p> <p>Reasons for the lateness of the SCP and Project Manager signatures were not provided.</p>	<p>Potential risks of:</p> <ul style="list-style-type: none"> • additional liabilities • poor commercial deal 	
Recommendation	Priority	
<p><i>Future Assurance</i></p> <p>2.1 At future projects, management should ensure that contract documentation is appropriately completed prior to the commencement of duties.</p>	<p>Medium</p>	
Agreed Management Action	Target Date	Responsible Officer






<p>Agreed.</p> <p>Due to the requirement to expedite the plans and works for construction of Lab 2 as part of the Covid-19 pandemic response, it was not possible for contracts to be signed in sufficient time in advance of works commencing. As we had previously held contracts with our suppliers for the development and build of Lab 1, prior to novation of the contracts to Department of Health and Social Care, letters of intent were issued to enable works to commence and contracts to be drawn up. As parties were working remotely and due to the value of the contracts, getting the appropriate signatures was also more challenging. We therefore note the recommendation, but request that this is not included on the audit tracker as it is unlikely that the unique set of circumstances in this instance will be repeated – impacting our ability to address the recommendation in a timely manner.</p>	<p>At future projects</p>	<p>Project Director</p>
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Matter Arising 2: Project Management Procedures		Impact
<p>Whilst this scheme was delivered in a timely manner in difficult circumstances, it was noted that there was a lack of the use of Project Management tools that would constitute the minimum required and expected on a scheme such as this, e.g. Project Execution Plan (PEP), Risk Register, Programme or Change Control.</p>		
Recommendation		Priority
<p>In anticipation of any future capital schemes, procedures should be developed detailing the required governance, and project management controls and systems that should be employed.</p>		Medium
Agreed Management Action	Target Date	Responsible Officer
<p>Agreed.</p> <p>This project to design and build a new laboratory was taken forward under difficult and unusual circumstances and therefore required adapted project management arrangements to ensure the project was delivered on time. This included ensuring the relevant governance structures were in place to make the required decisions in a timely manner and ensuring there was adequate oversight of the project. Whilst slightly different to how a project would normally be delivered, our approach also allowed us to act quickly and meet the needs of the Covid-19 pandemic response. It should be noted that for projects of this value and size, this would not normally be the approach that is taken within Public Health Wales and in normal circumstances the appropriate project management tools would be used and supported by our Programme Management Office (PMO). We therefore note the recommendation, but again request that this is not included on the audit tracker</p>	<p>At future projects</p>	<p>Project Director</p>

Appendix B: 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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