

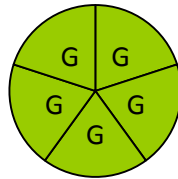
Internal Audit



Re-provision of the Royal Edinburgh Hospital

January 2016

Report Assessment



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Introduction

In 2012, NHS Lothian developed an initial agreement for the redevelopment of the Royal Edinburgh Hospital (REH) campus. The initial agreement set out NHS Lothian's proposal to spend up to £181 million in redeveloping the REH campus. The redevelopment would occur in various stages, from mental health-acute and intensive psychiatric care inpatient services being completed in 2014 through to Liberton-older people's services being completed in 2021.

Phase 1 financial close was reached on 18 December 2014. Phase 1 of the project comprised the construction of a new build 90-bed unit. The construction work is ongoing and progressing according to schedule.

In order to deliver the project successfully, it is important that strong project management arrangements are in place and operating effectively.

Scope

This audit focused on Phase 1 of the project. We assessed the project governance arrangements, including controls over managing delivery against timescales and budgets, and planning for future phases of the project. The audit also evaluated project reporting, including oversight by the Finance & Resources Committee.

The control objectives for the audit are set out in the Summary of Findings, along with our assessment of the controls in place to meet each objective.

Acknowledgements

We would like to thank all staff consulted during this review, for their assistance and cooperation.

Executive Summary

Conclusion

We have gained assurance that robust project management arrangements are in place and operating effectively. However, there is scope to improve the scoring of risks within the risk register as well as the process for formal capture and prioritisation of issues.

Summary of Findings

The table below summarises our assessment of the adequacy and effectiveness of the controls in place to meet each of the objectives agreed for this audit. Definitions of the ratings applied to each action are set out in Appendix 1.

No.	Control Objective	Control objective assessment	Number of actions by action rating			
			Critical	Significant	Important	Minor
1	The project framework and responsibilities are documented and implemented.	Green				
2	Project plans are in place and monitored.	Green				
3	Risk and issues logs are maintained, with actions taken to address any exposures.	Green			2	
4	Reports on progress are clear and distributed appropriately.	Green				
5	Budgets are set, with variances monitored and addressed.	Green				

Control Objective Ratings

Action Ratings	Definition
Red	Fundamental absence or failure of controls requiring immediate attention (60 points and above)
Amber	Control objective not achieved - controls in place are inadequate or ineffective (21 – 59 points)
Green	Control objective achieved – no major weaknesses in controls but may be scope for improvement (20 points or less)

Main Findings

The project has followed the Scottish Capital Investment Manual (SCIM), which provides a project management framework designed for infrastructure projects within NHSScotland. The governance arrangements for the project are also robust. This included setting up a Project Management Board, with representation from across NHS Lothian, agreeing a formal Terms of Reference for the Project Management Board and developing role profiles for members of the Project Team.

NHS Lothian has documented an overarching “All Works” programme, which is supported by detailed programmes for different stages of the project, such as the construction element. Progress against these programmes is reported to various relevant forums, including the Project Management Board and the Finance & Resources Committee.

The budget for the project was approved by the Finance & Resources Committee in July 2014 and the Board in August 2014. Performance against the budget is monitored by the Project Director each month and a financial update report is presented at each monthly meeting of the Project Management Board, including explanations for any key variances against the agreed budget. The project also has a dedicated finance resource to support with any financial queries.

We identified two important areas for improvement during the review.

- There is no issues log in place to monitor and track the resolution of current issues that may have an impact on the successful delivery of the project. There is a Change Control Procedure – Project Issues process in place, but it has not been used consistently throughout the life of the project.
- Although risk registers are in place, target risk scores are not used. Target risk scores would allow risk owners to assess whether the residual risk rating is appropriate or whether further actions are required to mitigate the risk further. In addition, each risk within the risk register has been assessed in terms of its likelihood and impact. However, it is unclear from the risk register whether the assessment is of the inherent risk (i.e. before controls) or the residual risk (i.e. after controls).

Further details on these points are set out in the Management Action Plan.

Management Action Plan

Control objective 1: The project framework and responsibilities are documented and implemented.

We identified no significant issues in relation to this control objective.

The project has followed the Scottish Capital Investment Manual (SCIM), as outlined in the Full Business Case. The SCIM provides a project management framework, specifically focussing on infrastructure projects within NHSScotland. The Full Business Case sets out the internal governance arrangements for the project, from the Project Management Board up to the NHS Lothian Board. This also includes involvement and oversight from the Lothian Capital Investment Group and the Finance & Resources Committee.

Roles and responsibilities of the various individuals involved in the project have been formally defined within the Full Business Case, and include a designated Project Owner (currently the Director of Health and Social Care, East Lothian), a designated Project Director and a Project Manager.

The Project Management Board has formal Terms of Reference in place and includes representation from other areas of NHS Lothian, including Capital Planning, Finance, Partnership, and Senior Management within the Hospital. A Project Team has been set up to coordinate the delivery of the work, from design stage through to the construction stage. Membership of the Project Team includes NHSL Project Manager, HubCo Consultancy Team and contractors.

Control Objective 2: Project plans are in place and monitored.

We identified no significant issues in relation to this control objective.

NHS Lothian has developed an overall Project Development Programme for the project. The Programme sets out the key milestones and timescales through to completion of the project. A Project Execution Plan (PEP) has been developed by HubCo for phase one of the works. This is a core document which provides project information and management procedures for the project. In addition, detailed programmes have been created for the construction element and the enabling works. A detailed commissioning programme will be finalised during the final year of construction.

Progress against the programmes is monitored and reported to relevant groups, including the Project Management Board and the Finance & Resources Committee. Monthly meetings are held between NHS Lothian and HubCo to monitor progress against the construction programme. The Project Management Board, which meets monthly to review progress with the project, is updated through the presentation of a Flash Report. The Flash Report provides an update on progress with the project, highlighting any areas of slippage. An action tracker is in place to record actions, due dates, responsibilities and status updates of activities relevant to the progression of the project.

Control Objective 3: Risk and issues logs are maintained, with actions taken to address any exposures.	
3.1: Project issues are not completely recorded and concluded upon	Important
<p><u>Observation and Risk</u></p> <p>The project has a procedure in place to capture project issues. A project issue is defined in the procedure as “any matter that is brought to the attention of the Project Team or Project Management Board that may potentially change the projects specification or scope during the execution stage”. The procedure includes a Project Issue Form for completion and submission to the Project Team. However, since 2012, a Project Issue Form has only been completed twice, with neither form recording the conclusion, decision, and outcome once the issue had been identified.</p> <p>There is a risk that issues are not fully resolved or the outcomes are not formally recorded. This may lead to the same, or other, issues recurring, which could have a financial and operational impact on the successful delivery of the project.</p>	
<p><u>Recommendation</u></p> <p>The Project Team should embed a formal Issues Log. The Issues Log should be used to capture all issues which have occurred, when they occurred, what impact they had, what the latest status is, and the resolution. The Issues Log should be reviewed monthly by the Project Management Board to ensure it is aware of what action is being taken with regards to ongoing issues.</p>	
<p><u>Management Response</u></p> <p>The Project Team will carry out a review of project issue recording with a view to implementing a log to track any matters relating to the conclusion of logged project issues.</p>	
<p><u>Management Action</u></p> <p>An action tracker will be introduced for the Project Team to log and monitor project issues. Once done the action tracker will added as a standing item to the agenda of future Project Team meetings.</p>	
Responsibility: Project Director	Target date: 30 April 2016

3.2: Scoring of risks identified in the risk register	Important
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Observation and Risk

A formal project risk register is in place which includes the 62 risks from the Full Business Case, as well as any new risks which have been identified during the life of the project. The project risk register sets out the risk title and description, consequences, risk rating, actions taken, actions planned and the risk owner. Each risk has been assessed in terms of its likelihood and impact to get an overall risk rating for each risk, which is recorded in the risk register. However, it is unclear from the risk register whether the risk assessment is of the inherent risk (i.e. the risk before controls are considered) or the residual risk (i.e. the remaining risk after the application of existing controls). Where it is unclear where the risks are scored as inherent or residual risks, the scores may not be an accurate reflection of the level of risk NHS Lothian has to manage.

In addition, the risk register does not contain target risk scores for each risk. Where a residual risk score is aligned with the target risk score then no further action is required. By not setting target risk scores for different project risks, there is a risk that the residual risk score is acceptable but further mitigating actions and controls are put in place where the costs outweigh the benefits. Alternatively, a residual risk score may be above the target risk score and further action may be required to mitigate the risk to an acceptable level.

Recommendation

Each risk owner should be asked to reassess the current risk scores as residual risks to ensure the scores take account of existing controls. If NHS Lothian wishes to record inherent risks, these can also be recorded on the risk register but should be clearly differentiated from the residual risk scores.

The Project Management Board should be asked to approve target risk scores for each risk. These target risk scores should be included within the risk register alongside the residual risk score to allow an assessment of the extent of any further work required to manage the risk.

Where the residual risk score is greater than the target risk score, further actions should be agreed by the risk owner and these should be recorded within the project risk register. The target risk score should remain dynamic and be adjusted as required.

Management Response

Risk registers will be developed as the Project progresses towards mobilisation. The structure of the risk registers will be reviewed and altered where necessary to accommodate residual risk scores alongside target risk scores. The project risks will be reported to the Project Management Board and Finance & Performance Review Committee where appropriate.

Management Action

The Project Director will continue to develop appropriate risk management strategies as the

project progresses towards mobilisation. The Project Management Board will be asked to review the risk registers and consider residual against target risk scores. Risk owners will be requested to implement further actions where residual risk scores are higher than target risk scores.

Responsibility: Project Director

Target date: 31 December 2016

Control Objective 4: Reports on progress are clear and distributed appropriately.

We identified no significant issues in relation to this control objective.

The Project Management Board meets monthly and is provided with a Flash Report at each meeting. The Flash Report summarises the status of a number of elements of project delivery, such as clinical design, construction, contract management and stakeholder management and communication. In addition, more detailed Progress Reports and Employer's Agent Reports are presented at each meeting of the Project Management Board. Progress Reports report against the master delivery programme and key stage milestones. Any specific matters to be raised with the Project Management Board are also recorded in these reports. Employer's Agent Reports contain information around the construction and commissioning of the project.

In addition, regular progress updates are provided to the Finance & Resources Committee at key stages of the project. The minutes of the Finance & Resources Committee are subsequently presented to the NHS Lothian Board so it can take assurance over progress with the project.

Control Objective 5: Budgets are set, with variances monitored and addressed.

We identified no significant issues in relation to this control objective.

The Full Business Case, which sets out the capital and revenue costs for the project, was approved by the Finance & Resources Committee in July 2014 and the NHS Lothian Board in August 2014.

NHS Lothian's total capital costs have been phased across each year from pre-2014/15 through to completion in 2017/18. This allows the annual budget for various activities to be closely monitored as the project progresses. This will assist in identifying issues with the financial position throughout the life of the project, as opposed to simply at the end of the project.

The Project Director is the designated budget holder for the project. The Project Director receives a monthly budget statement from finance. The budget statement sets out the annual budget, year-to-date budget, year-to-date actual and year-to-date variance. This allows the budget holder to quickly and clearly see where the main areas of under and overspend are.

In addition, the Project Management Board meeting is presented each month with a Summary Financial Position report. Reporting had been less frequent during 2015 as there had not been much activity in the project's financial position. The Summary Financial Position report provides a qualitative and quantitative review of the project's financial position, including explanations for any key variances against the agreed budget. Where required, actions are formally recorded in the Project Management Board minute and followed up at the subsequent meeting to ensure they have been implemented.

Appendix 1 - Definition of Ratings

Management Action Ratings

Action Ratings	Definition
Critical	The issue has a material effect upon the wider organisation – 60 points
Significant	The issue is material for the subject under review – 20 points
Important	The issue is relevant for the subject under review – 10 points
Minor	This issue is a housekeeping point for the subject under review – 5 points

Control Objective Ratings

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