Capital Systems

Final Internal Audit Report 2025/26

Swansea Bay University Health Board

Reasonable Assurance

Contents

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Fieldwork	April – June 2026
Executive Sign Off	Mark Parsons: 30 July 2026
Audit Committee	10 September 2026
Executive Lead	Claire Osmundsen-Little, Executive Director of Finance; Mark Parsons, Assistant Director of Capital Planning
Audit Team	Osian Lloyd, Head of Internal Audit; Felicity Quance, Deputy Head of Internal Audit

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Executive Summary

Purpose

This audit was commissioned in accordance with the agreed 2025/26 Internal Audit Plan. Capital systems coverage focused on the procurement, selection, appointment and contractual arrangements applied to capital projects at Swansea Bay University Health Board (the health board).

Overview

We have concluded that this area offers **reasonable** assurance. Procurement, contractor selection and contract award arrangements were generally operating effectively and in accordance with applicable policies and procedures. Appropriate use of procurement frameworks, tender evaluation processes and value for money assessments was evidenced across the projects reviewed.

However, opportunities exist to strengthen governance over contract management and records retention. In particular, improvements are required to finalise key procedural guidance, ensure contracts are completed and executed in a timely manner, strengthen the quality and completeness of contract documentation, and align records retention requirements with the extended liability periods applicable to contracts executed as deeds.

The following matters were identified for management attention:

- Capital Projects Control Manual: the document remains in draft form, with outstanding review comments yet to be resolved. Consequently, there is a risk that officers may rely on guidance that has not been formally approved, resulting in inconsistent application of project management controls and governance arrangements.
- Contract execution and documentation: review of contract arrangements identified that none of the sampled contracts had been fully executed prior to the commencement of works or services. In addition, instances of retrospective signing, delays in contract execution, incomplete contractual information and insufficient evidence of acceptance of amendments to standard form-contracts were identified. These issues increase legal, financial and governance risks and may weaken the health board's position should contractual disputes or claims arise.
- Contract retention period: whilst current arrangements are consistent with the NHS Wales Records Management Code of Practice, they do not formally recognise the longer limitation periods applicable to contracts executed as deeds. As a result, there is a risk that key contractual records may not be retained for the full period during with contractual claims could arise.

Full details of matters arising are detailed within the Findings & Agreed Action Plan.

Scope & Assurance Summary

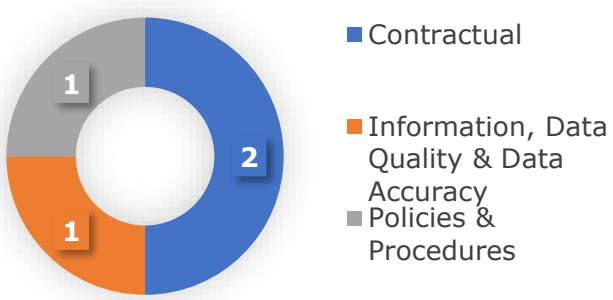
	Objectives (The objectives and associated assurance ratings are not necessarily given equal weighting when formulating the overall audit opinion)	Related Findings	Assurance
1	Governance And Capital Project Control Framework - To assess the application of appropriate procurement policies and procedures to Capital Planning and Estates contracts and ensure that roles, responsibilities and approval requirements are adequately defined and that procurement and contract strategies are clearly communicated and approved.	1	**Reasonable**
2	Contractor Selection and Appointment – To ensure the appropriate application of Standing Orders, Standing Financial Instructions (SFIs), national and local procurement policies in the selection and appointment of contractors and technical advisers; the application of competitive tendering, quotation and framework arrangements (where applicable); and the adequacy of associated management oversight and reporting.	-	**Substantial**
3	Value for Money and Contract Award – To ensure that value for money is appropriately assessed (through tendering, quotations, benchmarking or other relevant methods), that formal recommendations for award are documented, and that approvals fully consider associated limitations and risks.	-	**Substantial**
4	Contract Execution and Management – To obtain assurance over the timely completion, recording, and approval of agreements and contract versions in accordance with the approved contract strategy, including appropriate contractual clauses and provisions.	2, 3	**Limited**
5	Retention of Contract and Project Documentation - To obtain assurance that Capital and Estates contract and project documentation is retained for the requisite period in accordance with national guidance and that all documentation is held securely.	4	**Reasonable**

Management Actions

2 High Priority

2 Medium Priority

Themes



Risk Types

Financial Loss

Legal & Regulatory Non-Compliance

Public Perception & Reputational Risk

Capital Systems - At a Glance

The following eight projects were selected for detailed testing. The sample was designed to provide coverage across a range of project values, funding mechanisms, project stages and financial years, including completed schemes, projects in development and projects that had been paused or placed on hold. We have excluded Welsh Government approved capital projects, which fall under our Integrated Audit Plan work, as they will be considered separately.

Where the funding mechanism has been recorded as Discretionary Capital Allocation, this reflects the project's current position. Business cases will be developed and submitted for Welsh Government consideration, with approval of funding required before progression of the proposed works.

Project reference and title		Applicable financial year	Allocation as per Capital Resource Limit (CRL)	Funding Mechanism	Status of project at date of audit fieldwork
6B46	Thoracic Unit, Morriston	2024/25 2025/26	N/A	Discretionary Capital Allocation	Not proceeding [1]
6H25	Air Handling Unit (AHU) Upgrades, Singleton	2024/25 2025/26	£750,000	Estate Funding Advisory Board (EFAB)	Complete
6H37	Integrated Laparoscopic Theatres (OR1) Theatres, Urology, Neath Port Talbot Hospital (NPTH)	2024/25 2025/26	£277,139	Discretionary Capital Allocation	Design complete [2]
6H43	Renal Water Supply, Cardigan Ward, Morriston	2024/25 2025/26	£955,000	Discretionary Capital Allocation	Complete
6J21	Helipad Alterations, Morriston	2025/26	£100,000	Discretionary Capital Allocation	Design complete, to proceed to tender
6J28	Seclusion Suites, Caswell Clinic	2025/26	£162,817	Discretionary Capital Allocation	Scrutiny comments from Welsh Government being addressed
6J94	Digital X-Ray Rooms 3 & 4, Morriston	2025/26	£1,296,000	Welsh Government	On hold [3]
6J95	Capital & Estates Office Relocation	2025/26	£400,000	Discretionary Capital Allocation	Complete

[1] Project 6B46 (Thoracic Unit, Morriston) – This project is currently on hold. The project had progressed to the point where contractual commitments had been entered into (Cost Adviser, Project Manager, Contractor) before being placed on hold following review of capital prioritisation requirements. A business case had been submitted for Welsh Government scrutiny; however, following completion of capital prioritisation assessments, the project was no longer considered viable at this time. Consequently, cessation letters were issued in respect of the contractual arrangements.

[2] Project 6H37 (OR1 Theatres Urology, NPTH) – As the project is located on a PFI site, a Deed of Variation to the existing PFI agreement is required before the scheme can progress further. Management advised that completion of the legal process may take approximately four to six months.

[3] Project 6J94 (Digital X-Ray Rooms 3 & 4, Morriston) – This project is currently on hold. Tenders received exceeded the approved budget and a further procurement exercise, using the in-house framework, was ongoing at the time of audit fieldwork.

Findings & Agreed Action Plan

Objective 1: Governance and Capital Project Control Framework	Reasonable

The health board has adopted the NHS Model Standing Financial Instructions (SFIs), Standing Orders, and the Scheme of Reservation and Delegation of Powers, with the latest amendments approved in November 2025.

Section 15 of the SFIs sets out the requirements relating to the Capital Plan, Capital Equipment, Fixed Asset Register and Security of Assets. Reference is made to Welsh Government requirements and guidance relating to capital investment decisions, including the NHS Wales Infrastructure Investment Guidance and the Better Business Cases investment decision making framework.

Section 15.4 of the SFIs references capital procedures and responsibilities. Specifically, section 15.4.7 states that the Director of Planning and Director of Finance shall issue detailed procedures governing the project, financial and contractual management of capital investment projects, including contractual variations and asset valuation for accounting purposes. These procedures are required to take full account of the requirements and delegated limits for capital schemes set out within Welsh Ministers' guidance and approval letters. The procedures should also include arrangements for post-project benefits realisation to ensure that the benefits identified within the supporting business case are delivered. In addition, the Director of Finance is required to issue procedures for the regular reporting of expenditure and commitments against authorised expenditure.

The health board has developed a Capital Projects Control Manual, intended to provide a toolkit for the management of capital projects. The manual is designed to be used in conjunction with the health board's Standing Orders and Financial Control Procedures. Recognising that projects vary significantly in scale and complexity, it is not expected that all elements of the manual will be applied to every project, with the level of compliance determined on a project-by-project basis.

Version 13 of the Capital Projects Control Manual was reviewed in June 2025; however, the document remains in draft form and a number of review comments remaining unresolved (see **Key Finding 1**).

Notwithstanding this issue, the manual provides a framework for the management of capital schemes, covering all stages of the project lifecycle from inception to completion and post-project evaluation. Examples of the control documentation required or recommended at each stage are included and provide a useful reference source for project teams.

Key Findings		Risk & Impact	Agreed Management Action
1	**Approval and Implementation of Capital Projects Control Manual** A recommendation raised in the 2020/21 Capital Systems internal audit report (reasonable assurance, issued November 2020) requiring the review and update of the Capital Projects Control Manual to ensure procedures, proformas and supporting documentation remain aligned to current operational practices and facilitate the operation of an efficient project management process. Whilst the manual continues to provide a framework for managing capital projects from inception through to post-project evaluation, the version provided during audit fieldwork (Version 13, with a review date of June 2025) remains marked as draft. In addition, review comments within the document remain unresolved and there was no evidence that the manual had been formally approved and issued.	Outdated or poorly communicated procedural guidance may lead to inconsistent project controls, governance non-compliance, and inefficient capital project delivery.	**Agreed Action:** • The outstanding comments identified during the June 2025 review of the Capital Projects Control Manual will be addressed. A task & finish group will be established to review the wider document to ensure practices are appropriately reflected in readiness for the implementation of the new local framework (to be effective from 5 April 2027). • The manual will be reviewed and approved at Capital Management Group and shared accordingly across the health board.
			Expected Evidence of Implementation: • Approved and dated Capital Projects Control Manual. • Evidence of formal approval by Capital Management Group. • Evidence that the final version has been made available to relevant staff.
		Medium Priority	**Officer:** Tony Jones, Capital Business Manager
	Theme: Policies & Procedures	Control Design	**Date:** 31 March 2027

Objective 2: Contractor Selection and Appointment	Substantial

Section 6 of the Capital Projects Control Manual sets out the procurement routes to be utilised by the health board when procuring capital works under the NEC suite of contracts, as follows:

- **Local Framework** – where the estimated value of a scheme is below £2 million, the Local Framework Agreement should be utilised for the appointment of both contractors and consultants.
- **Public Sector Framework Arrangements** – for schemes with an estimated value between £2 million and £7 million, consideration should be given to the use of appropriate Public Sector Procurement Frameworks, including those endorsed by NHS Wales Share Services Partnership.
- **NHS Building for Wales Framework** – capital projects with an estimated cost exceeding £7m should be procured through the current Building for Wales Framework Agreement.

The local framework agreement is shared with Hywel Dda University Health Board and was established in compliance with applicable procurement legislation. The multi-supplier framework covers the provision of project management, design and construction-related services, with suppliers appointed through a robust and compliant procurement process. Review of projects undertaken as part of this audit was limited to assessing compliance with the requirements of the current framework.

The framework commenced in 2022 for an initial period of three years, with an option to extend for a further year. We confirmed that this option was exercised in May 2025, with formal notification issued to participating contractors and consultants. Correspondence confirmed that, following an internal review and issue of the Notice of Extension dated 14 May 2025 (Framework Reference CAP-OJEU-91879), the framework period had been extended until 25 May 2026 in accordance with the terms and conditions of the original agreement. At the time of audit fieldwork concluding, work was ongoing to develop a replacement framework agreement. The pre-qualification questionnaire stage had been completed, with Invitation to Tender were scheduled to be issued to shortlisted contractors and consultants by the end of July 2026. We understand that the new framework is expected to be implemented from April 2027. In the interim, approval is being from Procurement Services to continue operating under the existing arrangements until the new framework is in place.

For all sampled projects that had progressed to the construction phase, appointments had been made through the current local framework agreement (see objective 4 for contract arrangements) in accordance with the established procurement route. We also noted that pre-tender cost estimates had been prepared prior to approaching the framework. This represents positive practice, supporting budgeting, informed decision-making and effective financial planning.

Tender evaluation reports were available for review and documented the assessment process, recommendation for award and rationale for appointment. These arrangements support transparency and accountability within the procurement process.

Financial vetting arrangements are also in place, with appointment requests subject to review and approval by the Capital Finance team before contracts are awarded. Where a contractor fails the financial assessment process, appointment cannot proceed. No such instances were identified within our sample.

Appropriate challenge was observed where procurement outcomes did not align with available budgets. For example, in relation to the Digital X-Ray Rooms 3&4, Morriston project, tender returns exceeded the approved budget and management elected to re-tender the works. At the time of audit fieldwork, the outcome of the further procurement exercise was still pending.

Objective 3: Value for Money and Contract Award	Substantial

SFIs require procurement decision to achieve best value for money over the whole life of an agreement. Section 11.10.4 states that agreements awarded must deliver the optimum combination of whole-life cost and quality to meet the identified requirement.

For all projects included within our sample, and for the contractual arrangements in place at the time of audit fieldwork, supporting documentation demonstrated appropriate value for money assessments and that contract awards were made in accordance with established procedures and delegated authority requirements

Objective 4: Contract Execution and Management	Limited

For the eight projects included within our sample, and noting the varying stages of project development and delivery, a total of 18 contract arrangements had been entered into for the provision of professional services and / or construction works:

Project and number of contracts		Coverage of contracts
Thoracic Unit, Morriston	3	Cost Adviser, Project Manager, Construction
AHU Upgrades, Singleton	3	Quantity Surveyor, Mechanical & Engineering Services, Construction
OR1 Theatres, Urology, Neath Port Talbot	1	Quantity Surveyor *NB: no further contracts were in place as legal processes associated with the PFI arrangements remained ongoing.*
Renal Water Supply, Cardigan Ward Morriston	4	Design Services, Mechanical & Engineering Services, Cost Adviser, Construction
Helipad Alterations, Morriston	1	Architect & Principal Design Services
Seclusion Suites, Caswell	1	Civil and Structural Engineering Services
Digital X-Ray Rooms 3 & 4, Morriston	4	Design Services, Civil and Structural Engineering Services, Mechanical & Engineering Services, Cost Adviser
Capital & Estates office relocation	1	Construction

As part of our testing, we sought assurance that contracts had been formally completed and executed before the commencement of services or works. This expectation is consistent with section 3 of the Capital Projects Control Manual, which states *all necessary approvals and formal contractual arrangements should be completed and documented before construction activities commence.*

Whilst all contracts reviewed had ultimately been approved and signed in accordance with the health board's Scheme of Delegation, audit testing identified weaknesses in the timeliness of contract execution and the completeness of the contractual documentation (see **Key Findings 2 & 3**). In particular, none of the contracts reviewed had been formally executed prior to the commencement of works or services.

NEC4 contracts have been utilised for all agreements reviewed, with the form of contract generally appropriate to the nature and scope of the services being commissioned. Subject to the issues identified in **Key Finding 2**, contracts clearly defined pricing arrangements, defect correction periods, and insurance requirements.

Where construction contracts were in place (four reviewed), delay damages provisions had been incorporated, ranging from £200 to £500 per day. A proportional relationship was evident between contract values and the level of delay damages applied. One exception was identified within the Thoracic Unit contract, where delay damages remained at the NEC template default value of £1. However, as the project has subsequently been placed on hold and the health board has formally issued a cessation notice, no recommendation has been raised in respect of this matter.

All contracts reviewed had been executed as deeds, irrespective of financial value or project complexity. This approach provides enhanced contractual protection by extending the limitation period for contractual claims from six to twelve years.

Whilst the contracts have been signed by the relevant parties, amendments and project-specific amendments incorporated into standard-form contracts were not consistently evidenced as formally accepted by both parties through annotation or initialling of amended provisions (see **Key Finding 3**).

Key Findings		Risk & Impact	Agreed Management Action
2	**Contract Execution and Timeliness of Contract Completion** Of the 18 original signed contracts reviewed: • Five did not include commencement or completion dates (see **Key Finding 3**) so we unable to conclude on timeliness of signing • Of the remaining 13 contracts, all had been signed after the contractual commencement date, ranging from 35 days to circa 200 days. • One was signed after the stated contract completion date. A further three contracts were signed within one month of the contractual completion date. • While most contracts were signed on behalf of the health board within seven days of receipt, six contracts experienced significant delays, ranging from 14 to 48 days. Audit testing further identified that none of the sampled contracts had been fully executed prior to the commencement of works or services, despite the Capital Projects Control Manual stating that all necessary approvals and formal contracts should be completed and documented before construction works commence. The widespread nature of retrospective contract execution indicates a systemic weakness in contract management controls and non-compliance with established procedures.	Commencing services before contracts are executed and maintaining incomplete contract records may lead to weakened contractual protection, poor contract management, and increased legal and financial risk.	**Agreed Action:** • Target timescales for contract preparation, review and execution will be defined and communicated to ensure they are fully executed before services/works commence. • Monitoring and reporting of retrospective contract signing will be undertaken to identify recurring causes and implement process improvements. • Periodic management oversight of contract execution performance will be introduced through established capital governance arrangements. **Expected Evidence of Implementation:** • Updated documented procedures for contract preparation and execution. • Communication to relevant staff regarding contract completion requirements. • Defined timescales and performance standards for contract preparation, approval and execution. • Evidence of management reporting and oversight of retrospective contract signing and contract execution performance. • Sample of completed contracts demonstrating compliance with revised requirements.
	Theme: Contractual	**High Priority** Control Operation	**Officer:** Tony Jones, Capital Business Manager; Ian Jones, Land & Property Manager **Date:** 31 March 2027

Key Findings		Risk & Impact	Agreed Management Action
3	**Completeness of Contract Documentation** Audit testing identified weaknesses in the completeness of contract documentation reviewed. Specifically: • Five contracts did not contain complete commencement and completion dates. Whilst other contracts (4 reviewed) did not specify a completion date, narrative within the contracts indicated that completion would occur upon issue the making goods defect certificate. • Three contracts contained incomplete information within the NEC Professional Services Contract Data section, including consultant details and associated information. • Amendments and project-specific changes incorporated into standard-form NEC contracts were generally not evidenced as formally accepted by both parties through annotation, initialling or other documented acknowledgement. Evidence of such acceptance was identified in only one contract reviewed.	Incomplete contract documentation and inadequate evidence of agreement to amended terms may create ambiguity over contractual obligations, weaken the health board's position in disputes, and reduce effective contract administration and oversight.	**Agreed Action:** • All mandatory contract fields will be verified as completed before contracts are submitted for approval and signature. • Contract preparation procedures to be reviewed to ensure all project-specific information is accurately recorded. • Requirements for documenting acceptance of amendments and project-specific changes to standard-form contracts will be determined and documented within the Capital Projects Control Manual • Periodic quality assurance reviews of contract documentation will be undertaken to ensure compliance with procedural requirements. **Expected Evidence of Implementation:** • Communication to relevant staff regarding documentation verification requirements. • Completion and execution of contract documentation guidance updated within the Capital Projects Control Manual. • Quality assurance review arrangements for contract documentation. • Sample of completed contracts demonstrating compliance with documentation requirements and evidence of acceptance of amended terms.
	Theme: Contractual	**High Priority** Control Operation	**Officer:** Tony Jones, Capital Business Manager; Ian Jones, Land & Property Manager **Date:** 31 March 2027

Objective 5: Retention of Contract and Project Documentation	Reasonable

The health board's Records Management Policy establishes the framework for the management, retention and disposal of records. The policy references a number of key documents which set out best practice requirements for records management across NHS organisations, including:

- Records Management Code of Practice for Health and Social Care;
- All Wales Information Governance Policy 2021; and
- Minimum Retention & Destruction Policy (the detail of this policy is applicable to all health board records and not just patient records).

The Records Management Code of Practice sets out minimum retention requirements for a range of records, including contracts. The guidance states that both sealed and unsealed contracts should be retained for six years following the expiry or termination of the contract.

All contracts reviewed as part of this audit had been executed as deeds. Contracts executed as deed are generally subject to a limitation period of twelve years, rather than six years for contracts executed under hand. Accordingly, the minimum retention period referenced within the Records Management Code of Practice may not be sufficient to support potential contractual claims arising during the full period of liability associated with these arrangements.

Management advised that contract documentation relating to capital projects is retained for the life of the building; however, this is not formally documented within either the Capital Projects Control Manual or relevant Health Board policies and procedures (see **Key Finding 4**).

We observed that contract documentation was being stored securely. Signed contracts are retained in hard copy within the Capital and Estates offices at Morriston Hospital, with appropriate security control in place to restrict access and prevent unauthorised removal; currently no PDF copies of the signed contracts are held.

Key Findings		Risk & Impact	Agreed Management Action
4	**Retention of Contract Documentation for Contracts Executed as Deeds** All contracts reviewed as part of this audit had been executed as deeds, providing an extended limitation period of twelve years. The Health Board's Records Management arrangements reference the Records Management Code of Practice, which specifies a retention period of six years following the expiry or termination of contracts. Whilst management advised that capital management documentation is retained for at least twelve years, and in some instances for the life of the building, this requirement is not formally documented within the Capital Projects Control Manual or relevant health board policies and procedures. As a result, documented retention requirements do not fully align with the liability period associated with contracts executed as deeds.	Failure to retain contract documentation for the full liability period may limit evidence for contractual claims or legal proceedings, increasing the risk of financial and reputational loss.	**Agreed Action:** • Ensure retention requirements for all capital project documentation, including the variation for contracts executed as deeds, will be documented within the Capital Projects Control Manual (to be updated, as **per Key Finding 1**); with reference also provided to the health board's Records Management Policy. **Expected Evidence of Implementation**: • Updated Capital Projects Control Manual. • Addendum or supporting guidance to the Records Management Policy reflecting retention requirements for contracts executed as deeds. • Evidence of approval and communication of the revised retention requirements to relevant staff.
		Medium Priority	**Officer:** Tony Jones, Capital Business Manager **Date**: 31 March 2027
	Theme: Information & Data Management	Control Design	

Appendix A: Assurance Opinion & Prioritisation of Findings

Assurance Opinion

 **Substantial**	Few matters require attention and are compliance or advisory in nature. **Low impact** on residual risk exposure.
 **Reasonable**	Some matters require management attention in control design or compliance. **Low to moderate impact** on residual risk exposure until resolved.
 **Limited**	More significant matters require management attention. **Moderate impact** on residual risk exposure until resolved.
 **Unsatisfactory**	Action is required to address the whole control framework in this area. **High impact** on residual risk exposure until resolved.
 **Advisory**	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.

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The report is based on the review work undertaken and is not necessarily a complete statement of all weaknesses that exist or potential improvements. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, no complete guarantee or warranty can be given with regard to the advice and information contained.

Our work does not provide absolute assurance that material errors, loss or fraud do not exist. Responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management of Swansea Bay University Health Board. Work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, or all circumstances of fraud or irregularity. Effective and timely implementation of recommendations is important for the development and maintenance of a reliable internal control system.

Prioritisation of Findings

Priority	Explanation
High	Significant risk to achievement of a system objective OR evidence present of material loss, error, or misstatement. Poor system design OR widespread non-compliance.
Medium	Some risk to achievement of a system objective. Minor weakness in system design OR limited non-compliance.

Public Sector Internal Audit Standards

Audit work undertaken by NHS Wales Audit and Assurance Services conforms with the International Standards for the Professional Practice of Internal Auditing and associated Public Sector Internal Audit Standards as validated through the external quality assessment undertaken by the Chartered Institute of Public Finance & Accountancy in April 2023.

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