West Midlands Combined Authority

Internal Audit Report:

"REVIEW OF EXTERNAL FUNDING ARRANGEMENTS – 2022-2023"

Report Date: **25 August 2023**

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Delivered by WMCA – Audit Services

1. Executive summary

Introduction and Background

1.1 A review of the WMCA External Funding Framework was included in the Annual Internal Audit Plan 2022/23 approved by the ARAC. The purpose of the review was to conduct a high-level appraisal of the new system established over the WMCA management process for obtaining external funding, in order to provide independent assurance regarding the effectiveness of the application preparation process, which informs the decisions of the senior leadership team, prior to the formal application process. The purpose of the new process was to design a system which would ensure effective governance, risk management and support arrangements are established at the outset, from bid preparation up to the formal application stage.

1.2 The External Funding Application process is designed to facilitate the WMCA application to source additional funds into the WMCA from external sources, over and above the standard funding allocations provided by central Government. Successful funding applications facilitates projects which adds value to community initiatives and contributes towards WMCA strategic aims.

1.3 Prior to the new arrangement, the external funding process was unwielded and decentralized, with each department following their own process without central control or coordination. This created difficulties with the progress of applications and the ability to make successful bids, as some applications were submitted without sufficient internal checks and consultation. Hence management decided to address the issue by creating a generic process common to all departments, with common controls and processes to facilitate a seamless process intended to be more efficient and more effective in delivering WMCA objectives.

1.4 At the time of the review the total value of external funding applications was in excess £1.5B. Within the sample, projects funded ranges from £500K to 315M.

Objectives, potential risks, and scope of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following:

Objectives:	The objective of the review was to carry out a high-level appraisal of the external funding application process in order to provide assurance regarding its effectiveness and fitness for purpose.
Potential Risks:	The following system risks were identified: • Inability to identify available eligible funding opportunities. • Failure of funding applications, due to inadequate specifications or late applications • Failure to comply with funding requirements or deliver on projects, leading to financial penalties or funding claw backs. • Risk of non-delivery of WMCA aims and objectives, due to inadequate funding or funding claw backs.

	• Potential risks of error or fraud due to poor management of the external funding application process and inadequate oversight or governance arrangements, leading to reputational damage of the WMCA
Scope:	The scope covers external funding applications made since the introduction of the new system in January 2022 to February 2023. Conclusions are drawn regarding both the effectiveness of the framework and compliance.
Limitations to the scope of our audit:	The review was limited to external funding applications covering the period January 2022 to February 2023. The initial sample was 13 projects selected randomly but weighted towards areas of higher activities and to cover both revenue and capital projects. However, this was later reduced to 9 active samples because some projects were amalgamated and in some cases the projects did not go through a traditional external funding application process. The Single Assurance Framework (SAF) process was not examined as part of this review, as it comes after an external funding application has been successful and therefore lies outside scope. Also, SAF is a separate planned review within the 2022/23 Internal audit plan.

Overall conclusion

Our conclusion is that the framework is strong, and compliance is satisfactory. Our overall conclusion based on Internal Audit Standard Assurance Matrix, is that the system is "Satisfactory". This means - Our audit provides **Satisfactory** assurance over the adequacy of the controls reviewed as part of the process to mitigate risks to an acceptable level.

No Assurance	Limited	**Satisfactory**	Substantial
Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	**There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.**	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Key issues identified.

We rate each issue identified in section 2 below, based on the following:

Red	Amber	Green
Action is imperative to ensure that the objectives for the area under review are met	Action is required to avoid exposure to significant risks in achieving objectives	Action is advised to enhance risk control or operational efficiency

We have identified four amber and four green issues (See section 2 below) where improvements could be made, arising from the following issues which have been categorised to reflect those issues relating to both the framework and compliance with the framework:

Framework

- Although the WMCA strategic risk register covers the organisations strategic objectives, including external funding applications, dedicated formal operational risk registers specifically relating to individual external funding activities were not always available during the review process. Individual risk assessments were not readily available for each funding application or funding activity prior to the SAF process which comes after the external funding application has been successful.

- A standardised formal procedure for proactively sourcing external funding opportunities is not part of the process. The existing process effectively determines what happens after an opportunity has been identified through government notifications or when they became available in the public domain. Also, it is unclear who starts the process. The flow chart makes references to the "Application Author/Developer". It is unclear who that refers to, or what their full responsibilities are. The process could be enhanced by some explanatory notes and guidance. In particular, it could also explain the role of the Author/Developer and where it sits within the organisation.

- The framework facilitates appropriate involvement in the process of enabling services at various stages of the application process. However, there is insufficient visibility of involvement by the Procurement Team. Hence not obtaining full benefit of their expertise.

- Interviews with some users suggests there is still room for better communication. Sometimes information is received too late to be impactful, and errors may not be appropriately addressed, or quality checks undertaken if time is limited.

- Projects that required funding falls within a wide range of values and importance. Within the sample, the values range from £500K to £315M. hence the degree of diligence and control required to prepare individual funding applications also varies, as well as the resources required to make the application process successful; and to deliver successful outcomes. Hence, some degree of nuance was exercised during testing to reflect materiality and significance of individual external funding applications.

. **Compliance**
- Testing indicates that there is satisfactory compliance with the new process, however there were some instances of omissions regarding full compliance which are set out below.

- There were some omissions regarding completion of all relevant sections of the application registers which gives an update regarding progress of external funding applications and next steps.

- Individual departmental external application registers are not standardised across the board. Also, there is potential for confusion between the different departmental activity registers and the central pipeline register, which can show different real time updates and therefore varying levels of information.

- External funding application preparation is undertaken separately by departments. There is no central internal process for this. Hence the effectiveness of funding case depends on the degree of expertise which exists within each department.

- It was unclear whether formal reviews had been undertaken for unsuccessful external funding applications to facilitate learning and development.

- It is a common feature of the introduction of a new system that teething problems would normally arise. Hence the fact that the new system is not yet fully embedded having only been created a year prior to this review, is not an indication that the system is not delivering on its intended purpose. There is general acceptance from all parties interviewed during this review, that the new system is a significant improvement from what existed prior to its creation. There is also a degree of commitment that more needs to be done to fully embed the system. It is hoped that this review would assist in that process. However, it is acknowledged that WMCA is currently negotiating a move towards single settlement funding from April 2025, and that this is likely to eliminate much of the "traffic" than comes through this funding process currently. This will influence the development of the process for the future.

Examples of good practice identified.

During our work, we identified the following examples of good practice within the system and in the management of risk, achieved through the effective design and application of controls:

- There is a well-documented intuitive three stage flow chart process which covers:
    - **Stage 1** – "WMCA Approval" – this process incorporates the identification of funding opportunities and how it aligns with WMCA priorities, only if there is clear alignment with WMCA priorities will it proceed to the next stage. Support and Guidance is provided by enabling services during this phase.
    - **Stage 2** – "Preparation" – Enabling services (Finance, Risk, Legal, Assurance and Procurement) are informed and the application process begins and uploaded onto the Pipeline process. Business Partners provide support and advice, consulting MO/S151 if required (Sec 151 approval or certification is required prior to progression in line with WMCA Financial Regulations). Key Control at this stage is the requirement to certify an External Funding Business Check List (BCL), which sets out 13 key Questions to ascertain how the grant would align with WMCA aims and objectives, including key issues such as, justification, feasibility, risks and implications of the grant for WMCA aims. This form is required to be certified by the Sec 151 officer prior to submission.
    - **Stage 3** – "Post Funding" – Submission of application and communicating outcome to WMCA Board and generating an appropriate press release for successful applications.

This then leads to the SAF process, using the standard Single Assurance Framework to deliver the programme.

- The framework incorporates all the key elements required to facilitate a well-considered process, with built in controls to ensure appropriate involvement of enabling services, departmental senior management and WMCA Executive Board relevant stages of the process. Internal audit assessed the built-in controls as appropriate, relevant and strong, during this review.

- The new framework is generic to the whole organisation and replaces the previous process which relied on each department doing their own thing with varying quality control. This new process now introduces a standardise quality control process, although the departments retain some discretion on part of the process, which allows them to adhere to relevant professional or industry standards appropriate for their individual department or business sector.

- Prior to full implementation of the new system, an informative and practical workshop was held to inform and introduce the new system to users. This contributed towards upskilling staff and facilitated buy-in to the new system.

- To facilitate compliance with the framework, management designed External Funding Tracking Excel Spreadsheets which sets out key details of progression and control checks throughout the process. Each department has their own spreadsheets which sets out projects applied for, and there is a central spreadsheet which is held in Finance, which co-ordinates all projects across the organisation. In addition, there is a separate SAF spreadsheet which sets out successful projects and how they go through the SAF process. The SAF process was not part of this review.

- The process allows a review process for rejected applications to ensure lessons learnt are noted and shared, to facilitate learning and improvements.

- The external funding check list is a key control which ensures that key elements of the process are progressed diligently and effectively. Thus, minimising the possibility of an unanticipated critical event.

- It was noted that one project which was not in the main sample had a separate additional Governance Structure, which creates another layer of control.

- It is a common feature of the introduction of a new system that teething problems would normally arise. Therefore, the fact that the new system is not yet fully embedded having only been created a year prior to this review, is not an indication that the system is not delivering on its intended purpose. There is general acceptance from all parties interviewed during this review, that the new system is a significant improvement from what existed prior to its creation. There is also a degree of commitment that more needs to be done to fully embed the system. It is hoped that this review would assist in that process.

- The observations made regarding the applications which were not included in the full tests indicates that the WMCA won £315m in the combined devolution bid.

- The WMCA was also awarded £30,383,250 for the ZEBRA bid to support 124 hydrogen

buses and associated re-fuelling infrastructure. This brings the total number of hydrogen buses within the region to 144, making it the largest hydrogen bus fleet within the Western World.

Acknowledgement

Several employees gave their time and co-operation during this review. We would like to record our thanks to all the individuals concerned.

2. Findings and recommendations

Action is required to avoid exposure to significant risks in achieving objectives
Amber

1.   External Funding Application Registers

Findings:
Testing indicates that there were some instances of omissions in completing all sections of the application registers which gives an up-to-date progress of bids. For example, the section marked "Approval Route" was not completed by any of the sample tested. This may be because the approval route is clearly established on the Flow Chart and therefore considered unnecessary. The second least completed section was the section requesting "Business Case Value". This may be because in some cases the business case value is the same as the "Estimated Project Costs". However, for reason of completeness it would be appropriate to complete this section, as the amounts can sometimes vary. In two cases (over 20% of sample) neither the estimated bid value or the business case value was completed.

Individual departmental external application registers are not standardised across the board. Also, there is potential for confusion between the different departmental bid register and the central pipeline register, which can show different real time updates and therefore varying levels of information. There is a need to align the differing application registers amongst departments, as well as with the pipeline application register.

Implications:
Any inconsistencies between the departmental external funding registers and the central pipeline register may give rise to confusion and possible delays in funding applications with possible negative impact on WMCA aims and objectives.

Recommendations:

(i)   All sections of the applications registers, and the central pipeline register should be completed and updated in line with developments and outstanding activities. Consideration should be given to whether the sections set out in both registers are fit for purpose. Where appropriate, any column not considered necessary should be removed.

(ii)   To minimise the potential for confusion amongst departmental funding registers and the central pipeline register, it is recommended that the departmental registers are standardised, following which they should be aligned with the pipeline register to reflect similar information as far as practically possible.

(iii)   It is recommended that a section of the external funding register should include the Bid Check List, to strengthen control and effectiveness, as this is a key document that signals adequate compliance and therefore its implementation should be monitored.

Agreed Actions/Management Comments:

The Executive Board have requested one central activity register is developed to include external funding application information and project activity information. Centre of

Excellence to facilitate updating the Activity Register. Directorates are accountable for confirming information is accurate.

Responsible Officer: **Kate Taylor – Head of Finance Business Planning** **Joti Sharma – Head of Programme Assurance & Appraisal**	**Target Date:** **March 2024**

2. Implementation of The Bid Check List

Findings:
Of the nine key samples which were suitable for full testing, a total of four bids had gone through the process successfully, whilst one bid failed, and another which did not go through the traditional bid route but was successful. The remaining three were still going through various stages of implementation at the time of the review.

Given the significance of the Bid Check List (BCL), this was assessed by Internal Audit as a key test for compliance and effectiveness, hence an examination of available BCL was undertaken with the following results. Test results indicate that four BCLs were available out of the nine key samples. All had been appropriately authorised by the s151 officer. The remaining projects had not got to the BCL stage yet, as this comes after Executive Board approval, but prior to the formal bid application process. However, BCL completion is not featured on the application register as a control. (This issue is also linked to item 5 below).

Implications:
The bid check list is an essential tool, hence the absence of monitoring of this essential control may weaken overall control of the process.

Recommendations:
It is recommended that a section of the external funding register should include the Bid Check List, to strengthen control and effectiveness, as this is a key document that signals effective compliance with the framework.

Agreed Actions/Management Comments:

Management to facilitate a link to the external funding application checklist within the funding register.

Responsible Officer: **Kate Taylor – Head of Finance Business Planning** **Joti Sharma – Head of Programme Assurance & Appraisal**	**Target Date:** **March 2024**

3. Standardised Funding Case Process

Findings:
Funding case preparation is undertaken separately by departments. A central internal process for business case preparation is not part of the process. Hence the effectiveness of business case

depends on the degree of expertise which exists within each department. Within the scope of this review, most funding case assessments going through the SAF framework, tend to be from TfWM; hence their funding case process is likely to be more practised than other departments. The organisation would benefit from setting up a steering group to explore and develop a standardised approach to funding case development, using expertise existing within the most experienced departments to facilitate a standardised approach, which can be adopted throughout the entire organisation.

Implications:
A lack of standardised funding case protocol means wasteful resources and lack of corporate identity in the approach to funding planning. It may undermine the organisation's ability to develop and achieve unity of purpose in meeting its aims and objectives.

Recommendations:
It is recommended that the organisation should set up a steering group to explore and develop a standardised approach to funding case development, using expertise existing within the most experienced departments to facilitate a standardised approach, which can be adopted throughout the entire organisation.

Agreed Actions/Management Comments:

Programme Assurance & Appraisal team working alongside Finance Business Partners and other enabling Services are going to trial the benefits of start-up workshops. However, this recommendation is part of the SAF process and out of scope for current external funding process.

Responsible Officer: **Kate Taylor – Head of Finance Business Planning** **Joti Sharma – Head of Programme Assurance & Appraisal**	**Target Date:** **March 2024**

4. Post Application Reviews – Unsuccessful Applications

Findings:
Although the framework requires a review of unsuccessful applications in order to facilitate future development of the process, there was no clear evidence to demonstrate that formal reviews had been undertaken for unsuccessful applications. Hence the learning experience of failed bids might be lost, instead of being factored into further development of the process.

Implications:
The lack of formal reviews deprives the organisation of benefiting from the learning opportunities presented by the experience of unsuccessful applications, which could lead to improvements that would contribute towards more effective applications in the future.

Recommendations:
It is recommended that a process for conducting formal reviews of unsuccessful external funding applications be set up to facilitate further learning and development which would contribute towards establishing a fully embedded framework.

Agreed Actions/Management Comments:	
This should be happening within the Directorates already. Many of the recommendations have been considered already and improvements to be made further to the current process. Some of the proposed changes are dependent on current Single Settlement discussions. These will be finalized in Autumn 2023 and therefore take WMCA time to amend processes and embed by March 2024	
Responsible Officer: Kate Taylor – Head of Finance Business Planning Joti Sharma – Head of Programme Assurance & Appraisal	**Target Date:** **March 2024**

Action is advised to enhance risk control or operational efficiency **Green**
5.   The Risk Management Process

Findings:
Although the WMCA strategic risk register covers the organisation's strategic objectives, including external funding applications, dedicated formal operational risk registers specifically relating to individual external funding activities were not always available during the review process. Individual risk assessments were not readily available for each funding application or funding activity prior to the SAF process which comes after the external funding application has been successful. However, this is mitigated by evidence of adequate risk considerations built into the process. For example, an External Funding Bid Check List (BCL) is required to be completed and certified prior to sending off each formal external funding application. The BCL contains 13 key questions which impacts on risks and the feasibility of each project. As a key control, the BCL is required to be certified by the sponsoring Director as well as final sign off by the Sec 151 Officer prior to submitting the application to the funding body. However, the process would be enhanced by formalising a separate formal risk assessment at an earlier part of the process.

Implications:
An early implementation of risk assessment for each project will facilitate a more incisive and better-informed process regarding the feasibility or impact of a project, thus informing the degree of resources that could or should reasonably be applied to deliver the project. This may contribute towards a more effective decision making.

Recommendations:
It is recommended that senior management considers the introduction of a formal risk assessment process as part of the preparation stage for each bid, to minimise the possibility of uncertainties and adverse outcomes, and to enable resources to be more effectively deployed. Problems identified later in the process may be too late to be addressed efficiently.

Agreed Actions/Management Comments:

Some of the recommendations highlighted above have already been identified and discussed across Finance & Business Hub. Due to future single settlement arrangements, the external funding process is likely to reduce, with the government indicating fewer isolated funding applications are going to be needed (more funding confirmed over a longer period). One option that has been considered is to enhance either the Funding Initiation Document process or develop a draft SAF business case at the point of application submission. This would incorporate better risk consideration information.

Responsible Officer:	**Target Date:**
	March 2024
Linda Horne – Executive Director Finance & Business Hub	

6. Process for Early Identification of External Funding Opportunities

Findings:
A pro-active formal procedure for identifying and sourcing external funding opportunities is not part of the process. The existing process effectively determines what happens after an opportunity has been brought to the attention of the "Application Author" or "Bid Developer". Management may wish to consider whether a pro-active process for seeking and identifying external funding opportunities before they become generally available in the public domain would add value to the process. The flow chart makes references to the "Application Author/Developer". It is unclear who that refers to, or what their full responsibilities are. The process could be enhanced by some explanatory notes and guidance.

Implications:
A standardised process for sourcing external funding opportunities before they become generally available in the public domain would provide greater opportunities for the WMCA and enhance the possibilities of delivering on WMCA aims and objectives.

A lack of clear process to pro-actively source external funding opportunities may result in failure to maximise available potential funding which could facilitate and enhance WMCA aims and objectives

Recommendations:
It is recommended that management considers the possibilities of creating a structured process to pro-actively source external funding opportunities before they became available in the public domain. The process can also be enhanced by developing some explanatory or guidance notes to accompany the Bid Flow Chart, to provide relevant guidance for users. It could also explain the role of the Application Author/Developer and where it sits within the organization.

Agreed Actions/Management Comments:

This is being considered by Executive Board, that a draft business case is developed as part of funding application process. Some of this may also change due to Single Settlement discussions. WMCA will need to demonstrate closer alignment between strategic aims, funding application, approach to project delivery and project outcome reporting.

Responsible Officer: **Kate Taylor – Head of Finance Business Planning** **Joti Sharma – Head of Programme Assurance & Appraisal**	**Target Date:** **March 2024**

7. Role of Procurement Within the External Funding Application Process.

Findings:
The framework facilitates appropriate involvement in the process of enabling services at various stages of the bid progress. However, there is insufficient visibility of involvement by the Procurement Team. Given the professional expertise which sits within a professional procurement team, more visible involvement of Procurement would add value to the bid application process.

Implications:

Insufficient involvement by Procurement could deprive the organisation of valuable expertise which could add greater value to the process.

The absence of visible support from Procurement suggests that the potential within the organisation is not fully utilised in delivering on WMCA aims and objectives. This could have negative impact on overall deliverables in meeting WMCA aims and objectives.

Recommendations:
The process would benefit from greater visibility of the Procurement team. Going forward, it is recommended that the relevant sections of the application registers required to be completed by the Procurement team, should be completed to show who the relevant Procurement lead is for each project, in order to facilitate appropriate support to the external funding application process.

Agreed Actions/Management Comments:

The funding checklist was reissued on Nov 21 and asks the director to confirm that Procurement has been consulted. The responsibility for engaging with relevant Enabling Service departments sits with the Directorates.

Responsible Officer:	Target Date:
Linda Horne – Executive Director Finance & Business Hub	**March 2024**

8. Ownership of the External Funding Framework.

Findings:
Interviews with officers suggests that there is still room for better communication. Internal Audit was informed during the review that sometimes information is received too late to be impactful, and errors may not be appropriately addressed, or quality checks may not be undertaken if time is limited. It is the view of some users therefore, that sometimes insufficient time is allocated for bid preparation.

However, this is not always down to the organisation, as opportunities may become available at short notice, with a tight deadline for external funding application submission. Nevertheless, it could have potentially negative impact on the success of funding applications, or the delivery of a project; or indeed indirectly, on the effectiveness of delivering on the WMCA's strategic objectives. It is felt that this may partly be due to lack of clarity on ownership of the process (which was addressed above). There is some ambiguity regarding which aspects of the process sits with operational departments, or enabling services, or who should own the overall process. This is further evidenced by the fact that responsibility for who to deal with as lead officer during this review was not always clear and there are several cases where lead responsibility changed during a project, where the change may have impacted on the speed or efficiency of funding applications. This is an area which would benefit from further consideration and clarification by senior management.

Implications:
Lack of clarity regarding ownership of the external funding process could lead to confusion and delays in progressing bids and potential loss of funding.

Recommendations:
There is a need to transparently identify who owns each part of the process and the accountable Director who should assume overall responsibility for the process. Consequently, the Executive Board should facilitate guidance or clarity in this respect.

Agreed Actions/Management Comments:

Some of the recommendations highlighted above have already been identified and discussed across Finance & Business Hub. Due to future single settlement arrangements, the external funding process is likely to reduce with government indicating fewer isolated funding applications are going to be needed (more funding confirmed over a longer period). Once option that has been considered is to enhance either the Funding Initiation Document process or develop a draft SAF business case at the point of application submission. This would incorporate better risk consideration information.

Responsible Officer: **Linda Horne – Executive Director Finance & Business Hub**	**Target Date:** **March 2024**

Limitations inherent to the internal auditor's work

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Internal control
- Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Responsibilities of management and auditors
- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.

Stage	Date
Draft issued	29-06-23
Exit meeting	24-07-23
Final issued	25-08-23
ARAC meeting date	04-10-23