



West Midlands Combined Authority

External Assurance Follow Up - TfWM

Final Internal Audit Report 2024/25

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1. EXECUTIVE SUMMARY

INTRODUCTION

This report sets out the summarised findings of the follow up review into Governance and Capital Projects at Transport for West Midlands (TfWM), requested by statutory officers. The review was intended to follow up on the implementation of recommendations made within previous assurance reviews completed by independent external agencies. Of the three previous external assurance reviews, two were commissioned by WMCA and are the focus of this follow up audit. Although each of the reviews had their own separate terms of reference and objectives, in general the emphasis was on organisation and financial management, governance, and the management of business risks.

This Internal Audit Report follows on from two separate interim reports on the progress and implementation of actions issued in February 2024 and April 2024, respectively. The full findings and recommendations arising from each interim review will not be re-presented as part of this report, however have been considered within the follow up work undertaken and the outcomes provided below.

Background

The first review focused on within this report was a peer review carried out by the Head of Legal Services at Tyne and Wear PTE t/a Nexus, entitled 'A Review of Corporate Governance Arrangements for West Midlands Combined Authority'. The review was completed on 29 March 2022. The review focussed on the relationship between the WMCA and Midlands Metro Limited (MML) following an incident which involved the temporary cessation of Metro service, because of safety considerations involving the structure of the trams. The key objective of this review was *'To review the roles and responsibilities of each of the parties WMCA, MML and MMA under the Public Service Contract and the Programme Alliance Agreement and how those roles and responsibilities have been undertaken in relation to the day-to-day operation and maintenance of the Metro system and the procurement of new infrastructure'*. The Nexus report identified 7 key recommendations with no specific timeframe for implementation, but it was implicit that the actions carried significant urgency.

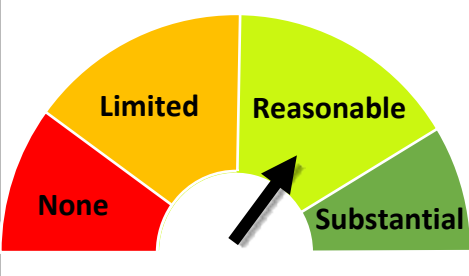
The second review was undertaken by Mazars, entitled 'Independent Investigation into Cost Controls, Financial Management and Programme Management Controls in Place at the Wolverhampton Exchange Programme. The review was completed in April 2023. This review was specifically commissioned to address financial overruns on a capital project required to facilitate the Wolverhampton interchange programme which involves multiple interfaces and dependencies with other projects including the delivery of a remodelled Wolverhampton rail station and regeneration of public realm improvements being delivered in conjunction with the City of Wolverhampton Council. The key objective of this review was *'To review the programme management and financial management control measures in place for the Wolverhampton City Centre Extension project to determine how the value of works have exceeded the project budget in advance of the appropriate governance arrangements being complied with'*. The report identified the three key themes, which broadly falls within the categories of financial management, risk management and corporate governance. A total of 15 recommendations were made, with no specific timeframe for implementation.

AUDIT OBJECTIVE AND SCOPE

The objective of this audit was to provide assurance over the implementation of actions arising from the Nexus and Mazars external assurance reports, including evidence of the impact of delivery improvements where possible.

Scope Limitations

The reports focused on during this review have previously been considered by WMCA and TfWM Senior Management and the Audit, Risk and Assurance Committee (ARAC). Hence this review does not seek to reopen the issues surrounding the matters covered in the two reports. Rather it sought to assess the progress made in the implementation of the agreed recommendations and their resultant impact or effectiveness on service delivery, governance, risk management and financial management.

ASSURANCE OPINION			
<p>Reasonable Assurance</p> <p>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.</p>	REASONABLE ASSURANCE		
BASIS OF AUDIT OPINION	RECOMMENDATIONS		
<p>Audits are generally based on the scoring mechanism outlined in section 2 of this report. However, as this review is a follow up of previously recommended actions the scoring mechanism does not apply. Professional judgement has instead been applied in providing an opinion on the overall assurance in the implementation of governance, risk management and control processes arising from the original recommendations.</p>	Total	Implemented/ Superseded	Partially Implemented
	22	12	10
SUMMARY CONCLUSION			
<p>Overall, we have concluded that considerable progress has been made in the implementation of actions to satisfy the recommendations made within both the Nexus and Mazars assurance reports. Whilst the February 2024 interim report noted slow progress, significant steps forward have been taken during the last eight months with subsequent improvements in the overall governance, risk management and control environment noted. This is largely due to the appointment of a new delivery directorate and TPO, which has contributed towards a dedicated resource and a more focused approach aimed at dealing with the issues presented within both reports. In total the majority of actions (55%) have been fully implemented across all recommendations made, with the remaining 45% (10) actions partially implemented. This is a substantial improvement in comparison to February 2024, where 43% of Nexus and 100% of Mazars recommendations were outstanding.</p> <p>It must however be noted that some of the recommended actions subsequently taken, either occurred late into this review or are yet to be fully embedded. Therefore, whilst assurance can be provided that actions have been taken and implemented it has not been possible in many cases to provide considerable assurance regarding their impact.</p> <p>For the majority of recommendations where actions are partially implemented, work is ongoing and is being overseen by the delivery directorate. Recommendations have been made within this report to facilitate the ongoing monitoring of action implementation and to recommend improvements where required.</p> <p>Appendix 1 (Nexus) and Appendix 2 (Mazars) of this report provide a consolidated chart of recommendations from the two reports, including the actions agreed to date and a RAG rating signifying Internal Audits opinion on the implementation of actions. Recommendations rated Green have been adjudged to have been fully implemented and as such closed, with Amber and Red indicating the risk assigned to those recommendations in which actions are currently ongoing. General recommendations arising from this review have been provided below.</p>			
AREAS OF POSITIVE ASSURANCE			
<p>For a total of 11 out of the combined 22 recommendations made across both reports, actions have been considered to have been implemented satisfactorily (one recommendation has been superseded and is no longer relevant). In these instances, the review has determined that the implemented actions have improved the weaknesses identified within the governance, risk management or internal control environment. As per the executive summary, it should be noted that for some areas actions have only recently been implemented and as such whilst we have provided assurance over the progress made the full impact of change cannot be determined at this point.</p> <p>Summary detail of the implemented actions can be found within the detailed findings tables within Appendix 1 (Nexus) and Appendix 2 (Mazars).</p>			

GENERAL RECOMMENDATIONS

1. Both the Nexus and Mazars reports focused heavily on the financial management, risk management and corporate governance within the Metro programme and specifically the relationship of those key areas within MMA and TfWM/WMCA. However, the majority of actions implemented have a wider significance of attempting to create effective change across the TfWM portfolio. To provide assurance over the impact of this change a targeted review of a sample of high risk/concerning projects is recommended to be undertaken within the ensuing 12 months, including both Metro and the wider portfolio. The scope of this review would include estimation, financial management, risk management and corporate governance across the projects to ensure that the impact of actions resulting from the implementation of the wider change work has been effective.
2. It is recommended that progress of the actions detailed within this audit are maintained as a standard agenda item on TfWM SLT meetings, to ensure that the relevant issues are given the appropriate level of managerial scrutiny and direction.

Management Comments

1. Agree and happy to support this. I would like to recommend Rail Package 2 for the next review. It would then be interesting to compare this to a project we have had early site of in the Delivery Directorate to reflect on the positive changes we have made in the last 18 months. Suggest Dudley Interchange would be a good one to start with. Additionally, to avoid any unnecessary duplication that and further audits are considered in line with the Mayors Transport Review and the asks from that report.
2. We will add audit update to Delivery Group agenda's from January 2025.

2. ASSURANCE OPINION CLASSIFICATION & DEFINITIONS

Assurance Rating	Classification Terminology	Definition
No Assurance	<ul style="list-style-type: none"> • > 5 High risk recommendations; and/or • Repeated breach of laws/regulations • Significant risk to the achievement of organisational objectives/ outcomes • Fundamental controls over key risks are not in place, are designed ineffectively or are routinely circumvented. 	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.
Limited Assurance	<ul style="list-style-type: none"> • ≥ 2 High risk recommendations; or • > 6 Medium risk recommendations • 10+ Low risk recommendations 	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.
Reasonable Assurance	<ul style="list-style-type: none"> • ≤ 1 High risk recommendations; or • ≤ 6 Medium risk recommendations • ≤ 8 Low risk recommendations 	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.
Substantial Assurance	<ul style="list-style-type: none"> • No High level recommendations; and • ≤ 2 Medium risk recommendations • ≤ 6 Low risk recommendations 	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.

Note: Professional judgement can override the provisional opinion rating that is arrived at using the scoring guidance above. This judgement must be based on evidence obtained during the audit and be sufficient for the Head of Internal Audit and Information Governance to determine that the provisional rating is not an accurate reflection of the controls and arrangements that are present. Where professional judgement is applied, the rationale for deviation from the guidance must be provided.

Disclaimer

The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a complete statement of all the weaknesses that exist or all the improvements that might be made. This report (including any enclosures and attachments) has been prepared for the exclusive use for the addressee(s) and solely for the purpose for which it is provided. This report should not be reproduced, distributed or communicated to any third party in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. WMCA neither owes nor accepts any liability if this report is used for an alternative purpose from which it is intended, nor to any third party in respect of this report.