



West Midlands
Combined Authority

Audit, Risk & Assurance Committee

Date	26 October 2020
Report title	Internal Audit Update – October 2020
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Report has been considered by	Strategic Leadership Team

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Note the contents of the latest Internal Audit Update Report.

1.0 Purpose

- 1.1 The purpose of this report is to present the Committee with an update on the work completed by internal audit so far, this financial year.

2.0 Background

- 2.1 In accordance with the agreed work programme for internal audit, the reports provide an independent and objective opinion on the Combined Authority's effectiveness in managing their risk management, governance and control environment.
- 2.2 The reports will also feed into the Annual Internal Audit Report that will be prepared at the end of the financial year. The Annual Report will provide an overall audit opinion on the adequacy and effectiveness of the governance, risk management and internal control processes, based upon the outcome of the reviews completed during the year. This opinion can then be used to feed into the Combined Authority's Annual Governance Statement that accompanies the Annual Statement of Accounts.

3.0 Wider WMCA Implications

- 3.1 There are no implications

4.0 Financial implications

- 4.1 There are no implications

5.0 Legal implications

- 5.1 There are no implications

6.0 Equalities implications

- 6.1 There are no implications

7.0 Other implications

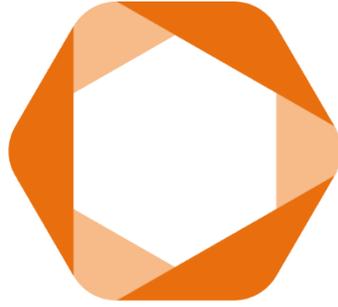
- 7.1 Not applicable

8.0 Schedule of background papers

- 8.1 None

9.0 Appendices

- 9.1 None



West Midlands Combined Authority

Internal Audit Update Report – October 2020
2020-2021

1 *Introduction*

The purpose of this report is to bring the Audit and Risk Assurance Committee up to date with the progress made against the delivery of the 2020 - 2021 internal audit plan.

The Audit, Risk and Assurance Committee has a responsibility to review the effectiveness of the system of internal controls and to monitor arrangements in place relating to corporate governance and risk management arrangements. Internal audit is an assurance function which provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance. This work update provides the committee with information on recent audit work that has been carried out to assist them in discharging their responsibility by giving the necessary assurances on the system of internal control.

The information included in this progress report will feed into and inform our overall opinion in our internal audit annual report issued at the year end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

2 Summary of progress:

The following internal audit reviews are currently underway.

Auditable area	AAN Rating	Quarter (month)	ARAC Meeting (indicative)
2019-2020 Internal Audit Reviews in progress			
Single Commissioning Framework	High	Final issued – Substantial	October 2020
Third Generation Trams Procurement Project Management	High	Final issued – Satisfactory (appended)	October 2020
2020-2021 Internal Audit Reviews completed			
Sprint Programme Management Arrangements	High	Final report issued - Substantial	October 2020
2020-2021 Internal Audit Reviews in progress			
Procurement (COVID-19 response)	High	Fieldwork commenced	January 2021
Employee Management (COVID-19 response)	High	Planning commenced	January 2021
Key Financial Systems Audits	High	Fieldwork commenced	January 2021
Commonwealth Games Strategic Transport Plan*	High	Planning commenced	January 2021
Environmental Management System	High	Planning commenced	January 2021

**The Commonwealth Games Organising Committee is due to commence its own planned internal audit of the Integrated Transport Plan in liaison with Transport for West Midlands in November 2020. As there may be commonality within the audit scopes of both the Organising Committee and the WMCA, it has been agreed that the Organising Committee's Internal Auditors and the WMCA's Internal Auditors will look to undertake a joint working approach. However, reporting will be undertaken independently to each organisation's respective audit committee.*

Summary of individual audits

The following reviews were categorised as either Satisfactory or Substantial Assurance. A summary of our observations has been included, or the full report appended where appropriate.

Single Commissioning Framework

The WMCA Board approved the Framework in March 2019 to provide a single set of criteria and governance systems for the determination of funding applications made by various public and private sector organisations within the West Midlands Region for available devolved WMCA Housing, Land and Property Development funds.

The Framework is managed by the WMCA's Housing and Regeneration Directorate. This review focused on the fund administration processes (processing grant applications and identifying loan opportunities) undertaken by WMDC Ltd as commissioned fund manager for specific funds that fall within the Framework. We are pleased to report that no major issues were identified regarding the administration processes or the associated governance, assurance and approval arrangements operated by the WMCA.

Sprint Programme Management Arrangements

Sprint is a Bus Rapid Transit (BRT) service that is expected to deliver predictable journey times and high frequency, dependable timetables. The WMCA Sprint Programme (the Programme) consists of two phases: Phase One - Pre-Commonwealth Games Delivery and Phase Two - Post Commonwealth Games Delivery. Our review focused on current and proposed Programme management arrangements and alignment of the current Phase One projects (A34 and A45) with programme level arrangements.

We are pleased to report that we found no major issues but identified several areas of good practice on review of the core programme management and governance arrangements currently operated as well as proposed developments, prior to progression to full delivery.

3 Forward plan for 2020-2021 scheduled audits

Auditable area	AAN Rating	Quarter	ARAC Meeting (indicative)
Friar Park Project Management Arrangements*	High	3	January 2021
Digital Retraining Fund	High	3	April 2021
Local Industrial and Economic Strategy	High	3	April 2021
Bid Management	High	4	April 2021
Investment Programme Monitoring and Evaluation Arrangements	High	4	April 2021
Risk Management	High	4	June 2021
Adult Education Budget	High	tbc	tbc

* The Director of Housing and Regeneration has advised that this project has now ended and another current project will be proposed for audit. At the time of reporting, Internal Audit were liaising with the Director to determine an alternative project and schedule commencement of the audit.

4 Follow-up of previous recommendations

We continue to monitor the implementation of previous key recommendations, and any major issues of concern relating to their non-implementation, will be reported back to the Audit, Risk and Assurance Committee. The following follow up reviews are scheduled:

• Devolution Deal Objectives and Financial Assumptions, including Business Planning
• WMCA Governance Arrangements
• Midland Metro Limited Operational Transfer
• Budget Management Role and Responsibilities
• Employee Performance Management
• Employee Support Pilot (Productivity and Skills)
• Homelessness Taskforce
• Construction Retraining Fund

- West Midlands Rail Limited - WMCA Governance and Management Arrangements
- WMCA Accessible Transport Services (Accessible Transport Group Contract Services Ltd and Ring and Ride Ltd)



West Midlands Combined Authority

Final Internal Audit Report: WMCA Third Generation Tram Procurement Project

Report Date: 16 October 2020

Report Distribution: Laura Shoaf – Manager Director TfWM
Michael Anderson – WMM Projects Director
Nafees Arif – Metro Finance and Commercial Director
Judith Watt – Metro Project Manager
Rachael Morgan - Procurement Manager

1. Executive summary

Introduction

An audit of the project management arrangements for the West Midlands Combined Authority's (WMCA) Third Generation (3G) Tram Procurement Project (Project) has been undertaken.

The Project is the next stage in the continued expansion of the Metro Network. Currently the tram system runs from Wolverhampton St George's to Grand Central, Birmingham. New proposed routes will provide connectivity from Birmingham City Centre to the surrounding areas, in order to provide them with a reliable form of public transport.

The scope of the Project is the delivery of 21 new Trams with a total project budget of £62.5m ahead of the planned Edgbaston and Wednesbury Brierley Hill extensions to the Metro Network and to provide a continued service across the whole network. The duration of the Project from the signing of the contracts in October 2019 to final acceptance of all the Trams is scheduled for September 2024.

At the time of the audit review, supplier selection and appointment had been completed and the project was in the design review phase. The project subsequently moved into the manufacturing stage.

Scope and objectives of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following objectives, and the potential risks to the achievement of those objectives:

- To seek assurance that robust governance, project management, risk management and control systems have been established and are operating effectively for the Third Generation Tram Procurement Project.

Scope	Potential risks
<p>The scope of the review included the following areas:</p> <ul style="list-style-type: none"> • Project Governance (including integration with Transport for West Midlands (TfWM) and wider WMCA governance arrangements). • Project management controls. • Compliance with Financial and Contract Procedure Rules. • Benefits Management. • Risk Management. • Stakeholder Management. • Financial monitoring and reporting. 	<ul style="list-style-type: none"> • Failure to comply with the WMCA's Financial and Contract Procedures Rules. • Project fails to realise outcomes / benefits of strategic relevance according to agreed measures of success. • Project fails to be completed to the required standards, on time, within budget and in accordance with stakeholders' expectations. • Inadequately defined or ineffective project management and governance arrangements may result in poor management of deliverables, inefficient working and poor communications.

Limitations to the scope of our audit

The audit was limited to review of the above areas.

Overall conclusion

Taking account of the issues identified in this report, in our opinion the controls operating within the system, provide **satisfactory assurance** as part of the process to mitigate risks to an acceptable level.

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

Key issues identified

We have identified two **amber** issues where improvements could be made arising from the following:

- The Project may not have been fully subjected to appropriate WMCA project assurance arrangements albeit the Project did submit the required assurance documentation to the WMCA Programme Management Office that was in existence at that time.
- Change control processes had not been clearly defined and documented which could be practically applied for this Project as included reference to Midland Metro Alliance processes which were not applicable.

In addition, we have raised **three** issues classified as **green** which are detailed in section two of this report.

A copy of this report will be presented to the Audit, Risk and Assurance Committee.

Examples of good practice identified

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

Planning and preparation

- Clear objectives and measurables had been set out in the Project Execution Plan (PEP) and the Tram Supply Contract.
- Deliverables, costs and timescales had been set out in the Tram Supply Contract.
- A detailed Baseline Programme Plan was set out in the Tram Supply Contract and monitored / updated during the project.
- Programme definitions had been set out in the Tram Supply Contract.
- Risk, quality, communication and reporting plans had been set out in the PEP.

Project governance

- Project Governance arrangements had been outlined in the PEP and established for the project which included a Project Team, WMCA Project Review Group, Supplier Review Group and Stakeholder Group.

- Project governance had taken place through regular monthly reporting to the WMCA Project Review Group and the Metro Programme Board.
- Stakeholder, Project Review Group and Metro Programme Board meetings were held on a bi-monthly / monthly basis with agendas set, attendance recorded, and decision items captured within meeting minutes.
- Project roles and responsibilities were clearly set out and defined in the PEP.
- Roles of third parties were clearly set out and defined in the PEP.

Project management and control systems arrangements

Suitable project management arrangements had been established including:

- A dedicated Metro Project Manager had been assigned to the project.
- A comprehensive Tram Supply Contract covering WMCA requirements had been signed by the contractor for the delivery of the trams.
- A Corporate Project Brief and Implementation Agreement had been produced for the project.
- A PEP had been established in October 2019 and included key controls and good practice requirements including, governance, risk, project programme planning, design, stakeholder and handover management.
- A regular and detailed dashboard was prepared by project participants providing an overview of the project and capturing key areas and performance which was reviewed at the project review group before being presented at the Metro Programme Board.

Compliance with financial and Contract Procedure Rules

- An approved procurement strategy was in place for the procurement of the trams.
- The Tram procurement exercise was undertaken by WMCA Procurement followed by appropriate contract award approval.

Risk management arrangements

- Suitable risk management arrangements at project level were found to be in place and set out in the PEP.
- A suitable best practice risk management system (ARM) was utilised for the Project detailing risks, actions, owners and key actions and resolution dates as well as alert and reporting mechanisms to facilitate effective monitoring of risk and mitigating actions.
- The Project risk register was maintained by the Metro Project Manager and was subject to regular review.
- Top risks were routinely presented in the dashboard report on a regular basis and presented to the Project Review meeting and Metro Programme Board.

Stakeholder engagement and communications

- End user communications had taken place with award of the contract details being released by the WMCA Media Office.
- Stakeholder engagement had taken place through bi-monthly meetings with the Operator and the Project Sponsors.

Key Deliverables

- Service and performance arrangements were included in the PEP and the Tram Supply Contract.
- Project skills requirements had been addressed including the engagement of Rolling Stock Engineer consultants to provide their expertise on the project.
- Data and management information arrangements were set out in the PEP. This included the use of project control software to manage design documentation.

Implementation, Controls and Quality

- Detailed Implementation Plans and sign off processes were included in the PEP.
- Logging methods for issues, actions, decisions and assumptions were in place.
- Regular financial monitoring was undertaken by the Metro Project Manager and dedicated Project Accountant with reporting undertaken in the monthly dashboard presented to project review meetings before being presented to Metro Programme Board.

Programme Closure

- Product handover and user acceptance arrangements had been included in the Tram Supply Contract and a Handover Protocol Agreement included in the PEP.
- Post Project Review arrangements had been set out in the PEP.

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. Issues arising

Priority rating for issues identified:

Red

Action is imperative to ensure that the objectives for the area under review are met

Amber

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

Green

Action is advised to enhance risk control or operational efficiency

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

Amber

No	Issue arising	Recommendations	Agreed action including responsibility and target date
2.1	<p>Project assurance arrangements We note that the Project followed the TfWM Gateway Lifecycle Assurance process but that as the WMCA Programme Management Office is no longer in existence due to a restructure, such assurance processes cannot be fully and practically applied to the Project going forward. However, the Project had previously complied with the assurance process by submitting the required documentation for appraisal / assurance review.</p> <p>At the time of reporting the Strategic Hub was due to commence implementation of the new Single Assurance Framework firstly for Investment Programme projects and then non-Investment Programme projects in due course. However, in the interim, programme and projects will still</p>	Action should be taken to ensure appropriate and proportionate interim assurance arrangements are applied to the project.	<p>Agreed</p> <p>Responsibility: Judith Watt – Metro Project Manager</p> <p>Target date: 30 November 2020</p>

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

No	Issue arising	Recommendations	Agreed action including responsibility and target date
	<p>require a level of assurance both as part of organisational assurance arrangements as well as part of best practice project management. Liaison with the Strategic Hub in addressing this issue may help facilitate development of appropriate and proportionate arrangements.</p> <p>Implication: Individual major capital projects may not be fully subjected to assurance arrangements leading to a lack of assurance regarding deliverability.</p>		
2.2	<p>Change control processes A review of change control processes with the Metro Project Manager established that the project would be subject to the WMCA PMO's Change Management Process. However, this process is no longer in operation following the WMCA restructure.</p> <p>We also note that the change processes included in the PEP incorrectly referred to Midland Metro Alliance (MMA) processes.</p> <p>Implication:</p>	<p>(i) Change control processes should be clearly defined and approved by the Project and Metro Programme Board.</p> <p>(ii) The PEP should be updated with the defined project change control processes.</p>	<p>(i) Agreed</p> <p>Responsibility: Judith Watt – Metro Project Manager</p> <p>Target date: 30 November 2020</p> <p>(ii) Agreed</p> <p>Responsibility: Judith Watt – Metro Project Manager</p> <p>Target Date: 30 November 2020</p>

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

No	Issue arising	Recommendations	Agreed action including responsibility and target date
	Individual projects may not be subject to approved and robust change control processes leading to potential overspends or non-delivery of project outcomes.		

Action is advised to enhance risk control or operational efficiency
Green

No	Issue arising	Recommendations	Agreed action including responsibility and target date
2.3	<p>Project dependence log Whilst the Metro Project Manager advised dependencies would be referred to in the interface section on the monthly dashboard report, we found that a dependencies log was yet to be established for the Project.</p> <p>Implication: Dependencies may not be centrally recorded within project management records to help facilitate review and remedial action.</p>	A dependencies log should be maintained to ensure key dependencies are centrally recorded to more easily facilitate review and identification of any remedial action where required.	<p>Agreed</p> <p>Responsibility: Judith Watt – Metro Project Manager</p> <p>Target date: 30 November 2020</p>

Action is advised to enhance risk control or operational efficiency

Green

No	Issue arising	Recommendations	Agreed action including responsibility and target date
2.4	<p>Communications strategy A review with the Metro Project Manager established that no formal communications strategy had been established and the current arrangements were for the Project Manager to liaise with WMCA Media Office and MML PR team as and when required.</p> <p>Implication: End user communication, publicity and promotion of the Project may not be effectively managed.</p>	A formal communications strategy should be developed and formally approved.	<p>Agreed</p> <p>Responsibility: Judith Watt – Metro Project Manager Target date: 31 December 2020</p>
2.5	<p>Project execution plan The PEP was last updated by the Metro Project Manager in January 2020. However, we note that the PEP had not been subsequently been updated with key milestones to reflect the latest status of the project.</p> <p>Implication: The effectiveness of the PEP is not maintained as a key control in the absence of regular updates to reflect the project status.</p>	The PEP should be updated to reflect the current status of the project. Further periodic updates should be undertaken when major changes occur and when key milestones are achieved.	<p>Agreed</p> <p>Responsibility: Judith Watt – Metro Project Manager Target date: 30 November 2020</p>

Limitations inherent to the internal auditor's work

This report has been prepared solely for the Combined Authority in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

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	19 August 2020
Exit meeting / Full response received	10 September 2020
Final draft issued	10 September 2020
Revised final draft issued	29 September 2020
Final issued	16 October 2020
ARAC meeting date	26 October 2020