



**WEST MIDLANDS**  
COMBINED AUTHORITY

BIRMINGHAM • COVENTRY • DUDLEY • SANDWELL • SOLIHULL • WALSALL • WOLVERHAMPTON

**Internal Audit Report**  
**Transport for West Midlands Capital Programme**  
**Prioritisation 2017/18**  
**14 August 2017**

# 1. Executive summary

## Introduction

An audit of the Transport for West Midlands Capital Programme was proposed as part of the approved internal audit plan for 2017/18.

The Transport for West Midlands Capital Programme consists of projects and asset maintenance programmes funded by Integrated Transport Block grant and aims to ensure funding is spent in accordance with strategic objectives as reflected in the Strategic Economic Plan and the West Midlands Strategic Transport Plan (Movement for Growth).

For 2017/18, £4,382,000 of Integrated Transport Block funding had been allocated to the West Midlands Combined Authority for minor works compared to £10,432,000 that was allocated in 2013/14.

As the 2017/18 allocation is expected to fund continuation of 2016/17 schemes relating to asset maintenance, it is understood that there will be limited resource for development of new projects in 2017/18 and that 2017/18 will be used as a transitional year to complete existing schemes and going forward focus on development of new projects.

The West Midlands Combined Authority recognises the necessity for prioritisation of potential projects in the context of constrained resources and strategic objectives and has developed a prioritisation model for scoring and ranking projects to address these issues.

## 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 provide an audit assurance opinion on the adequacy and effectiveness of the appraisal and prioritisation of projects within the Transport for West Midlands Capital Programme (non-asset management).

Scope	Potential risks
<p>The scope of this audit included high level review of the following areas:</p> <ul style="list-style-type: none"><li>• Appraisal and prioritisation of capital projects to assist in allocation of resource to individual projects, decision making and formal approval of projects into the Capital Programme.</li><li>• Use of key factors and weightings within the prioritisation process such as strategic fit, value for money, affordability, resources, and deliverability.</li><li>• Use of prioritisation within project pipeline development and management.</li></ul>	<ul style="list-style-type: none"><li>• The prioritisation process may not ensure that allocation of scarce capital resources to individual schemes is suitably aligned to strategic objectives and priorities.</li><li>• The Capital Programme may not be developed or decisions may not be undertaken on an equitable, transparent and consistent basis in an environment where resources for competing projects are constrained.</li></ul>

## Limitations to the scope of our audit

This audit was limited to coverage of the above scope in relation to Transport for West Midlands capital projects eligible for funding from the Integrated Transport Block monies allocated to the Combined Authority only.

It should be noted that although the tool was used as part of the development of the 2017/2018 Integrated Transport Block Capital Programme (Capital Programme), due to resource constraints as detailed above, projects included in the ranking exercise were not put forward for Integrated Transport Block capital funding. However, we understand some projects may have been put forward for other sources of funding (i.e. borrowing) due to issues such as health and safety or impact on / interdependencies with other projects that had already been allocated other funding / were in progress.

Therefore, we have reviewed the prioritisation process in the context of its effectiveness in supporting future funding decisions should sufficient Integrated Transport Block capital resources be available that require prioritisation in its allocation amongst competing projects.

## 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.	<b>A framework of controls is in place, but controls need to be strengthened further.</b>	There is a robust framework of controls which are applied continuously.

## Key issues identified

We have found that the prioritisation and ranking mechanism that had been developed clearly demonstrated a robust basis for supporting allocation of resources amongst competing concepts within constrained resources based on best practice and Department for Transport guidance, and can be adapted to reflect emerging priorities and strategic direction.

However, whilst recognising that development of the 2017/18 Capital Programme involved a one-off call out for Problem / Opportunity Statements for ranking, we have identified two **amber** issues where improvements could be made going forward, arising from the following:

- A pipeline development and management approach to Problem / Opportunity Statements submitted for ranking as well as alignment to the Transport for West Midlands Gated Project Lifecycle Process had not yet been developed, within which the prioritisation process could be used in future.
- Endorsement and full review of Problem / Opportunity Statements was not undertaken prior to submission to the ranking process as part of the one-off exercise in 2016/17 in support of development of the 2017/18 Capital Programme, noting that the relevant Boards may only have been recently established prior to the call-out exercise.

In addition, we have raised one issue classified as **green** which is 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.

- A prioritisation process utilising a ranking tool had been developed for the Integrated Transport Block Capital Programme which could be effectively used to facilitate allocation of scarce capital resources to individual schemes in accordance with strategic objectives.
- Use of the prioritisation process as part of developing the Capital Programme in the future should help support programme development and decision making on an equitable, transparent and consistent yet proportionate basis where resources for competing projects (differing in funding requirements and complexity) are constrained.
- The prioritisation process can facilitate a proportionate assessment of several diverse projects with differing funding requirements, strategic aims, economic and management factors, and levels of complexity.
- The prioritisation process is understood to be based on the Transport Appraisal Guidance developed by the Department for Transport. This Guidance is for transport specific interventions and is based on HM Treasury Green Book Guidance (Appraisal and Evaluation of Policies, Programme and Projects).
- The ranking tool within the prioritisation process included scoring against three cases from the Green Book Five Case Model approach to programme / project appraisal: Strategic, Economic and Management. This is on the basis that these are the most appropriate cases to demonstrate at entry point to the Transport for West Midlands Gated Project Lifecycle Process (with the Financial and Commercial Cases being developed at later stages).
- The Strategic Case within the ranking tool included network resilience and capacity as the two key strategic objectives. These objectives are reflected in the two key strategic documents: West Midlands Combined Authority Strategic Economic Plan and the Movement for Growth – West Midlands Strategic Transport Plan. The Strategic Case could also be easily amended to reflect any changes in future strategic direction.
- Criterion used within the Economic and Management Cases were based on those included in the standard Appraisal Summary Document used by the Department for Transport as detailed in the Transport Appraisal Guidance.
- Weightings were used in the ranking tool: 33% for each of the three cases. These can be altered as required.
- The prioritisation process was used to rank Problem / Opportunity Statements submitted as part of a one-off exercise in 2016/17 to support the development of the 2017/18 Transport Capital Programme and although funding constraints did not allow for allocation of Integrated Transport Block funding to any of these projects, the ranking outcomes were reported as part of the 2017/18 Programme.
- The Principal Transport Planner could clearly and explicitly demonstrate the basis and rationale for the scorings awarded against criterion, for the sample of Statements reviewed.

NOT PROTECTIVELY MARKED

- Governance arrangements within which the prioritisation process should operate had been established consisting of the Transport Strategy Board and the Transport for West Midlands Leadership Board. Terms of reference for these boards clearly evidenced responsibility for projects and the Capital Programme (including the Integrated Transport Block grant element).

## 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	Agreed action including responsibility and target date
2.1	<p><b>Prioritisation within project pipeline development and management</b></p> <p>Although the prioritisation process was used as part of the development of the 2017/18 Transport Capital Programme, this was as part of a one-off call out for Problem / Opportunity Statements that were then ranked. However, a pipeline approach to receipt of Statements had not yet been developed. Consequently, the ranking tool had not yet been utilised on a periodic / reiterative basis through the year for ranking previously received (but unfunded) Statements against subsequently received Statements to ensure rankings remain valid and reflective of current objectives / strategic direction.</p> <p><b>Implication:</b> Projects that present the optimum level of contribution to achievement of strategic objectives may not be identified and / or ranked accordingly.</p>	<p>Agreed. As part of validation of continuing strategic alignment as an idea progresses through to the Project Lifecycle, the prioritisation process will be used as part of quarterly review of all submitted concepts (once endorsed and reviewed at Tier 1 and 2) to determine whether rankings at any point in time remain valid and reflective of current strategic direction and specifically alignment with the Movement for Growth Strategy.</p> <p><b>Responsibility:</b> Sandeep Shingadia – Head of Programme Development</p> <p>Joti Sharma – Corporate Assurance Manager</p> <p><b>Target Date:</b> 31 December 2017</p>
2.2	<p><b>Endorsement and review of Problem / Opportunity Statements</b></p> <p>We understand that the one-off call out exercise in 2016/17 was undertaken at a time when the Boards where endorsement would have been sought, had only recently been established. Consequently, the Statements may not have been endorsed prior to inclusion on that occasion.</p> <p>The Problem / Opportunity Statements specify the requirement for endorsement</p>	<p>Agreed. Confirmation that Problem / Opportunity Statements have been fully completed, appropriately endorsed and reviewed at Tier 1 and Tier 2 (in accordance with the Transport for West Midlands Project Lifecycle Process) will be sought prior to acceptance into the prioritisation process. The mechanism by which confirmation will be sought / provided and then retained as evidence will be established in liaison with the Programme Management Office and Corporate Assurance.</p>

NOT PROTECTIVELY MARKED

No	Issue arising	Agreed action including responsibility and target date
	<p>prior to submission to the Transport for West Midlands Gated Project Lifecycle Process but were found to include reference to previous governance arrangements. We understand that the Statement format is currently under review by the Programme Management Office. However, we note that two ranked projects that were subsequently allocated alternative funding were presented for endorsement.</p> <p>In addition, we understand that due to the volume received as part of the call out and the resultant resource implications / timescales relevant at that time, only Tier 1 reviews were undertaken.</p> <p>Sample review of three Problem / Opportunity Statements also identified that the format and content of the Statements did not easily facilitate clear and explicit alignment with the ranking criterion, although alignment with strategic objectives was included. We also noted that risks had only been clearly detailed in one Statement even though evaluation of one of the ranking criterion is based on the stated risks. In another, the benefits had been reiterated rather than risks in the risk section.</p> <p><b>Implications:</b></p> <ul style="list-style-type: none"> <li>• Problem / Opportunity Statements that have not been endorsed and / or reviewed may be inequitably ranked against endorsed / reviewed Statements.</li> <li>• Statements may not be consistently entered into the prioritisation process at the most appropriate point in the Gated Project Lifecycle Process.</li> </ul>	<p><b>Responsibility:</b> Sandeep Shingadia – Head of Programme Development</p> <p>Joti Sharma – Corporate Assurance Manager</p> <p>Claire Jones – Programme Management Office Manager</p> <p><b>Target Date:</b> 31 December 2017</p>

<b>No</b>	<b>Issue arising</b>	<b>Agreed action including responsibility and target date</b>
2.3	<p><b>Communication of ranking criteria</b> We found that the categorisation / scoring against each criterion within the ranking tool were clearly and fully demonstrated through explanations provided by the Principal Transport Planner. However, we understand that when the one-off call out for Statements was undertaken, the criterion used within the ranking tool were not communicated to project sponsors for their consideration when completing the Statements.</p> <p><b>Implication:</b> Consideration may not be given to demonstrating how key objectives and criteria may be met within the Problem / Opportunity Statements.</p>	<p>Agreed. Key objectives and criterion used within the ranking tool will be developed as guidance for project sponsors to consider when completing Problem / Opportunity Statements and will be communicated to officers.</p> <p><b>Responsibility:</b> Sandeep Shingadia – Head of Head of Programme Development</p> <p><b>Target date:</b> 31 December 2017</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.

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- 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 seen as 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.

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