



West Midlands Combined Authority

Final Internal Audit Report: WM2041 Delivery Programme (Environmental Recovery) 2022-2023

Report Date: 19 October 2022

Report Distribution: Jacqueline Homan – Head of Environment
Richard Rees - Environment Programme Manager

1. Executive summary

Introduction

An audit of the WM2041 Delivery Programme was undertaken as part of the approved internal audit plan.

The WMCA approved the “WM2041: A Programme for Implementing an Environmental Recovery” approach in June 2020 to make a commitment to producing four five-year delivery plans in conjunction with stakeholders with interim carbon budgets and other metrics in supporting of delivering the net zero carbon target for the West Midlands by 2041.

The WM2041 principles as part of delivering the above are:

- We will change our economy without leaving anyone behind
- We will invest in the resilience of our places
- We will use our industrial past to create a new future
- We will create places and connections that help us to meet the climate challenge
- We will decouple prosperity from the consumption of energy and resources

The Five-Year Plans aim to provide guidance on the types of measures required for implementation to reach net zero by 2041, including understanding key areas for investment in programmes of delivery and developing a policy to support the 2041 target. The first Five Year Plan covering the period 2021 to 2026 had been established and informed the current programme of delivery in the achievement of the WM2041 net zero commitment, stating goals and objectives and key areas of action required.

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:	To seek assurance appropriate governance, monitoring and reporting arrangements have been established in support of the delivery of the WM2041 Delivery Programme, including carbon reduction.
Potential Risks:	<ul style="list-style-type: none">• Poor governance, monitoring and reporting arrangements may not provide the required information and assurance to effectively maintain oversight and manage progress with delivery.• Climate change challenges, partnership engagement issues and progress with delivery may not be highlighted on a timely basis within governance, monitoring, and reporting arrangements.
Scope:	The scope of the review included: <ul style="list-style-type: none">• Governance arrangements• Monitoring and reporting arrangements
Limitations to the scope of our audit:	The review was limited to high level coverage of the above areas regarding WMCA led arrangements. Period of coverage was 2021-2022 to date.

Overall conclusion

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 exist, 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 based on the following:

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
--	---	---

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

- A WM2041 / Five Year Plan specific risk register was yet to be established to capture programme delivery risks and issues within one central record for review and reporting purposes.
- Programme delivery reporting within governance arrangements required improvement to include best practice project management / monitoring and evaluation information and more visible links to the goals and objectives within the Five-Year Plan.
- Stakeholder engagement strategy and communications plan were yet to be fully established recognising best practice and recommendations from independent research commissioned by the WMCA regards improvements in focus and objectives. Correlation between various existing communications documentation and the tracker maintained to a clear plan / strategy was not sufficiently demonstrated. Current strategy referred to 2020 and appeared in requirement of updating.

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:

- Suitable governance and oversight arrangements had been established for the WM2041 net zero commitment and delivery of the first Five Year Plan within WMCA governance arrangements supported by engagement with wider stakeholders and partners (both public sector and private sector).
- Governance and oversight as well as direction are provided by the Environment and Energy Board with membership consisting of the Portfolio holder as Chair, Lead Cabinet Members for Climate Change from the constituent Local Authorities and a Member of the WMCA Overview and Scrutiny Committee.
- Engagement with wider stakeholders in support of the above governance and oversight was evident through the operation of the Energy Capital Board reporting to the Environment and Energy Board.
- The Environment Team and Energy Capital Team within the Public Service Reform Directorate reporting to the Director of Public Service Reform support the above governance arrangements through reporting on the delivery programme in respect of the WM2041 net zero commitment and Five-Year Plan.
- Reporting to the Environment and Energy Board was suitably evidenced within meeting records and supporting report packs covering the various initiatives, and projects within the programme delivery plan. Progress updates were routinely provided within reports presented.
- An Environment and Energy Programme update detailing the aims and current status of progress for each key theme was reported to the Board in September 2021.
- An Environment Team and Energy Capital Implementation Plan had been produced in January 2021 clearly detailing High Level Deliverables and associated 21 priority workstreams. Best project monitoring and delivery progress information was included regarding the impacts, outputs, and outcomes as well as next steps and risks for each Deliverable. Milestones within timelines regarding delivery had also been stated.
- An Annual Report had been commissioned to undertake a high-level review of first year (2021-2022) progress with implementation of strategies as part of delivery of the Five-Year Plan as well as outline any potential future updates to the next iteration of the Plan. The aim of the Annual Report is to ensure performance is adequately measured and that sufficient and robust action is taking place to achieve the WM2041 ambitions. The first report was scheduled for March 2022.

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. Risk management

Findings:

Whilst risks had been included in the Environment Team and Energy Capital Implementation Plan (January 2022) for each High-Level Deliverable, a best practice risk register to support the management and delivery of the WM2041 commitment and Five-Year Plan, was yet to be established. In addition, although reporting to the Environment and Energy Board highlighted progress with delivery and initiatives, capturing related issues where they arose within a central record was yet to be established.

Implications:

Structured risk management processes may not be fully embedded within the governance, monitoring, and reporting arrangements leading to a lack of effective reporting and escalation of risks, and mitigating action being taken.

Recommendations:

- i. Risk management should be suitably embedded within the governance, monitoring, and reporting arrangements supporting achievement of the WM2041 commitment and deliver of the Five-Year Plan.
- ii. A dedicated risk register should be established following the WMCA's Strategic Risk Management Framework as applicable at organisational level as well as best practice for the identification, assessment, and treatment of risk.
- iii. Based on suitably defined reporting and escalation thresholds, key risks should be regularly reported on within both management and governance arrangements.
- iv. Risks identified for each High-Level Deliverable and associated workstreams should be captured within the above risk register i.e. top three risks.
- v. Issues should also be captured, monitored, and reported on as part of the above risk management arrangements.

Agreed Actions:

- Produce best practice risk register capturing HLD and associated workstream risks and issues that will be reported on within management and governance arrangements.

Responsible Officer: Richard Rees and Kate Ashworth

Target Date: December 2022

2. Programme delivery reporting

Findings:

We found that programme delivery reporting to the September 2021 meeting of the Environment and Energy Board, required improvement. Whilst this provided high level information about each project / deliverable regarding aim and progress, programme reporting did not as yet include best practice key information regards key achievements, next steps and risks and issues. Reference to the goals and objectives within the Five-Year Plan against each project / deliverable could also have been made more explicit.

We noted that the Environment Team and Energy Capital Implementation Plan established in January 2022 would provide a more informative basis for programme delivery updates as included greater project management, and monitoring and evaluation best practice information regarding impacts, outputs, and outcomes as well as next steps and risks supported by a milestones and delivery timeline. However, clearer links back to the Five-Year Plan aims and objectives as well as any specific actions or recommendations stated was required.

We also found that reporting could also be improved to demonstrate monitoring of investment progress against the levels of investment stated as required within the Five-Year Plan.

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

Implications:

Programme reporting may not provide the required information and assurance to effectively maintain oversight and manage progress with delivery.

Recommendations:

- i. Consideration should be given to establishing in-year programme delivery management information and reporting (in addition to current annual reporting) wherever possible to ensure that this provides effective oversight and supports governance, management, and decision-making arrangements, suitably covering progress made with delivery activity in support of the achievement of the WM2041 commitment and specifically the goals and objectives of the Five-Year Plan.
- ii. As part of the above, monitoring of investment achieved against the levels of investment stated in the Five-Year Plan should be undertaken and reported on.
- iii. Within programme plans and reporting greater reference to the specific goals and objectives included in the Five-Year Plan, should be made to demonstrate a clear link between goals and objectives and each delivery activity i.e. High Level Deliverables.
- iv. The Environment Team and Energy Capital Implementation Plan and the key information included should be used as a suitable basis for the above reporting on delivery within wider governance over and above WMCA SLT.
- v. An action log to support the Five-Year Plan should be established to capture actions and recommendations within the Five-Year Plan and any arising from the Implementation Plan. A best practice format should be utilised to include actions, owners, timescales for completion and progress updates.

Agreed Actions:

- Environment Team and Energy Capital Implementation Plans, which incorporate the structure of HLDs, will be updated and made available to each Environment & Energy Board meeting.
- An annual progress report providing updates on delivery of Five Year Plan goals, objectives and investment achieved will be produced.

Responsible Officer: Jacqueline Homan and Cheryl Hiles

Target Date: January 2023

3. Stakeholder engagement and communication

Findings:

We noted that whilst several documents (Communications Plan, Action Tracker, and Stakeholder register) covering communications were in operation, an overarching up to date Stakeholder Engagement and Communications Strategy and Plan was yet to be established.

This was reflected in the outcome of WMCA commissioned independent research regards recommendations for change that plans / strategy require more focus and clarity on objectives. We also noted that the current Communications Plan indicated that it requires updating in various areas as well as referred to programme milestone dates within 2020. Whilst the tracker reflects various activities undertaken, due to the lack of an overarching and up to date Plan / Strategy, determination that actions related to clearly defined and focused objectives and aligned with the Five-Year Plan was not possible, albeit generally actions clearly appeared relevant to climate change related issues.

Implications:

Not clearly defining an overarching approach to stakeholder engagement and communications may adversely impact on achievement of the regional, inclusive, and cross sector approach to achievement of the WM2041 commitment and delivery of the Five-Year Plan.

Recommendations:

- i. An overarching and Stakeholder Engagement and Communications Strategy and Plan should be developed encompassing existing communications and engagement mechanisms as well as reflect the outcome of WMCA commissioned independent research recommendations regards improved focus and clarity in objectives. Once

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

established the Strategy and Plan should be presented to the responsible governance forum for its approval and minuted as approved.

- ii. Once established, the Strategy and Plan itself should be periodically reviewed and updated to ensure remains current and up to date. Review periods could correlate with review of key WM2041 policy, strategy, and governance documentation.
- iii. Subsequently, regular reporting based on the developed Strategy and Plan and associated tracked activity should be undertaken within supporting governance and management arrangements.

Agreed Actions:

- To update the Stakeholder Engagement and Communications Strategy and Plan to align with the tracker for campaign and communications activity. The Plan will be reviewed and updated annually alongside the annual Five Year Plan progress report.

Responsible Officer: Steve Bowyer

Target Date: Jan 2023

Action is advised to enhance risk control or operational efficiency
Green

4. Governance**Findings:**

Whilst meeting records clearly indicated the governance undertaken and the role provided by the Environment and Energy Board, the proposed revised terms of reference for the Environment and Energy Board were yet to be finalised and approved.

It was noted that revisions were proposed in June 2020 to consider the future focus of the Environment Board, including agreeing the change of name to the Environment & Energy Board and reviewing Board membership. Further, the need to recognise the implications of the Single Assurance Framework Project for the previously named Environment Board.

Implications:

In the absence of finalised and approved terms of reference, it may be more difficult to clearly define the role of the Board in respect of the WM2041 commitment and delivery of the Five-Year Plan.

Recommendations:

- i. The terms of reference for the Environment and Energy Board should be reviewed and revised to ensure clearly reflects current roles and responsibilities as well as clear reference to the WM2041 commitment and delivery of the Five-Year Plan.
- ii. Once reviewed, the terms of reference should be evidenced as approved by the Board within meeting minutes and within version control.
- iii. Subsequently, the terms of reference should be reviewed and approved on an annual basis, and evidenced within minutes as approved.

Agreed Actions:

- Review the terms of reference for the Environment and Energy Board and ensure these are reviewed and approved annually by the Board.

Responsible Officer: Craig Evans

Target Date: Jan 2023

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	25 April 2022
Revised draft issued	13 September 2022
Final issued	19 October 2022
ARAC reporting date	23 May 2022
ARAC meeting date	28 June 2022