

## GREATER MANCHESTER INTEGRATED TRANSPORT AUTHORITY

### REPORT FOR RESOLUTION

**COMMITTEE:** Capital Projects

**DATE:** 6<sup>th</sup> November 2009

**SUBJECT:** Internal Audit of GMITA Capital Programme Monitoring Arrangements 2008/9

**REPORT OF:** Clerk to the Authority

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#### **PURPOSE OF THE REPORT**

To present for members' consideration the findings of the Authority's internal audit function with regard to the previous capital programme monitoring arrangements (2008/9) prior to the establishment of this Committee.

#### **RECOMMENDATIONS**

Members are recommended to note the contents of this report.

#### **CONTACT OFFICERS**

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## **Summary**

1. The appendix to this report is a draft final audit report on the Authority's arrangements in 2008/9 for the monitoring of its capital programme, prior to the reorganisation of committees and the redesignation of this committee.
2. The appendix sets out three findings relating to the layout of the previous year's capital programme reports; the scale of detail on capital projects reported; and the time given by the former Policy Committee to scrutinising issues around the capital programme. As members will recognise, the findings mirror those reached by the Authority through its 2008/9 Committee Improvement Project, which resulted in the redesignation of this committee as the Capital Projects Committee.
3. In considering the findings at its recent meeting on 16 October, the Authority's Audit Committee was content that the revised arrangements for the Capital Projects Committee satisfy the issues raised by Internal Audit. However, it was considered appropriate to refer the report to this Committee for information and to ensure that members are comfortable with the arrangements that have been put into place.

## **Recommendations**

4. Given the conclusion of the Audit Committee, it is recommended that no further action is required in response to the audit findings.

**HOWARD BERNSTEIN  
CLERK TO THE AUTHORITY**

# Internal Audit Report

## GMITA: Capital Programme Monitoring

**Report To:**

Stephen Clark – Head of Transport

**Report Status:**

**DRAFT**

**Additional Report Distribution:**

Simon Warburton – GMITA Policy Team Manager  
Sylvia Welsh – Principal Committee Officer

**Auditor:**

Richard Stringer

**Fieldwork Commenced:**

24 August 2009

**Draft Report Issued:**

2 October 2009

**Management Responses Requested By:**

19 October 2009

**Final Report Issued:**

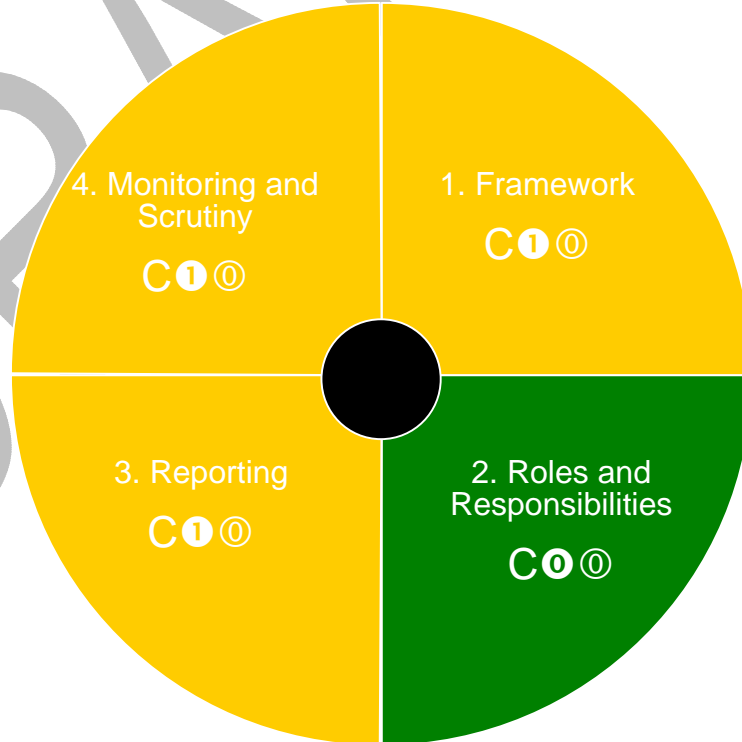
# 1. Executive Summary

<p><b>Overall Assurance Opinion</b> (See Appendix 1)</p> <p>FULL <span style="color: green;">●</span></p> <p>SUBSTANTIAL <span style="color: lightgreen;">●</span></p> <p><b>MODERATE</b> <span style="color: yellow;">●</span> ✓</p> <p>LIMITED <span style="color: orange;">●</span></p> <p>NO <span style="color: red;">●</span></p>	<p><b>Capacity to Improve</b></p> <p><i>This assessment will be informed by the management response to recommendations raised in this report.</i></p>	<p><b>Number of control issues identified</b></p> <p>① Critical</p> <p>① Major</p> <p>③ Significant</p> <p>① Moderate</p> <p>① Minor</p>	<p><b>Number of compliance issues identified</b></p> <p>① Critical</p> <p>① Major</p> <p>① Significant</p> <p>① Moderate</p> <p>① Minor</p>
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**Audit Objective**

To provide assurance that the Authority has effective arrangements for monitoring the capital programme:

1. There is a framework for capital programme monitoring.
2. Roles and responsibilities are clear, codified and discharged effectively.
3. Progress in the delivery of the capital programme is regularly and accurately reported to support effective decision making.
4. Monitoring and scrutiny provides challenge to performance against the approved programme.



Each of the objectives for this review is shown as a segment of the wheel. The colours on the wheel represent an assessment of the risk for each audit objective based on the issues identified in the review

A	No or Minor
B	Moderate
C	Significant
D	Major
E	Critical

**Context:**

Greater Manchester Integrated Transport Authority (the Authority) provides approval and oversight of the Greater Manchester Passenger Transport Executive's (the Executive) capital programme, which includes the Minor Works Programme and Metrolink renewals. The approved 2008/09 budget was £693 million and for 2009/10 is £265 million. Effective monitoring of the programme is necessary to identify and address potential under-performance, budget over-spend and project overruns and to ensure delivery of work streams and services in accordance with the Authority's priorities and objectives.

**Limitations:**

Testing was restricted to a high level review of the Authority's capital programme monitoring arrangements, and Policy Committee and Authority papers.

**Areas of Good Practice:**

- The Terms of Reference for the new Capital Projects Committee clearly assign responsibility for capital programme monitoring.
- The capital programme's focus on bus, rail and Metrolink developments was consistent with the objectives identified within Local Transport Plan 2006/07 – 2010/11.
- Monitoring reports were presented in a standard format which matched that used for the initial capital programme submission, and were submitted to each meeting of the Policy Committee.

**Areas for Improvement:**

- There were no documented policies or procedures in place covering capital programme monitoring arrangements.
- Capital programme information provided by the Executive did not fully support effective monitoring and scrutiny.
- Member scrutiny and challenge of progress and delivery of the capital programme should be developed.

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## 2. Detailed Findings Recommendations and Action Plan

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
<b>Audit Objective 1: There is a framework for capital programme monitoring.</b>					
1	<p>Whilst a capital programme monitoring report written by the Executive was submitted to each meeting of the Authority's Policy Committee, it was not clear whether the information contained in the reports was adequate or how it might be used to support active Authority arrangements over the monitoring and scrutiny of the programme.</p>	<p>Sufficient, timely information is essential to enable the Authority to obtain assurance over the effectiveness of capital program monitoring arrangements and to ensure that roles and responsibilities are fully understood and support effective monitoring activity.</p>	<p>The Deputy Clerk to the Authority, in conjunction with the Chair of the new Capital Projects Committee, should develop capital programme monitoring arrangements to define:</p> <ul style="list-style-type: none"> <li>• The purpose of capital programme monitoring;</li> <li>• Expected tasks and responsibilities for them, for example who should review monitoring reports and what should this involve;</li> <li>• The content, level of detail, format and frequency of monitoring reports; and</li> <li>• Arrangements for the provision of additional reports and information as the Authority sees fit.</li> </ul>	<p style="text-align: center;">● Significant (Control)</p>	<p><b>Agreed:</b> Yes – scope for further improvement recognised.</p> <p><b>Action to be taken:</b> As per the recommendations, the shape of these reports has been reviewed in consultation with the Chair of the Capital Projects Committee, which is now providing a clear forum for consideration of detailed Capital Programme matters. Report structures will be reviewed again towards the end of the 2009/10 Authority year.</p> <p><b>Additional Resources Required for implementation:</b> No</p> <p><b>Responsible Officer:</b> Simon Warburton</p> <p><b>Target Date:</b> From start 2009/10</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
<b>Audit Objective 3: Progress in the delivery of the capital programme is regularly and accurately reported to support effective decision making.</b>					
2	<p>We did not consider capital programme information provided by the Executive sufficient to support effective monitoring and scrutiny. Whilst reports contained information related to budget, expenditure and projected outturn figures, they did not identify any changes to the capital programme itself, or indicate whether planned completion dates or desired outcomes would be met.</p> <p>Additional narrative was supplied for some specific schemes but this was inconsistent and did not give detailed information such as start/end dates, budget variances, project milestones and performance against schedule. Given the role of the Authority in supporting the delivery of LTP2 it would be helpful for Members and Officers to understand how completion of the capital programme contributes to the achievement of strategic objectives.</p>	<p>Insufficient information relating to progress of the capital programme will have an adverse impact on Members ability to provide effective monitoring and scrutiny or take effective decisions.</p> <p>It also means that Members may be left to interpret reports provided by the Executive and this may not be an effective use of their time.</p>	<p>The Deputy Clerk to the Authority, in conjunction with the Chair of the new Capital Projects Committee, should liaise with the Executive to ensure reporting arrangements provide Members with the information needed to hold the Executive to account for capital programme spending and progress. Reporting arrangements could include:</p> <ul style="list-style-type: none"> <li>Standardised reports for the monitoring of high risk or high priority projects. These should be reported using R/A/G ratings for set criteria such as priority works, performance against schedule and budget.</li> <li>An executive summary describing overall progress, including blockers; and</li> <li>Links between individual capital programme projects, the Authority's</li> </ul>	<p style="text-align: center;">●</p> <p>Significant (Control)</p>	<p><b>Agreed:</b> Yes – scope for further improvement recognised.</p> <p><b>Action to be taken:</b> Prime focus in the creation of the new Capital Projects Committee. Regular reporting to Capital Projects Committee on high priority projects (e.g. Metrolink investment projects) has been established since start of 2009/10 Authority year.</p> <p>Policy &amp; Resources Committee 2009/10 revised remit to consider performance alongside capital programming will provide scope for closer linkage between programme and strategic objectives.</p> <p><b>Additional Resources Required for implementation:</b> No</p> <p><b>Responsible Officer:</b> Simon Warburton</p> <p><b>Target Date:</b> From start</p>

	Matters Arising	Potential Risk Implications	Recommendations	Risk	Management Response and agreed actions
			priorities and the LTP2.		2009/10
<b>Audit Objective 4: Monitoring and scrutiny provides challenge to performance against the approved programme.</b>					
3	<p>Minutes of the Authority's Policy Committee meetings did not provide evidence of Member challenge with regard to the progress and delivery of the capital programme, or the nature and quality of information contained in capital programme monitoring reports received from the Executive.</p> <p>We support the Authority's decision to delegate responsibility for capital programme monitoring to the newly formed Capital Projects Committee (the first meeting of which was due to take place in September 2009) and consider this provided a good opportunity to identify training needs in respect of scrutiny and challenge of monitoring information.</p>	<p>Inadequate levels of Authority challenge could adversely affect the delivery of the capital programme to time and cost.</p>	<p>The Deputy Clerk to the Authority, in conjunction with the Chair of the new Capital Projects Committee, should establish the most effective way of monitoring the capital programme. Considerations should include:</p> <ul style="list-style-type: none"> <li>Identifying alternative sources of assurance over capital works, for example obtaining information from the Executive's Internal Audit function or other internal management information;</li> <li>Developing Member expertise with regard to scrutiny and challenge using training sessions focusing on their role and responsibilities; and</li> <li>Recording Member challenge in meeting minutes.</li> </ul>	<p style="text-align: center;">●</p> <p>Significant (Control)</p>	<p><b>Agreed:</b> Yes – scope for further improvement recognised.</p> <p><b>Action to be taken:</b> Recommendations incorporated into revised reporting arrangements to Capital Projects Committee as discussed above.</p> <p><b>Additional Resources Required for implementation:</b> No</p> <p><b>Responsible Officer:</b> Simon Warburton</p> <p><b>Target Date:</b> From start 2009/10.</p>

## Appendix 1. Basis of our opinion and level of assurance

Level of assurance	Description
<b>Full</b> ●	<b>Full assurance</b> – there is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be Advice and Best Practice.
<b>Substantial</b> ●	<b>Substantial assurance</b> – whilst there is basically a sound system of control, there are some areas for improvement, which may put the system/process objectives at risk. There are Moderate recommendations but these do not undermine the system's overall integrity. Any Major or Significant recommendations relating to part of the system would need to be mitigated by strengths elsewhere. Any Critical recommendations will prevent this assessment.
<b>Moderate</b> ●	<b>Moderate assurance</b> – there are some areas for improvement in the system of internal control, which may put the system/process objectives at risk. There are a small number of Major recommendations or a number of Significant recommendations. Any Critical recommendations would need to be mitigated by significant strengths elsewhere. A number of Critical recommendations would prevent this assessment.
<b>Limited</b> ●	<b>Limited assurance</b> – there are significant areas for improvement in key areas of the systems of control, which put the system/process objectives at risk. There are Major recommendations and any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
<b>No</b> ●	<b>No assurance</b> – an absence of effective internal control is leaving the system/process open to significant error or abuse. There are Critical recommendations indicating major risks requiring mitigating actions.

Capacity to improve	Description
<b>High</b> ↑	The assessment will be based on a number of factors including: Recommendations progressed since the start of the audit; timescales for the implementation of agreed recommendations; levels of resources / capacity to effect implementation; focus and clarity of ownership within directorate / service for implementation; directorate / service track record in implementation of agreed recommendations; professional auditor judgement.
<b>Medium</b> ←	
<b>Low</b> ↓	

Risk Type	Description
<b>Control</b>	There are areas for development and improvement in the design of the system of internal control
<b>Compliance</b>	There is need to improve compliance with the existing system of internal of control, processes or procedures

Risk	Assessment rationale
<p style="text-align: center;"><span style="color: red;">●</span></p> <p>E. Critical</p>	<p>Life threatening / multiple serious injuries or prolonged work place stress. Severe impact on morale and service performance. Intense political and media scrutiny i.e. national media coverage / prolonged local media coverage. Possible criminal, or high profile, civil action against the Council, members or officers. Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects – elected Members &amp; SMT required to intervene. Large increase on project budget/cost: (Greater of <b>£1.0M</b> of the total budget or more than <b>15 to 30%</b> of the departmental / service area / school budget). Statutory intervention triggered. Impact on the whole council</p>
<p style="text-align: center;"><span style="color: orange;">●</span></p> <p>D. Major</p>	<p>Serious injuries or stress requiring medical treatment with many workdays lost. Major impact on morale and performance. Scrutiny required by external agencies, external audit etc. Unfavourable national or prolonged local external media coverage. Noticeable impact on public opinion. Major impact on the effectiveness of governance for the Council. Significant disruption of core activities / performance. Key targets missed, some services compromised. Senior Management action required. Major increase on project budget/cost: (Greater of <b>£0.5M</b> of the total Budget or more than <b>6 to 15%</b> of the departmental budget).</p>
<p style="text-align: center;"><span style="color: yellow;">●</span></p> <p>C. Significant</p>	<p>Injuries or stress requiring some medical treatment with workdays lost. Some impact on morale and performance. Scrutiny likely to be exercised by external agencies, internal committees or internal audit to prevent escalation. Probable limited unfavourable local media coverage. Significant short-term disruption of non-core activities / service performance. Standing Orders / Financial Regulations not complied with. Impact on the effectiveness of governance at the Council or service level. Services unlikely to meet needs. Service action will be required. Significant increase on project budget/cost: (Greater of <b>£0.3M</b> of the total Budget or more than <b>3 to 6%</b> of the departmental budget). Handled within the team</p>
<p style="text-align: center;"><span style="color: lightgreen;">●</span></p> <p>B. Moderate</p>	<p>Injuries / stress requiring some medical treatment, potentially some workdays lost. Some impact on morale and performance. Additional scrutiny required by management and internal committees to prevent escalation. Possible limited unfavourable local media coverage. Short-term disruption of non-core activities / service performance. Standing Orders / Financial Regulations occasionally not complied with. Minor impact on the effectiveness of governance at the Council or moderate impact at service level. Services do not fully meet needs. Service action will be required. Small increase on project budget/cost: (Greater of <b>£0.1M</b> of the total Budget or up to <b>3%</b> of the departmental budget). Handled within the team</p>
<p style="text-align: center;"><span style="color: green;">●</span></p> <p>A. Minor</p>	<p>Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale. Internal Review, unlikely to have impact on the corporate image. Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines. Some impact on the effectiveness of governance at service level. Minimal financial loss – Minimal effect on project budget/cost: Negligible effect on total Budget or departmental budget).</p>