



Internal Audit Report: Interchange - Train Station – Lessons Learnt (2017-2018)

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1 Executive Summary

1.1 Introduction

In January 2018 the Council's Managing Director commissioned Audit Services to undertake a lessons learned review of three high profile projects within the City. One of the projects was the demolition and redevelopment of the train station which forms part of the Wolverhampton Interchange Programme.

Wolverhampton is a principal station on the West Coast Mainline handling over 4.75 million passengers per annum. However, the existing station facilities and capacity are no longer fit for purpose.

The Interchange Programme has been subject to adverse publicity in terms of increased project costs from those originally reported and pose a reputational risk to the Council.

At this point to mitigate the risk of further cost escalation on the scheme, a guaranteed maximum price of £19.9 million has been approved by Cabinet (Resources) Panel on 14 November 2017 for the station contract with supplier M, and negotiations continuing with the objective of securing reductions on specific work packages. At the time of this review the construction phase of the train station had not yet started.

1.2 Scope of the review

A terms of reference was provided by the Managing Director outlining the scope of the review. This included the following:

- Production of a detailed timeline of events
- The process for determining an "early indication figure" for budgetary purposes and the impact this is having on the project
- Establish what caused the project to fail
- Identify the actual changes to the specification, and the resulting increase in costs
- Review the governance arrangements for the project
- Review the resourcing arrangements for the project in terms of effectiveness
- Ascertain whether the project would have benefited from early intervention from various sources i.e. political support or external specialists
- Ascertain whether there was any good practice or lessons already being learnt on the project
- Review the procurement arrangements to ensure best practice was followed in the procurement of contractors
- Review the project risk management arrangements for the establishment of contingency costs
- Review the surveying arrangements in place for the assessing the condition of the building
- Provide an opinion on how the Council can follow best practice in order to avoid the guesstimate of the programme being considerably different from the actual budget
- Review external funding arrangements to ensure the Council is maximising its funding opportunities
- Review the programme to ascertain whether subsequent issues could have been identified earlier
- Seek external advice in terms of how best practice could have been applied to this project

In order to assist Audit Services with this review specialist external support was obtained from an external consultant from supplier B. Who primarily specialise in project risk management.

For the purpose of this review discussions were held with the following individuals to form the findings of this review:

- Project Manager
- Head of City Development
- Projects & Programmes Manager
- Director for Commercial Services
- Finance Business Partner
- Assistant Regeneration Officer
- Solicitor, Legal Services
- Director of Development, Midland Metro Alliance

It should be noted that the Council's external auditors were invited to provide their opinion of the project and provide examples of good practice that could be applied, where appropriate. They concluded it would not be appropriate to provide an opinion on this project as to do so, would potentially fetter their discretion, as they anticipated reviewing it as part of their future work in relation to their value for money conclusion.

1.3 Acknowledgement

A number of employees gave their time and co-operation during the course of this review. We would like to record our thanks to all of the individuals concerned.

2 Management Summary/Conclusion

2.1 Following a review of the timeline of events (Appendix A), and findings detailed below, we have identified a number of issues where lessons should be learnt specific to the train station. These are as follows:

- Failure to report to Cabinet an adequate budget from the outset of the scheme. It was reported to Cabinet (Resources) Panel on 1 November 2016 that supplier E were believed to have an inadequate understanding of how the rail industry operates. This resulted in them being removed from the project and the contract being retendered. A re-tendering exercise resulted in the appointment of an alternative contractor. Subsequent Network Rail design approval (F001 approval in principle) for the train station took place, allowing design costings and a fixed price design and build contract sum of £19 million being agreed.
- The absence of a specific contingency budget for the train station. A shared interchange programme contingency of £12.5 million has been set to cover unforeseen cost increases on both the train station and the metro extension. However, at the time of this review £4 million had been expended to cover a funding shortfall. Additionally, there will be a number of exclusions and clarifications which sit outside the fixed price design and build contract. The financial risk associated with these items has not been accounted for in a specific contingency budget for the train station project;
- Failure to include Corporate Procurement at the beginning of the project including representation on the steering group. This would have provided in house expertise and intervention at key stages of project from Council employees who have rail industry experience;
- Failure to follow the Council's approved project management approach. This was highlighted through the underutilisation and updating of the Verto system;
- Failure to maintain the Council's project document portal (Sharepoint) with key documents to support decisions taken;
- Under estimating the importance of the project from the outset in terms of the risk it posed to the Wolverhampton economy and the reputational risk to the Council. This should have appeared as a standalone risk on the Council's Strategic Risk Register;
- Failure to update the Project Assurance Group with issues relating to the train station project.

3 Background Information

3.1 Project costs reported to Cabinet

3.1.1 As part of the interchange scheme, the train station development is being delivered by a partnership including, the City Council, Neptune, Centro, Network Rail, Virgin and Canals and River Trust. In 2014, the partnership business case for the scheme initially set out **estimated** project costs for the interchange project shown in the below table: These costs were based on the originally appointed contractor, supplier E's cost plan.

3.1.2 Extract from the Business Case

Table 1: Outturn scheme cost **estimate** (£ million)

Scheme Element	Preparatory/ Advanced Works Costs	Base Scheme Costs	QRA	Total
Metro	1.8	14.2	2.0	18.0
Station & Car Park	0.6	19.4	1.4	21.4
Total	2.4	33.6	3.4	39.4

3.1.3 A subsequent report that went to Cabinet on 11 March 2015 reported on these project costs as stated below:

Project Costs	Total (£m)
New Station Building	12.0
Relocation of Network Rail Communication Equipment	0.6
Multi-Storey Car Park	8.8
Tram	18.0
Total	39.4

3.1.4 However, it was not made clear to Cabinet that the costs included in the business case were estimated, with the report stating: '**The costs of the scheme are highlighted at £39.4 million including £12.0 million for the new station building**'.

3.1.5 Enquiries made with the current project manager established that project costs were unlikely to have remained at £12 million for the new station building as the project was not at detailed design stage at March 2015 when the project costs were presented to Cabinet.

3.1.6 Corporate Procurement have advised that they were not involved with the process for the procurement of the contractor, which was undertaken by an externally appointed firm. Further, Corporate Procurement did not see any cost reports which were presented to Cabinet by the Head of City Development.

Lesson learned 1: All reports taken to Cabinet for internally and externally procured major projects should be reviewed by Corporate Procurement for accuracy, feasibility and reasonableness of costs.

4 Detailed Findings

4.1 Procurement of Contractors for the Train Station

- 4.1.1 Under the 2007 Wolverhampton Interchange Development Agreement, Neptune (the Council's appointed scheme developers now known as ION) were responsible for the recruitment and appointment of a contractor for the demolition and redevelopment of the station.
- 4.1.2 The business case for the scheme stated Neptune, in conjunction with Network Rail Infrastructure Projects selected those contractors from its framework which had appropriate rail industry capability as defined by Network Rail's Link Up accreditation scheme.
- 4.1.3 Following a competition for the appointment of the contractor, supplier E were selected. However, Corporate Procurement were not involved with the organisation, evaluation or selection of the contractor.
- 4.1.4 A report to Cabinet on 1 November 2016 stated that the interchange project costs had increased. However, it was not made clear in the report which costs related directly to the train station and which costs were part of the wider Interchange Scheme.
- 4.1.5 Further it was reported to Cabinet at this meeting that:
- Supplier E were challenged with the increased costs but this only resulted in a further escalation of forecast costs. As a result, the Interchange Steering Group agreed in May 2016 to remove supplier E from the main station construction element of the programme and to go back out to tender. This was in order to secure a contractor with a better understanding of working with the rail industry as well as greater certainty over programme costs.
 - Concerns about supplier E included their lack of understanding of how the rail industry operates and the contractor increasingly building in large contingencies to compensate for their inability to predict or prevent rail-industry related costs.
- 4.1.6 The Steering Group minutes of May 2016 state that Neptune advised the Steering Group that supplier E had now been removed from the Station Design process. However, this is not considered to be sufficient detail to fully evidence the decision which was reported to Cabinet some five months after the Steering Group meeting.

Lesson learnt 2: Project working group meeting minutes should be sufficiently detailed to fully evidence and support decisions taken.

Lesson learnt 3: Cabinet should kept informed of key developments on major high-profile projects on a timely basis.

- 4.1.7 The business case stated that 'Neptune, in conjunction with Network Rail Infrastructure Projects, selected those contractors from its framework which had appropriate rail industry capability as defined by Network Rail's Link Up accreditation scheme'. This is in contradiction with the removal of supplier E from the main station construction project and the above reasons reported to Cabinet for this removal.
- 4.1.8 Enquiries made with Corporate Procurement established that they had no representation on the Steering Group and had no involvement in the procurement process of supplier E as this was being undertaken by the external consultants Neptune.
- 4.1.9 Further, evidence was found regarding queries raised by Corporate Procurement which were not responded to during the re tendering exercise being undertaken to replace supplier E. The then Head of Procurement raised the following observations after he was copied in on an email by the former Council's Head of Major Projects to ION about the tender position paper from supplier M.
- Supplier M's tender submission assumed that hoarding could be erected on platform 1 to provide a physical barrier between the operational railway, the demolition and the new build site with works being undertaken without any special protection;
 - hoarding on the rail platform would require Network Rail and train operators involvement and approvals;
 - There did not appear to be any allowance in the supplier M's management costs for rail possessions, isolations of the overhead line, signalling dis/re-connections of platform equipment.
 - The suitability of the model used for inviting tenders from contractors.
- 4.1.10 No response was received from the former Head of Major Projects to the above and it is unclear if risks around these issues have been managed or mitigated.

Lesson learnt 4: Corporate Procurement should have representation on working groups for all externally procured major projects to provide input and intervention at key stages of procurement.

Lesson learnt 5: Issues raised by the Corporate Procurement Manager about supplier M's tender submission should be investigated to ensure these have been resolved.

4.2 Contingency Arrangements

4.2.1 It was reported to Cabinet (Resources) Panel on 14 November 2017 that:

'As with all fixed price design and build construction contracts there will be a number of exclusions and clarifications which sit outside the building contract. The financial risk associated with these items are covered within the project contingency budget, which sits within the overall £81.8 million funding envelope'

4.2.2 However, enquiries made with the project manager identified that no specific contingency had been allocated to the train station, rather a combined shared programme contingency of £12.5 million being set for both the train station and metro extension. Further, due to programme constraints the programme funding for the train station was secured ahead of fixing the contract value with supplier M and as a result the funding ask was based on a contract sum which was only 80% market tested.

4.2.3 Following the award of the fixed price design & build contract, circa £4 million would be required to be drawn down from the shared programme contingency of £12.5 million to cover contract award. This would leaving £8.5 million contingency for potential future cost increase on both the train station and metro extension projects.

Lesson learnt 6: Project specific contingencies should be set for each individual project to ensure potential project costs increases are covered by dedicated contingencies.

4.3 Project Governance

4.3.1 At the time of this review governance arrangements were found to be in place, with the project organisation governance structure in place. The Senior Responsible Officer for the project is stated in Verto as the Strategic Director - Place. Monthly meetings were evidenced for both the Interchange Steering and Working Groups. It was noted, however, that whilst the Council's Legal Services and Transportation departments were represented Corporate Procurement were not included in the governance structure.

4.3.2 The following reporting arrangements were in place for the project:

Monthly meetings	Interchange Partnership Steering Group	A monthly Steering Group meets which is chaired by the Strategic Director for Place to manage the interchange projects including the train station.
Monthly meetings	Interchange Partnership Working Group	A monthly Working Group meets which is chaired by the Project Manager to manage the interchange projects including the train station.
Monthly Meetings	Interchange Partnership Working Group	A monthly highlight report prepared by the Project Manager is taken to the working group each month covering: <ul style="list-style-type: none"> • Periodic update • Project status • Key milestones • Planned for next period • Key risks • Key issues
Fortnightly Meetings	Project Assurance Group (PAG)	We were advised by the Project & Resources Manager that the train station project has not been presented to the Project Assurance Group.

4.4 Project Management

4.4.1 The externally appointed project managers have not followed the Council's approved project management systems. From the outset of this project, no information was filed on SharePoint. An assistant regeneration officer informed us that in May 2017, some two years after project approval, a bulk upload of information to the SharePoint site was transferred from the project manager.

4.4.2 However, this did not allow decisions taken prior to this point to be fully evidenced on Council systems. A large volume of documents was uploaded in a file structure that did not follow the format of other City Centre Projects. This has resulted in a repository of documents that does not provide an audit trail of the project life cycle. Further, project files are still retained by the external project manager and have not been uploaded to the City Centre Portfolio sharepoint site.

Lesson learnt 7: The project's Senior Responsible Officer should ensure that project managers are keeping sharepoint up to date throughout the lifecycle of the project.

Lesson learnt 8: A dedicated resource for maintaining accurate information should be used for major projects.

4.4.3 A review of an extract of Verto identified:

- Underutilisation of the Council's project management system Verto with key issues encountered during the project to date not being recorded and managed;
- The Council's project management system (Verto) is not being regularly updated by the external project managers or by Council employees engaged on this project.
- Highlight reports have not been produced as the project has not entered the construction stage.

Lesson learnt 9: The project's Senior Responsible Officer should ensure that project managers are keeping Verto up-to-date throughout the lifecycle of the project.

Lesson learnt 10: An escalation process should be developed where it is identified that the Verto system is not being updated in a timely manner.

4.4.4 It is acknowledged that the interchange project predated the formation of the project assurance group. However, the project assurance group has not been updated with issues relating to the train station project and has not been included on the Interchange train station organisation governance structure.

Lesson learnt 11: The project assurance group should be kept informed of any issues relating to the train station project.

Lesson learnt 12: The project assurance group should be included in the governance structure of the Interchange train station.

- 4.4.5 Key project risks are included in a monthly Highlight Report which is produced by the project manager and presented to the working group. Further, the interchange project including the train station has been included on the Council's Strategic Risk Register.

Lesson learnt 13: As the train station enters the construction phase, the project will need to be kept under review and may need to appear as an individual risk on the Council's strategic risk register.

4.5 Supplier B's Assessment of Risk Management

- 4.5.1 The same broad issues are evident in the budget and contingency setting that were found in the other projects reviewed.

- 4.5.2 The review of the risk management on the interchange project has been limited to documentation provided by the audit team and, as a result, is based on assumptions drawn from this documentation. For example, from the early pricing documentation the term "QRA" has been used in the definition of contingency requirements detailed in the Business Case (August 2014). We have made the assumption that a full quantified risk assessment (QCRA) has been carried out and a Monte Carlo simulation run to derive the contingency levels quoted. There is no evidence that at this early stage that there was any interpretation or review of the outputs of the assumed QCRA or statement of the levels of confidence adopted in the contingency decision-making.

- 4.5.3 The general reporting and management of risk by advisors through the highlight reports and the issues with this and the use of the Council's project management systems are covered elsewhere in this report.

Lesson learnt 14: The analytical methodology and decision-making criteria in contingency-setting must be documented to allow for later challenge and change management.

- 4.5.4 The supplier E pricing of the station assumed a contingency of 5% on construction costs and does not reference any formal analysis of the basis of this contingency setting. There does not appear to have been any challenge to this low percentage in the documentation reviewed.

Lesson learnt 15: In the review of project estimates and bids the contingency levels adopted or proposed should be challenged based on benchmarking against similar projects at the same stage of development.

- 4.5.5 As stated above the methodology used to set the contingency across the interchange project is not clear in the documentation, the lack of a detailed assessment for each of the elements of the project is poor practice given the complexity and value.

Lesson learnt 16: The grouping of projects into a programme does not reduce the requirement for detailed risk assessments for each of the constituent projects. There is an additional requirement to overlay a programme-level risk register to capture cross-cutting risks and interface and dependency risks.

- 4.5.6 A QCRA was carried out in May 2017 and is based on standard practice. The assessment incorporated most of the existing documentation available and supports the appointment of supplier M. The QCRA includes estimating uncertainty (the inherent variability in cost and quantity in any estimate) and models this both separately to and with the risk. This is aligned with best practice. The choice of the P50 is highlighted in the report as a low percentile at which to set contingency, particularly given that there is no documented rationale for using this level of confidence.
- 4.5.7 Given the experience with supplier E and their discomfort with the management of the interfaces with Network Rail and the cost escalation experienced, it would be prudent to set the contingency at a higher level of confidence.
- 4.5.8 P50 is the confidence level at which a project is as likely to overspend as underspend. Given the sensitivity of the project and its complex interfaces, the contingency could have defensibly been set at P80 or P90. The management of risk and the link with the change control process is the mechanism through which the contingency can be effectively managed.

Lesson learnt 17: If a detailed QCRA is carried out to support the setting of project contingency levels, advice should be sought from a risk specialist about the appropriate confidence level from the analysis to use.

4.6 Reporting to Elected Members

4.6.1 A review of Cabinet Reports (detailed in the table below) has confirmed that elected members of the Council have been kept informed of the train station project to date. However, lessons learned have been stated to ensure accurate and complete information is reported to elected members and senior officers of the Council.

Date of Report	Meeting	Nature of Report
11/03/2015	Cabinet	Project costs presented to Cabinet at £39.4 million (including £12 million for the new station building) CoWC contribution £1 million.
31/03/2015	Cabinet Member Briefing- City assets	Interchange update on railway and interchange development work
27/01/2016	Council	State of the City Address 2015/16, highlighted of the railway and interchange development work
27/10/2016	Cabinet Member Briefing – City Economy	To note the appointment of new contractors for the station demolition/ reconstruction; to note the approval, in principle of additional funding from HS2 Connectivity funding for the programme; and to authorise the acceptance of grant of £10.1 million from Centro/West Midlands Combined Authority towards the programme
01/11/2016	Cabinet (Resources) Panel	To note that additional estimated costs have increased by £12.4 million on the Project and that sources of funding have been identified to address some or all of the additional funding required and that actions are underway to secure the appropriate levels of funding. To note the developer’s decision to terminate the agreement with the current building contractor and appoint a new contractor to demolish and redevelop Wolverhampton Rail Station. To note that a separate report will be presented to Council to seek approval to the Authority underwriting additional costs of up to £8.1 million.
9/11/2016	Council	To resolved that the Council underwrites additional costs of £8.1 million initially funded through prudential borrowing with the expectation that external funding would be secured in due course be approved. To resolved that the capital programme was updated to reflect the additional budget required be approved.
28/02/2017	Cabinet (Resources) Panel	Resolved that the Council enter into a Supplemental Agreement with the delivery

Date of Report	Meeting	Nature of Report
		partners for the Wolverhampton Interchange programme.
25/07/2017	Cabinet (Resources) Panel	The principle of the Council bidding on the Corn Hill site based on its strategic importance in the context of the Interchange masterplan be endorsed. Cabinet is being requested to potentially 'underwrite' the cashflow on the Station component of the Interchange project.
18/09/2017	Cabinet Member Briefing	Interchange update
14/11/2017	Cabinet (Resources) Panel	<p>To ensure there is no further cost escalation on the programme Ion / CWC have agreed a guaranteed maximum price of £19.9 million for the station contract with supplier M. Negotiations are continuing with the objective of securing reductions on specific work packages.</p> <p>That financial expenditure associated with both awards of the station contract and limits/caps agreed in the Letter of Intent (LOI) with supplier M be authorised.</p> <p>Expenditure in respect of preliminary works for the construction of the City of Wolverhampton Railway Station be authorised.</p> <p>To enable the Council to let the contract to supplier M ahead of the WMCA completing their final funding approvals a letter be sought from the Section 151 officer at the WMCA confirming they are content that the Council now enter into the contract with supplier M.</p>
27/01/2016	Council	State of the City Address 2015-2016, highlighted of the railway and interchange development work
27/10/2016	Cabinet Member Briefing – City Economy	To note the appointment of new contractors for the station demolition/ reconstruction; to note the approval, in principle of additional funding from HS2 Connectivity funding for the programme; and to authorise the acceptance of grant of £10.1 million from Centro/West Midlands Combined Authority towards the programme

4.7 Due Diligence

- 4.7.1 A Dun and Bradstreet report was commissioned by Audit Services on 21 February 2018 to assess the current financial status of the company. Whilst it was noted that the overall business risk was stated to be 'low – moderate', the Dun and Bradstreet report included a link to recent online media articles highlighting the effect of the fallout from the collapse of the construction company Carillion about supplier M, and the company's plans to raise £150 million of capital to bolster its balance sheet due to additional financial obligations in the wake of projects linked to the collapse of construction.

Lesson learnt 18: On going monitoring of the financial status of supplier M should be undertaken.

5 Where we are now

- 5.1 It was reported to Cabinet (Resources) Panel on 14 November 2017 that, 'to ensure there is no further cost escalation on the scheme ION agreed to **guaranteed a maximum price of £19.9 million** for the station contract with supplier M with negotiations continuing with the objective of securing reductions on specific work packages'. However, the current project manager has advised that the contract is a fixed price design and build not a "guaranteed maximum price". As with all fixed priced contracts, whilst the contract reflects the approved scheme designs at a point in time, there are mechanisms under the contract to claim variations for any unforeseen events which should be covered by contingencies.
- 5.2 On 14 November 2017 Cabinet (Resources) Panel subsequently agreed a recommendation that financial expenditure associated with the award of the station contract and limits/caps agreed in the letter of intent with supplier M be authorised. It is understood from the Head of City Development that construction is due to start on the 1 June 2018.

6 Lessons Learnt – Action Plan

No	Lessons Learnt	Responsibility	Proposed action to be taken	Target date
1	All reports taken to Cabinet for internally and externally procured major projects should be reviewed by Corporate Procurement for accuracy, feasibility and reasonableness of costs	Head of Procurement	<p>All awards of contract reports are now submitted to Cabinet (Resources) Panel through the Procurement report unless Procurement has advised otherwise. This ensures Procurement oversight of all awards of contract.</p> <p>The Director of Commercial Services now sits on Place Leadership Team which has oversight of reports going to Cabinet.</p> <p>Procurement representation will be a standard role on Terms of Reference (TOR) for projects.</p> <p>The Senior Responsible Officer will ensure the TOR are approved in accordance with the relevant governance and that a Procurement representative is a member of the Board.</p>	Implemented

No	Lessons Learnt	Responsibility	Proposed action to be taken	Target date
2	Project working group meeting minutes should be sufficiently detailed to fully evidence and support decisions taken.	Senior Responsible Officer	<p>The Senior Responsible Officer and Project Manager will agree what project support resources will be required. This will be recorded in the minutes of the Board meeting.</p> <p>The Board members will review the minutes of previous meetings as to their adequacy and content.</p> <p>Any key decisions from the minutes will be transferred to the Decisions Log within Verto.</p> <p>The Projects and Programmes Team provides advice on minuting and tracking decisions as part of its Project Management Training in line with PRINCE2 methodologies.</p>	With immediate effect
3	Cabinet should kept informed of key developments on major high-profile projects on a timely basis.	Senior Responsible Officer	<p>The Senior Responsible Officer will ensure that decisions and reporting in relation to the project are made in accordance with the Council's Constitution.</p> <p>The Senior Responsible Officer will be brief the relevant Cabinet Member as needed and as a minimum on a monthly basis.</p>	With immediate effect
4	Corporate Procurement should have representation on working groups for all externally procured major projects to provide input and intervention at key stages of procurement.	<p>Projects and Programmes Manager</p> <p>Senior Responsible Officer</p>	<p>Procurement representation will be a standard role on Terms Of Reference (TOR) for projects.</p> <p>The Senior Responsible Officer will ensure the TOR are approved in accordance with the relevant governance and that a Procurement representative is a member of the Board.</p>	With immediate effect

No	Lessons Learnt	Responsibility	Proposed action to be taken	Target date
5	Issues raised by the Corporate Procurement Manager about supplier M's tender submission should be investigated to ensure these have been resolved.	Senior Responsible Officer Head of Procurement	<p>The Senior Responsible Officer will meet with Procurement to ensure that all concerns raised as part of the tender submission are resolved and arising risks are suitably managed.</p> <p>All awards of contract reports are now submitted to Cabinet (Resources) Panel through the Procurement report unless Procurement has advised otherwise. This ensures that issues raised by Procurement are captured within any tender.</p> <p>The formation of the Project Assurance Group also ensures Procurement oversight of major projects.</p> <p>Issues raised by any external adviser will be flagged on the Issues Log by the Project Manager and captured in the minutes at Board to provide an audit trail.</p>	With immediate effect Implemented

No	Lessons Learnt	Responsibility	Proposed action to be taken	Target date
6	Project specific contingencies should be set for each individual project to ensure potential project costs increases are covered by dedicated contingencies.	Chief Accountant	<p>External specialist project and risk assurance consultancy has been procured to support the delivery of projects and programmes.</p> <p>In addition, a Commercial Business Partner and Audit Business Partner have been provided training to be able to undertake peer reviews of major projects. This will provide an additional opportunity to challenge proposed contingencies and robustness of plans</p> <p>Finance are represented on all major capital programmes and are members of the Board and working groups. This provides assurance and challenge around contingencies and programme budgets. All formal reports to require sign-off from Finance and therefore Finance comments and approval must be sought before submission.</p>	Implemented
7	The project's Senior Responsible Officer should ensure that project managers are keeping sharepoint up to date throughout the lifecycle of the project.	<p>Senior Responsible Officer</p> <p>Projects and Programmes Manager</p>	<p>The Senior Responsible Officer and Project Manager will agree at the start of a project how document storage and management will be undertaken. This will be recorded in the minutes of the Board.</p> <p>The Projects and Programmes Team provides advice on document storage and management as part of its Project Management Training</p>	With immediate effect

No	Lessons Learnt	Responsibility	Proposed action to be taken	Target date
8	A dedicated resource for maintaining accurate information should be used for major projects.	Senior Responsible Officer	<p>The Senior Responsible Officer and Project Manager will agree what project support resources will be required. This will be recorded in the minutes of the Board meeting.</p> <p>The Senior Responsible Officer and Programme Manager will seek advice and support to recruit the appropriate project support resources and to ensure that budget is available for external assurance if required.</p>	With immediate effect
9	The project's Senior Responsible Officer should ensure that project managers are keeping Verto up-to-date throughout the lifecycle of the project.	<p>Senior Responsible Officer</p> <p>Projects and Programme Manager</p>	<p>The Senior Responsible Officer and Project Manager will ensure adequate project support to maintain Verto.</p> <p>A monthly "highlight report" is produced by the Projects and Programmes Team which sets out the status of each project or programme is presented to Directorate Leadership, Wider Leadership team meetings and provided to the Audit team.</p> <p>A performance dashboard has recently been developed that highlights non-compliance and areas of risk which in addition is present to the Project Assurance Group.</p>	<p>With immediate effect</p> <p>Implemented</p>
10	An escalation process should be developed where it is identified that the Verto system is not being updated in a timely manner.	Projects and Programmes Manager	<p>A monthly "highlight report" is produced by the Projects and Programmes Team which sets out the status of each project or programme is presented to Directorate Leadership, Wider Leadership team meetings and provided to the Audit team.</p> <p>A performance dashboard has recently been developed that highlights non-compliance and areas of risk which in addition is present to the Project Assurance Group.</p>	Implemented

No	Lessons Learnt	Responsibility	Proposed action to be taken	Target date
11	The project assurance group should be kept informed of any issues relating to the train station project.	Projects and Programmes Manager	<p>Projects and Programmes will review all major capital programmes. Development work is being done with Performance team to improve visibility of performance of projects.</p> <p>Project Manager to provide update to Project Assurance Group when required and build in regular updates as part of project planning.</p> <p>Project Assurance Group will include a standing item for major capital programmes which will include the train station.</p>	With immediate effect
12	The project assurance group should be included in the governance structure of the Interchange train station.	Chair of Project Assurance Group	<p>The Project Assurance Group, chaired by the Director of Finance or the Strategic Director for Place, will provide officer oversight and challenge for major capital projects and programmes.</p> <p>There is a standing item on Project Assurance Group meeting agenda to provide an update on all major capital programmes through Verto performance dashboard reporting.</p> <p>The Programme Director or Project Manager will provide an update to Project Assurance Group when required and include regular updates as part of project planning.</p>	With immediate effect

No	Lessons Learnt	Responsibility	Proposed action to be taken	Target date
13	As the station enters the construction phase, the project will need to be kept under review and may need to appear as an individual risk on the Council's strategic risk register.	Head of Audit	<p>The strategic risk register will include an entry for major capital programmes which will include the train station.</p> <p>Projects and Programmes team report monthly and share all significant project "red" risks i.e. with a score of 15 and above, to the Directorate Leadership Teams, Project Assurance Group and Corporate Risk team.</p>	With immediate effect
14	The analytical methodology and decision-making criteria in contingency-setting must be documented to allow for later challenge and change management.	Senior Responsible Officer	<p>The project risk management process is already established, and risks are managed and monitored using Verto.</p> <p>The Senior Responsible Officer will ensure that decisions and supporting evidence is recorded in the minutes of the Board meeting.</p>	With immediate effect

No	Lessons Learnt	Responsibility	Proposed action to be taken	Target date
15	<p>In the review of project estimates and bids the contingency levels adopted or proposed should be challenged based on benchmarking against similar projects at the same stage of development.</p>	Chief Accountant	<p>External specialist project and risk assurance consultancy has been procured to support the delivery of projects and programmes.</p> <p>In addition, a Commercial Business Partner and Audit Business Partner have been provided training to be able to undertake peer reviews of major projects. This will provide an additional opportunity to challenge proposed contingencies and robustness of plans</p> <p>Finance are represented on all major capital programmes and are members of the Board and working groups. This provides assurance and challenge around contingencies and programme budgets. All formal reports to require sign-off from Finance and therefore Finance comments and approval must be sought before submission.</p>	With immediate effect
16	<p>The grouping of projects into a programme does not reduce the requirement for detailed risk assessments for each of the constituent projects. There is an additional requirement to overlay a programme-level risk register to capture cross-cutting risks and interface and dependency risks.</p>	Projects and Programmes Manager	<p>Within Verto Projects and Programmes are built within a hierarchy. Any programme or project both has access to a risk register within the system.</p> <p>During the concept and feasibility phases of a programme or project the scope, complexity and risks will be assessed and identified. These will be presented to the Project Assurance Group where, as part of the approval to progress, the resources required to successfully manage the programme will be considered.</p>	Implemented

No	Lessons Learnt	Responsibility	Proposed action to be taken	Target date
17	If a detailed QCRA is carried out to support the setting of project contingency levels, advice should be sought from a risk specialist about the appropriate confidence level from the analysis to use.	Head of Audit	<p>External specialist project and risk assurance consultancy has been procured to support the delivery of projects and programmes.</p> <p>In addition, a Commercial Business Partner and Audit Business Partner have been provided training to be able to undertake peer reviews of major projects.</p>	3 September 2018
18	Close on going monitoring of the financial status of supplier M should be undertaken.	Head of Procurement	<p>The Dun and Bradstreet report will continue to be monitored by Procurement to ensure continued monitoring of supplier M's financial status. Procurement will receive alerts should there be a deterioration and will advise the SRO.</p> <p>Procurement also conducts market and intelligence into companies involved in large scale capital programmes.</p>	Implemented

APPENDIX A - Interchange train station - timeline of key events

Date	Timeline Event
April 2014	Supplier E's cost report produced
August 2014	A business case was produced the project
March 2015	Project costs were presented to Cabinet at £39.4 million (including £12 million for the new station building). The report included a Council contribution £1 million.
March 2015	Cabinet Member Briefing - City Assets. Interchange update on railway and interchange development work.
January 2016	A report presented to Council. State of the City Address 2015-2016, highlighted of the railway and interchange development work.
October 2016	Cabinet Member Briefing – City Economy. To note the appointment of new contractors for the station demolition/ reconstruction; to note the approval, in principle of additional funding from HS2 Connectivity funding for the programme; and to authorise the acceptance of grant of £10.1 million from Centro/West Midlands Combined Authority towards the programme.
November 2016	A report to Cabinet (Resources) Panel. To note that additional estimated costs have increased by £12.4 million on the Project and that sources of funding have been identified to address some or all of the additional funding required and that actions are underway to secure the appropriate levels of funding. The also noted the developer's decision to terminate the agreement with the current building contractor and appoint a new contractor to demolish and redevelop Wolverhampton Rail.
November 2016	A report to Council. Resolving that the Council underwrites additional costs of £8.1 million initially funded through prudential borrowing with the expectation that external funding would be secured in due course be approved. It was also resolved that the capital programme was updated to reflect the additional budget required be approved.
February 2017	A report to Cabinet (Resources) Panel. It was resolved that the Council enter into a Supplemental Agreement with the delivery partners for the Wolverhampton Interchange programme.
May 2017	Risk workshop held including representatives from supplier N, supplier M, City of Wolverhampton Council and Network Rail.
July 2017	A report to Cabinet (Resources) Panel. The principle of the Council bidding on the Corn Hill site based on its strategic importance in the context of the Interchange masterplan be endorsed. Cabinet is being requested to potentially 'underwrite' the cashflow on the Station component of the Interchange project.
September 2017	Cabinet Member briefing providing an update on the Interchange programme.

Date	Timeline Event
November 2017	<p>A report to Cabinet (Resources) Panel. To ensure there is no further cost escalation on the programme Ion / CWC have agreed a guaranteed maximum price of £19.9 million for the station contract with supplier M. Negotiations are continuing with the objective of securing reductions on specific work packages.</p> <p>That financial expenditure associated with both awards of the station contract and limits/caps agreed in the Letter of Intent (LOI) with supplier M be authorised.</p> <p>Expenditure in respect of preliminary works for the construction of the City of Wolverhampton Railway Station be authorised.</p> <p>To enable the Council to let the contract to supplier M ahead of the WMCA completing their final funding approvals a letter be sought from the Section 151 officer at the WMCA confirming they are content that the Council now enter into the contract with supplier M.</p>

Limitations inherent to the internal auditor's work

This report has been prepared solely for the council 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 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.

Report distribution:

Managing Director

All members of the Strategic Executive Board

Director for Regeneration

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