Internal Audit Report

Transformation Programme, Follow-up Review

Issued: September 2016

Final

Level of Assurance	N/A – Follow-up reviews are not rated.

Executive Summary

<div style="background-color:#e8efd8; border:1px solid #000; padding:4px;">

1.0 Introduction

</div>

Midlothian Council continues to face a period of financial constraint with continuing service demand pressures and increased customer expectations. The 2016/17 budget included an anticipated utilisation of £2.668M from reserves while the projected budget shortfall for 2017/18 is £11.215M rising to £36.931M by 2020/21. A change programme has been instigated to contribute to managing these financial shortfalls and this comprises a number of elements, one of which is Business Transformation. Other elements include: Delivering Excellence; asset management; capital and reserves strategy; operational saving and savings options.

This audit reviews the Business Transformation programme, while audits planned later in 2016/17 will assess the Financial Strategy more generally including the Delivering Excellence model.

The Transformation Programme was initiated in 2010 as a result of the need to take a transformational approach to resond to constrained funding and demographic cost pressures. The primary aim of the programme was to allow the Council to make a step change in service provision and through that secure efficiencies to contribute to bridging the prediced funding gaps.

Internal Audit undertook a review of this programme in 2014/15 and reported its findings to the October 2014 Audit Committee. The objectives of this previous review were to:
- form an opinion on the adequacy and effectiveness of the governance arrangements for the Council-wide transformation programme and a sample of individual work streams including service reviews;
- review progress to date against original aims and objectives at a programme level and on a sample of individual work streams; and
- assess the effectiveness of the programme to deliver change.

The October 2014 report noted that Midlothian Council had put in place a number of processes and controls to assist with the delivery of the Transformation Programme:
- a governance framework with the establishment of a Transformation Programme Board and Steering Group;
- the establishment of a Project Management Office with dedicated staff;
- a range of tools and techniques to support the wide variety of transformational change requirements;
- the development of a Financial Strategy, approved by Council in February 2014, which outlined how the Council plans to deliver the required level of savings; and

- regular performance reporting.

In addition, the report noted a number of areas where transformation could be shown to have had a major impact on individual areas including Housing, Children's Services and Adult and Social Care.

The Audit Report was however rated as an Amber (limited assurance) and a total of 35 recommendations were raised to improve control. Issues raised included:
- the challenge in delivery of the savings targets established as part of the Transformation Programme;
- the need to improve on management reporting of variances to budget to allow alternative savings to be identified where there was a projected shortfall; and
- regular monitoring of the level of compliance with governance arrangements (including risk reporting and end of project reporting).

Additionally, in relation to the sample of projects reviewed as part of the audit: Effective Working in Midlothian (EWiM), People Strategy and Integrated Service Support (ISS) the report recommended:
- more effective and regular reporting to the BusinessTransformation Board and Steering Group - including total amounts spent on projects and savings delivered since outset;
- improvements over the decanting of buildings and an increase in the pace of disposal of sites surplus to requirement;
- that a workforce strategy, development plan and HR metrics should be clearly defined, measured and regularly reported to senior management and the Business Transformation Board and Steering Group; and
- regular reporting of the budget position within SWITCH to the Business Transformation Board and Steering Group.

A Management Action Plan together with recommendations to improve controls was included within the audit report, endorsed by Management and approved by the Audit Committee.

2.0 Objectives of the Audit

The purpose of this audit was to follow up on the issues raised in the Transformation Programme Audit submitted to the Audit Committee on October 2014. Additionally, the audit reviewed the changes and developments in the Council's approach to Business Transformation given the pace of change and the time elapsed since the last review.

A copy of the terms of reference for the review is attached on page 13.

3.0 Conclusion

The follow-up review has identified that the majority of the audit recommendations have been satisfactorily acted on by management. However, some issues have been identified where further work is required to fully implement the original audit recommendations. Of the 35 recommendations raised in the original report, further work was identified as being required for 8 recommendations.

The Transformation Programme has been and continues to be important to the Council in terms of delivery of savings and transforming service provided to users of Council services. The programme is planned to make a continuing contribution to delivery of savings in 2017/18 and beyond as noted in the Council's Financial Strategy report (28 June 2016). The Business Transformation programme has been re-focussed into 5 streams each with savings targets attached to them. However, it is noted that in future years, achievement of savings will remain challenging which the Council will have to address if it is to secure a sustainable financial position.

Improvements have been noted in:
- reporting of project costs and delivered savings to the Business Transformation Board and Business Transformation Steering Group;
- the consistency and format of reporting to the Boards;
- management reports to the transformation boards indicate that regular board meetings and project reporting are in place for all 5 transformation strands;
- overall project status and reporting of key milestones; and
- the project methodology and the Project Definition Documents, which now encompass the recommendations made in the October 2014 audit.

One of the key recommendations from the 2014 Internal Audit Report was that there should be regular reporting of the amount funded through Business Transformation and the return on that investment. It was noted that the highlight reports have been developed following this recommendation to include sections that relate to total committed funds, target and projected savings and delivered savings. Whilst this represents a significant improvement the following was noted:

There are still inconsistencies in the way that this information is presented in Highlight reports to the Business Transformation Board and Business Transformation Steering Group which makes the reports difficult to follow for example:
- it is not always clear whether the savings detailed are projected or actual; and

3

- where cumulative savings are shown, the time periods over which these savings have been made are not clear and therefore it is difficult to contrast budgeted savings to actual savings delivered.

Although reporting of the Business Transformation Programme has improved and regular updates are submitted to the Business Transformation Board and Business Transformation Steering Group, a comprehensive annual report on the progress with the Business Transformation Program which includes a review of the governance of the program (a program health check review) has not been submitted to Council as per the original audit recommendation. In addition, it is noted that although Council receive a high level update on the progress of the Business Transformation Program as part of the Financial Strategy report, Internal Audit had recommended that there should be regular reporting on the total costs of Business Transformation against the targeted and actual savings delivered. This would be from inception of the programme and cover all current and past projects so that management and Elected Members have a clear picture of the costs and benefits of the programme. This issue was identified to management during the follow up review and a separate report is due to be presented to the Business Transformation Board, Business Transformation Steering Group and the Audit Committee on this area.

Other issues identified through the review were as follows:
- whilst it is noted that the quality of the reporting to the BTB and BTSG has improved in the project highlight reports, we recommend that the Business Transformation health check review should be undertaken as part of the annual reporting on the Business Transformation Programme. This health check review would report on the compliance and governance checks undertaken by the Transformation Manager on a 6 weekly basis;
- the audit recommended that a central project register / programme delivery plan be maintained of all projects and be used to track project progress. Whilst a project dashboard and reporting calendar has been established, which partly meets the requirements of this recommendation, it was noted that further improvements could be made to the dashboard to include all the information that would be expected from a central project register (e.g. including details of not just the 5 active project strands, but also enabler projects, Business Transformation funded projects, inactive/completed projects and the progress of services through the Delivering Excellence program);
- there has been a lack of closure reporting over projects detailing the outcome of the review, the savings delivered and the costs associated with transformation (including one off costs associated with SWITCH and the Voluntary Severance and Early Retirement Scheme);
- the original audit recommended that a cohesive Council-wide Asset Management Strategy be updated and presented to the BTSG. An updated overarching Council-wide asset management plan which links into the sub-plans has not yet been prepared; and
- some areas were identified where the Council's risk reporting of Business Transformation funded projects could be improved (eg EWiM).

As is standard Internal Audit practice, we have not rated this review since it is a follow-up of previously raised audit recommendations. We have however noted 8 recommendations where we have agreed with management that further improvements can be made. These recommendations are detailed in the Audit Issues and Management Action Plan below.

4.0 Audit Issues and Management Action Plan

4.1   Business Transformation Programme Reporting

Periodic Reporting
Progress with the Business Transformation programme is reported periodically via updates to the Business Transformation Board and Business Transformation Steering Group and a summary of the Business Transformation activity is provided within the Council's Financial Strategy reports.

One of the key recommendations from the 2014 Internal Audit Report was that there should be regular reporting of the amount funded through Business Transformation and the return on that investment. It was noted that the highlight reports have been developed following this recommendation to include sections that relate to total committed funds, target and projected savings and delivered savings. Whilst this represents a significant improvement the following was noted:

There are still inconsistencies in the way that this information is presented which makes the highlight reports difficult to follow for example:
- it is not always clear whether the savings detailed are projected or actual;
- the funding committed to the project does not detail whether the costs have yet been incurred; and
- where cumulative savings are shown, the time periods over which these savings have been made are not always clear and therefore it is difficult to contrast budgeted savings to actual performance.

In relation to specific projects reviewed as part of this follow up it was noted that:

- the Integrated Service Support (ISS) project absorbed a number of 'enabler' projects. These included Purchase to Pay, EDRMS (Electronic Document and Records Management System), the Integra Upgrade and People Strategy 1[1]. These 'enabler' projects had costs and used Transformation funding but the ISS project is reporting in its project highlight reports that its costs are zero; and
- the Effective Working in Midlothian (EWiM) program is currenty reporting no delivered savings but there have been property sales.

Annual Reporting

There has been no detailed annual report on the Business Transformation Program submitted to Council which was intended to include a review of the progress of all Business Transformation projects and historical funding, costs, savings and an assessment of the governance of the projects (a program health check) as per the original audit recommendation.

During 2012 and 2013 the Business Transformation team carried out a program Health Check review on the Business Transformation Program to provide assurance to the Board that:

- the Transformation Programme is delivering the outcomes and benefits set out in the Business Transformation Strategy and Project Definition Documents;
- the programme and transformation projects have sound governance and internal controls and with sufficient resource in place to drive transformational change; and
- remedial actions will be identified, if necessary, to ensure both the programme and transformation activities are focused and effectively progressing to deliver their objectives.

Internal Audit recognised this as good practice in the October 2014 Audit Report and recommended that this program health check should be carried out annually to provide independent scrutiny to Business Transformation projects and ensure that the programme is being reported on in its entirity. It is noted that a number of checks are made by the Transformation Manager on a 6 weekly basis. These include a review of the highlight reports for all of transformation, a check on project risk registers, a review of the project boards / ensuring that the project board meetings took place and a review of the project's progress with its actions. The annual health check will summarise the results of the 6 weekly reviews.

---

[1] *People Strategy 1 was absorbed as part of the ISS project but this project has now been superseded by People Strategy 2 which is not part of the ISS Project and instead sits within the Organisational Development and HR team as business as usual).*

No	Recommendation	Priority	Manager	Target Date
1	A standard reporting format should be introduced within Highlight reports to report on programme performance against savings targets. This could for example show:	High	Transformation Manager	28/09/2016

Target Saving	Actual (A) / Projected (P) Saving	Variance	
2014/15	2014/15 (A)		£
2015/16	2015/16 (A)		£
2016/17	2016/17 (P)		£
Total £	*£		£

Authorised funding	Amount used	Funds still available
£	£	£

* Actual savings for year to date are £

Total net cost / benefit to the Council as at the end of 2016/17 is estimated to be £.

Additionally, for any recorded variances there should be a note on what is being done to address the potential shortfall.

No	Recommendation	Priority	Manager	Target Date
2	Management should review the current reporting of costs and benefits realised for the following: • reporting of project costs in highlight reports should include the costs of any sub-projects absorbed as part of the overall project; and • savings achieved through the Effective Working in Midlothian (EWiM) project should be reported on the highlight reports.	High	Transformation Manager / Project Leads	28/09/2016

No	Recommendation	Priority	Manager	Target Date
3	An annual update report summarising the work of Business Transformation should be produced and submitted to BTB, BTSG, Audit Committee and Council. This should summarise the active business transformational work streams, transformation funded projects, benefits realised and transformation savings.	Medium	Transformation Manager	31/12/16
4	A program health check should be included as part of the Business Transformation annual update report. The health check should report on findings from the 6 weekly Transformation reviews and any other relevant project governance or internal control findings. Recommendations made as part of the Health Check Review should be uploaded to Covalent for tracking.	Medium	Transformation Manager	31/12/16

4.2   Project Tracking and Project Closure

The October 2014 Internal Audit identified that a central project register is not maintained of all projects that have been initiated and subsequently closed. Minutes of Business Transformation meetings, project initiation documents and closure reports do record the initiation and closure of projects. However, the audit trail of this could be improved further by recording these centrally within a project register / program delivery plan.

In response to this issue, a project dashboard and reporting calendar has been created which outlines all five of the business transformation strands, the project manager, project sponser, interdependent projects, target savings and main achievements. However, it is noted that this register is incomplete in that it does not cover all BT funded projects (eg EWiM) and does not record when projects are transferred out of the Transformation Program (eg to 'business as usual' or as part of the Delivering Excellence Framework). Additionally, insufficient detail is included on the dashboard on Business Transformation Enabler Projects (eg projects such as Purchase 2 Pay, Multi-Functional Devices etc.)

It was highlighted in the previous Audit that there has been a lack of closure reporting over projects detailing the outcome of the review, outlining what went well, the challenges faced, any lessons learned, the savings delivered and the costs associated with transformation (including one off costs associated with SWITCH and the Voluntary Severance and Early Retirement Scheme). Only 1 closure report has been produced since the previous audit and reports have not been produced for projects that have received Business Transformation funding that have since been transferred out of the Transformation Program or subsumed into other projects.

In Grant Thornton's External Audit Report presented to Council in December 2014, the following was recommended:

'As one of the smaller councils in Scotland, Midlothian has limited capacity to support significant transformation programmes. There are currently 8 work streams supported by the Council's transformation team and reported to the Business Transformation Steering Group, but not all of the work streams would be considered transformational. We recommend that the transformation program is streamlined to focus support and resources on the areas that will have the biggest impact on the Council's priorities and savings.'

In acknowledging this issue, the Strategic Leadership Group agreed with the Business Transformation Board, the transition of three of the non-transformational strands (Externalisation / Insourcing, Energy and Income Maximisation) out of the Transformation Program and into the Delivering Excellence Framework approach (July 2015). It is noted that only Externalisation / Insourcing has had a formal project closure report submitted to the Business Transformation Board (November 2015) outlining what went well, challenges faced, lessons learned and the project's transition to the Delivering Excellence Framework. Closure reports from the other two streams transitioning to Delivering Excellence were not completed, but their closure was recorded in the board minutes. The Transformation Manager has noted that although no closure report has been submitted, the Income Maximisation work stream will be examined as each Head of Services works through the Delivering Excellence Framework and the Energy work stream is being dealt with under a wider banner of sustainable options on green energy.

No	Recommendation	Priority	Manager	Target Date
5	The project dashboard should be expanded into a project register and include Business Transformation funded projects as well as Business Transformation strands and sub-projects of the strands. Detail of funding provided, targeted savings and delivered savings should be added to give a snapshot of the Transformation Programme's progress.	Medium	Transformation Manager	31/12/2016
6	All projects (including enabler projects,those transitioned to 'business as usual' or to the Delivering Excellence Programme) should submit an end of project report detailing the outcome of the review, outlining what went well, challenges faced, lessons learned, the savingsdelivered and the costs associated with transformation (including one off costs associated with SWITCH and the Voluntary Severance and Early Retirement Scheme).	Medium	Transformation Manager / Project Leads	Dependant on workstream

4.3   Risk Reporting

For the sample of projects reviewed as part of the October 2014 audit it was noted that the risk register for the EWiM project was not recorded on Covalent (the Council's Risk Management system).

The EWiM risk register was uploaded to the Covalent system after the audit was reported to the Audit Committee but has since been taken off the Covalent system when the project transitioned from phase 2 to phase 3 of the EWiM programme. A risk register is in place with the Project Manager but the Council's Risk Management System should be used to ensure that all key risks are brought to the attention of members of the Business Transformation Board and the project team, particularly as it is a requirement that high risks should be brought to the attention of the Business Transformation Board. It is noted that the other recommendations made for EWiM have been met including improvements to project reporting and establishing an adequate project board. Additionally, since the prior audit, 2 property sales have been made and a there is a plan in place for phase 3 of the project outlining the current Council Estate,indicative dates of decanting buildings and disposal target dates where relevant.

No	Recommendation	Priority	Manager	Target Date
7	The EWiM risk register should be updated fully and uploaded into Covalent. Updates should be made on the Covalent system on a quarterly basis.	High	Project Manager	31/10/2016

4.4   Asset Management Plans

Effective Working in Midlothian (EWiM) focuses on transformation of the Council's property portfolio and forms part of the original Asset Management Transformational work stream which included not only buildings but also IT, fleet and equipment.

The October 2014 Internal Audit noted that although asset management plans are in place at a service level for various categories of assets held across the Council (including Roads, Digital Assets and Housing), the central asset management plan was in need of updating. The Corporate Asset Management Strategy was last updated in 2008 and covered the period 2008 to 2011. Internal Audit have not been able to evidence progress in this area since this date. A cohesive, Council wide strategy helps ensure that asset management for the entire Council is overseen at a corporate level, assets are utilised efficiently and effectively and all individual asset plans for the different asset categories support the achievement of Council priorities and contribute to achievement of the required savings. It is recommended the strategy includes the six categories of assets identified in CIPFA's "Guide to Asset Management and Capital Planning in Local Authorities". This includes:

- Property;
- Housing;
- ICT;
- Roads including structures, lighting and water infrastructure;
- Open Spaces; and
- Fleet including vehicles, plant and equipment.

No	Recommendation	Priority	Manager	Target Date
8	The Corporate Asset Management Strategy (comprising Property, Open Spaces, Digital Assets, Fleet, Roads and Housing) should be updated and presented to the Council. This should include separate stages and investment plans for each strand of asset.	Medium	Director, Resources	31/03/2017

APPENDIX 1

Distribution List

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Gary Fairley, Head of Finance and Integrated Service Support (s95 officer)
- Nancy Brown, Transformation Manager
- Garry Sheret, Head of Property and Facilities Management
- Darren Imrie, Project Manager
- Grant Thornton, External Audit

Audit Team

James Polanski	Auditor
Graham Herbert	Audit Manager
Elaine Greaves	Audit Manager

TERMS OF REFERENCE:

Audit Objective and Scope

Audit Objective

The purpose of the audit is to follow up on the issues raised in the Transformation Programme Audit submitted to the Audit Committee on 28 October 2014. Additionally, the audit will review changes and developments in the Council's approach to Business Transformation given the pace of change and the time elapsed since the last review.

Scope of Audit

The previous audit reviewed:
- the adequacy of the governance of the programme and governance of individual work streams (roles and responsibilities, performance, financial and information management systems, adequacy of project documentation including links to priority themes and underpinning of Council's core principles, risk management, issue monitoring and resolution, communication, partnership working and stakeholder management etc);
- the adequacy of base lining of the work stream / service being transformed and the subsequent monitoring of progress against the targeted outcome and benefit (including financial and non financial objectives); and
- the adequacy of work stream / service reviews project completion in terms of learning lessons for future programmes and the follow through on service improvement recommendations and savings.

The objective of the Transformation Programme Follow-up Audit is to review the recommendations made to determine whether the actions have been completed satisfactorily, and adequate measures have been taken by management to address the control issues identified in the prior audit. This will include reviewing improvements made to the Council's reporting of Business Transformation projects and tracking of financial savings.

Excluded from the scope of the audit

• no specific exclusions.

Potential Risks
The main risks associated with the Petty Cash system are as follows: • misappropriation of cash from the petty cash imprest account; • fraudulent requests for payment from cash floats; • financial loss and / or reputational damage through using the petty cash float for inappropriate payments (eg salary costs); and • financial loss and / or reputational damage through failing to adequately account for petty cash.

Audit Approach
The audit approach will consists of: • fact finding interviews with relevant employees; • interrogation of any relevant systems and sample testing as required; • closure meeting with local management to discuss the findings and any recommendations from the review; • draft and final reporting; and • presentation of the final report to the Audit Committee.

Timescales & Reporting
The audit will commence in February and will be issued to the next available audit committee.

Information Requirements
Access to all relevant systems, documentation and employees.

Audit Resource
Auditor: **James Polanski**   **0131 270 5646** **Reviewer:**   **Graham Herbert**   **0131 271 3517**