



**Chief Internal Auditor  
Jill Stacey**

Audit Committee  
Tuesday 29 January 2019  
Item No: 5.5

**Auditor: Chris Hurt, Ext 3285**

## **Final Internal Audit Report**

**to**

- Chief Executive
- All Directors
- All Heads of Service

**on**

**The Delivering Excellence Programme**

**23 January 2019**

## 1 Introduction

1.1 The purpose of this audit was to review the overarching arrangements for setting and monitoring the Delivering Excellence Programme within Midlothian Council.

## 2 Audit Scope

2.1 The scope of this audit was to examine and evaluate the following areas:

- the compilation and governance of the programme and its delivery;
- based on a sample of projects:
  - the appraisal and analysis undertaken in order to arrive at the savings proposed and assessment of whether they are realistic, achievable and aligned to the Council's priorities and outcomes;
  - a review of the evidence used to support the calculation of planned savings, key assumptions and cost drivers;
- a high level review of processes in place for monitoring delivery of savings.

2.2 This audit did not consider changes affecting budgets delegated to the Midlothian Integration Joint Board as this is the subject of a separate audit.

## 3 Management Summary

3.1 The Delivering Excellence Programme has lost its focus. At present any transformational savings are buried within a large number of predominantly low value, single service cost cutting initiatives.

3.2 Previous iterations of the Delivering Excellence Programme did deliver savings in some Service areas. In recent years the Programme has not delivered the cost savings and efficiencies consistently across all Service areas that the Council desperately needs to secure ongoing financial sustainability. There are a number of contributing factors for this:

- Transformation savings were not sufficiently ambitious enough and were not suitably cross cutting.
- Whilst approval was initially given by Members to the Delivering Excellence Programme, a significant proportion by value of the initiatives that underpinned the Programme were rejected by Members during base budget setting processes. As a result urgent measures at even larger scale are now required.
- Based upon a sample of higher value components that we examined within the Programme, not all proposals were well thought out, well planned and may not be ultimately deliverable if in fact they ever were deliverable.

- 3.3 Progress with the Delivering Excellence Programme has been monitored by Management through the Business Transformation Board (BTB), and by Elected Members through the Business Transformation Steering Group (BTSG) though recently the programme has not delivered the cost savings and efficiencies consistently across all Service areas. Since the appointment of a new Chief Executive there has been a greater sense of urgency in driving the programme forward and assigning responsibility and accountability for programme deliverables.
- 3.4 The existing programme is not entirely fit for purpose and should be refocussed and relaunched; the key factors for success being ambition, achievability and accountability. In order to secure financial sustainability urgent action is required. BTB should revert back to the benefits realisation and outcomes model which was in place about 5 years ago.
- 3.5 Internal Audit is able to give limited assurance on the Delivering Excellence Programme in its current form.
- 3.6 The Internal Audit function conforms to the professional standards as set out in the Public Sector Internal Audit Standards (2017), including the production of this report to communicate the results of the review.
- 3.7 We would like to thank those officers who assisted us during our review.
- 3.8 This report should be read alongside the Internal Audit report on Revenue Budget Monitoring, as these two areas are inextricably linked.

#### 4 Findings

| Risk  | Expected Control  | Results  | Effectiveness of Actual Control | Rec. Ref No        |
|---|---|--|---------------------------------|--------------------|
| <p>4.1 The Council will not be able to deliver against the Single Midlothian Plan priorities resulting in local hardship for the population of Midlothian and reputational damage to the Council.</p>   | <p>Collectively, initiatives within the DEP will enable the Council to deliver high quality services more cost effectively and assist in delivering the Single Midlothian Plan.</p>                           | <p>The Delivering Excellence Programme has over time changed from a programme whose focus was to deliver high quality services more cost effectively into what is primarily a cost cutting programme. There is little focus on excellence and ambitious cross cutting projects are not evident within the Programme.</p> <p>Previous iterations of the Programme did deliver savings in some Service areas. In recent years the programme has not delivered the cost savings and efficiencies consistently across all Service areas that the Council desperately needs to secure ongoing financial sustainability.</p>   | <p>Weak</p>                     | <p>5.1<br/>5.2</p> |
| <p>4.2 The savings may not be deliverable or are delivered late impacting on the Council's financial sustainability and requiring further reductions which may impact on the residents of Midlothian, reduce staff morale and cause reputational damage to the Council.</p> | <p>Only carefully evaluated and scrutinised initiatives are included in the programme.</p> <p>Nominated officers with appropriate authority are made responsible and accountable for successful delivery.</p> | <p>Whilst approval was initially given by Members to the Delivering Excellence Programme, a significant proportion by value of the initiatives that underpinned the Programme were rejected by Members whilst setting the 2018/19 base budget. For example, initiatives within Adult Social Care which might have made a significant difference to the Council's medium to long term financial sustainability and innovate the way in which services are delivered were rejected by Members.</p> <p>Initiatives included within the programme are proposed within service areas. These proposals should be supported by business plans or other planning consideration which have been assessed by a financial accountant for the service area to ensure financial viability.</p> <p>BTB should revert back to the benefits realisation and outcomes model which was in place about 5 years ago.</p> | <p>Weak</p>                     | <p>5.3<br/>5.4</p> |

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|--|--|---|---------------------------------|-------------|
| <p>4.2 The savings may not be deliverable or are delivered late impacting on the Council's financial sustainability and requiring further reductions which may impact on the residents of Midlothian, reduce staff morale and cause reputational damage to the Council. (cont'd)</p> | <p>Only carefully evaluated and scrutinised initiatives are included in the programme.</p> <p>Nominated officers with appropriate authority are made responsible and accountable for successful delivery. (cont'd)</p> | <p>We reviewed a sample of seven high value (financial saving greater than £500k) initiatives proposed, whether approved or not by Members.</p> <p>We noted that:</p> <ul style="list-style-type: none"> <li>• For the two projects not approved by Members we were unable to confirm that the proposal was supported by detailed business plan or other analysis.</li> <li>• For the remaining 5 proposals which were approved by Members we could confirm that: <ul style="list-style-type: none"> <li>• in all but one case that there was at least some sort of business plan or other analysis; <u>but</u></li> <li>• according to RAG rating at November 2018 three are rated red and one amber with regard to deliverability.</li> </ul> </li> </ul> <p>Progress with Delivering Excellence Programme has been monitored by BTB and BTSG though recently the programme has not delivered the cost savings and efficiencies consistently across all Service areas. Since the appointment of a new Chief Executive there is a greater sense of urgency in driving the programme forward and assigning responsibility and accountability for programme deliverables. She has also signalled the importance of a medium term strategy given the acute financial position faced by the Council.</p> |                                 |             |

| Risk   | Expected Control   | Results   | Effectiveness of Actual Control | Rec. Ref No |
|--|--|---|---------------------------------|-------------|
| 4.3 Opportunities for delivering savings to help bridge the projected funding gap may not be identified. | Processes are in place to ensure that viable savings options are identified and critically analysed. | <p>Opportunities for delivering savings were invited from and identified by Heads of Service.</p> <p>It is highly unlikely across all Services that truly ambitious cross-cutting transformation and savings will be identified and achieved on this basis.</p> <p><i>Within the Internal Audit report on Revenue Budget Monitoring we have made a recommendation that if absolutely necessary CMT should consider imposing cost reductions across all Directorates, whilst not considered to be good practice, but in recognition of the Council's fragile financial position; noting that these imposed savings should be articulated in cogent savings plans for which the plan owner should be held fully accountable for delivery.</i></p> | Weak                            |             |

## 5 Recommendations

| Rec. No | Recommendation   | Rating | Management Response   | Responsibility and Timescale                                    |
|---------|--|--------|---|---|
| 5.1     | The Delivering Excellence Programme should be urgently refined and relaunched as part of the medium term financial strategy. Initiatives which are not transformational or are single service should be separated out for monitoring purposes. | High   | Steps are underway to develop a Medium Term Financial Strategy to ensure a robust response to the financial outlook and Council priorities.   | Chief Executive,<br>Directors and Heads of Service<br>June 2019 |
| 5.2     | Transformation savings included in the relaunched programme must be ambitious and where appropriate suitably cross-cutting.  | High   | As above  | As above  |
| 5.3     | In future where an initiative has significant financial implications BTB should review the planning documentation and satisfy themselves as to the viability of the initiative <u>before</u> allowing admission to the programme.              | High   | The governance framework will be enhanced through provision of the planning assumptions for the initiatives to enable more rigorous scrutiny by BTB and BTSG with support provided as necessary.<br><br>Specifically, BTB will revert back to the benefits realisation and outcomes model which was in place about 5 years ago. | BTB<br>March 2019   |
| 5.4     | Progress in delivering the relaunched Delivering Excellence Programme should be robustly scrutinised and responsibility for delivery of each programme elements clearly defined.   | High   | The governance framework will be enhanced through more rigorous monitoring by BTB and BTSG with support provided as necessary.  | BTB and BTSG<br>September 2019                                  |

## Overall Audit Opinion level and definition

|                         |   |
|-------------------------|---|
| Comprehensive Assurance | Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas might be required.                              |
| Substantial Assurance   | Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.     |
| Limited Assurance       | Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse. |
| No Assurance            | The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.                      |

## Recommendation Ratings

Recommendations in Internal Audit Reports are suggested changes to existing procedures or processes, to improve the controls or to introduce controls where none exist. The rating of each recommendation reflects our risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact. The ratings are:

|        |  |
|--------|--|
| High   | Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. The risk should be added by Management to the relevant Risk Register for control and monitoring purposes and included in the relevant Head of Service Annual Assurance Statement. |
| Medium | Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.   |
| Low    | Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of Senior Management.   |
| Other  | Minor administrative weaknesses posing little risk of error, fraud, financial loss or reputational damage.   |

The Action Plans in Internal Audit Reports address only Recommendations rated High, Medium or Low. Outwith the Internal Audit Report, we inform Service Management about Other Minor matters to improve internal control and governance.

The recommendations will be input to Pentana performance system to assist with Management tracking of implementation. If responsible owners are unable to achieve the standard timescales for actions please notify the Chief Internal Auditor with the reason for the delay in implementation and the revised timescales to assist with the implementation and follow-up of these recommendations to improve internal control and governance.

**Jill Stacey**  
Chief Internal Auditor