

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	4 December 2018
REPORT TITLE	Internal Audit Report AC1910 – Transformation
REPORT NUMBER	IA/AC1910
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Transformation.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Transformation.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

- 9.1 Internal Audit report AC1910 – Transformation.

10. REPORT AUTHOR DETAILS

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Internal Audit Report

Transformation (Target Operating Model)

Issued to:

Angela Scott, Chief Executive
Rob Polkinghorne, Chief Operating Officer
Steven Whyte, Director of Resources
Fraser Bell, Chief Officer – Governance
Jonathan Belford, Chief Officer – Finance
Morven Spalding, Interim Chief Officer – People and Organisation
External Audit

EXECUTIVE SUMMARY

The Council is undertaking an ambitious and extensive transformation programme in order to refocus on its key priorities as set out in the Local Outcomes Improvement Plan, and to rebalance its resources in order to achieve balanced future budgets. This includes review and rationalisation of the organisational structure, a change in the approach to commissioning, a move towards new digital solutions, and development and implementation of new governance arrangements to support these changes.

The objective of this audit was to provide assurance that the Council has appropriate arrangements in place to ensure the success of its transformational aspirations. This involved a review of the governance and programme management arrangements for implementing the Target Operating Model and progress made to date against key milestones including structural, financial and governance changes.

The transformational changes are generally well progressed and have followed a clear governance framework for development and implementation in line with a set of Target Operating Model design principles. The first phase of change, including transition to an interim staffing structure and other workforce changes, was set out in a clear programme plan, and is now almost complete. Plans and schedules for implementation of further phases, up to 2021, are being drafted.

The Strategic Transformation Committee has been central to the governance of programmes and funds within the transformation portfolio, however presentation of financial data could benefit from a more consistent and forward looking approach in order to better demonstrate progress, costs and forecast delivery of savings through projects and the overall programme. Finance has stated that presentation of financial information has evolved over time and will now provide details of approved, actual and forecast costs with forecast delivery of approved savings for 2018/19 in future reports to the Committee. The Transformation Strategy has been used to inform and steer budget setting for 2018/19 and beyond. Setting, and achieving, a balanced budget in future years will help demonstrate achievement of the planned outcomes.

Review of financial data indicates variation between reported and actual spend from the transformation fund; revised transformation fund budgets; and differences between the estimated and actual achievable savings arising through voluntary severance / early retirement. In addition, although savings have been calculated and applied to the budget, a reconciliation has still to be completed against the payroll system. Finance has reviewed and updated its records and have reviewed Committee reporting as noted above. People and Organisation anticipate concluding reconciliations to the payroll system before the end of December 2018.

Development and implementation of the Council's new governance arrangements and supporting documentation followed a clear programme plan, and records indicate that training was planned and delivered in their use. Opportunities to enhance the efficiency of decision making are being considered by officers.

1. INTRODUCTION

- 1.1 The Council is undertaking an ambitious and extensive transformation programme in order to refocus on its key priorities as set out in the Local Outcomes Improvement Plan, and to rebalance its resources in order to achieve balanced future budgets. This includes review and rationalisation of the organisational structure, a change in the approach to commissioning, a move towards new digital solutions, and development and implementation of new governance arrangements to support these changes.
- 1.2 The objective of this audit was to provide assurance that the Council has appropriate arrangements in place to ensure the success of its transformational aspirations. This involved a review of the governance and programme management arrangements for implementing the Target Operating Model and progress made to date against key milestones including structural, financial and governance changes.
- 1.3 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Angela Scott, Chief Executive; and Fraser Bell, Chief Officer – Governance.

2. FINDINGS AND RECOMMENDATIONS

2.1 Plans and Communication

- 2.1.1 The Council has set out a vision and a set of design principles for the Target Operating Model, and commenced a programme of work to develop options, agree and implement them over 5 years.
- 2.1.2 As plans to deliver this vision have developed, they have been presented as a set of programmes to the Council for approval, and thereafter (following development and implementation of new governance arrangements) the Strategic Transformation Committee was created to monitor progress with delivery of the Target Operating Model and ensure that service improvements and savings are delivered in line with the Council's Transformation Objectives.
- 2.1.3 There are defined 'design principles' which projects have to be able to demonstrate adherence to, and a defined time period over which they have to provide tangible benefits, including savings. Plans have been refined to include more detail through various reviews and iterations. Development and delivery are being reported to the Committee.
- 2.1.4 A dedicated intranet site has been made available to communicate the changes internally, outlining the governance changes and information on voluntary severance and early retirement (VS/ER) through which a proportion of the changes and savings will be achieved, and which have the most significant direct impact on staff. Although the site has not been frequently updated as new change projects have progressed, the majority of Committee papers are open to the public, including staff, except for programmes which are still under development or with commercial sensitivities. Consultation, and engagement sessions, have also been carried out with staff to support the transition. Further communication is anticipated as new processes and systems are developed and brought on-line.

2.2 Governance and Programme Management

- 2.2.1 A clear governance structure was developed and put in place, including clearly defined roles, responsibilities and processes. Support was provided by the Programme Management Office (PMO).
- 2.2.2 Each project was developed by one or more programme Delivery Board and had to pass through five Control Boards: Finance / Commissioning; Establishment; Design; Technology; and Communications, and thereafter the Management Board and Strategic Transformation Committee. The inclusion of these stages presented a risk of delay, which was mitigated by regular meetings, but the requirement for projects to pass through all of the Boards improved scrutiny and control to ensure each project met the target operating model design principles before progressing to implementation.
- 2.2.3 Although there was no published timetable for implementation, a very detailed project plan was set out for the first phase which included all of the supporting activities for development of business cases and restructuring to the interim structure.
- 2.2.4 Management is in the process of developing plans for the next phase of implementation. Although it may not be possible to schedule every action with certainty, it may be useful to set out a full implementation timetable in order to set and maintain the pace of change towards a clear end goal. This may also be an opportunity to review the balance of scrutiny and progress (i.e. the number of boards and meetings) to ensure all of the objectives can be delivered as planned whilst maintaining an appropriate level of assurance.

Recommendation

An implementation timetable should be set out.

Service Response / Action

Agreed. The PMO has reviewed existing programme and project management arrangements to help ensure the Council delivers its Transformation Objectives, including consideration of the balance between scrutiny and progress. This reflects the implementation of the interim functional structure. The PMO has developed plans for phases 2, 3 and 4 of transformation up to 2021 so far as possible.

Implementation Date

Implemented

Responsible Officer

Chief Officer –
Governance

Grading

Important within audited
area

2.3 Progress

- 2.3.1 The Strategic Transformation Committee is provided with Highlight reports at each meeting. These are high level summaries of progress, prepared by the PMO in conjunction with Senior Responsible Officers following review by the Delivery and Control Boards. More detailed reports including risks, actions, issues and decisions, have been considered by the Boards on a regular basis.
- 2.3.2 Detail of progress having been made is included in the Highlight reports, however these are high level, reporting on success and selected exceptions. The selection of data has varied, including reports which have amalgamated or re-named various workstreams, and milestone dates which have been revised or extended, without a note that it has occurred and supporting explanations. In each case only 'current' or 'completed' milestones are listed, giving no indication of the stage each programme / project / action has reached and how far each has still to go. Therefore, although the Committee can see what is being done, it may not be provided with sufficient assurance that this is achieving the intended results within agreed timescales. Monitoring against a timetable (see 2.2.4 above) could provide more assurance over delivery, if supported by clear explanations for variances.
- 2.3.3 In August 2017, Council agreed to the establishment of a £15 million Transformation Fund to accelerate the delivery of change, through development and implementation of various business cases. The Fund is intended to be self-financing – with cashable benefits from project delivery reimbursing the fund over defined payback periods.
- 2.3.4 Council further agreed that use of the Fund would be reported to the Finance Policy & Resources Committee as part of the Council's quarterly financial statements. The same meeting approved the establishment of the Strategic Transformation Committee whose remit and responsibilities included: allocation of funding as appropriate from the Transformation Fund; and to monitor spend against profiled budget and forecast outturns of the Transformation Fund. Finance has stated that to avoid duplicate reporting, the full portfolio budget reporting was presented to the Strategic Transformation Committee whilst the use of the fund was reflected via the 'Reserves' page in the Council's quarterly financial reports to the City Growth & Resources Committee which from 1 April 2018 superseded the Finance, Policy & Resources Committee. Although the Fund is included as a separate line in the financial statements on the 'Reserves' page - now reported to the City Growth & Resources Committee, the reserves have only been broken down into this level of detail in the annual statement.
- 2.3.5 Not all of the reports in relation to financial and other aspects of the Target Operating Model and Transformation have been published timeously. Although reasons for this have been published and agreed by the Convener in formal late report documents, including

the pace and scale of change and need to align with budget setting schedules, there is a risk that this might have reduced the time available for Councillors to review and scrutinise the content.

- 2.3.6 Three changes to Transformation Fund budget lines were made in the report to the February 2018 committee: additional budget was allocated to developing business cases for Fleet and Facilities Management. Each was originally awarded £150,000 based on estimated costs per the business cases, yet later budget monitoring shows each with a budget of £166,000; and £103,000 has been added for an activity analysis. There is no recorded explanation, formal request for approval, or minuted decision in respect of these changes. Finance has stated that the estimates were subsequently reviewed and amended to reflect updated information and that as the revised estimates for these activities did not result in a change in the agreed overall cost of external support for their delivery further approval was not sought. It is noted that in subsequent reports any virements between budget headings were highlighted and approval sought for the changes.
- 2.3.7 Investment of Transformation Funds was predicated on delivery of savings and a return on investment within a defined period. Although transformation is being delivered over 5 years, some projects indicated a 3 year payback period. The returns / savings are not currently being presented to the Strategic Transformation Committee in the budget monitoring alongside Fund expenditure. It is however important that the anticipated savings are set out in advance, and progress towards achieving them monitored consistently. Inclusion of projected and actual savings within the monitoring report would provide more assurance over return on investment.
- 2.3.8 It was set out that the Finance Delivery Board would monitor spend and savings and model benefit realisation across the entire programme. The Strategic Transformation Committee was then asked to agree that each individual workstream report back to Committee via the Boards on their outcomes and expected benefits. Finance coordinates budget updates for each meeting of the Committee against relevant programme boards.
- 2.3.9 Presentation of financial data has developed iteratively as programmes have progressed. Content and timelines have varied: for example, some business cases requested one off investment, for programmes that would include ongoing costs, and it was not recorded how the ongoing revenue costs would be paid for. Year 1 savings, and cumulative 3 year savings, were provided for some programmes, without providing detail on annual savings thereafter. In early documents spend to date had been included as a comparator with future savings, without including the remaining expenditure commitment for comparison. Some activities presented minimum and maximum anticipated returns and there was no detail to suggest which was considered most likely.
- 2.3.10 Although there is evidence of early development of plans for benefits (savings) realisation, including fleet and facilities savings in addition to those included on the savings tracker, there is no up to date listing of all the original potential savings against each of the key transformational activities. Finance has stated that as business cases have been further developed, and savings quantified with more accuracy, these are subject to separate approval. Following approval, they will be monitored and reported in more detail.
- 2.3.11 Without a clear pattern of expected and agreed spend and savings, and a consistent approach to reporting, it will be difficult to monitor whether or not the anticipated results are being achieved.

Recommendation

The Committee should be provided with a clear comparison of actual against planned progress, costs and savings.

Service Response / Action

Agreed. Financial reporting has evolved through the year and information on the savings has been reported to the Strategic Transformation Committee in September 2018.

Implementation Date

Implemented

Responsible Officer

Chief Officer – Finance

Grading

Significant within audited area

- 2.3.12 Figures used in Transformation Fund monitoring to 31 March 2018 (reported to Strategic Transformation Committee in May 2018) did not all match those recorded in the financial ledger system and were not consistent with the movement in reserves reported to the City Growth & Resources Committee in April 2018. Expenditure of £1.723 million was recorded in the ledger against the Transformation Fund in the year to 31 March 2018, compared with £1.594 million reported to the Strategic Transformation Committee, and £1.967 million (after taking a year end adjustment of £1.778 million into account) to the City Growth & Resources Committee for the same period. £0.456 million has been spent in 2018/19 to date.

Recommendation

All reported costs should be reconciled back to the ledger system.

Service Response / Action

Agreed. The costs have now been reconciled and checks have been implemented to ensure costs are coded correctly in future. Updated figures have been reported to the Strategic Transformation Committee in September 2018.

Implementation Date

Implemented

Responsible Officer

Chief Officer – Finance

Grading

Significant within audited area

2.4 Restructuring

- 2.4.1 A key element of delivering the transformation programme is the restructure of the organisation and its staffing establishment into new functions. Changes have been agreed through business cases, reviewed by the Control Boards. There are three distinct areas where financial savings are being delivered as a result: removal of vacant posts, voluntary severance / early retirement, and cases for change resulting in establishment / disestablishment or other changes in existing posts.
- 2.4.2 Whilst there were clear plans set out for delivery of savings, actual progress with transforming the organisational structure, and adjustment of budgets and posts as a result, has been an iterative process as assumptions have been reviewed and changes implemented. Savings from deleted posts are being recalculated based on the salaries of departing staff, in proportion to the number of months remaining in the financial year, as each wave of structural change is processed.
- 2.4.3 At the point of the audit, vacancies had been deleted, though recorded figures varied, and it had yet to be determined whether any delays in finalising voluntary severance / early retirement might have a material impact on costs. Finance has stated that £9.953 million of a planned £10.3 million has been removed from the 2018/19 budget to date for

vacancies and deleted posts. Further adjustments are being made as cases for change are implemented. It is anticipated the full saving will be made.

- 2.4.4 Finance stated that budgets, and therefore savings deducted, were based on the actual cost of staff in post. Supporting detail for a sample of seven budget adjustments was provided, demonstrating that reasonable proportions of budget were being deducted based on termination dates. Two had been processed based on actual costs (including salary and on-costs: employer’s pension and national insurance contributions) from the payroll system in 2017/18 plus 1% for an estimated pay award.
- 2.4.5 The remaining five had been processed based on the post salary plus on-costs at 33.1%. Recalculation by Internal Audit showed that the actual on-costs for the staff previously in these posts were closer to 30% of salary, indicating that around 3% more had been deducted from budgets than was likely to be achieved from these posts being deleted. Finance confirmed that this should not have been the case and undertook a full review. A combined error of £47,665 was identified and is being addressed. In the context of £10.3 million savings overall this is not material (0.5%).
- 2.4.6 Following calculation and adjustment of the budget by Finance, People and Organisation are updating system records to reflect changes to the establishment. This work is being carried out in tandem with work to prepare for implementation of a new Human Capital Management system (known as CoreHR). Reconciliation of system to budget is work in progress, after which Chief Officers will be issued with a report to confirm the staffing establishment set up for their area. People and Organisation anticipate only minor adjustments will be required thereafter. However, records of progress to date and the extent of any potential adjustments are not yet available. Once fully reconciled, Finance will complete monthly checks to confirm or explain any changes.
- 2.4.7 Whilst it is appreciated that budget constraints are a major driver for change, and therefore recalculation of the budget is important, more assurance over accuracy could have been achieved by updating the HR system in the first instance, then reconciling the budgets to these records. A recommendation is made here to track progress with the reconciliation.

<u>Recommendation</u>		
People and Organisation should conclude reconciliation of budgets to HR system records.		
<u>Service Response / Action</u>		
Agreed.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
December 2018	Interim Chief Officer – People and Organisation	Significant within audited area

2.5 New Scheme of Governance

- 2.5.1 Following detailed review of governance documentation by the Governance Delivery Board, and approval from Full Council, the new scheme of governance was implemented on 6 March 2018.
- 2.5.2 A review of the documents indicates that they set out a reasonable framework for the operation of the Council through its Officers, Chief Officers and Committees. Application of the various governance procedures, and their effectiveness, will be reviewed as part of future audit testing. External Audit has reviewed leadership and governance and findings have been reflected in their annual report, provided to the Audit, Risk and Scrutiny

Committee in September 2018. CIPFA will be invited to review and assess the new governance arrangements in 2019.

- 2.5.3 There is however a potential for inefficiency in decision making for capital projects: each project business case must obtain approval from the Capital Programme Committee, funding must be approved by City Growth and Resources Committee and approval for the procurement elements of that business case must also be obtained from the Strategic Commissioning Committee (where the estimated costs are in excess of the Council's procurement thresholds). This might present a risk of delay in progressing with such projects pending Committee reporting schedules.

Recommendation

The Governance function should review options to enhance the efficiency of committee decision making.

Service Response / Action

Agreed. The Chief Officer – Governance, has commenced a review of potential enhancements to the governance arrangements which will take into account members and officers' experience to date. Internal Audit's comments will be taken into consideration as part of this exercise.

Implementation Date

March 2019

Responsible Officer

Chief Officer –
Governance

Grading

Important within audited
area

- 2.5.4 Training was scheduled for Councillors and Officers, and the majority of sessions were run on more than one date to provide sufficient options for attendance. Guidance and all of the new procedures are available on the Zone to assist Officers in meeting the new requirements.

AUDITORS: D Hughes
C Harvey

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.