

AUDIT PANEL		
Report Title	Value for Money report and opinion	
Key Decision	No	Item No. 6
Ward	ALL	
Contributors	Acting Chief Finance Officer	
Class	Part 1	Date: 26 March 2019

1. Purpose of the report

- 1.1. This report presents the Audit Panel with the external auditor's, Grant Thornton, annual Value for Money (VFM) final report and opinion. It also presents Officers update on the work in hand to respond to the recommendations made in the VFM report.

2. Recommendations

- 2.1. It is recommended that the Audit Panel note the:
- Appended VFM report and opinion;
 - Officers response to the auditor's VFM recommendations; and
 - Pending audit certificate, subject to the auditors completing their consideration of objections related to the accounts for the year ended 31 March 2017.

3. Background

- 3.1. The annual external audit concludes with two opinions, one on the financial statements and one on the Council's arrangements for VFM. An unqualified financial statement opinion on the 2017/18 accounts was received in 2018.
- 3.2. However, while a draft unqualified opinion on the budget and savings arrangements was reported to members in 2018, the final VFM opinion was delayed to enable work by the Chief Executive and interim Chief Executive reviewing the Transformation programme to be concluded. That work has concluded enabling the auditors to issue their full VFM report and opinion.

4. VFM opinion

- 4.1. As noted above the VFM opinion, appended to this report, is a formal annual report issued by the external auditors on the Council's arrangements for VFM.
- 4.2. The auditors assess the authority's arrangements for:
- Acting in the public interest, through demonstrating and applying the principles and values of sound governance;

- Managing risks effectively and maintaining a sound system of internal control;
 - Planning, organising and developing the workforce effectively to deliver strategic priorities; and
 - Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- 4.3. For 2017/18 the auditors reviewed the Council's arrangements in three key areas; budget, savings, and transformation. They reported to the Panel in September 2018 that there were no significant weaknesses in respect of the budget and savings arrangements but were holding open their final opinion to enable the ongoing work by officers in the area of transformation to be concluded before finalising their opinion.
- 4.4. That work now being concluded, the VFM opinion identifies the following matters in respect of the Council's transformation programme in 2017/18:
- The overall arrangements were insufficient to support a transformation programme of this scale and complexity, with many of the expected elements of effective programme management missing in the overarching governance arrangements; and
 - Assurance and oversight arrangements were insufficient to identify risks and issues in the delivery of this programme, to escalate them appropriately and to ensure action was taken to mitigate them. This meant that senior management was unable to address the deficiencies in the programme adequately.
- 4.5. Taking account of these findings the auditors have issued an 'except for' qualified VFM opinion.

5. VFM report

- 5.1. To support their opinion the auditor's issue a report setting out their findings and recommendations. The auditor's VFM report is appended to this report.
- 5.2. The recommendations made are:
- As you re-design your programme governance arrangements, consider the role of your assurance functions in providing assurance over the programme as a whole, and with 'deep dives' as appropriate. Ensure there is sufficient segregation of duties between management and oversight of the programme (a level 2 line of defence), and independent assurance provided by audit functions (a separate, level 3 line of defence).
 - Clearly annotate your overarching transformational strategy and vision so that all officers are clear on the aims and objectives and what the future service delivery entails.
 - Ensure you consider fully the required skills, resource and expertise is required, and undertake a capability and skills audit against current establishment to identify potential skills gaps and mitigate the risks arising.
 - Map interdependencies across projects.
 - Prior to relaunching any of the paused projects detailed benefits realisation assessments need to be undertaken. Business cases should include a detailed

assessment of strategic, financial and non-financial benefits to be gained and a clear implementation strategy (including required training) for realising said benefits.

- Ensure the Project Management Office is independent from day to day project activity, and plays an effective role in assuring information is accurate and supported before it is presented to the programme board.
- Ensure routine gateway reviews are undertaken at key stages of the programme and projects.
- Ensure a culture is in place which encourages “bad news”, as well as “good news” to be reported.
- The transformation project needs to be aligned to your Medium Term Financial Strategy with clear financial analysis of the expected savings that will be generated from projects.
- Implement the new governance structures that will give senior management the strategic oversight and responsibility for delivering the transformation projects. Ensure risk identification is supported with appropriate skill-set and capability within projects, and that escalation and reporting arrangements are robust and effective.
- Undertake robust post implementation reviews across all transformation projects and ensure success factors and lessons learned are spread across projects.
- There may be lessons to be learnt in the recruitment of a replacement chief executive. Members should reflect on what those lessons may be and how future recruitment can be undertaken to minimise the risk of recurrence of the experience in 2018.

Officer response to the recommendations

- 5.3. Officers have been reviewing their arrangements for managing change and transformation work through 2018/19. The developments described below are designed to improve the governance arrangements and effectiveness of reporting and monitoring of change projects and programmes. These have been discussed with the auditors and will continue to be so to ensure they address their concerns on the matters highlighted in their opinion and to inform the work on the 2018/19 accounts.
- 5.4. As noted in the VFM report, through 2018/19 a top down a review of the governance arrangements relating to change and transformation projects and programmes has been undertaken. This resulted in the disbanding of the operational transformation team, the pausing of a number of elements of the programme and planned projects, and enhanced oversight of those projects continuing.
- 5.5. The interim arrangements in place in respect of the Head of Corporate Resources role, which includes the Head of Internal Audit role, have raised the risk of perceived and potential conflict of interests in terms of assurance work. The Acting Chief Finance Officer is therefore recruiting to a separate Head of Internal Audit role which will ensure any conflicts are managed and enhance the objectivity and focus of assurance support to future change work. This will include allocating more time and resource to project assurance work, as a higher area of risk for the Council, going forward.
- 5.6. The Executive Management Team (EMT) has agreed a revised governance approach which, as well as identifying the corporate and service ownership and commitments to change work required, clearly defines the portfolio programme office requirements, roles

and responsibilities, and associated skill sets (e.g. business analysis, project manager, change manager, etc..) to ensure appropriate and consistent 'business case' to 'post implementation' arrangements are in place and adhered to for all projects.

- 5.7. The portfolio officer will also be responsible for developing a transformation strategy that: 1) horizon scans for opportunities and innovations; 2) aligns with and supports service improvement plans, which in turn align to the corporate strategy; and 3) clearly defines the independent programme and project governance approach, reporting to EMT.
- 5.8. This defined programme approach will enable improved monitoring and reporting that will help track:
 - business cases aligned to strategic priorities;
 - project interdependencies;
 - clear, consistent and timely reports;
 - full, risk based, monitoring with project milestones tracked; and
 - post-implementation reviews and benefit realisation assessments.
- 5.9. The template business case requirement will follow the Treasury's guidance to include strategic, economic, commercial, financial, and management considerations to ensure the full consideration of risks and benefits are assessed and can then be monitored through delivery once agreed.
- 5.10. For the work in progress and those projects to be re-launched these are being converted into the new approach outlined above as pilots to:
 - ensure improvements in response to the VFM findings are addressed now;
 - bring consistency across all projects monitored corporately; and
 - help develop the required reporting templates and guidance for future projects.
- 5.11. EMT have agreed to oversee the implementation and governance of the change and transformation work going forward as described above with six weekly sessions to review all work in progress, approve new work, and track delivery progress and benefits realisation. EMT will also continue to review assurance reports via the existing internal control board arrangements.
- 5.12. The interim Chief Executive has held a leadership event for the top 100 senior leaders across the Council and committed to hold similar events regularly (the next in six months) to support better communication, strengthen collaborative behaviours, and build greater trust. This will facilitate effective formal and informal working relationships and networks to enable news, good or bad, to be shared and positive actions agreed.
- 5.13. The Council will reflect on the priorities of the transformation strategy and plans of the portfolio programme in financial planning and reporting to members, in particular through the medium term financial plan to assess the impact in terms of the Council's financial resilience going forward. The next MTFs is due in June 2019.

6. Legal implications

6.1. There are no legal implications arising directly from this report.

7. Financial implications

7.1. There are no financial implications arising directly from this report. However, members will note that the proposed actions in response to the recommendations may have financial costs and these will be reported to Members in separate reports as decisions are finalised.

8. Equalities implications

8.1. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010

9. Crime and disorder implications

9.1. There are no crime and disorder implications arising directly from this report

10. Environmental implications

10.1. There are no specific environmental implications arising directly from this report

11. Appendices

11.1. Appended to this report are the Grant Thornton:

- VFM opinion
- VFM report

If there are any queries on this report, please contact:

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