

Round-up for **Audit Committees**

March 2017



National Audit Office





This interactive round-up comes out in spring and autumn, providing an overview of the NAO reports and communications most relevant to the needs of Audit Committees. See '[Further information](#)' to find reports relevant to specific sectors or issues.

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[Overview and introduction](#) from Sir Amyas Morse

[Governance, oversight and risk management](#): lessons and insight from our recent reports

[Useful resources](#): including service delivery and user experience, local services, and commercial and contracting issues

We encourage you to discuss how our work can help you with your NAO Director.

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Interactive

For full iPad interactivity, please view this PDF in iBooks or GoodReader



A round-up for Audit Committees

We have been delighted that the first edition of our Round-up for Audit Committees has been well-received. Over the six months since then we have published a number of reports that may be of interest to Audit Committees and we hope you find this second edition equally useful.

Looking across government, it seems to me that one of the biggest issues is the scale of reform and demands on the public sector, from the competition for scarce skills and capacity to the stresses on those delivering public services. In my recent blog post, [A flexible, engaged approach to efficient public services](#), I set out some of these issues, which I discussed with The Strand Group in early February.

In the last edition of our 'Round-Up' I encouraged you to respond to our survey and let us know your views on the NAO's work. I thank all of you and your colleagues who have provided feedback – we have received the final report and are considering how we can respond to increase the value we can deliver through our work. At any time, we invite you to [contact us](#) with ideas about further ways we can do more to help you and help improve public services.

Sir Amyas C E Morse
Comptroller & Auditor General





Governance, oversight and risk management

Many of our recent reports address key aspects of the interrelated elements of governance, oversight and risk management. This section looks at some of the lessons and good practice that is identified in these reports for planning and developing governance arrangements, risk management, monitoring, reporting, project management and oversight.



Success factors

- | | |
|------------------------------------|---------------------------------------|
| 1 Clarity about governance | 4 Monitor, measure, report and revise |
| 2 Realistic plans and forecasts | 5 Manage inter-dependencies |
| 3 Risk identification and planning | 6 Maximise value from public services |

Success Factors (SFs)

Good practice, lessons learnt and risks identified



1 Clarity about governance – roles, responsibilities and who is held to account for what

[Departments' oversight of arm's-length bodies](#)¹ (ALBs) highlights the risks of tension between organisations and potential impact on services when departments and their ALBs are unclear about their respective responsibilities – especially as ALBs operate with varying degrees of independence. (See more on this report under SFs 3 and 6)

[Delivering the defence estate](#) found there was convoluted governance of the contracting arrangements, leading to confused accountability, and resulting in poor performance going unchallenged. (See more on this report under SFs 2 and 4)

[The Department for Education's management of a potential conflict of interest](#) defines conflicts of interest and when they are likely to arise, such as during procurement. It outlines the sources of guidance on how they should be managed in government. Organisations are expected to apply these standards to develop and set up their own approaches, ensuring everyone is aware of and signs up to that approach. Individuals' conflicts of interest should be declared and there should be clear rules on withdrawal from decision-making. Organisations should have checks and balances in place to reinforce compliance. Further details are in our earlier report, [Conflicts of interest](#), which also outlines the risks and includes public sector examples.



¹ On 24 February 2017 the government published [Partnerships between departments and arm's-length bodies: Code of Practice](#)



Success Factors (SFs)

Good practice, lessons learnt and risks identified



2 Realistic plans and forecasts, with reasonable assumptions and clear linkage between actions and outcomes desired

[Introduction of the new state pension](#) concludes that implementation so far represents value for money, attributing this to the Department for Work and Pensions' mitigation of project risks by developing a contingency plan, undertaking scenario analysis and involving operational teams in reviewing planning assumptions.

[Delivering value through the apprenticeships programme](#) highlights the risk of not achieving a programme's objectives without a clear strategy for doing so – in this case, it's not clear how having more apprenticeships will increase UK productivity, nor how an appropriate mix of apprentices will be achieved in the programme. (See more on this report under SFs 3 and 5)

[Controlling the consumer-funded costs of energy policies – The Levy Control Framework](#) found a failure to fully consider the uncertainty around the central forecasts or to define the associated risk appetite. If government had asked more explicitly “what if the forecasts or key assumptions are wrong?”, this might have prompted more robust design and monitoring of the Framework, thereby reducing the likelihood of significantly exceeding the budgetary cap. (See more on this report under SF 4)

[Managing the HMRC Estate](#) found that a number of assumptions and plans were unrealistic, including a risky peak of programme activity in one year, creating real risks of disruption to the taxation system. There is also a need for HMRC to build flexibility into its 25 year property deals, especially as it has gone through three major changes in the last 12 years that have impacted on property arrangements.

[Modernising the Great Western railway](#) found that Network Rail's schedule and cost estimate for delivering infrastructure works was unrealistic. This contributed to costs of one part of the programme (electrification between Maidenhead and Cardiff) increasing from £1.1 billion to £2.8 billion between 2013 and 2016. Network Rail made unrealistic assumptions about the productivity it would be able to obtain from introducing new technology. (See more on this report under SF 5)





Success Factors (SFs)

Good practice, lessons learnt and risks identified



2 Realistic plans and forecasts, with reasonable assumptions and clear linkage between actions and outcomes desired *continued*

[Review of the Thames Tideway Tunnel](#) examined the evidence base that Department for Environment, Food and Rural Affairs (Defra) and the Environment Agency established as both the required standards to be met by any solution to address the problem of sewage overflows into the Thames Tideway, and as the basis for appraising options. Our report emphasises the importance of a robust evidence base when policymakers need to design interventions capable of meeting intended objectives, and when they need to forecast the likelihood of success and the estimated costs of different intervention options. In these situations it is important that organisations have a clear and up-to-date view of the impact that forecasting and modelling uncertainty could have on intervention designs and their associated costs. Equally, they need evidence to support a decision that the costs of reducing uncertainty further would not justify the benefits. (See more on this report under SF 3)

[Investigation into HMRC's contract with Concentrix](#) found that HMRC's plan to save £1 billion over the three-year life of the contract was unrealistic. The contractor's performance fell well below expectations in terms of both the original plan and a less ambitious, improvement plan. As summarised in our blog-post [Setting up successful contracts](#) the problems may have reflected the use of an outcome-based, payment-by-results model that had not been tested in the pilot.

[Delivering the defence estate](#) is one of many reports identifying a risk that planned financial benefits won't be realised, which could put MOD's ability to meet its strategic commitments at risk. (See more on this report under SF 4)





Success Factors (SFs)

Good practice, lessons learnt and risks identified

**3 Identify risks
and develop
contingency plans**

Departments' oversight of arm's-length bodies² (ALBs) found that although the four departments reviewed each assessed individual risks in ALBs, they did not routinely take account of **system risk**, despite the fact that risks in one organisation can have consequences elsewhere in the family of ALBs, or in other departments. We also found that ALBs have an appetite for increased risk management support from departments. (See more on this report under SF 6)

Delivering value through the apprenticeships programme found some indications that risk management was being approached as a paper exercise, rather than an effective mechanism for controlling the project. Moreover, those running the programme were not (at the time of our fieldwork) addressing the key risk that businesses and individuals may not behave as predicted, which can often happen during fast-paced changes to markets. We summarise the sort of **behavioural risks** that could relate to the reformed apprenticeship system. (See more on this report under SF 5)

The Equipment Plan 2016-2026 found that the risks to the affordability of the Ministry of Defence (MOD) Equipment Plan are greater than at any point since reporting began in 2012. **Financial risks** to the Plan relate to potential cost growth, including because of the proportion of large projects at an early stage of development and the MOD's costing policy, which has historically underestimated the cost of such projects, combined with the risk of exchange rate movements. One of our recommendations is that the MOD should identify the current projects most at risk from cost growth, and should assess how these projects could be costed more realistically in the Plan. We also set out how project teams account for risk, covering 'Risk inside costing' and 'Risk outside costing', the latter including modelled and un-modelled risks. The Appendix sets out the testable assertions and key findings relating to the Plan regarding whether the cost of the Plan over the 10-year period is equal to or less than the available funding.

Review of the Thames Tideway Tunnel has a chapter exploring the risks of this major project, and Defra's arrangements aimed at mitigating these risks. Risk management is particularly important in this project, both for the taxpayer, as private sector delivery has been made financially viable by transferring some of the risks to the taxpayers; and for Thames Water's customers, who are footing the bill for the project.





Success Factors (SFs)

Good practice, lessons learnt and risks identified

**3 Identify risks
and develop
contingency plans**
continued

[Investigation into the Department for International Development's approach to tackling fraud](#) highlights processes for managing the **risk of fraud**. Our report looks at DFID, the Foreign & Commonwealth Office (FCO) and the British Council in terms of the fraud cycle conceptual framework, namely: preventing fraud; detecting fraud; investigating fraud; fraud recovery and sanctions, and fraud reporting and lesson learning. The report sets out the three organisations' processes and effectiveness, including DFID's 'three lines of defence' model, involving front-line staff; a control and assurance team, and internal audit. For example, DFID has built the consideration of fraud risk into the process of setting up programmes; including conducting due diligence over delivery partners. (See this web-page for other reports on [managing fraud and error](#).)

**4 Monitor, measuring
performance,
reporting and
decision-making /
revision of plans**

[Controlling the consumer-funded costs of energy policies – The Levy Control Framework](#) found that poor governance contributed to a delay in identifying potential cost over-runs and need for new controls. The Board responsible for joint department and Treasury oversight of the Framework had stopped meeting and arrangements for sharing information between officials were not good enough.

[Children in need of help or protection](#) highlights the link, demonstrated by Ofsted reports, between poor recording, use and sharing of information, and consequent poor performance. (See more on this report under SF 6)

[Delivering the defence estate](#) stresses that the more complex the risks and the longer the programme, the more important the need to report on both progress to date and projected performance against the long-term strategy and medium-term plans. (This report is also summarised in our blog-post [Our defence estate – right size, right condition, right price?](#))



Success Factors (SFs)

Good practice, lessons learnt and risks identified



5 Take inter-dependencies within programmes and between organisations and initiatives into account in planning, risk management, monitoring and project management

[Delivering value through the apprenticeships programme](#) found, during our fieldwork, that it was often unclear where teams had considered dependencies between different initiatives. By July 2016, a Programme Management Office was in place, looking at inter-dependencies and identifying a ‘critical path’ (the minimum feasible schedule for the work, including dependencies between key stages), as well as risks, governance and contingency plans for high risk elements. Reflecting the risk of unpredicted behaviour changes, the Department for Education and the Skills Funding Agency established a counter-fraud and gaming scrutiny group, although at the time of reporting they had not yet established the information needed to monitor key behavioural risks and spot signals that these risks may be maturing.

[Modernising the Great Western railway](#) is a key example of a highly complex set of programmes that were poorly planned and delivered. The absence of a business case covering the whole modernisation programme prior to 2015 (two and a half years after the contract for new trains was signed) meant that inter-dependencies were not identified and managed. The absence of a critical path led to the infrastructure elements costing more than they needed to, and a further £330 million of costs to the Department for Transport (DfT) caused by poor management of the inter-dependencies between infrastructure, new trains and the franchise operating services.

Since 2015, DfT and Network Rail have worked to address the failings, including establishing a programme board that allows key stakeholders in all three elements of the programme to be involved in decision-making. They have strengthened cost estimation, monitoring arrangements, governance, and collaboration with contractors and the wider rail construction industry. However, our report concludes that programme management information remains weak, undermining the programme board’s effectiveness. In particular, information about costs and schedules has not been based on an earned value management approach, in line with best practice for managing major programmes (although we understand development of this is now underway).





Success Factors (SFs)

Good practice, lessons learnt and risks identified



6 Ensure the oversight drives maximum value from public services and minimises inconsistencies

[Departments' oversight of arm's-length bodies](#)³ (ALBs) illustrates how opportunities to maximise value to the public can be missed if departments focus their oversight on ALBs' financial and administrative issues, rather than the strategic and quality factors key to their achievement of their overarching objectives. More positively, all four departments reviewed were encouraging collaboration across their ALBs, such as bringing together senior ALB staff to consider current issues and collaboration on specific issues in a targeted way. ALBs felt collaboration was most effective where departments had encouraged sharing practice on a specific, targeted issue.

[Children in need of help or protection](#) highlights inconsistencies between service providers, such as different threshold levels for accessing help and protection for vulnerable children. To improve services across the system as a whole, providers need to know what works. The Department for Communities and Local Government accepts that it needs to improve the system for sharing good practice, and has introduced an Innovation Programme and Partners in Practice initiative to develop new models of social work, and plans to create a 'What Works Centre' for social work. There are also other ways of sharing good practice including benchmarking tools; local authority level practice sharing and peer review; and Ofsted's inspection reports and 'getting to good' seminars.

Several of these issues will also be covered in two forthcoming reports:

[Delivering Carrier Strike](#) will examine whether the Ministry of Defence has effective arrangements in place for delivering 'Carrier Strike' (which includes the Queen Elizabeth Class Carriers, the F35 Lightning II Aircraft and the Crowsnest radar system), including effective governance, risk management and appropriate commercial arrangements.

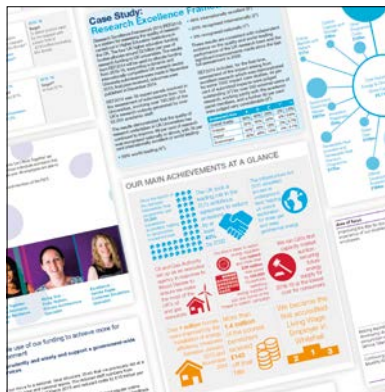
[Progress with delivery of the road investment strategy](#) (RIS) is the first in a series of studies looking at the Department for Transport and Highways England's progress in delivering value from their investment in the strategic road network. It will focus on how well they planned and are managing the whole portfolio of projects.





Useful resources

This section summarises our reports, good practice guides, blog-posts and other resources that Audit Committees might find helpful. It includes a focus on service delivery and user experience, local services, and commercial and contracting issues.



Award-winning good practice

Our blog post [Award winners' secrets](#) highlights what we liked about the projects that won awards regarding 'Analysis and Use of Evidence', 'Customer Service', 'Supporting Growth', and 'Skills' (a digital transformation example). It also highlights useful NAO resources.

See also [Building Public Trust Awards – Examples of good practice in annual reports 2015](#).



Measuring performance

[Performance measurement by regulators](#) is a good practice guide that aids improvement in performance measurement and reporting by everyone, especially regulators and other organisations seeking to deliver outcomes through third parties.

It's complemented by [Performance measurement good practice criteria and maturity model \(docx – 49KB\)](#) and summarised in our blog-post [Measuring performance delivered through others](#).



Pensions

There have been major reforms to pensions since 2010, including the [Introduction of the new state pension](#) and [Automatic enrolment to workplace pensions](#).

We have created an interactive [Pensions Landscape site](#) to explain the system and the roles of public bodies involved, reforms since 2010 and challenges and risks across the pension landscape, summarised in our blog-post [Navigating a changing pensions landscape](#).

All our related reports are on our new page: [Our work on pensions](#).



EU-UK finances

[Briefing on EU-UK finances](#) provides information about the financial relationship between the UK and the European Union (EU), intended to help Parliament scrutinise the government's strategy for leaving the EU.





Service delivery and user experience



Devolution

Our forthcoming report [Planning for 100% local retention of business rates](#) will be a value-for-money study on the Department for Communities and Local Government's plans to design and put in place 100% local business rates retention by the end of the current Parliament.

Devolution and financial and service sustainability are focuses of Sir Amyas Morse's talk to The Strand Group, as summarised in his blog-post: [A flexible, engaged approach to efficient public services](#).

See also our earlier report, [English devolution deals](#), and blog-post, [Steering English devolution](#).



Financial sustainability

Four new reports can be found on our [Financial and service sustainability](#) web-page; on the [NHS](#), the [ambulance service](#),⁴ [schools financial sustainability](#)⁵ and [schools capital funding](#).⁶

These reports set out the current performance and the issues the responsible department needs to focus on for financial and service sustainability, including the challenges, risks and support needed.



Public service markets

Our blog-post [Making public sector markets work](#) explains the spectrum of public sector markets, i.e. where the state retains ultimate responsibility, but private, public and voluntary providers compete for the right to deliver public services and users often have a say in or choose the services they receive. It outlines what makes these markets effective, highlighting a range of NAO resources, including our recent [Market Analytic Toolkit: for assessing public service markets](#).

We have also blogged on [Driving forward competition in the UK economy](#).



Protecting consumers

[Protecting consumers from scams, unfair trading and unsafe goods](#) reviews the effectiveness of the consumer protection system, involving about 200 organisations. It sets out the roles, costs and activities of the key organisations, the system's ability to identify and address consumer detriment, and outcome evaluation.

Citizens Advice Bureau consumer service cases can also be explored in our [interactive data visualisation](#).

The report and issues are summarised in our blog-post: [Do you feel protected as a consumer?](#)

We will shortly report on: [Vulnerable consumers in regulated industries](#), which include energy, water, communications and financial services.

4, 5, 6 These reports include podcast interviews with the Director responsible for this report.



Local services



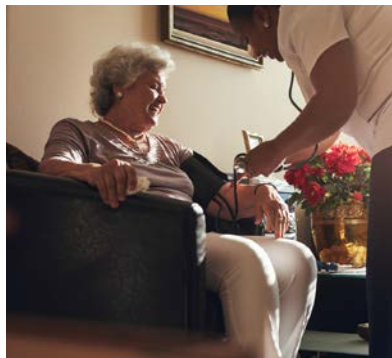
Local government reform

Overview: Local government sets out facts about how local government is constituted and funded, and findings from our work on local government, and summarises what the next 12 months may look like.

Local public service reform

summarises our research into how these reforms are being pursued in eight places in England, the enablers and barriers, and government support. It identifies sources of help.

Our blog-post Local service reform: is it all about the money? summarises this report and looks at whether less money means poorer services.



Health and social care

Health and social care integration reviews how the Department of Health, the Department for Communities and Local Government and NHS England are progressing with their plans to help reduce pressures on the systems by integrating health and social care services at the local level, and the extent to which integration has benefitted patients.

Local support for people with a learning disability looks at the health and social care support available to all those with learning disabilities, and whether this support is improving outcomes.



Children

Three blog-posts relate to our reports on children:

Putting children first: Making theory work in practice applies the principles set out in our good practice guide, Managing business operations, to child protection services.⁷

Care leavers: engaging for solutions sets out facts about care leavers and their lives, and focuses on the great value of involving customers in finding solutions.

Good services: child's play? looks at the state of services for children in care and what central and local governments need to do.



Housing

Housing in England: overview looks at the ability of government to achieve its ambitions for increasing the housing supply, providing evidence to assess future policy making and implementation.

The evidence behind the report can be explored at the local level in this interactive data visualisation.

See also 'Devolution' and other local issues on the previous page.

⁷ The Children in need of help or protection report includes a podcast interview with the Director responsible for this report and an easy-read version of the report on which this blog-post is based.



Commercial & contracting

Commercial and contract management: insights and emerging best practice is an interactive publication identifying insights from our assessments in well over 100 reports. It develops 20 insights into what works well and less well across government through using case studies and identifying emerging best practice.

7-phase contract life cycle:

Key judgements for commercial relationships

Commercial strategy

- 1 Make time to develop strategy
- 2 Properly develop strategy



Commercial
strategy



Commercial
capability

Commercial capability

- 3 Tailor capability to risks and opportunities
- 4 Clarify commercial and operational balance
- 5 Maintain 'organisational capability'

Market management & sourcing

- 6 Be 'an attractive client'
- 7 Be 'an intelligent client'
- 8 Properly evaluate bids
- 9 Keep up competitive tension



Market
management
& sourcing



Contract
approach

Contract approach

- 10 Ensure shared understanding
- 11 Understand risks
- 12 Design performance measures that work

Contract management

- 13 Manage your own obligations
- 14 Know what suppliers are doing
- 15 Show what you care about
- 16 Understand suppliers' motivation



Contract
management



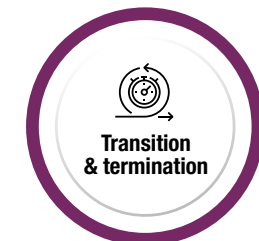
Contract
lifecycle

Contract lifecycle

- 17 Plan for uncertainties
- 18 Work towards business as usual requirements

Transition & termination

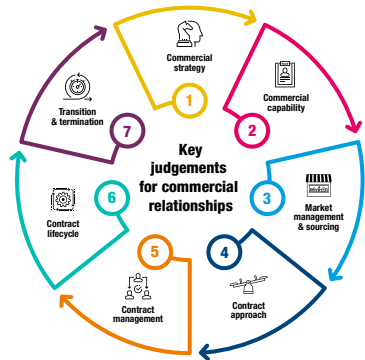
- 19 Think about contract end up front
- 20 Allow time to consider potential end of contract



Transition
& termination



Commercial & contracting



Emerging best practice

[Commercial and contract management: insights and emerging best practice](#) (summarised on the previous page) is accompanied by:

- Our [Good practice contract management framework](#), focusing on the activities that organisations should consider when planning and delivering contract management.
- [NAO's contractual relationships audit framework](#), which sets out the sort of questions that NAO's auditors may ask at each of the seven stages of the audit cycle.



The emerging best practice document is complemented by two blog-posts:

[Government's contracts – new insights into best practice](#) summarises the insights and guide, outlining 'manage your own obligations' as one example and highlighting issues such as open book accounting.

[Setting up successful contracts](#) looks at further insights identified from three more recent reports, including effective performance measures, ensuring the IT and processes work for contractors, and the challenges of incentivising good customer service, summarising our [Investigation into HMRC's contract with Concentrix](#).



Crown Commercial Service

The [Crown Commercial Service](#) (CCS) was launched in April 2014 to save government money by centralising the buying of common goods and services, but it quickly ran into difficulties.

Our report sets out why and how CCS was created, its performance, the difficulties it's encountered and progress in addressing these since 2015. We conclude that the strategic argument for joint buying across government remains strong and make a number of recommendations for CCS and Cabinet Office, including the need to clarify CCS's mandate and role.



Running competitions

[Carbon Capture and Storage \(CCS\): the second competition for government support](#) examines how the Department for Business, Energy & Industrial Strategy designed and ran the second competition for government support of CCS projects before its cancellation in January 2016. Our report includes an overview of the CCS technology and its challenges.

Related resources can be found on our [environmental sustainability web-page](#).



Further information

Find useful resources on NAO's website and blog:

- [NAO blog](#): our experts summarise issues and challenges facing government, drawing on insight from across our reports to outline what you should look out for and how organisations have addressed issues.

For example: [Regulation through the looking glass](#): explores how well the government is progressing with its aim to cut £10 billion from businesses' regulatory costs.

- The 'Topics' tab on our website links to the reports of most wide-spread value for the specified topics

For example: [financial management](#), [operational and programme delivery](#), [oversight of service delivery](#), [strategic centre of government](#), [accountability in local service delivery](#) and [performance measurement](#).

- The 'Reports by sector' tab provides access to all reports by sector.
- [Departmental Overviews](#): these guides cover: responsibilities and how developments spend their money, financial management, reported performance, issues and areas for performance improvement identified in NAO reports, and likely issues in the coming year.
- [Support for Audit Committees](#).
- [Self-assessment resources](#): our 'how to' guides and frameworks.
- [Technical guidance](#): materials on technical accounting, audit and internal control information, and good practice resources for boards and audit committees
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