National Audit Office

Good practice guide

Digital and transformation

Transformation guidance
for audit committees

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

Contents

1 Introduction

In May 2015 we published our report *Lessons for major service transformation*.[1] The report highlighted the challenges in developing and a sustaining a clear view of what transformation programmes are trying to achieve over time, and managing them as they evolve. There is still considerable uncertainty about how audit and risk committees can best exercise their responsibilities in this area. This guidance has been produced to help committees consider the issues involved and structure their discussions with management.

Why this issue requires attention

The government continues to aim to make significant savings and transform services by introducing new organisational models and ways of working. However, transformation comes with risk and can be highly complicated. Evidence from the private sector suggests that 70% of transformations fail.[2] In many cases transformation programmes rely on new technologies and online services, are highly ambitious and have a high risk of failure. The complexity of public service delivery and user needs can make the successful transformation of public services even more difficult. Oversight of these transformation programmes creates a major challenge for management and audit committees.

Transformation is a contested term. The *Government Transformation Strategy* states: "When we say transformation, we mean a significant step-change in the way a government organisation delivers its service and in the way it operates." The term is used in a wide sense to describe these organisation-wide changes.

Although organisations can have a transformation vision signifying a step-change, adopting a non-strategic approach will result in much reduced benefits to those described in the vision. In addition, the term is sometimes used in different ways, such as to describe headcount reductions within existing business models, without necessarily redesigning services. Moreover, as most transformation programmes are enabled by changes in technology, such programmes are often labelled as a digital transformation. But in other cases the term 'digital' simply signifies changes to online services.

There are three particular features of transformation that make its oversight more difficult than for more traditional projects and programmes. First, transformation tends to affect an organisation very broadly and can be quite vague about what is intended. Second, transformation programmes can evolve and change over time. Third, it can be difficult to measure and evidence the real impact of transformation and know when a programme has succeeded or when it should close.

---

1   Comptroller and Auditor General, *Lessons for major service transformation*, May 2015. Available at: www.nao.org.uk/wp-content/uploads/2015/05/Briefing_Lessons_for_major_service_transformation.pdf
2   The McKinsey Quarterly, *Transformation Executive Survey*, July 2008

Audit committees have an important role to play in respect of each of these three critical areas. The audit committee can add value through timely challenge if progress is slow or problems emerge, and by ensuring that risks are understood and managed throughout the entire life of the programme.

This guidance aims to help audit committee members to:

- encourage clarity in programme vision, strategy and objectives;

- challenge major or repeated changes as the programme evolves, ensuring that only essential changes are made and that those changes are rigorously integrated into each remaining stage of the programme; and

- keep focused on benefits realisation and delivery of the principal service redesign objectives.

How government policy has changed in this area

In February 2017 the government published a new *Government Transformation Strategy*. The strategy restates the government's ambition to improve services, and sets out the projects and initiatives to support the building of capability and sharing expertise. Our March 2017 report on *Digital transformation in government* sets out more detail on the evolution of the government's approach over time.[3]

Within the Cabinet Office, organisations such as the Infrastructure and Projects Authority (IPA) and Government Digital Service (GDS) support departments and arms-length bodies in understanding and sharing expertise about transformation. They also help to monitor and control aspects of programmes to ensure that they are making progress and adhering to common standards.

Recently the centre of government has aimed to develop more constructive and supportive forms of engagement with departments. The IPA has introduced new types of reviews to help support programmes and, working with GDS, has developed a framework of '7 Lenses' to help review progress with transformation.[4] This more flexible and supportive approach improves cross-government collaboration and knowledge-sharing, but also highlights the importance of organisations' own internal structures for monitoring and challenging management about progress.

3   Comptroller and Auditor General, *Digital transformation in government*, Session 2016-17, HC 1059,
    National Audit Office, March 2017. Available at: www.nao.org.uk/report/digital-transformation-in-government/
4   Infrastructure and Projects Authority and Government Digital Service, *The 7 Lenses of Transformation*, May 2018.
    Available at www.gov.uk/government/publications/7-lenses-of-transformation

2 Our guidance

How this guidance links to other standards

The IPA '7 lenses' is the main form of guidance on transformation. Other guides are also available, although none are particularly well established. This guidance complements these existing frameworks by setting out questions committees should ask during the three stages of transformation activity.

What this guidance covers

We set out questions and the evidence and indicators to look out for:

- **At the set-up and initiation stage** the key areas are: vision and strategy, and governance and architecture. We address the evolving nature of transformation and what this implies for oversight.

- **During the delivery and implementation stage** the key areas are: change and implementation, and service and performance management. We highlight the importance of tackling ambiguity and confusion in transformation objectives.

- **Once live-running and benefits are being delivered** the key areas are: people, process and technology. We consider how audit committees can challenge the role of technology in supporting transformation.

The guidance will help audit committees challenge management to set out clearly what it intends by transformation and how services will actually change.

3 Transformation set-up and initiation

The initial set-up is critical to how the transformation programme will progress and whether it will ultimately meet its objectives. Our 2011 guide Initiating successful projects describes the general principles for setting up projects.[5] We highlight below specific questions to ask of transformation programmes in their early stages.

Vision

A clear vision is essential for a successful transformation programme. There are two important tests to apply. First, the vision should set out in a tangible way what the transformation is trying to achieve. Vaguely expressed improvements to ways of working provide a weak foundation for success. Second the vision should reflect an honest assessment of the underlying objectives for change. Some programmes, for example, will be driven largely by cost reduction targets.

Questions audit committees could ask:

- **What are the underlying objectives for transformation?** Is this primarily a cost-cutting exercise or are there wider service improvement or policy aims? Is there a risk of other weakly-related objectives being loaded into the programme?

- **Is the current problem well understood?** Are benefits based on a rigorous assessment of operational processes? Are they driven by spending targets?

- **What is transformation going to change?** Does the organisation have a clear understanding of how the end-state organisation and services will differ from the current state? Are users and their needs understood and well-defined?

- **Is the role of technology well understood?** How dependent is the programme on changes to ways of working rather than technology itself? Are there indications that the need for new ways of working is not fully recognised and there is a misplaced belief that technology alone will provide the solution?

- **Is the timetable for transformation realistic?** How much of the end-state design has been left to be resolved during the programme? How does the timetable recognise the scale of the programme and other competing priorities?

Strategy

The transformation strategy needs to set out how to translate the vision into a coherent programme of work. It needs to provide structure to a large number of moving parts, and allow for some flexibility and learning during the programme, at the same time as maintaining the golden thread that ties these activities back to the original objectives and vision.

Questions audit committees could ask:

- **Does the strategy identify all the elements of the affected service?** Is the strategy led by business requirements or is it overly focused on implementing a technology-driven solution?

- **Is the strategy consistent with wider organisational requirements?** Has it considered the impact on technical infrastructure and data in the organisation?

- **Is there a road map with distinct milestones?** Has the programme been broken down into stages with clear sequencing and dependencies?

- **Is there a clear framework for changes within the programme?** What is the testing approach, e.g. using simple or complex cases first, and what does this imply for how the programme can be adapted to lessons learnt over time?

- **Is funding aligned to the sequencing and uncertainty of the programme?** Is funding dependent on realising early benefits and savings? What will happen if those benefits are delayed or reduced over time?

Governance and architecture

The evolving nature of transformation requires strong leadership and governance to support decision-making during the programme. Governance arrangements need to reflect the importance of senior engagement and acknowledge the significant burden this places on leadership time and attention.

Questions audit committees could ask:

- **Is there strong leadership of transformation in the executive team?** Are structures and responsibilities established at a senior level?

- **Is there sufficient leadership bandwidth?** Are there many other competing priorities? Are people also balancing 'day job' requirements?

- **Is there sufficient leadership continuity?** Is there high churn in organisation or programme leadership? Does this risk blurring the vision for transformation, or undermining accountability?

- **Are the benefits of transformation clearly owned across the organisation?** Have expected benefits been tested and accepted by core business areas? How would success be assessed if the scope of the programme changes over time?

- **Are governance structures clear and simple?** How many programme board structures are there? Are there overlaps and what does this mean for the speed and clarity of decision-making?

- **Can the programme assurance effectively challenge technical decisions?** Are decisions around technical development based on business priorities rather than being technologically driven?

4 Programme delivery and implementation

Transformation programmes change over time, which poses a challenge for governance and oversight. Adoption of iterative methods such as Agile development can be difficult to align with more structured approaches. It is not always easy to distinguish between managed learning and the ex-post rationalisation of changes due to initial over-optimism or programme slippage.

Change and implementation

During transformation programmes it is important to have a clear view of what progress is being made. It is rare to see programmes achieving everything that was initially planned; the test is whether changes to scope or timing are symptoms of more serious problems in programme management or the original case for change.

Questions audit committees could ask:

- **Is the programme uncovering a large number of unresolved issues?** Is there a well-understood and effective process for resolving new issues?

- **Are plans becoming increasingly back-loaded or vaguely defined?** Is it becoming difficult to track what has changed in the programme?

- **Is progress confined to simpler components?** Is the balance of effort aligned to what really matters in achieving the benefits of transformation?

- **Are more difficult elements being deferred or dropped?** Is there progress on developing the building blocks that the programme will be relying on, or resolving issues with legacy systems and data?

- **Has the business case changed significantly?** How is the balance between different benefits in the business case shifting? Are there delays in approval?

- **Are prioritisation decisions made clearly and early?** Are decisions being driven by last-minute identification of under-delivery and funding issues?

- **Is the programme showing signs of a 'fortress mentality'?** Are issues being explained away without clear evidence, or attributed to 'policy'?

Service and performance management

Given the length of time to transform services and organisations it is crucial to monitor performance during the delivery and roll-out of transformation programmes. A key test of performance management is the clarity and quality of information about performance.

Questions audit committees could ask:

- **Is performance well defined?** Are there tensions between front-end user needs and managing requirements around legacy data, systems and processes?

- **Are there symptoms of an inadequate approach being adopted?** For example are data and integration issues emerging late in the programme?

- **Is there adequate management information (MI)?** Has MI been delayed or prevented by changes to the programme or de-prioritisation of MI systems? Does management use live data or does it rely on interpretations of progress from the programme team and suppliers?

- **Are there persistent shortages of key staff?** How are vacancies for specialist skills being addressed? Is there heavy reliance on contractors and suppliers? Is there sufficient quality of management and understanding of external experts' input?

5 Live running and benefits

Transformation programmes often lack clearly defined end dates and assume continuing improvement and refinement of services. This can make it difficult to establish when to close programmes and transfer responsibilities to live running, and to set clear baselines for realising benefits. Management needs to set clear criteria for when a programme makes the transition to business as usual, and ensure that business units have clear plans for realising benefits.

People

Transformation programmes depend heavily on the adoption of new systems and processes by staff and external users. At early stages these processes can be much less efficient and effective than planned. A key test of success is how quickly and how far services can be improved during live running.

Questions audit committees could ask:

- **Is there sufficient communication and training?** Are there regular processes for updating staff and users about changes in the service? Does training address requirements for cultural and behavioural change?

- **Is the maturity of the service understood?** Are plans to reduce headcount or increase user self-service based on well-tested assumptions?

- **Are future skills and capacity requirements tested?** Are they likely to improve efficiency and quality as expected? How are long-term benefits being updated to reflect this?

- **Is there sufficient capacity in transition?** Are parallel running costs significant, and how are they affecting remaining services?

Process

Achieving the benefits of transformation often depends on changes to processes and ways of working. A key test is whether stated benefits are based on genuine improvements to processes or the attribution of savings achieved through other means, such as business-as-usual rationing or passing costs on to users and other services.

Questions audit committees could ask:

- **How do processes compare with original expectations?** What are the most significant changes and how do they affect the benefits of transformation?

- **Is there a clear benefits realisation plan?** Are any remaining issues in processes likely to be resolved or is there still additional testing and learning needed to complete implementation of the programme and achievement of the benefit?

- **Are there clear criteria for closing programmes?** If a programme looks unlikely to achieve its benefits, who is responsible for deciding whether and when it should be stopped and on what grounds? Would it require unwinding?

- **Is benefit measurement possible?** Have changes undermined past evaluation plans? Is success being determined in terms of programme delivery or achieving the wider objectives of transformation?

- **Is responsibility for benefits being shuffled around?** Are explanations and attribution of benefits becoming more complicated? Are other groups' behaviours being identified as barriers at a late stage? Are incentives aligned?

Technology

Technology often plays a prominent role in transformation plans, both as an opportunity for newly designed digital services, and as an enabler of improved ways of working. A key test for transformation is whether new technology has resulted in marginal improvements to interfaces and automated systems, or allowed a more fundamental change in processes and ways of working.

Questions audit committees could ask:

- **To what extent are new systems simply upgrading what existed before?** Have processes changed or been eliminated as a result? Is further process and behaviour change needed?

- **Is the service ready to be used and tested publicly?** If roll-out is being driven by the need to meet funding or policy deadlines, how are risks being managed?

- **Do new solutions effectively integrate with legacy systems?** Does transformation support a simpler long-term legacy environment?

- **Has sufficient prominence been given to the role of data?** How do systems improve the timeliness and quality of data, and support new ways of working?

6 Key questions on the role of data

In order to reshape ways of working and develop new services, data play a central role in determining what is possible. Reducing the need to fill in forms or automating administrative tasks is only possible if data are timely and high quality. However, the nature and role of data across organisations are often poorly understood.

Questions audit committees could ask:

- **Has the programme set out the role of data in transformation?** How will new services use data and how are data flows expected to change?

- **Is there a data strategy to support transformation?** Is it clear how data will be managed (for example, consolidated and standardised) to get a single view across the organisation? Or are different business units making decisions based on their own views of data?

- **Is the current cost of managing data understood?** Has the organisation quantified the effort to handle data, manage work-arounds and extract management information?

- **Are responsibilities for data set out clearly?** Who sets data requirements (for example definitions, quality, timeliness) and ensures that they are met?

- **How do short-term implementation decisions balance data needs?** Are tactical implementation choices aligned to long-term requirements, particularly around management information and evaluation? Is there a risk of re-work due to poor specification of data?

- **Are benefits largely due to better information?** Does improving data lead to benefits in existing services independently of transformation?

- **Is the programme over-reliant on technology such as new tools and analytics to solve data problems?** Is action being taken to address the underlying causes of current data issues, such as quality and integrity, which limit the effectiveness of such tools?

7 Further resources

Below is a selection of guidance and insights that may be useful.

Government and NAO guidance

1   Cabinet Office, *Government Transformation Strategy*, February 2017:

www.gov.uk/government/publications/government-transformation-strategy-2017-to-2020/government-transformation-strategy

2   National Audit Office, *Framework to review programmes*, September 2017:

www.nao.org.uk/report/framework-to-review-programmes/

3   National Audit Office, Managing business operations – what government needs *to get right*, September 2015:

www.nao.org.uk/report/managing-business-operations-what-government-needs-to-get-right/

4   Infrastructure and Projects Authority and Government Digital Service, *7 Lenses of Transformation*, May 2018:

www.gov.uk/government/publications/7-lenses-of-transformation

NAO work on projects and programmes

1   National Audit Office, *The digital skills gap in government – survey findings*, December 2015:

www.nao.org.uk/report/the-digital-skills-gap-in-government-survey-findings/

2   Comptroller and Auditor General, *Digital transformation in government*, Session 2016-17, HC 1059, National Audit Office, March 2017:

www.nao.org.uk/report/digital-transformation-in-government/

National Audit Office