



CABINET OFFICE

Internal Audit

ERG Savings Validation

Report Ref: 02/11

Audit Manager: <name redacted>

Auditors: <3 names redacted>

Date of Issue: 15 August 2011

Distribution: <name redacted> – ERG Chief Operating Officer
<name redacted> – ERG Overall Data Lead
<name redacted> – MCO Private Secretary
<name redacted> - Finance Director
<name redacted> – Cabinet Office Governance Team
<name redacted> – Director of Internal Audit
National Audit Office

1. Introduction

- 1.1 The objective of this audit is to provide the Cabinet Office Efficiency and Reform Group (ERG) Chief Operating Officer with an independent and objective verification on the savings claimed by ERG in 2010-11. This validation has been carried out by Cabinet Office's internal audit service at the request of ERG. Cabinet Office's internal audit service is provided under SLA by the Department for Communities & Local Government Internal Audit Service.

2. Background

- 2.1 In May 2010, Treasury Ministers announced cuts to Public Sector budgets of £6.2bn. Of this, £3.2bn was to be saved through reductions in discretionary spend on areas including consultancy and travel costs, IT spending, reductions in property costs, delaying and stopping contracts and a recruitment freeze. Also announced was a new Efficiency and Reform group (ERG) with a remit to "*oversee an immediate freeze on non-critical spending on consultancy, advertising and recruitment of non-frontline civil service staff*".
- 2.2 DCLG internal audit (IAS) provides the internal audit service to Cabinet Office under a Service Level Agreement. IAS were commissioned by ERG in early June to validate the savings claimed ahead of the Public Accounts Committee hearing on ERG's efficiency work, scheduled for 28 June. Given the time constraints the validation was limited to the evidence held within ERG and presented for audit between 8 - 17 June 2011. The validation exercise did not test the accuracy nor completeness of data supplied to ERG by government departments, only that ERG had compiled sufficient evidence to support the savings claimed, and that any assertions drawn were reasonable and consistent with the evidence.

3. Conclusion

- 3.1 We worked with ERG to ensure that on the basis of what had been provided to them by others, there was sufficient evidence to support the savings claimed by ERG, and the associated assertion for each workstream. As a result we were able to provide a reasonable assurance over seven of the eight workstreams, and moderate assurance over the other (Commercial Portfolio).

4. IAS Methodology

- 4.1 We have provided an assurance rating against each of the eight savings workstreams reported on by ERG. Our assurance ratings detail our confidence level that ERG hold sufficient evidence to support both the savings claimed by ERG and the assertions drawn from these savings – paragraph 7.1 provides more detail.
- 4.2 Our assurance rating against each workstream is based on our evaluation and assessment of the evidence provided to us during the audit's fieldwork. We tested the evidence provided to us using the following criteria:
- **Source of Information:** Was the evidence from a credible source? (i.e. was it reasonable to assume that reliable data could be obtained from the identified supplier of the information)

- **Arithmetical:** Had the data elements produced been correctly aggregated to derive the savings figure claimed for each workstream?
 - **Completeness:** Had all the evidence available for each workstream been taken into account in producing the total claimed savings and associated assertion?
 - **Cut-off:** Did the data fit within the time period for the savings claims?
 - **Assertion:** Did the evidence base held by ERG reasonably support the assertion being made about the savings reported by the workstream?
- 4.3 In carrying out our validation we have used judgemental sampling to test ERG's evidence base where appropriate; where this has been used we have skewed our testing to include high risk and/or high materiality sources of evidence.
- 4.4 We have not tested ERG's savings claims against external efficiency benchmarks, such as NAO's VFM criteria

5. IAS Assurance

5.1 The table below sets out IAS assurance opinion on each ERG savings workstream. The table lists the final ERG savings amounts and assertions as discussed with ERG at the end of audit fieldwork (17 June). These final ERG savings and assertions differ from the originals given at the start of fieldwork (8 June), after challenge from IAS.

ERG Savings Workstream	Final ERG Reported 2010-11 Saving*	Final ERG Assertion (<i>italics</i>) and IAS Comment*	IAS Assurance
Consultancy Freeze	£869mIn	<p><i>A reduction in spend on consulting of £870mIn</i></p> <p>Evidence Base: IAS are content with the evidence base.</p> <p>Assertion: IAS are content with the assertion.</p>	Reasonable
Centralised Procurement	£849mIn	<p><i>By centralising our spend on common goods and services, we've saved £360mIn and a reduction in spend on temporary agency staff of almost £500mIn</i></p> <p>Evidence Base: IAS are content with the evidence base.</p> <p>Assertion: IAS are content with the assertion.</p>	Reasonable
Commercial Portfolio	£806mIn	<p><i>By renegotiating deals with some of the largest suppliers to government, we've saved over £800mIn</i></p> <p>Evidence Base: IAS are content with the evidence base. During the course of our fieldwork, working with ERG, we identified a small amount of double counting in this workstream with both the MPA and ICT workstream – ERG have accounted for the duplications identified by IAS by removing these duplications from the other workstreams. Given the potential for other duplications, we can only provide Moderate assurance.</p> <p>Assertion: IAS are content with the assertion.</p>	Moderate

ERG Savings Workstream	Final ERG Reported 2010-11 Saving*	Final ERG Assertion (<i>italics</i>) and IAS Comment*	IAS Assurance
Major Projects Authority	£147mln	<p><i>We've saved £150mln from 2010/11 budgets for government's major projects; by scrutinising their funding, and by halting or curtailing spend.</i></p> <p>Evidence Base: IAS are content with the evidence base. IAS identified a small amount of double counting in this workstream with the Commercial Portfolio workstream. ERG have reduced the amount claimed in this workstream to account for that duplication.</p> <p>Assertion: IAS are content with the final assertion.</p>	Reasonable
Comms	£397mln	<p><i>By taking stronger control of our marketing spend, we have reduced spend through the Central Office of Information by 80% or £400mln</i></p> <p>Evidence Base: IAS are content with the evidence base.</p> <p>Assertion: IAS are content with the assertion.</p>	Reasonable
ICT	£296mln	<p><i>By applying greater scrutiny to our ICT expenditure departments have stopped or reduced spend on low value ICT projects worth £300mln</i></p> <p>Evidence Base: IAS are content with the evidence base. Working with ERG we identified a small amount of double counting in this workstream with the Commercial Portfolio workstream. This has been accounted for by ERG in the final reported saving.</p> <p>Assertion: IAS are content with the assertion.</p>	Reasonable
Human Resources	£295mln	<p><i>We have reduced the size of the civil service, for example by putting stronger controls on non-essential recruitment. This has contributed to a reduction in the size of the Civil Service of more than 17,000, equivalent to a £300 million saving in 2010/11 on salary costs.</i></p>	Reasonable

ERG Savings Workstream	Final ERG Reported 2010-11 Saving*	Final ERG Assertion (<i>italics</i>) and IAS Comment*	IAS Assurance
		<p>Evidence Base: IAS are content with the evidence base.</p> <p>Assertion: IAS are content with the assertion as it reflects the evidence base provided to us during fieldwork. There has been active management over 2010-11 to reduce the civil service headcount through early exit and voluntary redundancy schemes. Costs of this active management of civil service headcount has not been included in the £295m claimed in savings for this area.</p>	
Property	£91mIn	<p><i>We reduced the on-going cost of our Property estate by over £90mIn by exerting better control over lease renewals</i></p> <p>Evidence Base: IAS are content with the evidence base.</p> <p>Assertion: IAS are content with the assertion.</p>	Reasonable

*Differences between the Final ERG reported savings figure and figures quoted in the assertions are due to rounding in the assertion for presentational reasons.

6. Observations

6.1 During the course of the validation exercise we made a number of observations:

- **Precautionary principle:** From our testing of the evidence there were areas, most notably in the property workstream, where ERG had taken a conservative approach to 'booking' savings. In the property workstream ERG had not included any savings made from selling government buildings.
- **Time bound nature of savings:** Some of the savings are time bound in nature, and any assertion based on these savings should make this clear.
- **Movement in numbers and assertions:** Based on the work carried out in this audit the assertions presented to IAS at the beginning of fieldwork (8 June) have changed to those given to IAS for final sign-off on 17 June.

6.2 As well as the observations above, IAS has also identified areas where we believe ERG could enhance governance, risk and controls over the savings process to make future exercises more efficient and effective:

- **Coordination:** Each workstream has developed a variety of ways for recording, tracking and reporting on savings – whilst some of this variation is due to the intrinsically different nature of the individual workstreams, this has made it difficult to view and validate these savings as a single programme of work. Whilst we acknowledge that Executive Directors need to have autonomy to manage their individual workstreams, there is significant scope for improving coordination from the centre and between workstreams. This would assist in developing a more consistent approach to mitigating the risk of double counting of savings and ensuring a shared understanding of reporting requirements.
- **Definitions:** Linked to the need for enhanced coordination, is the requirement for greater clarity on the definitions of the workstreams to ensure a coherent understanding of what is included/excluded within each of them. This is key to minimising risks of duplication and ensuring that assertions made are appropriately evidenced based.
- **Assurance:** Assurance requirements and methodology should be built in at the start of the process rather than as a retrospective activity. A robust risk based assurance framework at a global, individual workstream level, and extending out to within departments can help enhance the control framework by providing independent assurance throughout the reporting period. This will facilitate early, more effective ongoing identification and mitigation of weaknesses in the reporting framework.
- **Reporting:** It was sometimes difficult to review reported savings as at the spending cut-off date of 31 March 2011, and reconcile these savings figures with supporting information. This was due to savings accrued changing as more information became available, some data supplied to us was inadequately titled with no reference of the period to which the data related, and the lack of a 'snapshot' taken of the savings at 31 March. This meant we had to check back a number of times with workstream representatives to confirm we were reviewing savings on a consistent basis.

- **Version Control:** There is a need to introduce version control over performance reports and data supporting them to help ensure a robust management trail and to facilitate validation of the performance reported at each milestone or reporting period.

7. IAS Assurance Categories

7.1 In communicating IAS' confidence that ERG has complied sufficient evidence to support both the savings claimed by ERG and the assertions drawn from these savings, IAS has used the following assurance categories:

- **Reasonable assurance (Green):** A sound evidence base supporting the claimed savings and assertions reported by ERG with a strong control environment.
- **Moderate assurance (Amber/Green):** The evidence base supports claimed savings and assertions with minor weaknesses in the control environment.
- **Limited assurance (Red/Amber):** The evidence base supporting claimed savings and assertions contains significant weaknesses.
- **Nil assurance (Red):** The evidence base does not support claimed savings and/or assertions.

8. DETAILED FINDINGS

Consultancy Freeze	IAS Assurance	Reasonable	
<p>Final ERG Savings Claimed in 2010-11: £869 million</p> <p>Final ERG Assertion Presented to Audit Team: A reduction in spend on consulting of £870mln</p> <p>ERG Evidence Base Presented to Audit Team:</p> <ul style="list-style-type: none"> • 2009/10 Government Departments Core spend on consultants as outlined in the NAO report on <i>Consultants and Interims</i>, • 2009/10 Arms Length Bodies (ALB) spend from Public Sector Public Expenditure Survey (PSPES) • 2010/11 Departments' signed off returns on Core and ALB consultancy spend. 			
IAS Comment			
<p>Government Departments were requested to provide returns, signed off by Finance Directors, of the total amount spent on Consultants in 2010/11 in the Core Department and Arms Length Bodies. We compared the returns to the overview and confirmed these were accurately recorded. ERG reported on any anomalies in data quality / translation where there were concerns with the information provided by Departments and these were excluded from the calculations of savings. We discussed the methodology for this workstream with the team responsible, and were satisfied with the rationale and baseline data used.</p> <p>The 2010/11 returns also specified Contingent Labour (CL) spend. We were informed CL calculated savings are included in the Centralised Commodity Procurement workstream. Consultancy and CL were reported upon together to show that reductions in consultancy spend were not compensated for by an increase in CL. It would have been helpful to note in overview papers that CL savings were not included in the Consultancy Freeze workstream.</p> <p>To arrive at the claimed savings, ERG compared spend on consultancy in 2010/11 to that made in 2009/10, which were derived from the sources mentioned above in the ERG Evidence Base. We re-performed the calculations and were able to confirm the reported £869m savings. We have not sought to verify the base data for 2010/11 summarised in Departments' returns as that is outside the scope of this review.</p>			
ERG Summary of claimed savings – Consultancy Freeze			
Consultancy spend Totals	2009/10	2010/11	2010/11 Spend Reduction
Central Government, Executive Agencies and NDPBs	£1,234m	£ 365m	£869m
Conclusion			
We are content with the final ERG savings number and assertion			

Centralised Procurement	IAS Assurance	Reasonable
<p>Final ERG Savings Claimed in 2010-11: £849 million</p> <p>Final ERG Assertion Presented to Audit Team:</p> <p>By centralising our spend on common goods and services, we've saved £360mln. A reduction in spend on temporary agency staff of almost £500mln</p> <p>ERG Evidence Base Presented to Audit Team:</p> <ul style="list-style-type: none"> • E-mail 14 June 2011 Savings Evidence: List of categories and saving against Travel, ICT, Fleet, Energy, Office Solutions and Property (Furniture) totalling £357M. • Vehicle Purchase spreadsheet data January to March 2011 • Telecoms Mobile Solutions II spreadsheet intended to show benefit methodology calculations. • Energy spreadsheet – list savings per department from April to Dec 2010 for 17 depts' gas savings are £7M. • Teleconference with <name redacted> 15 June 2011 on Centralised Procurement target • E-mail 16 June 2011 with Centralised Procurement Benefits Methodology Guidance • Three e-mails 16 June 2011 with benefit methodologies in zip folders • E-mail 17 June 2011 Centralised Dashboard report dated March 2011 • E-mail 20 June 2011 with two audit reports giving assurance on supplier management information on savings. • E-mail 21 June 2011 with statement that contingent labour (£492m) is included in the Centralised Procurement target figure. 		
<p>IAS Comment</p>		
<p>A breakdown of the savings up to a value of £357M has been provided through a list of categories (travel £138M, ICT £140M, fleet £13M, energy £12M, Office Solutions £39M and property £15M) and sub-divided in the March 2011 dashboard showing the break down of savings initiatives per category.</p> <p>The largest areas of savings are travel and ICT. Benefit methodologies define how savings are identified and measured. For example ICT - BS/CfH Microsoft Software Licence saved £85.2M because of a decision not to extend a software licence contract. Also for assurances provided on the data sources; for example Travel - HRG Procurement measured savings of £47.7M reported through management information returns. Buying Solutions verify the data direct with MOD and FCO, apply the benefit calculation and report the saving. Management information returns are audited by ERG on suppliers; an example for Carlson Wagon Lit was supplied.</p> <p>ERG has notified us that a further saving from the category Central Government and arms length bodies contingent labour spend measured at £492M. This is supported through departments' returns for 2010/11 signed off by Finance Directors and added together for the total figure. The caveat is that the figures will not be official until the departmental annual accounts are published.</p> <p>The combination of the spend categories and contingent labour produce a figure of £849M in savings.</p>		
<p>Conclusion</p>		
<p>We are content with the final ERG savings number and assertion</p>		

Commercial Portfolio	IAS Assurance	Moderate								
<p>Final ERG Savings Claimed in 2010-11: £806 million</p> <p>Final ERG Assertion Presented to Audit Team: By renegotiating deals with some of the largest suppliers to government, we've saved over £800mln</p> <p>ERG Evidence Base Presented to Audit Team:</p> <p>Phase 1 and 2 spreadsheets and pivot tables of projected and banked savings, and samples of Memorandum of Understanding from both phases.</p>										
<p>IAS Comment</p>										
<p>The Commercial Portfolio workstream was undertaken in two phases. Phase 1: Re-negotiations of contracts took place between 19 key suppliers (in terms of overall Governmental spend), relevant Government Departments and the ERG Commercial Property Team (CPT). The contractors were asked to identify potential savings and to signal their agreement by signing a Memorandum of Understanding (MoU), which detailed the area, level and time period of expected savings. Reductions were regarded as either "Guaranteed" (achievable without assistance) or "Conditional" (Departments need to take action towards achievement). Phase 2 continued in the same vein with further significant suppliers, 22 of which have signed MoUs. Discussions were held monthly thereafter with suppliers to track progress.</p> <p>CPT maintains Phase 1 and 2 spreadsheets of line by line projected savings based on the MoUs. As savings were confirmed by Departments through Change Control Numbers (CCN), credit notes etc. they were "banked" and recorded against these lines. We found these spreadsheets are continually updated as more information arrives. This presented us difficulties in verifying the figure of £806 million savings reported in May 2011, as no snapshot is captured of the spreadsheets at the time of reporting. We were provided with the latest June 2011 versions and based on this information, were able to verify savings in excess of £806m as outlined below.</p> <p>We tested a sample of MoUs and confirmed projected savings have been appropriately transferred to the spreadsheets for 2010/11. Some MoUs also contain figures for 2011/12 and beyond, so it is unclear, as the spreadsheet rolls forward, whether later years will be treated separately or cumulatively. We have not examined evidence of individual banked savings at micro level, but have been informed they are signed off by Departments before being banked.</p> <p>We have identified an overlap with the Major Projects Authority (MPA) workstream. One MoU identified savings of £14.9m on Home Office National Identity Cards and £6.7m on Defra Whole Farm projects, both of which are counted as savings under MPA. Some double counting has occurred but we are unable to confirm whether there are no other potential projects etc. that could be counted under more than one workstream. We were informed CPT made efforts to liaise with the other teams to try to prevent the possibility. Identified duplications have been removed from the MPA and ICT workstreams.</p>										
<table border="1"> <thead> <tr> <th data-bbox="153 1603 560 1637">Commercial Portfolio '10/11</th> <th data-bbox="560 1603 916 1637">Net Savings Delivered</th> </tr> </thead> <tbody> <tr> <td data-bbox="153 1637 560 1671">Phase 1</td> <td data-bbox="560 1637 916 1671">£ 649.9 m</td> </tr> <tr> <td data-bbox="153 1671 560 1704">Phase 2</td> <td data-bbox="560 1671 916 1704">£ 162.9 m</td> </tr> <tr> <td data-bbox="153 1704 560 1738">TOTAL</td> <td data-bbox="560 1704 916 1738">£ 812.8 m</td> </tr> </tbody> </table>			Commercial Portfolio '10/11	Net Savings Delivered	Phase 1	£ 649.9 m	Phase 2	£ 162.9 m	TOTAL	£ 812.8 m
Commercial Portfolio '10/11	Net Savings Delivered									
Phase 1	£ 649.9 m									
Phase 2	£ 162.9 m									
TOTAL	£ 812.8 m									
<p><i>NB Phase 1 figures have been rounded, as previously expressed in £000k</i></p>										
<p>Conclusion</p>										
<p>Subject to the above, we can verify Commercial Portfolio claimed savings in excess of £806m in response to the assertion. The original figures supplied in May 2010 cannot be fully confirmed as a snapshot was not taken at the same time as supporting evidence.</p>										

Major Projects Authority	IAS Assurance	Reasonable
<p>Final ERG Savings Claimed in 2010-11: £147 million</p> <p>Final ERG Assertion Presented to Audit Team:</p> <p>We've saved £150m from 2010/11 budgets for government's major projects; by scrutinising their funding, and by halting or curtailing spend.</p> <p>ERG Evidence Base Presented to Audit Team:</p> <ul style="list-style-type: none"> • E-mail to audit team on 9 June 2011 with Major Projects Authority validations review report dated June 2010 • Meeting with <name redacted> and <name redacted> 16 June 2011 on Major Projects Authority target • E-mail to audit team on 22 June 2011 from HMT with statement that savings from major projects had been deducted from departments budgets in 2010-11 		
<p>IAS Comment</p> <p>The original evidence provided by ERG claimed savings of £402m for major projects, this came from the Major Projects Authority (MPA) validation report, dated June 2010, and a statement from HMT to the audit team that £402m had been deducted from departments 2010-11 budgets. Note: The audit team did not carry out work to trace back to individual departments spending review settlements the HMT statement that £402m had been deducted from departmental budgets.</p> <p>Over the course of our audit fieldwork, two lines from this original amount have been removed by ERG:</p> <ul style="list-style-type: none"> - For one project, the UK Centre for Medical Research and Innovation (UKCMRI), although £233m funds had been cut from 2010-11 BIS budgets, this related to a change in the funding mechanism for the project, whereby project funding moved from being an upfront payment in 2010-11 to spread over the life of the project as project costs arise. Therefore, our review concluded that although this was a saving against 2009-10 budgets, when viewed in a broader context it was not. - Working with ERG we identified £22m of potential duplication between the Major Projects Review and Commercial Portfolio work streams. <p>ERG has removed both amounts from their savings claim and the adjusted total is £147m.</p>		
<p>Conclusion</p>		
<p>We are content with the final ERG savings number and assertion</p>		

Communications	IAS Assurance	Reasonable	
<p>Final ERG Savings Claimed in 2010-11: £397 million</p> <p>Final ERG Assertion Presented to Audit Team: By taking stronger control of our marketing spend, we have reduced spend through the Central Office of Information by 80% or £400mln</p> <p>ERG Evidence Base Presented to Audit Team:</p> <p>ERG supplied the audit team with spreadsheets showing English government departments' spend on marketing and advertising through the Central Office of Information (COI). These spreadsheets have been supplied to ERG by the COI.</p>			
IAS Comment			
<p>Following the May 2010 election, a freeze was announced on marketing and advertising. Government departments and their Arms Length Bodies had to apply for exemptions if these activities were essential to achievement of objectives. It should not have been possible to circumvent the freeze by procuring outside of the framework agreements in place. Departments had to produce business cases for exemption requests, and submit them for approval by Minister for Cabinet Office (MCO). Since the majority of governmental communications (including marketing and advertising activities) is procured through COI framework agreements, it is reasonable to compare COI spend in 2009/10 against 2010/11 to arrive at claimed savings.</p> <p>The spreadsheets supplied were downloaded from the COI database that records jobs undertaken by COI on behalf of government departments. Each job has a unique identifier and is allocated to a category of spend. Jobs out of scope e.g. those relating to the Devolved Administrations or not classed as marketing and advertising have been excluded. COI reconciled their annual 2009/10 and 2010/11 turnovers by adding in scope spend supplied to ERG for the purposes of this exercise to out of scope spend.</p> <p>We held a meeting with the COI team responsible with providing the ERG return to understand the basis of the data collected and methodology used. We tested the COI data provided to recalculate the £397 million savings claimed, and were satisfied with the total figure and the method of its calculation.</p> <p>We have not examined the base documentation from which spend on individual jobs would have been derived, but take assurance that COI is externally audited by the NAO as part of COI's annual resource accounts.</p>			
COI spend protected / unprotected Depts.	Under £25k	Over £25k	Total
2009/10	£ 18,999,144	£ 464,783,183	£ 483,782,327
2010/11	£ 9,867,201	£ 76,864,178	£ 86,731,379
Change (savings)	£ 9,131,944 48%	£ 387,919,005 83%	£ 397,050,948 82%
NB COI separately accounts for jobs above and below £25k due to approval process			
Conclusion			
We are content with the final ERG savings number and assertion			

ICT	IAS Assurance	Reasonable																				
<p>Final ERG Savings Claimed in 2010-11: £296 million</p>																						
<p>Final ERG Assertion Presented to Audit Team: By applying greater scrutiny to our ICT expenditure departments have stopped or reduced spend on low value ICT projects worth £300mln</p>																						
<p>ERG Evidence Base Presented to Audit Team:</p>																						
<p>Meeting with <name redacted>, <name redacted>, and <name redacted> 16 June 2011</p>																						
<p>E-mail to the audit team on 15 June 2011 with spreadsheets supporting the ICT Savings target and breakdown of total savings as below:</p>																						
<table border="1"> <thead> <tr> <th>Area</th> <th>Value (£m)</th> <th>Comment</th> </tr> </thead> <tbody> <tr> <td rowspan="2">ICT Moratorium - Exceptions Review process</td> <td>31</td> <td>according to HMT Green Book rules 10/11 savings</td> </tr> <tr> <td>74</td> <td>denied spend</td> </tr> <tr> <td>Projects Review (OGCIO)</td> <td>17</td> <td>-</td> </tr> <tr> <td>Stopped Project list (OGCIO)</td> <td>178</td> <td>projects reported to ERG as stopped by departments</td> </tr> <tr> <td>Potential £4mln double counting with Commercial Portfolio</td> <td>(4)</td> <td>identified by ERG</td> </tr> <tr> <td>Total 10/11</td> <td>296</td> <td>-</td> </tr> </tbody> </table>	Area	Value (£m)	Comment	ICT Moratorium - Exceptions Review process	31	according to HMT Green Book rules 10/11 savings	74	denied spend	Projects Review (OGCIO)	17	-	Stopped Project list (OGCIO)	178	projects reported to ERG as stopped by departments	Potential £4mln double counting with Commercial Portfolio	(4)	identified by ERG	Total 10/11	296	-		
Area	Value (£m)	Comment																				
ICT Moratorium - Exceptions Review process	31	according to HMT Green Book rules 10/11 savings																				
	74	denied spend																				
Projects Review (OGCIO)	17	-																				
Stopped Project list (OGCIO)	178	projects reported to ERG as stopped by departments																				
Potential £4mln double counting with Commercial Portfolio	(4)	identified by ERG																				
Total 10/11	296	-																				
<p>E-mail to the audit team on 16 June 2011 with Project Review and Stopped Project forms and guidance showing which projects were to be included in the Departmental returns.</p>																						
<p>Email to the audit team on 16 June 2011 with two examples of exceptions reviews with benefit methodology guide: GP Quality Management and Analysis System (QMAS) and its replacement, the GP Payment and Calculation Service (GPPCS); and Consumer Direct.</p>																						
<p>IAS Comment</p>																						
<p>The savings spreadsheets add up to the figures reported. They identify all the savings by project, identify current status, projected savings over years to 2014/15, any concerns and are grouped by value and status.</p>																						
<p>In respect of the ICT moratorium the Green Book rules mean that these are cashable savings (£31M) and denied spend (£74M) means the project has not been approved. Projects stopped cannot be revived without Major Projects Authority (MPA) approval. MPA are going through a validation (Exceptions Review) process to update the current position with projects with departments and give themselves more confidence in the figures; this is expected to complete later in the summer.</p>																						
<p>Savings information on the Projects Review (£17M) and Stopped Project list (£178M) are based on departmental returns on ICT projects signed off by Chief Information Officers and Accounting Officers. On the returns there were three possible actions: Proceed; Re-Shape (alter project profile) based around threshold values as per the spreadsheet; and Close. The information from the returns is held on an Access database to which there is restricted access. ICT projects covered by the Projects Review were reviewed in Oct 10 and there is confidence that information on this is correct.</p>																						
<p>The Stopped Projects list depends on the undertakings signed by the Senior Responsible Officers, Chief Information Officers and Permanent Secretaries. MPA has found from Freedom of Information requests that the risks with the department savings returns arise from departments being over-optimistic over timing when a project will be stopped or unexpected exit costs and therefore re-visit projects because they have less confidence.</p>																						
<p>Conclusion</p>																						

We are content with the final ERG savings number and assertion

Human Resource	IAS Assurance	Reasonable
<p>Final ERG Savings Claimed in 2010-11: £295 million</p> <p>Final ERG Assertion Presented to Audit Team: We have reduced the size of the civil service, for example by putting stronger controls on non-essential recruitment. This has contributed to a reduction in the size of the Civil Service of more than 17,000, equivalent to a £300 million saving in 2010/11 on salary costs.</p> <p>ERG Evidence Base Presented to Audit Team:</p> <ul style="list-style-type: none"> Office for National Statistics (ONS) Quarterly ‘Statistical Bulletin – Public Sector Employment’ (latest version Q4 of 2010 published 16th March 2011). Spreadsheet entitled, ‘Estimated Savings from the Recruitment Freeze Measured by Reduction in FTEs and Paybill’. Estimated Pay per FTE figures formula used by Cabinet Office (£33,358 Jan 10 – June 10, £34,186 July 10 – Mar11). 		
<p>IAS Comment</p>		
<p>A commitment was made to freeze external recruitment of non-essential back-office posts – thereby reducing the size of the Civil Service and saving an estimated £120m in 2010/11.</p> <p>The period covered for calculating the estimated savings is end June 2010 – end March 2011. ONS data is used to calculate the reduction in Full Time Equivalents employed by the Home Civil Service excluding the Devolved Administrations. The pay per FTE figure is a Cabinet Office estimate using official ONS statistics and includes salary, estimates for ERNIC, pension contributions and non-consolidated performance related payments.</p> <p>Independent ONS data indicates that the size of the Civil Service covered by the above criteria declined from 465,110 FTEs at the end of June 2010 to 447,980 FTEs at the end of December 2010, a fall of 17,130.</p> <p>We reviewed the methodology and the calculations made and found them to be accurate. To estimate the savings made, the average number of FTEs in each quarter was calculated and multiplied by the relevant Pay per FTE figure and measured against the baseline. ONS data was only reported up to the end of December 2010 so employment figures at that point were extrapolated to estimate savings for Jan 11 - Mar 11. This approach is prudent so it is reasonable to assume that the estimated paybill savings of £295m claimed is a conservative figure.</p> <p>Using independent ONS statistics provides a satisfactory degree of assurance over assertions made on the reduction of FTEs and likely impact on paybills.</p> <p>The original assertion presented to the audit team stated that savings were a result of a freeze in back office posts, however, as the ONS statistics do not distinguish between frontline and back office posts we cannot support this statement.</p> <p>Care also needs to be taken when reporting the savings figure as in its current format the savings figure and assertion only presents part of the civil service human resource picture in 2010-11. Part of the 17,000 reduction in posts will be due to active management downwards of the FTE number via the use of early exit schemes and voluntary redundancies, the costs of which are not included in the ERG savings figures.</p>		
<p>Conclusion</p>		
<p>We are content that the ERG savings figure is supported by evidence, and the assertion is reasonably formulated based on this evidence, however, care should be taken as the savings</p>		

figure and assertion paint only part of the picture of the reduction in 17,000 FTEs.

Property	IAS Assurance	Reasonable
<p>Final ERG Savings Claimed in 2010-11: £91 million</p> <p>Final ERG Assertion Presented to Audit Team: We reduced the on-going cost of our Property estate by over £90mln by exerting better control over lease renewals</p> <p>ERG Evidence Base Presented to Audit Team:</p> <p>Three emails to the audit team showing:</p> <ul style="list-style-type: none"> • the outturn data reported on the Property target for June 2010 to March 2011 • the savings per property from April 2010 to after the end of the outturn data year • individual properties to be excluded to reconcile back to the reported figure carried out by the ERG Performance Management and Information Team. <p>Interview on 9 June 2011 with the Head of National Property Controls Team, Government Property Unit</p>		
<p>IAS Comment</p>		
<p>The data source for the ERG savings number comes from E-PIMS, a government property database maintained by the Government Property Unit (based in BIS). This database lists properties within the government estate and, for those leased properties, lists dates when leases are expected to have breaks/expiry/renewals. Government departments have access to the E-PIMS system to update information on their properties. Information inputted is verified annually, so should be a robust source of evidence.</p> <p>The spreadsheets provided to the audit team by ERG as evidence are printouts from the E-PIMS database. ERG savings are limited to lease breaks/expiries/renewals in properties, and do not include government property that has been sold. The savings also do not include deferred costs or VAT.</p> <p>The breakdowns of savings by department are of the savings on property for the whole of Government and may differ from actual savings incurred by individual Departments.</p> <p>ERG should keep a permanent record for the period being reported on to avoid the risk of double counting from one year to the next. It should also make clear that the reporting year on this occasion is from start of June 2010 to end March 2011.</p>		
<p>Conclusion</p>		
<p>We are content with the final ERG savings number and assertion</p>		

9. Observations: Areas for Improvement

9.1 The table below sets out the actions IAS proposes should be taken by ERG to address the observations we have made.

No	IAS Observation	Priority	Agreed Action	Target Date & Action Owner
1	<p>Co-ordination: Each workstream has developed a variety of ways for recording, tracking and reporting on savings – whilst some of this variation is due to the intrinsically different nature of the individual workstreams, this has made it difficult to view and validate these savings as a single programme of work. Whilst we acknowledge that Executive Directors need to have autonomy to manage their individual workstreams, there is significant scope for improving coordination from the centre and between workstreams. This would assist in developing a more consistent approach to mitigating the risk of double counting of savings and ensuring a shared understanding of reporting requirements.</p> <p>Definitions: Linked to the need for enhanced coordination, is the requirement for greater clarity on the definitions of the workstreams to ensure a coherent understanding of what is included/excluded within each of them. This is key to minimising risks of duplication and ensuring that assertions made are appropriately evidenced based.</p>	M	ERG should examine and implement ways of improving coordination from the Centre and between workstreams. This should assist in developing a more consistent approach to mitigating the risk of double counting of savings and ensuring a shared understanding of performance requirements.	Oct 11 <ERG Overall Data Lead - name redacted>

No	IAS Observation	Priority	Agreed Action	Target Date & Action Owner
2	<p>Reporting: It was sometimes difficult to review reported savings as at the spending cut-off date of 31 March 2011, and reconcile these savings figures with supporting information. This was due to savings accrued changing as more information became available, some data supplied to us was inadequately titled with no reference of the period to which the data related, and the lack of a 'snapshot' taken of the savings at 31 March. This meant we had to check back a number of times with workstream representatives to confirm we were reviewing savings on a consistent basis.</p> <p>Version Control: There is a need to introduce version control over performance reports and data supporting them to help ensure a robust management trail and to facilitate validation of the performance reported at each milestone or reporting period.</p>	M	ERG should ensure that workstreams capture the evidence that supports the claimed savings, and have this readily accessible. This could be achieved by closing appropriately titled and dated performance information at the end of each reporting period in order to facilitate verification of reported performance.	Oct 11 <ERG Overall Data Lead - name redacted>
3	<p>Assurance: Assurance requirements and methodology should be built in at the start of the process rather than as a retrospective activity. A robust risk based assurance framework at a global, individual workstream level, and extending out to within departments can help enhance the control framework by providing independent assurance throughout the reporting period. This will facilitate</p>	M	ERG should develop in consultation with NAO and Internal Audit a risk-based assurance framework. We will consider the issues raised in this report and also broader departmental issues such as data integrity.	Oct 11 <ERG Overall Data Lead - name redacted>

No	IAS Observation	Priority	Agreed Action	Target Date & Action Owner
	early, more effective ongoing identification and mitigation of weaknesses in the reporting framework.			

Key to Priority Rating:

- High -** The agreed action addresses critical weaknesses that would result in serious risks and/or an unacceptable level of risk to the delivery of key Cabinet Office objectives. Where feasible, remedial action must be taken urgently - normally within 30 days of the date of the final report/management letter.
- Medium -** Control weaknesses that carry a risk of undesirable effects in loss, exposure, poor value for money or missed business opportunities and benefits. Remedial action should usually be taken within 3 months of the date of the final report/management letter.
- Low -** Minor control weaknesses and/or areas that would benefit from the introduction of improved working practices. Remedial action should usually be taken within 6 months of the date of the final management letter.

AUDIT PLANNING MEMORANDUM

Cabinet Office: ERG - Verification of Claimed Savings

AUDIT OBJECTIVE

1. To provide the ERG Chief Operating Officer with an independent and objective opinion on the effectiveness of the governance, risk management and control arrangements put in place by ERG to ensure delivery of government savings in 2010-11, announced by the Chief Secretary to the Treasury in May 2010.

STRATEGIC POSITION

2. This audit review supports the ERG Chief Operating Officer in providing independent assurance that the savings claimed as a result of ERG-initiated efficiencies and reforms, against a background of the Government's £3.2bn cuts to departmental budgets announced on May 24 2010, are soundly-based.

AUDIT SCOPE

3. The audit will test the benefits claimed by ERG for the following areas: Marketing and Advertising, Consultancy and Contingent Labour, Civil Service Headcount, ICT, Centralised Procurement, Supplier Renegotiation, Major Projects, Property.
4. Internal audit works to a risk based methodology which entails identifying risks to the governance, risk and control framework for the area under review – internal audit then seeks to collate and analyse evidence to understand how these risks are or have been managed.
5. The below table sets out the risks internal audit have identified for this review.

Review Objectives	Risks
1. The numerical parts of savings by ERG are accurately calculated and backed up with reasonable evidence.	<ul style="list-style-type: none"> • The numbers in claims are not accurately calculated. • Double counting of savings in and between claims. • There is insufficient evidence behind the calculation. • Evidence is inappropriately combined in reaching totals.
2. The way the claims are made by ERG is reasonable and fair.	<ul style="list-style-type: none"> • The strength of assertion extends beyond what is supported by the evidence.
3. The framework used provides a reasonable assessment of the ERG's impact overall.	<ul style="list-style-type: none"> • Savings totals are combined inappropriately.

AUDIT APPROACH

6. To validate that savings claimed by ERG we will examine files, records and other forms of evidence - both manual and electronic - and interview relevant staff - both within ERG and if needed in Other Government Departments - to identify and assess risks and evaluate controls. Judgemental sampling will be undertaken to establish the adequacy of management controls and whether they are operating effectively.
7. Emerging findings will be discussed with management during the course of the audit. At the end of the fieldwork an exit meeting will be held to bring the main findings of the review to management's attention and to agree an action plan for implementing recommendations.
8. The audit sponsor for this review is <ERG Chief Operating Officer – name redacted>. The Cabinet Office lead will be <ERG Overall Data Lead – name redacted>. The audit will be conducted by <name redacted>, <name redacted> and <name redacted>, and the Audit Manager will be <Audit Manager – name redacted (tel: number redacted)>

TIMETABLE

9. The audit will be carried out against the following timetable:

Commencement of fieldwork:	June 8 2011
Completion of fieldwork:	June 17 2011
Exit meeting to be held:	June 17 2011
Draft report issued:	June 24 2011
Auditee response due:	July 1 2011
Final Report issued:	July 8 2011

10. As part of the review discussions will be held with the following:

Name	Organisation
<name redacted>	CO Major Projects Authority
<name redacted>	CO Major Projects Authority
<name redacted>	CO Major Projects Authority
<name redacted>	CO Commercial Portfolio Team
<name redacted>	Buying Solutions

Name	Organisation
<name redacted>	CO (was Consultancy and Contingent Labour)
<name redacted>	Government Property Unit
<name redacted>	CO Civil Service Capability Group
<name redacted>	CO Government Communications

11. **Note:** The names listed in the table above are IAS minimum requirements. Further staff may need to be interviewed as audit fieldwork progresses. The planning, scope, approach, interview list and timetable set out in these terms of reference may change in the light of emerging findings. Any significant changes will be discussed with the auditee before being made.

Internal Audit Services
June 2011