


<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p> <p>14 December 2015</p>	
<p><b>ANNUAL GOVERNANCE STATEMENT ACTION PLAN AND OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT</b></p>	
<p><b>Report of the Director for Audit, Fraud, Risk and Insurance</b></p>	
<p><b>Open Report</b></p>	
<p><b>Classification:</b> For information</p>	
<p><b>Key Decision:</b> No</p>	
<p><b>Wards Affected:</b> None</p>	
<p><b>Accountable Director:</b> Moyra McGarvey, Director for Audit, Fraud, Risk and Insurance</p>	
<p><b>Report Author:</b> Geoff Drake, Senior Audit Manager</p>	<p><b>Contact Details:</b> Tel: 020 753 2529 E-mail: <a href="mailto:geoff.drake@lbhf.gov.uk">geoff.drake@lbhf.gov.uk</a></p>

## 1. EXECUTIVE SUMMARY

- 1.1. This report summarises Progress on implementing recommendations arising from the External Audit Report 2014/15 and the Annual Governance Statement

## 2. RECOMMENDATIONS

- 2.1. To note the contents of this report.

## 3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

## 4. INTRODUCTION AND BACKGROUND

- 4.1. In September 2015 the Council's External Auditors (KPMG) issued their 'Report to those charged with governance (ISA 260) 2014/15'. The report contained two recommendations for implementation by management.

- 4.2. The Council's 2014/15 Annual Governance Statement (AGS) also contained one issues that required action by management. Action plans are a necessary result of the AGS and should provide sufficient evidence that the individual significant control weaknesses taken from the AGS will be resolved as soon as possible, preferably in-year before the next statement is due.
- 4.3. Failure to act effectively on the significant control issue would increase the exposure of the council to risk. As these issues are considered to be significant, the action plans and the progress made in implementation will be periodically reported to the Audit, Pensions and Standards Committee to agree and then to monitor progress.

## **5. PROPOSAL AND ISSUES**

### **5.1. Update on External Audit recommendations**

- 5.1.1. The table attached as Appendix A shows the progress reported by the responsible managers in implementing the recommendations from the KPMG 'Report to those charged with governance (ISA 260) 2014/15'. Unless otherwise stated, Internal Audit has not verified the information provided and can therefore not give any independent assurance in respect of the reported position.

### **5.2. Update on Annual Governance Statement recommendations**

- 5.2.1. The table attached as Appendix B shows the progress reported by the responsible managers in implementing recommendation from the 2014/15 Annual Governance Statement.
- 5.2.2. Unless otherwise stated, Internal Audit has not verified the information provided and can therefore not give any independent assurance in respect of the reported position.

## **LOCAL GOVERNMENT ACT 2000- LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

None.

### **LIST OF APPENDICES:**

**Appendix A** - External Audit Recommendations

**Appendix B** - Annual Governance Statement Recommendations

## External Audit Recommendations Update

Recommendation/Areas of Improvement	Initial response and timescale	Responsible Officer	Update to Audit, Pensions and Standards Committee
<i>Report to those charged with governance (ISA 260) 2014/15</i>			
We recommend that the Council implement a more stringent review over the preparation of politically sensitive disclosures and increase communication between the Finance and HR teams to ensure that information presented in these notes is accurate.	The Council will review the process for preparing politically sensitive disclosures, making improvements where necessary and strengthening communication between Finance and HR colleagues. Date for Completion: March 2016	Director for Finance	Work is underway to improve the production of politically sensitive disclosures. This includes determining the composition of the Senior Officers note for 2015/16. This remains on target for March 2016.
The Authority should consider implementing an asset management system with the required functionality to improve efficiency of officers throughout the year and increase accuracy in the financial reporting process reducing the risk of error. (Carried over from 2012-13)	We accept the recommendation. The spread sheets have generally served the Authority well but as part of the transition to Managed Services an asset management system will be introduced. The Council will continue to use spread sheets which will be refined and improved where possible.	Director for Finance	This will delivered via the Agresso system once priority areas of that system have been fully implemented and/or stabilised. Corporate Finance will continue to use the established spreadsheets for fixed asset accounting in 2015/16 and thereafter will 'parallel run' them with Agresso.

## 2014/15 Annual Governance Statement Action Plan

Entry	Responsible Officer	Action Plan	Progress To date
<p><b>Managed Services</b></p> <p>The BT Managed Services Programme (MSP) is intended to standardise operations and reduce costs across Hammersmith and Fulham (LBHF), the Royal Borough of Kensington and Chelsea (RBKC) and Westminster City Council (WCC). The chief executive of WCC has been the Senior Responsible Officer (SRO) for the project throughout the programme. The programme aims to provide a standard system irrespective of the council or the service.</p> <p>The system that was chosen provides a common transactional Human Resources, Payroll and Finance service. It was originally planned that it would provide a saving of over £6 million by 2015/16 across the three councils but there have been significant and costly problems with this project and that saving is no longer likely.</p> <p>There were four audits of the programme undertaken during the year of which a limited assurance was determined of the control environment associated with systems readiness, change management and testing. The 'Go Live' date was postponed from 1 April 2014 and then September 2014 with the majority of the</p>	To be provided	<p>This progress report deals with the resolution of the challenges that have arisen with respect to the delivery of the Managed Services Programme since go-live on 1<sup>st</sup> April 2015. The decision to go live with the system was taken in the knowledge that the SERCO contract with Westminster could not be extended and there was no resource available to update the H&amp;F and RBKC systems such that they could be relied on after March 2015. It was recognised that this was not an ideal position and it has given rise to significant problems. A programme stabilisation plan has been created around the workstreams and the programme governance arrangements that existed before go live including risks and issues management and stage gate reviews. Programme reporting and programme assurance have been strengthened. A summary of the deliverables for each workstream is given below is given below.</p> <ol style="list-style-type: none"> <li>1. <b>Finance</b> – this workstream is tasked with ensuring that the all finance processes and core data are fully operational and stable (Purchase to Pay; Record to Report, Order to Cash, Fixed Assets, Income Manager, Access and Authorisations, Planning and Forecasting).</li> <li>2. <b>Organisation structure</b> – a corrected organisation structure supported by appropriate online forms, standard operating procedures and establishment reporting.</li> <li>3. <b>Human Resources</b> – This workstream is tasked with the delivery of stable HR processes, the resolution of system configuration issues and enabling reporting and alerts.</li> <li>4. <b>Payroll</b> – stabilisation of pay impacting incidents, improving self-service accuracy, rationalisation of payroll codes, resolution of pension issues and 3<sup>rd</sup> party pension</li> </ol>	<ol style="list-style-type: none"> <li>1. <b>Finance</b> – Core Data and functionality is live throughout the Purchase to Pay and Order to Cash processes including most of the integration with Line of Business Systems. Debt Recovery processes such as reminder letters will be live by end November. The core elements of the Record to Report functionality are delivered through the Budget Manager Pack which will be complete by mid-November, but elements relating to salaries monitoring are subject to transactional corrections that will not be completed until end December. Income Manager is being used across all three Councils to varying extents, with all forms of card payment processes other than Chip and PIN now in use in at least one service. A detailed implementation plan for the roll out of Chip and PIN and the rest of the Income Management functionality is now being brought together with a view to full implementation by end January. Work is underway to simplify the Access and Authorisations model which is proving unwieldy in current form – with an anticipated implementation in mid-December. Historic Data will have detailed plans for all councils in place by end December. Fixed Assets is currently deferred.</li> <li>2. <b>Organisation structure</b> – this is now corrected, forms and reports have been created, procedures agreed with BT and additional training provided.</li> <li>3. <b>Human Resources</b> – processes have been stabilised, system configuration issues impacting annual leave, working patterns and work schedules are being successfully resolved. Reports and alerts are being reviewed and issues addressed. An establishment report</li> </ol>

Entry	Responsible Officer	Action Plan	Progress To date
<p>system eventually going live on 1 April 2015. Since 'Go Live' there are problems that had not been foreseen and which are currently being worked through.</p>		<p>provider access, enabling effective reporting for both councils and schools, resolving payroll deductions and overpayments and complete payroll reconciliation.</p> <ol style="list-style-type: none"> <li>5. <b>Organisation readiness</b> – this workstream is responsible for the analysis of training needs, the delivery of training programmes, e-learning and reference materials and supporting the transition of council personnel to self-sufficiency, including communication of progress to all staff.</li> <li>6. <b>Schools and academies</b> – delivering self-service access to Agresso for key personnel in schools, providing accurate and stable payroll processes, ensuring effective management of starters and leavers and providing accurate and timely reports and management information.</li> <li>7. <b>Service management and governance</b> – this workstream is responsible for the management of the contract and implementation of all contractual service management deliverables, reporting and management information, oversight of the BT Shared Service Centre improvement and incident recovery plan and on-going quality assurance and performance monitoring as well as supporting the transition to business as usual and putting in place the Intelligent Client Function</li> <li>8. <b>Solution and environment assurance</b> – this workstream is focussed on ensuring effective environment, system and data control, confirmation that what has been delivered is what was specified, reconciliation and integrity assurance, improving system performance, documentation and the simplification of the access and authorisations model.</li> <li>9. <b>Interfaces</b> – is tasked with developing and implementing mechanisms to send and receive data files from source systems to target systems (so that key council service areas can exchange data with Agresso), including the creation of translation tables, transformation rules and secure transport protocols.</li> </ol>	<p>is going through user acceptance testing and further reports will progressively be brought into live. Issues remain with new starters, appraisal moderation and the backlog at the BT Shared Service Centre. BT has recruited additional resources to the Shared Service Centre and an improvement plan is being worked through.</p> <ol style="list-style-type: none"> <li>4. <b>Payroll</b> – Payroll accuracy now stands at 97.1% across the three Councils. This is an improvement, but is still not acceptable and the upward trend since April 2015 was not sustained in September. Access for the 3rd party pension provider has been set up and confirmation is awaited from Surrey. Good progress is being made with self service improvements, payroll codes and pension reports. Payroll reconciliation remains a key priority with significant resource allocated to it and is impacting on the roll out of the budget monitoring pack.</li> <li>5. <b>Organisation Readiness</b> – A post go-live training plan based on an assessment of training needs has been developed and is being implemented. Work is still being undertaken to scope some of the training and there are still dependencies on build changes and the delivery of MI reports by BT. Additional training has been delivered for Finance Professionals, HR Professionals and on establishment control. Learning and reference materials are being updated. Communication to all staff continues.</li> <li>6. <b>Schools and academies</b> – Roles and responsibilities to allow schools full access to Agresso will be completed in November and training piloted in December with completion in January. Local Work Instructions for the schools payroll service have been developed and automatic uploading of pay data is being investigated to improve payroll accuracy.</li> <li>7. <b>Service management and governance</b> – A demand and capacity plan is awaiting sign off. A quality plan is due to be signed off by the Operational Framework Board. The</li> </ol>

Entry	Responsible Officer	Action Plan	Progress To date
			<p>resolution of the incident backlog at the BT Shared Service centre is due to completed in November and BT are recruiting additional resources to the Shared Service Centre and have in place an improvement plan. Management information and clearance of the backlog at the Shared Service Centre remain issues of concern.</p> <p>8. <b>Solution assurance</b> – Change requests are in progress for the updated access and authorisations model and for system performance improvement through Update 6 to Agresso. Work is progressing to get reconciliation and integrity reports to required standards and to ensure that audit requirements are met.</p> <p>9. <b>Interfaces</b> –The workstream has delivered 74 out of 103 interfaces into service including all 49 “must have” interfaces. The focus is now on delivering all the remaining critical interfaces of which there are six.</p> <p>The concerns surrounding the Managed Services Programme are substantial, but are being systematically addressed and resolved. A closer relationship is being established with Internal Audit and an independent programme assurance function is now in place and stable. Although anticipated savings have been impacted by escalating transition costs an annual saving of £5.8m across the three boroughs is still expected to be achieved.</p>