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| <p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>22 March 2016</p> | |  |
| <p>ANNUAL GOVERNANCE STATEMENT ACTION PLAN AND OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT</p> | | |
| <p>Open Report</p> | | |
| <p>Classification: For Information Key Decision: No</p> | | |
| <p>Wards Affected: None</p> | | |
| <p>Accountable Executive Director: Moyra McGarvey, Director for Audit, Fraud, Risk and Insurance</p> | | |
| <p>Report Author: Geoff Drake, Senior Audit Manager</p> | | <p>Contact Details: Tel: 020 753 2529 E-mail: geoff.drake@lbhf.gov.uk</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 issue 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.

6. OPTIONS AND ANALYSIS OF OPTIONS

- 6.1. Not applicable

7. CONSULTATION

- 7.1. Not applicable

8. EQUALITY IMPLICATIONS

- 8.1. Not applicable

9. LEGAL IMPLICATIONS

- 9.1. Not applicable

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not applicable

11. RISK MANAGEMENT

11.1. Not applicable

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable

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

| No. | Description of Background Papers | Name/Ext. of Holder of File/Copy | Department/ Location |
|------------|---|---|---|
| 1. | External Audit and AGS recommendations progress updates | Internal Audit Manager Ext. 2505 | Finance, Internal Audit Town Hall King Street Hammersmith W6 9JU |

LIST OF APPENDICES:

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| Appendix A | External Audit Recommendations |
| Appendix B | Annual Governance Statement Recommendations |

Appendix A

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>Managed Services</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</p> | <p>MSP Programme Manager</p> | <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 1st 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&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"> 1. Finance – 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). 2. Organisation structure – a corrected organisation structure supported by appropriate online forms, standard operating procedures and establishment reporting. 3. Human Resources – This workstream is tasked with the delivery of stable HR processes, the resolution of system configuration issues and enabling reporting and alerts. 4. Payroll – stabilisation of pay impacting incidents, improving self-service accuracy, rationalisation of payroll | <ol style="list-style-type: none"> 1. Finance – 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 through interfaces. Implementation of three of the outstanding interfaces has been deferred until April and the three remaining interfaces will now be implemented by the end of March. This action depends on the three councils. <p>The technical solution for debt recovery is in place, but implementation requires significant activity at the Shared Service Centre (SSC). A resource plan is being prepared by BT.</p> <p>The core elements of the Record to Report functionality are delivered through the Budget Manager Pack which was completed at the end of December. There are some build items that should have been completed in January that have slipped. Overall delivery, however, will still be completed during February and March.</p> <p>Income Manager is being used across all three Councils to varying extents, alongside legacy solutions. All forms of card payment processes other than Chip and PIN are now available for use in at least one service per Council and solution response time issues for customer facing transactions have been partially addressed. A detailed implementation plan for the roll out of Chip and PIN and the rest of the Income Management functionality has been finalised with a view to full implementation by end March but this is subject to the full and prompt resolution of response time issues and some council activity, for</p> |

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| <p>September 2014 with the majority of the 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>codes, resolution of pension issues and 3rd party pension provider access, enabling effective reporting for both councils and schools, resolving payroll deductions and overpayments and complete payroll reconciliation.</p> <p>5. Organisation readiness – 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.</p> <p>6. Schools and academies – 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.</p> <p>7. Service management and governance – 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</p> <p>8. Solution and environment assurance – 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.</p> <p>9. Interfaces – 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</p> | <p>example, on web payments and customer accounts. Initial testing of a revised approach to Access and Authorisations identified a number of issues which have still to be resolved. Implementation is now proposed for May and will be linked to Update 6.</p> <p>Recent changes to the workflow processes around Accounts Payable have resolved some long standing issues around the processing of “non-standard” invoices (e.g. VAT only, CIS related) but further work is still required to fully resolve.</p> <p>The solution for Historic Data has high level plans for all councils in place, but the detailed planning is at different stages by end December. WCC have a detailed plan, but there is still further work to do on those for H&F and RBKC.</p> <p>Both the Councils' and BT's resources continue to be deployed directly to ensure that sufficient progress is made against the Councils' priorities such as Bank Reconciliation and Unallocated Income to ensure financial year end requirements will be met. There is a weekly year-end audit review call with Chief Accountants to review progress against plan to ensure focus on delivery and timelines</p> <p>Fixed Assets is currently deferred.</p> <p>2. Organisation structure – The post to post hierarchy in Agresso is largely correct. However, as a result of the payroll reconciliation project a number of potential system issues and data gaps have been identified. Plans are being developed with BT to resolve these. This includes a root cause analysis of background processes, increasing the number of mandatory fields to promote data integrity and linking this to form design and exception reporting. BT continues to increase resources and improve processes and training to enable the CPI for organisation data changes to be consistently met.</p> <p>3. Human Resources – Further progress has been made</p> |

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| | | secure transport protocols. | <p>since January by the HR workstream. The Establishment report is now live in self-service for retained HR which will allow them to work with the business to resolve any outstanding org structure issues. Sickness absence reports will be released into live by 26th February – there have been some build related issues which have caused these to be delayed longer than initially expected. A number of other MI reports including starters / leavers are almost complete as well. Issues relating to annual leave and work schedules are almost resolved in terms of system configuration and data. Any remaining issues will be moved to the SSC as these will be stabilisation related. Occupational health changes have been completed and are in live and ready to use. A follow up training session will be arranged as some people in the business were unable to attend. Scanning of legacy files has been decided by the Sponsors to be a low priority and the business is also carrying out a review of the data contained within the files to remove sensitive documents before they are loaded.</p> <p>The appraisal moderation did not pass testing. A joint Plan B has, therefore, been agreed by senior stakeholders. The system generated report in Agresso that lists scores of the employees eligible for bonus payments whose appraisal ratings need moderation will be completed before 29th February. A manual process will then be completed throughout March and April to agree performance ratings and bonus eligibility for some 900 people with implementation to payroll in May.</p> <p>Unplanned issues continue to arise requiring the diversion of resources from planned activity. Further work is required relating to all categories as per above before the HR service will be fully stable. The historical data solution will be managed as part of the cross-workstream project and a decision has been taken by the Sponsors not to implement</p> |

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| | | | <p>DBS e-bulk solution.</p> <p>4. Payroll – The payroll reconciliation project, although delayed by some weeks, was largely completed by 7th February. The majority of reconciliations have been made. Some further corrections are scheduled for the weekend of 20th – 21st February. These relate to where there were incorrect mappings from posts and payroll elements for schools and non-schools cost centres and account codes. There is a very minor difference in overall trial balance (£26.45) relating to roundings. Appropriate postings to account for this have been actioned. The final timetable for full completion is currently being confirmed with the programme team.</p> <p>Pension contributions are being recalculated in a test system. Work to roll forward payrolls has commenced and timescales for the completion of this work will be determined once payroll roll forward has progressed further. This work must be completed before the end of the financial year end. The recovery or repayment of differences will be managed with due consideration to the impact on the individuals affected.</p> <p>The Surrey Pensions report required some final adjustments which have now been completed. An updated file that addresses the remaining requirements and mapping issues has been submitted. The target for completion is now 29th February.</p> <p>Payroll accuracy figures are WCC 98.2%; RBKC 99.3% and H&F 99.0%. The average of 98.9% is a significant move towards the target of 99.8%. Payslip changes are complete and waiting promotion to live and work continues to identify and implement process improvements at the SSC.</p> <p>5. Organisation Readiness – The greater part of the post go live stabilisation training plan (90%) has been delivered. Some input on more specialist areas is still required and</p> |

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| | | | <p>some further training has still to be organised as a result of people not attending the workshops as originally scheduled. The review of e-learning materials is underway and due for completion at the end of February. Agreement is being reached with BT about a resource and process to update user guides. Communication is now focussed on supporting the year end, following which the emphasis will shift to a soft re-launch of the solution and building engagement.</p> <p>6. Schools and Academies – Training for schools is now complete except from an additional day for those not able to attend the earlier sessions. Schools which have access to self-service are able to run reports and the schools establishment report is being distributed through the retained HR schools team. Data errors when inputting from the schools payroll packs have fallen from 53 in October to 25 in January.</p> <p>A total of 49 schools (including 35 H&F schools, 9 RBKC schools and 5 WCC schools – correct as at 29th January) have given notice that they intend to find another payroll provider from 1st April.</p> <p>7. Service management and governance – Work is continuing to deliver all management information by the end of February. Some elements of the data collation require build work to extract the data, and this is targeted for the end of February.</p> <p>Testing of the ICF reporting in Agresso has been successfully completed and arrangements now need to be confirmed to promote these to live. Further work is on-going to build other dashboards.</p> <p>The demand and capacity plan is awaiting BT internal sign off</p> <p>The SSC continue to work on in resolving new incidents, the main areas for which are supplier payments, payroll, applications and recruitment. Progress is being made in</p> |

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| | | | <p>securing the additional permanent and temporary resources to which BT has committed. As at 5 February, 20 staff were in post, 8 more will start in February and 2 offers are awaiting acceptance. Interviews for the re-advertised new Head of Payroll position were held on 3 February, with the successful candidate accepting an offer of employment; their start date is being finalised. . An improvement plan for the Shared Service Centre is underway with an anticipated completion date of 31st March 2015. Planning for the implementation of the ICF is also underway.</p> <p>8. Solution assurance – Audit and quality assurance of the first ten months’ data is timetabled for completion at the end of February.</p> <p>A controls and system report has been delivered to BT for review. A position statement is expected from BT on 16th February and will be put to OFB for review.</p> <p>The revised access and authorisations model did not successfully complete testing. Confirmation will be sought from OFB to defer until May, which will also bring access and authorisations into line with the version 6 upgrade. Performance remains a significant issue and work is being done to identify configuration issues that are adversely impacting system speed. Fixes with respect to HR transactions and journals are targeted for completion by 31st March</p> <p>Work is continuing in this workstream to get reconciliation and integrity reports to the required standards and to ensure that audit requirements are met.</p> <p>9. Interfaces –The workstream has delivered 74 out of 103 interfaces into service including all 49 “must have” interfaces. There are six critical interfaces which still need to be delivered the remaining work on these is covered under the heading of the Finance Workstream. The 42 interfaces which it was decided to defer are for the most</p> |

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| | | | part built and deployment plans will be agreed as and when the business is ready to adopt them. |