


<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p style="text-align: center;">15 June 2016</p>		
<p>ANNUAL GOVERNANCE STATEMENT ACTION PLAN AND OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT</p>		
<p>Report of the Director for Audit, Fraud, Risk and Insurance</p>		
<p>Open Report</p>		
<p>Classification: For Information Key Decision: No</p>		
<p>Wards Affected: None</p>		
<p>Accountable Director: Moyra McGarvey, Director for Audit, Fraud, Risk and Insurance</p>		
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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 and one remains in progress.

- 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

Update on External Audit recommendations

- 5.1. 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.

Update on Annual Governance Statement Recommendations

- 5.2. The table attached as Appendix B shows the progress reported by the responsible managers in implementing recommendation from the 2014/15 Annual Governance Statement.
- 5.3. 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>			
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 Programme</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. 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. 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>		<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:</p> <ol style="list-style-type: none"> 1. Finance – this workstream is tasked with ensuring that 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 – Key deliverables for this workstream are stabilisation of pay impacting incidents, improving self-service accuracy, rationalisation of payroll codes, 	<p>1. From Programme to Operations</p> <p>The Managed Services Programme will conclude at the end of June with an enhanced ICF target operating model in place to manage the completion of the remaining deliverables and support stabilisation of the solution.</p> <p>The majority of activity is already moving from the programme into the operational sphere and progress has been made overall. This is not to say that everything that needs to be delivered has been delivered or that all processes are operating as they should. Programme team representatives together with representatives from the boroughs are currently going through a process of validating performance against the CPI's and KPI's.</p> <p>The transitional model to allow the management of outstanding deliverables, problems, defects, change and risk will be implemented as part of the enhanced Intelligent Client Function target operating model. The Intelligent Client Function has proposed a set of governance arrangements which set out how the contractual target operating model will be implemented as the solution is stabilised, processes are documented, workarounds eliminated and performance targets achieved. This has been discussed at OFB and is subject to the development of more detailed proposals.</p> <p>This report, therefore focuses on the remaining key priorities for each of the workstreams except:</p>

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<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. There are substantial concerns about this project.'</p>		<p>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 – especially from an ERP (cross workstream) viewpoint; reconciliation and integrity assurance; improving system performance, documentation and the simplification of the access and authorisations model (including its link to the end to end Starters and Leavers process).</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</p>	<ul style="list-style-type: none"> • Organisation Readiness (which is currently providing significant direct support to users to understand their support needs and encourage engagement with the solution); • Service Management and Governance (which is now focused on the release of service management information, the demand and capacity plan, the quality plan and the service improvement plan as part of the developing enhanced Intelligent Client Function); and • Schools <p>2. Finance</p> <p>Full implementation of Income Manager will go beyond the end of June. BT is preparing a detailed plan which will be presented to a workshop for Finance Directors. Issues remain with system speed, chip and pin and MOTO. Work continues between BT, RBKC and H&F to achieve improved levels of UNA. The 2015/2016 bank reconciliation was delivered, but not without some concerns about the completeness of the data. BT will use leaver overpayments as a pilot prior to the main roll out of debt management which has not yet started. A staged implementation plan for this is being prepared with a view to implementation by 30th July. The core elements of the Record to Report functionality are delivered through the Budget Manager Pack. That functionality was complete at the end of December and the Budget Manager Pack is being rolled out for some pilot service areas in WCC. H&F are planning to pilot this for month 3 monitoring. Record to report has, however, slipped further because of the prioritisation of year-end activity and some build activities were only finalised in May. The master data solution has proved more complex than anticipated and the customer data cleanse</p>

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		<p>areas can exchange data with Agresso), including the creation of translation tables, transformation rules and secure transport protocols.</p>	<p>has yet to commence. H&F have not taken up the option of debt management through BT.</p> <p>3. Organisation structure</p> <p>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. A detailed plan is now in place to correct the data gaps by 6th July 2016 and will be followed by the implementation of additional mandatory fields and changes to system routines to preserve data integrity going forward. Further work will need to be done to identify and cleanse any remaining errors in the organisation structure data subject to the outcome of this exercise. BT continues to increase resources and improve processes and training to enable the CPI for organisation data changes to be consistently met.</p> <p>4. Human Resources</p> <p>A large amount of the HR activity is now being managed through change requests as part of operational activity. An issue remains with annual leave carry over which prevents managers from approving leave however the fix for this is currently in test and should be resolved imminently There is a defect with the appraisal form which means that if an employee's line manager moves or leaves during the appraisal year, the form does not automatically workflow to the new manager. A fix for this has also been identified and is with a build consultant for resolution. The majority of the remaining HR reports (6 out of 10) have passed UAT, but are currently the subject of commercial discussions connected with payment for the work. This is preventing them from being made live. Legacy files are not yet ready for uploading to live as H&F and WCC are carrying out an</p>

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			<p>audit of the content first. RBKC legacy files are now with BT. There is a further issue for WCC affecting some 1,800 files and a change request has been submitted for rescanning of these files.</p> <p>The HR workstream has been working closely with BT to ensure that outstanding functionality is fit for purpose, working correctly and thoroughly tested and the following functionality is therefore due for release into the live system in the very near future: workflow view, working patterns, case management and the position register – all of which will be of help to line managers in maintaining data integrity within Agresso.</p> <p>5. Payroll</p> <p>a. Pensions</p> <p>The annual pension report has been issued to Surrey County Council which should allow completion of the triennial review and individual benefit statements. However confirmation has yet to be received that the file meets Surrey's requirements. Monthly pension reports have not yet been completed and there is a concern that these may generate a large number of queries in part as a result of differences with the annual pension report. The Teachers' Annual Return was submitted in time for the deadline of 31st May but with errors and without a covering letter acknowledging the errors. The return is still under review by Tri-Borough and BT and there will be questions to resolve. The date for the final submission of the return is 30th November, but between now and then it must pass scrutiny by internal and external audit. The Teachers' Annual Service and Salary Return is another cause for concern. This must be submitted by 6th July and when last reviewed by Tri-Borough showed a 25 -30% error rate. Work on the pensions calculation review continues but has</p>

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			<p>been delayed as a result of having to re-run a number of the payrolls and does not yet include absences. The latest deadline for completion given by BT is 24th June. This has been challenged by Tri-Borough because completion of this activity impacts on the timelines for the submission of the annual returns.</p> <p>b. Payroll Work on the payroll audit also continues but is running significantly behind the agreed deadline. A number of areas have yet to be started and there are some significant error rates being exposed in those areas on which work has progressed. Recovery of overpayments to leavers has begun and contact has been made with 19% of the 118 leavers to whom overpayments were made.</p> <p>All remaining payroll deliverables have been transferred to the SSC for prioritisation and delivery.</p> <p>Payroll accuracy figures for April are WCC 98.5 RBKC 77.1% and H&F 99.5%. The average of 92.3 does not include errors that may be associated with the pensions reconciliation project or the payroll audit. The accuracy of the RBKC payroll was impacted by a significant error with performance related pay which has affected more than 500 employees.</p> <p>6. Solution assurance</p> <p>Work is being taken forward to embed the findings from the controls and system report which has now been circulated for comment and discussed with Internal Audit. The vast majority of client side activities here will fall to the central and local ICF's to monitor. Access and authorisations has been decoupled from Update 6. The plan now is to test and</p>

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			<p>implement the new Access and Authorisations model in June. There is a requirement to ensure that changes to the organisation structures fully integrate with Access and Authorisation changes – to ensure end users experience seamless starters, leavers and change processes. System performance continues to be an issue for both support staff and end users. BT has in place a plan to resolve system speed issues and has assigned a dedicated resource to the delivery of the plan. Improvements via Update 6/Milestone 5 (the next Agresso release) and reviews of configuration are, however, seen as the principal route to a resolution of the system performance problems. Test scripts are being reviewed and revised and testing for Update 6 is scheduled for July with implementation in early August. Adoption of Milestone 5 is planned for December 2016.</p> <p>7. Interfaces</p> <p>There remain six critical interfaces which have been deferred at the request of the business owners, but are planned for implementation by the end of June. The interfaces in question are:</p> <ul style="list-style-type: none"> • Comensura/Pertemps – Purchase Order • Comensura/Pertemps – Timesheet and Expenses • Comensura/Pertemps – Close Engagement • Commercial Waste – RBKC • Temporary Accommodation – RBKC • Outstanding IM interfaces