

<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p> <p><b>21 June 2017</b></p>		
<p><b>ANNUAL GOVERNANCE STATEMENT ACTION PLAN AND OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT.</b></p>		
<p><b>Report of the Interim Director of Audit, Fraud, Risk and Insurance</b></p>		
<p><b>Open Report</b></p>		
<p><b>For Information</b> <b>Key Decision: No</b></p>		
<p><b>Wards Affected: None</b></p>		
<p><b>Accountable Director:</b> Moira Mackie, Interim Director of Audit, Fraud, Risk and Insurances</p>		
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## **1. EXECUTIVE SUMMARY**

- 1.1. This report summarises progress on implementing recommendations arising from the External Audit Report 2015/16 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 2016 the Council's External Auditors (KPMG) issued their 'Report to those charged with governance (ISA 260) 2015/16'. The report contained three recommendations for implementation by management.

- 4.2. The Council's 2015/16 Annual Governance Statement (AGS) also contained three 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. PROPOSALS AND ISSUES**

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

- 5.1.1. All recommendations arising from the KPMG 'Report to those charged with governance (ISA 260) 2015/16' have now been reported as implemented.
- 5.1.2. 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 A shows the progress reported by the responsible managers in implementing recommendation from the 2015/16 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.

## **LIST OF APPENDICES:**

Appendix A              Annual Governance Statement Recommendations

**2015/16 Annual Governance Statement Action Plan**

Entry	Responsible Officer	Action Plan	Progress To date
<p><b>Contract Management and Procurement</b></p> <p>Contract management arrangements had been developing into a “tri-borough” service with significant procurements undertaken such as the SEN childrens’ transport contract and the Managed Services Programme (both procured prior to 2015/16). In order to strengthen both procurement and contract management, the Council appointed a new Commercial Director in December of 2015, with extensive experience in both the public and private sectors.</p> <p>Following an initial review, Council Standing Orders have been changed to improve visibility and oversight of procurement projects by requiring Cabinet sign off of procurement strategies for any project with a value greater than £100,000. A further review of procurement is underway, to better define the boundaries and interfaces between the corporate procurement function and related activities devolved to service departments. In terms of contract management, a maturity assessment of existing contract management capability has been initiated. The results will allow the Council to compare itself against prevailing best practice across all sectors on an international basis. A cohort of approximately 30 staff are undergoing formal commercial and contract management training that will lead to a recognised qualification from the International Association of Commercial and Contract Management.</p>	<p>Director of Commercial and Procurement</p>	<p>The Council's Strategic Leadership Team have agreed to significantly strengthen the Commercial Director's role across the organisation in procurement and contract management. Actions are as follows:</p> <p><b>Corporate Procurement</b></p> <p>a. Coordinate and support major procurement activities contracts (by value or sensitivity) across H&amp;F to maximise opportunities and make sure resources are available</p> <p>b. Provide support, development, training and assistance to service departments on a project by project basis</p> <p>c. Develop and implement procurement policy, practice and guidance</p> <p>d. Ensure compliance with policy, standards and procurement law</p> <p>e. Work with economic development to ensure that maximum local economic benefit is derived from all procurements.</p> <p><b>Strategic Contract Management</b></p> <p>a. Set contract corporate contract management standards and ensure compliance</p> <p>b. Lead, supervise and coordinate all contract management activities on major contracts (by value or sensitivity) and share line management of relevant contract management staff</p> <p>c. Be accountable for contractual performance of</p>	<p>A new Head of Commercial Management has been appointed, whose role encompasses procurement and contract management. Relationship Managers within the Corporate Procurement team are using two year rolling plans created for each of the major departments across the Council to coordinate key management information across major contracts identifying:</p> <ul style="list-style-type: none"> <li>• Potential savings</li> <li>• Major procurements,</li> <li>• Contract renewals,</li> <li>• Contract extensions</li> <li>• Service Reviews</li> <li>• Contract spend - contract V actual</li> <li>• Non contract spend</li> <li>• Engagement plan</li> <li>• Stakeholder plan</li> <li>• Procurement strategies</li> </ul> <p>The Relationship Managers will then ensure that procurements and contracts are only let within the procurement rules. They are also developing engagement plans with the departments to ensure that an on the ground presence and advice is always available. The Relationship managers will also undertake the process of signing off cabinet papers and procurement strategies under the guidance of the Head of Commercial Management. This ensures that a commercial view is always conveyed to the relevant boards for fully informed decisions to be made.</p> <p>The creation of these comprehensive plans ensures that all the required commercial management information is held within the</p>

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		<p>major contracts</p> <p>d. Work with commissioners and service managers to carry out contract development for all major contracts to ensure their relevance and suitability during the contract term</p> <p>e. Work with, commissioners, service managers and major suppliers to continuously improve quality and cost through investment and innovation</p> <p>f. Maintain a watching brief on the financial and commercial stability of major contractors</p> <p>g. Train and develop capability and skills of contract management staff across H&amp;F</p>	<p>e sourcing platform and the central contracts register. In addition to this the need for sound financial information in a central place to be able to identify spend anomalies and monitor contract value has been identified and will be developed in conjunction with the departments and corporate finance. This will improve the ability to quickly identify under and over spend on contracts which could relate to further identified saving in the MTFS.</p> <p>The Head of Commercial Management is also developing a central register of all contract KPIs so that contracts which start to underperform are identified quickly. This will also allow Commercial Management to support contract managers implement retentions and other penalties.</p> <p>The Head of Commercial Management will ensure monthly, corporate reporting of all major contracts takes place and will include: performance against contract requirements, corrective actions, penalties imposed or notices served. Status of previous corrective actions and any unresolved issues along with a plan to deal with them. The report will be provided individually and in aggregate and will be reported monthly to the BDT. Actions to resolve any outstanding issues will be agreed, tracked and recorded at the BDT. These reports will be for information only unless there are unresolved or outstanding actions.</p> <p>Accredited Commercial and Contract management training is underway and due to complete throughout 2017. More contract management workshops are planned to further enhance the skills competencies and understanding of Council staff engaged in contract management activities. In addition, the Head of Commercial Management is intending introduce further staff resources to develop these Relationship Manager roles and bring the skills of procurement and contract management closer together.</p>

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			Individual reviews of the Serco, Mitie and Pinnacle contracts have been undertaken and improvement action plans implemented to ensure the services are delivered to contract standards. A Head of estates has been recruited to oversee the improvements, work with the suppliers, eradicate poor performance and establish ongoing continuous improvement. In addition to this the Head of Estates will also be reviewing the Quadron/Ideverde contract for grounds maintenance to further enhance resident facing contracts. It is intended to develop a cross contract supplier network to remove service anomalies for areas that fall in between contracts.
<p><b>BT Managed Services Contract Delivery</b></p> <p>The Managed Services Programme was procured by Westminster City Council in 2013 to provide transactional Human Resources, including payroll, finance services and a Shared Service help desk for the London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and the City of Westminster Councils. The programme overran its original delivery date of 1 April 2014 and went live on 16 March 2015 with a further programme of staged implementation originally extending to 30 April 2015 that has continued to be extended since. Overall, the programme work plans were reviewed by the Programme post go-live and this established key deliverables with revised due dates. These plans and the target date for to achieve a steady state, have slipped and a more recent review of plans has re-set due dates which now stretch through to June 2016. The Council has recognised through its Audit Committee and Contract management arrangements that the contract with BT has had significant issues. During the year, the Council discontinued the use of Westminster City Council's Chief Executive as the SRO for the contract with BT and appointed the Council's Chief Executive as its SRO for the contract</p>	<p>Chief Executive, supported by MSP sponsors - Strategic Finance Director and Director for Human Resources</p>	<p>3.1) LBHF management Oversight of Services and Performance</p> <p>3.2) Assurance for the control environment at BT</p> <p>3.3) Delivery of plans to achieve a steady state</p>	<p>Due to the open status of this report it is not possible to include details of activities which are commercially sensitive and confidential.</p> <p>3.1) Since January 2017 the frequency of governance meetings has been aligned to the contractual frequencies; meaning a reduction to the number of meetings undertaken; however, since March 2017 meetings have not been attended by BT. This has limited the Councils ability to have oversight. BT continue to provide written information on re-plan progress to the Intelligent Client Function (ICF) team against deliverable dates, and matters requiring inputs from the Council.</p> <p>3.2) March 2017: KPMG are conducting an audit of the accounting controls environment at the BT Shared Services Centre (SCC) located in Jarrow. Prior to release of the main audit report verbal indications from KPMG have indicated that no significant areas of concern were identified. An additional internal audit is planned to focus on controls for key areas of legislative compliance by the SCC, work is anticipated to commence on this audit in Q2 2017/18.</p> <p>3.3) The ICF/ continue to monitor and challenge progress against the transitional activities (re-plan) being undertaken by BT through written updates provided by BT to the ICF team. The</p>

Entry	Responsible Officer	Action Plan	Progress To date
<p>with BT. Officers and members from the Council held regular meetings with BT to review plans to improve performance, including making sure measures were taken to ensure internal controls operated. Work is on-going with BT to address the issues raised in this statement and additional resources are being applied by them and the Council to resolve the issues as soon as possible, although over the period improvements have been made we are unable to say with confidence when the system and service will be fully operational. In order to undertake an effective internal audit whereby reliance can be placed on the testing undertaken, there needs to be confidence that the system being reviewed is operating in a stable environment with changes properly controlled and tested prior to being implemented. Apart from the high level controls review of the Managed Service, which indicated that there were a number of areas where assurance on controls could not be given, Internal Audit have not been able to independently review the system controls and have therefore not undertaken any substantive testing during 2015/16 in the key areas of HR, Payroll and Finance. Due to problems with the system, additional internal finance and HR resources were engaged during the year by the Council to support HR and finance work, including to assist the production of the final accounts. The additional support mitigated the issues that have been experienced.</p>			<p>ICF team exception report matters requiring escalation to LBHF.</p> <p>As stated in 3.1) BT are not attending the Operational Framework Board (OFB), Strategic Framework Board (SFB), and Board to Board forums (B2B).</p> <p>Ongoing discussions between LBHF and BT (ancillary to OFB, SFB, B2B) will seek to agree with BT a level of service designed to meets needs of the Council. We anticipate a revised service specification will fall below contracted standard but which is suitable to support ongoing Council operations. This is due to the Councils belief that BT will not achieve the levels of contracted service during the term of the Call off Contract.</p>