



County Offices  
Newland  
Lincoln  
LN1 1YL

26 August 2016

**Audit Committee**

An extraordinary meeting of the Audit Committee will be held on **Tuesday, 6 September 2016 at 3.00 pm in Committee Room One, County Offices, Newland, Lincoln, LN1 1YL** for the transaction of the business set out on the attached Agenda.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Tony McArdle', written over a horizontal line.

Tony McArdle  
Chief Executive

**Membership of the Audit Committee**  
**(7 Members of the Council + 1 Voting Added Member)**

Councillors Mrs S Rawlins (Chairman), Mrs E J Sneath (Vice-Chairman), N I Jackson, Miss F E E Ransome, S M Tweedale, W S Webb and P Wood

**Voting Added Member**

Mr P D Finch, Independent Added Person



**AUDIT COMMITTEE AGENDA  
TUESDAY, 6 SEPTEMBER 2016**

Item	Title	Pages
1	Apologies for Absence	
2	Declaration of Members' Interests	
3	<b>Review of Serco Contract by KPMG</b> <i>(To receive a report and presentation on the Review of Serco Contract by KPMG)</i>	5 - 10

Democratic Services Officer Contact Details

Name: **Rachel Wilson**

Direct Dial **01522 552107**

E Mail Address [rachel.wilson@lincolnshire.gov.uk](mailto:rachel.wilson@lincolnshire.gov.uk)

**Please note:** for more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting

- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details set out above.

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[www.lincolnshire.gov.uk/committeerecords](http://www.lincolnshire.gov.uk/committeerecords)

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## Regulatory and Other Committee

### Open Report on behalf of Richard Wills, Monitoring Officer

Report to:	<b>Audit Committee</b>
Date:	<b>06 September 2016</b>
Subject:	<b>Review of Serco Contract by KPMG</b>

#### Summary:

The Audit Committee previously approved the terms of reference for a review of the Serco Contract, following a resolution at the meeting of the County Council in May 2016. The review commenced later than expected because of a delay in getting approval for KPMG to undertake the work from Public Services Audit Appointments Ltd.

There will be a presentation by KPMG on the findings of the review so far. The Committee will be invited to comment and give the Chairman the power to consult with the Chief Executive in preparing the covering report for KPMG's Serco Contract Review Report to the County Council on 16 September 2016.

#### Recommendation(s):

The Committee is recommended to:

1. receive the presentation;
2. comment on what it has heard to inform the covering report for KPMG's Review that will be presented to County Council; and
3. authorise the Chief Executive in consultation with the Chairman of the Committee to prepare the final covering report for KPMG's Serco Contract Review Report to the Council to be presented in the name of the Chairman of the Committee.

#### Background

1. At its meeting in May, the County Council resolved to ask the Chief Executive to ensure that the promised review of the procurement and award of the Serco contract and the implementation of Agresso is undertaken at once using the Council's external auditors KPMG. The terms of reference for the review (Appendix A) were agreed by the Audit Committee at its meeting on 20 June.

2. KPMG are the Council's external auditor and as such they required approval from the body that appoints auditors to councils, Public Services Audit Appointments Ltd. Disappointingly, this body did not give its approval until 8 August, despite numerous attempts to get a response sooner.
3. Consequently, there was a delay of over a month in commencing the review. KPMG have been conducting interviews from the time they received approval until after the publication of this agenda.
4. At the meeting, KPMG will present its findings and draw some preliminary conclusions. This is a post implementation review, which will draw out learning points. The review should enable the Council to refine procurement in future outsourcing contracts.

## **Conclusion**

The delay in commencing the review has meant that KPMG's Review of the Serco Contract final report is yet not available. It is proposed that this will form an appendix to a covering report to be prepared for the Council Meeting on 16 September 2016. The Audit Committee's comments on the Review can be taken into account in the covering report to Council and it is recommended that the Committee authorises the Chief Executive in consultation with the Chairman of the Committee to prepare the covering report.

## **Consultation**

### **a) Policy Proofing Actions Required**

n/a

## **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Terms of reference for the review

## **Background Papers**

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Richard Wills, who can be contacted on 01522 553001 or [richard.wills@lincolnshire.gov.uk](mailto:richard.wills@lincolnshire.gov.uk).

**APPENDIX A  
to Audit Committee Report 6 September 2016**

**TERMS OF REFERENCE FOR A REVIEW OF THE SERCO CONTRACT  
(June 2016)**

Preamble

It is proposed that this Review considers:

1. The tendering process and contract specification.
2. The management of the Contract.
3. Serco's performance in the delivery of the services under the contract and the implementation of Agresso.

The overall purpose of the Review is to learn from the experience of letting and operating the contract with Serco so that we have the best possible arrangements in place to procure and manage contracts in future.

The context

*(as discussed at the Council Meeting on 20 May 2016)*

The council continues to be concerned and disappointed by the delivery of some services by Serco and the impact this is having on:

- the citizens of Lincolnshire,
- our Local Authority schools,
- organisations we trade with and which supply us with vital services
- our staff
- the operations of the County Council.

It is acknowledged that Serco has made progress in improving service delivery and the Council looks forward to this service delivery reaching the contracted standards. While this Council has the contractual right to terminate the contract with Serco, we recognise that it is currently in the Council's best interest to work with Serco while they continue to put the problems right. Serco's continued commitment to rectification, in spite of their financial losses, is valued by this Council.

At its full meeting on 20 May 2016, the Council resolved:

- *to ask the Chief Executive to ensure that the promised review of the procurement and award of the Serco contract and the implementation of Agresso is undertaken at once using the Council's external auditors KPMG; the terms of reference for the review to be agreed by the Audit Committee at its next meeting in June;*
- *that the review is reported to the Audit Committee at its September meeting;*
- *to ask the Chief Executive to keep under review progress to improve performance and the options available to the County within the terms of the contract, and to consult as he considers necessary with the Recovery Group.*

Key lines of enquiry for the independent post-implementation review.

**1. Tendering, decision making and contract documents.**

To assess governance, project management and leadership in relation to:

- 1.1 any way in which the nature of the contract, its terms and evaluation framework and decision making affected the potential quality of delivery:
  - i. whether the operational and commercial risks associated with this embracing contract were allocated within and managed appropriately through the contract;
  - ii. whether the risks of outsourcing would have been better managed by alternative packaging this embracing contract into smaller contracts;
  - iii. whether there were any constraints or specific requirements or a lack of clarity in the contract that contributed to the poor delivery of services by Serco and particularly in relation to Agresso.
- 1.2 how the evaluation framework affected the choice of contractor:
  - i. the process and criteria for selecting a long list and short list of bidders;
  - ii. whether the LCC evaluation of risks could have identified any potential factors in Serco's bid that might have led them to question:
    - a. The veracity of their bid; and
    - b. Serco's competence to deliver against the contract;
  - iii. whether factors arising from transferring a service between external suppliers were adequately assessed and addressed.

**2. Management of the Contract:**

To consider:

- i. whether it would have been possible to identify indications of potential failure before the services commencement date of the contract;
- ii. whether the governance, project management and leadership of the contract since commencement has contributed to or been appropriate to manage the risks of and prevent or mitigate the effects of poor performance;
- iii. whether increased contract management resources would improve contract management.

**3. Delivery of services under the Contract and the implementation of Agresso**

To:

- i. review Serco's operational performance of the services;
- ii. review Serco's implementation of Agresso;
- iii. review the Council's support to the implementation of Agresso.



## OUTPUTS

A report should be delivered to the Chief Executive in time for a report to be prepared for the Council on 16 September 2016.<sup>1</sup>

The report should contain:

- A review of the contract, evaluation framework, letting of the contract and delivery of services and implementation of Agresso;
- Recommendations derived from the learning points.

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<sup>1</sup> The original wording of the terms of reference was "A report should be delivered to the Chief Executive by the <date> in time for a report to be prepared for the Audit Committee on <date>." This had to be amended because of the delayed start of the project.

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