

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

Report to:	<b>County Council</b>
Date:	<b>16 December 2016</b>
Subject:	<b>KPMG's Review of Agresso and Serco Contract</b>

**Summary:**

This report is intended to inform the Council of the outcomes resulting from its resolution in May with regard to the Serco contract.

The Audit Committee commissioned a review by KPMG and this was reported last month. KPMG made a number of recommendations that the Audit Committee received and has asked the Chief Executive to address.

In the main, the recommendations apply to any new, complex contracts that the Council may procure in future. The lessons learned from the experiences of letting the Serco contract and the operation of Agresso will be taken into account. Mostly this will be an executive function, but the Audit Committee has a role on behalf of the council as a whole, to ensure that the recommendations are properly addressed.

**Recommendation(s):**

1. The Report be noted.
2. The Audit Committee continues to monitor the response to KPMG's recommendations.

**1. Background**

1.1 The KPMG Review into the Serco Contract was commissioned by the Audit Committee in June this year, as a result of a resolution of the Council in May. The work has been completed and was reported to the Audit Committee on 21 November.

1.2 In summary:

- a) KPMG found that the Options Appraisal and Procurement process was broadly sound.
- b) KPMG found that there was a high level of confidence that the Procurement Processes were both compliant with legislation and also well-designed to obtain value for money for the Council.

- c) The liability for choosing, implementing and running the Enterprise Resource Planning (ERP) solution was entirely with the bidders.
- d) The Council was clear about its intentions for a transformation period from 1 April 2014 to 31 March 2015 and Serco contracted to achieve that. KPMG consider that 12 months was a somewhat short period of time and 18-24 months would have been more normal.
- e) As far as the contract is concerned, Serco were responsible for the implementation of Agresso supported by Unit 4.
- f) KPMG found that the County Council had Programme and Project Governance in place through:
- The Future Delivery of Support Services (FDSS) Programme - initiated to oversee the future delivery of those services previously carried out by Mouchel which included the Serco contract; and
  - the Corporate Support Services (CSS) Programme - for the procurement and then implementation of what became the Serco contract.
- g) In KPMG's view, complex procurements of this sort need:
- to consider how to manage the reputational risk to the Council of any failings by their contractor;
  - independent programme assurance; and
  - contingency arrangements that are tested and in place as part of the implementation plan.
- h) KPMG has not been able to establish conclusively why the data migration was not completely successful. KPMG considers that the controls to ensure data was migrated completely, accurately with integrity was not carried out effectively by all parties, in terms of sign off at each stage.
- i) The final decision whether to go live with the system and payroll was taken by the Chief Information and Commissioning Officer. This was based on the evidence and assurances provided by Service Leads, Serco and Unit4; and a statement from Serco that they were ready for service take on using Agresso. Serco had no better option available.
- j) It is evident from the investigation that has been carried out that Serco were not ready to perform the services from 1st April 2015, not least because of the lack of experienced payroll staff transferring from Mouchel.

1.3 KPMG set out 15 recommendations. These are aimed at the Council rather than Serco, since that is the way the terms of reference were framed. Serco has commissioned its own study.

1.4 The Audit Committee had the opportunity to question the author of the independent report, the Monitoring Officer and the Chief Information and Commissioning Officer. In addition to the need for the Chief Executive to respond to the KPMG report, the Audit Committee asked its own specific issues and comments to be considered, for example:

- Members commented whether too much trust and confidence had been put in the assurances that Serco gave; *it was noted that Serco had attended committee meetings many times, and were challenged robustly.*
- It was queried why it was not picked up that Serco did not have a sufficient number of trained staff to deal with the payroll functions. *Members were advised that Serco had planned to train up their own staff, with no cost to the Council. However, this did not happen, and the Council only became aware of this during implementation.*
- It was commented that a lot of the points were fairly simple and should be implemented as standard in a business. In terms of contingency planning, it was felt that a contingency plan should have been in place, due to the Council's reputational risk if there were any problems.
- There may be a need for the Audit Committee to have greater powers than it currently had. *It was commented that in terms of the remit of the Committee, it was a 'watchdog', but the constitution could be looked at. However, members were advised that the key thing was to not get involved in decision making. It was about ensuring that governance and controls were in place.*
- It was highlighted that a key feature was that the Committee never saw the same Serco senior manager twice, and it was queried whether this was something that should have been picked up.
- It was queried how it would be ensured that knowledge that had been gained throughout this process would not be lost in light of the fact the Chief Information and Commissioning Officer would be leaving the Authority in March 2017. *Members were assured that there was a sizable team of people engaged with the contract, as each service area had a senior officer who understood the contract in detail as well as understanding what challenges had been met and what still needed to be resolved.*
- Members were advised that it would be right for the Audit Committee, in response to this report, to ask for its comments to be reported to the Chief Executive.

## **2. Conclusion**

2.1 The Audit Committee concluded its deliberations by resolving:

1. That the Audit Committee receive KPMG's report of the Review of Agresso ERP System Implementation and Management of the Serco Contract.
  2. That the comments made by the Audit Committee on the report's findings and recommendations be noted.
  3. That the Audit Committee ask the Chief Executive:
    - i. To act on the findings and recommendations, especially in relation to future major procurements; and
    - ii. To monitor and report on the progress of the actions taken.
- 2.2 The Chief Executive will ensure that a response is prepared to KPMG's recommendations and will take into account the Audit Committee's comments. These will be applicable to the executive functions of the Council. Thus, the primary responsibility for implementing any changes lies with officers when preparing future contracts; and conventional reporting to the Executive.
- 2.3 The Audit Committee has a remit to ensure that the governance arrangements of the Council are robust and will monitor these and the specific actions arising from the KPMG Report as they relate to large and complex procurements.

### **3. Legal Comments:**

At its meeting on 20 May 2016 the Council resolved that the Chief Executive be asked to ensure that the promised review of the procurement and award of the Serco contract and the implementation of Agresso be undertaken at once using the Council's external auditors KPMG on terms of reference to be agreed by the Audit Committee and that the results of the review be reported to the Audit Committee.

This Report informs Full Council of the results of the review and the deliberations of the Audit Committee at its meeting on 21 November 2016. There are no legal implications of the recommendation in the Report.

### **4. Resource Comments:**

There are no direct financial implications to the Council of accepting the recommendations as set out in this report.

## 5. Consultation

### a) Has Local Member Been Consulted?

n/a

### b) Has Executive Councillor Been Consulted?

Yes

### c) Scrutiny Comments

Audit Committee response contained in minutes of its meeting on 21 November 2016.

### d) Policy Proofing Actions Required

N/A

## 6. Appendices

These are listed below and attached at the back of the report	
Appendix A	Table of recommendations with applicability to LCC contracts and timescale for consideration

## 7. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Report to Audit Committee, 21 November 2016	Committee section of LCC web site <a href="http://www.lincolnshire.gov.uk/local-democracy/how-the-council-works/committee-records">www.lincolnshire.gov.uk/local-democracy/how-the-council-works/committee-records</a>

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