

Audit Task Group Report and Recommendations

1. Introduction and acknowledgments

The Audit Task Group (“Audit Group”), comprised of six members of Bromsgrove District Council’s (“BDC”) Audit Committee, was set up with the purpose of investigating the reasons behind the recent receipt by BDC of a Section 24 Notice under the Local Audit and Accountability Act 2014 (“Section 24 Notice”) from its external auditors, Grant Thornton (“GT”). The Audit Group was also tasked with providing recommendations for future similar project implementation, based on any lessons learnt as a result of this process.

The investigation conducted by the Audit Group entailed reviewing various background documents, including, amongst other things, minutes of meetings of the project board set up in and around the autumn of 2019, to implement BDC’s new accounts and finance management system, enterprise resource planning (“ERP”), and other related relevant information in respect of the implementation of the ERP by BDC.

The Audit Group also conducted interviews with various officers of BDC involved in the implementation of the ERP system (“ERP System”), whether as part of its original implementation or using and continuing to roll out the ERP today. In addition to officer interviews, the Audit Group interviewed the Chief Executive of BDC, Kevin Dicks, and the Portfolio Holder for Finance and Governance, Councillor Geoff Denaro, and the Leader of BDC, Councillor Karen May.

This report (“Report”) is the summary and conclusions of the investigation carried out by the Audit Group. The Report is structured in two parts, the first part dealing with the various elements that the Audit Group considers contributed to the issuing of the Section 24 Notice to BDC and the second, providing recommendations for BDC in respect of future complex and key projects.

It must be acknowledged that even though the ERP System implementation was challenging, the majority of the modules implemented did not present the same issues, as did one specific module of the new system, i.e. cash receipting. The cash receipting module, however, was such a fundamental part of BDC’s finance and accounting process and system, that the challenges relating to that element had a significant impact on the overall implementation and embedding of the ERP by BDC.

Before moving into the body of the Report, the Audit Group wanted to thank all the Finance staff currently in place, who worked through the early phases of the implementation of the ERP, came in part-way through its challenging implementation and are continuing to help with its roll out today. This has been a difficult and challenging process, and the Audit Group is grateful to these staff members for their contribution. Additionally, the work of the Audit Group would not have been possible, without the enormous support and assistance from the current acting Section 151 Officer, Peter Carpenter and Head of Finance and

Customer Services, Michelle Howell, the Head of Legal, Democratic and Property Services, Claire Felton and very efficient and able support from Jo Gresham and Jess Bayley-Hill who have worked tirelessly to help the Audit Group.

Finally, it is important to bring up as early as possible the impact, on the issues being discussed in this Report, of the Covid 19 pandemic. This is in order to acknowledge its important impact on the ERP System's implementation and delivery and, as will be seen later, the receipt of the Section 24 Notice by BDC. The ERP Project implementation timing was unfortunate, given the key contracts and decision making had been finalised just before the pandemic started and the UK went into lockdown.

New remote and online ways of working, lack of physical access to systems, teams and line managers, be it from the BDC's side or Technology One ("TechOne"), the delivery supplier for the ERP Project, and staff illnesses due to the pandemic, played arguably, a significant part in the challenges experienced by BDC in the implementation of a major new finance system. It could be argued that were the Council operating outside of the pandemic environment, the ERP implementation is likely to have been more successful, but, as can be seen later, still with real challenges.

2. Reasons for the Section 24 Notice

The Section 24 Notice was issued to BDC by GT on 31st October 2022 on the basis that the 2020-2021 Accounts for the Council were not submitted by the relevant statutory deadline of 31st July 2021, which was later extended by the Government, due to the Covid-19 pandemic, to 30th November 2021.

Based on the findings of the Audit Group, the 2020-2021 Accounts for BDC were late in being delivered largely due to the challenges with the implementation of the ERP System, as set out below, and the resulting unavailability of the relevant audit-related data in time for the deadline.

It is the Audit Group's view that the audit-related data was not available due to a number of aspects relating to the ERP Project implementation, namely:

1. The specification for the ERP system and how it was marked-up
2. Governance of the ERP Project
3. Implementation of the ERP Project
4. Risk Management of the ERP Project and escalations

2.1 Specification of the ERP System

The new ERP System, including the complex cash receipting ("Cash Receipting") element, was purchased by BDC from TechOne, following a procurement exercise conducted during the course of 2019.

The new system was to replace the existing finance system eFin and the Civica Cash Receipting system, which relied on various manual interventions, needed further updates due to it being non-compatible with Windows 10 and costly

upgrading and was beginning to present issues from the fitness for purpose point of view. There appears to have been a good case for implementation of a new more up-to-date and fit-for-purpose solution.

In relation to the new ERP System purchased from TechOne, the tender document and the answers provided by TechOne (“ERP Tender”) were shared with the Audit Task Group. The scoring was not available for review..

From the review of the ERP Tender document, it was evident that, with the exception of Cash Receipting, detailed specifications were set out for all relevant ERP areas and sectors. Conversely, however, despite its complex nature, the Cash Receipting element contained a limited number of entries. This element of the ERP Tender was considered as part of the Audit Group’s investigations, which concluded that a more extensive specification for the Cash Receipting module should have been set out in the tender documentation, if the expectation was that that module was to be developed and tailored to BDC’s specific activities and requirements. The limited specification for Cash Receipting, therefore, could indicate that a stand-alone “plug-in” solution was anticipated for Cash Receipting, such as for example continuing to use Civica plug-in for this element alone.

A number of key staff involved in the ERP tender specification were unavailable for interview, due to them having since left BDC, and as a result, it is not clear what the exact expectation was in respect of Cash Receipting, and, in fact, whether there was a separate specification in this regard, which was not available for the review by the Audit Group.

The supplier of the new ERP System, TechOne, did not wish to be interviewed or to answer the Audit Group’s questions as part of this review process. But, based on the interviews with BDC’s staff and from the review of the background project documentation, it appears that TechOne did not have a suitable Cash Receipting solution module to offer, and that it was therefore looking to develop that module with a Council such as BDC. BDC therefore appears to be the first Council in the UK to have worked with TechOne on the design and development of this bespoke and complex module.

Given the lack of available documentation, key staff leaving BDC employment and lack of engagement from TechOne, it is not possible for the Audit Group to establish whether officers from BDC were fully aware at the outset of the functionality of the ERP package that was being purchased, including:

- (i) it being the only Council in the UK implementing TechOne’s Cash Receipting module,
- (ii) the requirements to self-document processes as these would be unique to BDC in regard to Cash Receipting, or
- (iii) heavy reliance on self-directed training, following initial TechOne training only a hand-full of key super users at BDC understood the operation of the new ERP system.

During the interview with the Chief Executive, he confirmed that he had not understood that BDC would be the first Council in the UK to have implemented TechOne's cash receipting element of the ERP System.

As mentioned earlier, the Audit Group did not see the scored tender document provided by TechOne and therefore cannot confirm upon what basis the contract was awarded to TechOne, particularly in respect of the Cash Receipting element. The staff who took part in the decision making are no longer working for BDC.

2.2 Governance

Based on the Audit Group's review, BDC did not appear to have set up this major project within a formal and recognised public sector project management framework such as Prince2 and consequently there was no robust framework for escalation, systemic reporting, identification, and follow up of critical action points.

The Audit Group could not identify clear project milestones and formal setting of milestones as required from the information provided.

This Audit Group was not able to evidence and identify a training programme for affected staff implementing the ERP system as part of the ERP project design, from the information provided. There is evidence of training being considered and delivered to staff, as the project was in the midst of implementation and the training appears to have been delivered ad hoc, not in advance, and in a reactive manner.

Following various interviews, the Audit Group learned that this major project was not included in the Corporate Risk Register, which is used by BDC in respect of major projects and uses Red-Amber-Green ("RAG") ratings in respect of the progress of projects against key elements, such as the timing of delivery, resourcing, staff availability and costings.

The project was not included within the remit and scope of Internal Audit. Roles and responsibilities including the Chief Executive, Audit, Standards and Governance Committee, the Leader of the Council and Portfolio Holder for Finance and Governance were not considered as part of any escalation process in respect of this major and fundamental project for BDC. The former Section 151 Officer (appointed in March 2021) did not attend any ERP Project Board meetings. The reason for this is not known, given the Section 151 Officer has a statutory responsibility for the stewardship of the Council's financial data and systems.

2.3 Implementation

The Audit Group's review concluded that there was a lack of understanding or experience of the Cash Receipting functionality by TechOne or officers of the Council, and that BDC (and Redditch Borough Council) were the first Councils in the country to implement the same. There is no evidence to suggest that

BDC was aware of this, although there is no apparent information within the minutes of the ERP Project Board meetings to question this.

It appears that the lack of full understanding of the “self-service” and first developer nature of the Cash Receipting solution as part of the ERP Project resulted in an inadequate specification in the tendering process and the inadequate staff resourcing and backfilling. Staff allocated to this major project were continuing to do their day job as well as testing and implementing the new system.

The lack of backfilling of staff meant that the pressures on the Finance Team were unsustainable, particularly as the Covid pandemic started and pressures increased. It was evident from some of the comments in the minutes of the ERP Project board meetings, as well as discussions with the interviewees, that this was taking its toll on the officers involved in the ERP Project.

Eleven out of the sixteen of the original Finance Team members, including key project owners, left the employment of BDC over an 18-month period, including key officers involved in the ERP design, implementation and training roll out. The exit interviews with these staff members were either not offered or did not take place due to the choice of the individual concerned. Where interviews were completed, they did not provide any clear information about the reasons for leaving or feedback on the ERP implementation issues.

Replacing the departed skilled staff members, with temporary or permanent resource proved challenging, particularly in view of the Covid pandemic, as other public sector organisations also struggled with the increased responsibilities and staff capacity issues.

Critically, due to contractual obligations with TechOne, any training modules for BDC staff were time limited. Therefore, once the trained staff left the organisation, there was a training gap for any new staff, and for information cascading to other team members.

One has to also appreciate that this was at the time of Covid-19 where the team were having to work remotely. Had the team been together in the same environment there could have been a different outcome.

Some challenges of implementation continue to this day including, for example, in relation to VAT returns, Revenue Outturn and Capital Outturn returns. However, a solid Finance Team is now in place to address these historic issues.

In relation to ERP Board meetings the Audit Group was not able to identify clear action points from each meeting, for any subsequent interrogation of actions given to particular members of the ERP Project Team. Indeed, some of the minutes contained repeated information from previous meetings and were confusing, with limited clarity of structure.

It is clear that the implementation of any system causes culture change within an organisation. New ways of working were being introduced, that would require staff to change and learn new skills. The new ERP System should have been implemented with clear and regular staff communications regarding the rationale and benefits, together with training and upskilling offered in a systemic manner. It was not clear from the evidence presented to the Audit Group that the organisational culture impacts of the fundamentally new system and new ways of working were fully considered as part of the ERP Project design and implementation.

2.3 Risk Management

The Audit Group could not identify that there was a specific corporate level risk management assessment of the ERP Project. In particular, there did not appear to be a systematic and organised escalation of issues to the Corporate Management Team or Senior Management Team (CMT/ SMT) by the Head of Service or Director with responsibilities for this area, with regard to the timing, delivery, necessary additional resourcing and monetary implications amongst other things. It is acknowledged that there was risk management at a more day to day and micro level, but key reportable issues and issues with milestone delivery failed to be escalated .

Internal Audit were not sighted on the ERP Project, despite the importance of its role for BDC, and could not therefore offer an independent and critical challenge at various stages of implementation, including at the procurement stage, or in respect of impacts on the budgets and the accounts preparation for delivery to GT.

2.5 Accounts

Non-delivery of the 2020-2021 Accounts in the required timescales occurred due to the inability to access all required financial data on the new financial system.

BDC's accounting and finance staff were resourced into design, processing and implementation of the new Cash Receipting system. Although consideration had been initially given to back-filling, it was considered not necessary, as the above problems with implementation of TechOne were not anticipated. Therefore the finance staff were expected to implement the new system and continue with their day jobs.

This was felt by the Audit Group to be the major contributing factor to the failure of the full and timely implementation of the new Cash Receipting module as part of the ERP System implementation and the inability of the Council to close/deliver the accounts.

It is clear that there were some failings in the reporting to the Audit, Standards and Governances Committee and that staff turnover was in part responsible for this. The departure of staff members also resulted in a loss of knowledge and

experience that was key to ERP Project delivery and the ability to deliver the day-to-day accounting functions fully and systematically. This impacted not only on delivery of the 2020-2021 Accounts, but it also continues to affect the delivery of the 2021-2022 and 2022-2023 Accounts.

Consequently, given the challenges of the implementation of the ERP Project and the impact it had on BDC's compliance data and statutory accounting deadlines, the Audit Group would make the following recommendations for future major projects:

3. Recommendations

1. BDC to ensure that subject specialists, internal or external, are involved in the design of relevant procurement specifications for all major projects.
2. Given a number of substantial and important projects on the horizon for BDC, set up a permanent Project Management Office at BDC to support the full range of projects undertaken by the Council. This Project Management Office would report to CMT/ SMT as part of its remit. CMT is tasked with setting out the requirements of this new programme office and resource requirements to ensure compliance with the recommendations in this Report. This Report will be presented to the first Cabinet meeting after the BDC elections in May 2023.
3. In order to establish that a system chosen is fit for purpose, future scoring criteria as part of all procurement exercises will include the need for evidence that the system on offer to BDC is tried and tested.
4. Internal Audit should be cited on all major projects, together with a professional member of the Project Management Office. If necessary, independent or peer validation of technical specifications and/or bid due diligence should be considered.
5. Staff required on any major projects should be backfilled, to ensure no work over-load impacting BDC staff well-being.
6. Should staff training be required as part of any new system or project implementation, BDC as a purchaser of that system/solution, should ensure that all training requirements are included as part of the project specification.
7. The Agile Working Policy should take account of the need, from time to time, for officers to work collaboratively and in line with the needs of the project.
8. The Council should fully and accurately record action points at project board meetings (and potentially, other Council meetings). They should then be implemented by the specific person responsible and reported upon at the following project meeting within a suitable and reasonable time scale. Where this is not possible, there should be RAG rating to escalate this further, to secure a suitable resolution is discussed by the relevant project team.
9. Officers, as a standard Report, will highlight to Audit, Standards and Governance Committee any possible finance and governance issues in the next six months not delivering to standard or timescales. This will include the timescales of delivery of finance training, delivery of VAT returns, delivery of the 2021/22 and 2022/23 accounts.
10. The Corporate Risk Register to be discussed as an early item on the agenda at meetings of the Audit, Standards and Governance Committee. Any risks are to

be clearly flagged to the members of the Committee, particularly where they are rated as red.

ERP Recommendations

1. All finance staff and Council users are to be trained as a matter of urgency and no later than by 31st August 2023 on how to use the ERP system and that the progress with this is reported to the next meeting of the Audit, Standards and Governance Committee as a regular agenda item.
2. BDC to work with a specialist with the knowledge of the TechOne system and Cash Receipting to help in real time with the completion of the implementation of the new ERP system and all of its components and to help with any training needs and improvements to the system.
3. VAT returns to be up to date for 2020-21 and 2021-2022 by the end of May 2023 and for 2022-2023 by the end of August 2023.
4. The 2021-2022 Accounts to be in draft format by 30th June 2023.
5. The 2022-2023 Accounts to be in draft format by 30th September 2023.
(All of the above milestones will be dependent on resources and will be reported to the Committee as per recommendation 9 above.)

Summary Conclusion

Based on the above findings, the Audit Group does not feel that GT had any alternative, but to issue BDC a Section 24 Notice.

Given the shortcomings with the acquisition of and implementation of the TechOne system, the challenges presented as a result of a global pandemic and the significant staffing issues in the Finance Team generally, there were inevitable consequences for the Council's ability to deliver its accounts in accordance with the legislative requirements. However, it is clear that the failings associated with this project are not endemic and that the issues were isolated and the result of 'a perfect storm'.

To the credit of BDC, it recognised it should review the ERP implementation, given its challenges, by commissioning and participating fully and openly in this review of the whole ERP process. The Audit Group has not identified any significant cultural issues in the Council, and this is not how the authority generally does business.

The recommendations from this Audit Group have been made to help make improvements to future projects.

Audit Group members:
Councillor Steve Colella
(Chairman)
Councillor Peter Whittaker
(Vice Chairman)
Councillor Andrew Beaumont
Councillor Janet King
Councillor Adrian Kriss

Councillor Maria Middleton

Date of Report: 7 March 2023

NOTE: Whilst it is noted that the BDC's Finance Team are part of a shared service with Redditch Borough Council and that the issues surrounding the section 24 notice are equally relevant to both Councils, this report and investigation has been conducted for and on behalf of BDC alone.

Appendix A to the report – List of Resources

This Audit Task Group met on 8 occasions between 1st February and 6th March 2023 for a cumulative total of 20 hours. There were 6 Members appointed to the Audit Task Group. Councillor Steve Colella (Chairman), Councillor Peter Whittaker (Vice-Chairman), and Councillors Andrew Beaumont, Janet King, Adrian Kriss and Maria Middleton.

Nearly all the Members attended every meeting although some experienced occasional issues with connectivity. The meetings were also attended by the Interim Section 151 Officer, the Head of Legal, Democratic and Property Services and the Head of Finance and Customer Services. The Principal Democratic Services Officer and the Senior Democratic Services Officer attended to take notes of the meeting and produced the agenda packs.

During the course of the meetings, the Task Group received the following information which informed their recommendations.

Reports and Minutes

Members' Meetings

Members Meetings Reports between 6th June 2018 and 17th October 2022 including reports considered at the following:

- Council
 - Future Provision of the Council's Core HR and Finance System – July 2018 (30 pages)
 - Report from the Portfolio Holder for Finance and Enabling – September 2018 (6 pages)
 - Enterprise Resource Planning System Report – March 2019 (3 pages)
 - Portfolio Holder Report – Finance and Enabling – October 2022 (12 pages)
- Cabinet (& also Leader's Group)
 - Enterprise Resource Planning System Project Business Case – June 2018 (30 pages)
 - Enterprise Resource Planning System Report – March 2019 (3 pages)
 - Financial Recovery Report – Published September 2022 (7 pages)
- Overview and Scrutiny Board
 - Enterprise Resource Planning System – Update (Briefing Paper) – July 2019 (1 page)
- Audit, Standards and Governance Committee
 - Updates on the ERP System were received in a number of External and Internal Audit reports between November 2020 and 13th October 2022 and noted within the Minutes for the meeting.
- Finance and Budget Working Group
 - Enterprise Resource Planning System Project Business Case – June 2018 (30 pages)
 - Finance System – presentation – March 2019 (7 slides)
 - ERP System – Update – November 2021 (4 slides)

- Financial Recovery Plan Report – Published September 2022 (7 pages)

Corporate Management Team Meetings (71 pages)

Corporate Management Team Reports between 22nd May 2018 to 5th October 2022 including the following:

- Corporate Management Team – Finance Project Updates (Peter Carpenter) between 8th April 2022 and 28th September 2022
- Corporate Management Team Notes and Actions between 16th October 2019 and 28th September 2022

Project Board Meetings (347 pages)

Notes between 9th September 2019 and 20th December 2022.

Housing Project Board Minutes (29 pages)

Notes between 10th June 2019 and 14th November 2022.

Notes for the Task Group meetings

76 pages of notes were taken at meetings of the Audit Task Group held between 1st February and 21st February 2023 (whilst the notes of the other three meetings had not yet been completed by the date of this report being published Members are asked to note the total length of the notes of the Audit Task Group will be well in excess of 100 pages).

Written Submissions

Grant Thornton – External Auditors

Human Resources

List of officers who left Bromsgrove and Redditch Councils' Finance Department October 2019 – September 2022

PSAA Appointed Auditors – Quality of Audit Services, (report published by the Local Government Association in May 2022)

Expert witnesses

The following expert witnesses were interviewed, unless otherwise stated below:

Councillor Geoff Denaro – Portfolio Holder for Finance and Governance

Councillor Charlie Hotham – Chairman of the Finance and Budget Working Group

Councillor Karen May – Leader of the Council

Andy Bromage – Head of Worcestershire Internal Audit Shared Service

Peter Carpenter – Interim Section 151 Officer (*Pete was asked a number of questions at the first meeting in relation to the setting up of the ERP system and to explain the data that Members had been given in the agenda – 456 pages*)

Kevin Dicks – Chief Executive

Mark Hanwell – ICT Transformation Manager

Mike John – Final Project Manager

Deb Poole – Head of Business Transformation, Organisational Development and Digital Strategy

Sanjay Sharma – System Implementation Support Officer

Becky Talbot – HR and Organisational Development Manager (submitted written evidence)

Carmen Young – Procurement Officer