

SUMMARY OF THE  
**Internal Audit Final Report**  
**Transformation Programme Follow Up**  
*2012/2013 Audit Year*

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Prepared by: Anna Simmonds



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***Commercial Services Internal Audit***

2012- 2013

# COMMERCIAL SERVICES INTERNAL AUDIT

## 1. Executive Summary

### 1.1 Introduction

This review was requested by the Managing Director of Commercial Services (CS) to provide an independent opinion on the progress made in respect of implementing the transformation programme.

The objective of this review was to assess the actions taken by management to implement and address the recommendations and matters arising from an independent strategic review (undertaken in 2011) that resulted in the introduction of the transformation programme of CS.

1.2 Audit Opinion	High	Substantial	Adequate	Limited	None
The system of control is sufficiently sound to manage key risks.					

### 1.3 Rationale for opinion

Of the original 14 actions arising, eight have been fully implemented, the remainder are being actively progressed and are on target. KCC Directors and Members have increasingly engaged to understand and monitor the operations of Commercial Services via the Shareholder Board, thus improving the oversight function. This has further been supported by the recent Cabinet Member decision of the “*realignment of commercial services company structure*” on 3<sup>rd</sup> October 2012.

The fully implemented recommendations include:

- Realignment of reporting to the Corporate Director of Enterprise and Environment, who is now also Chair of the Shareholder Board.
- Establishment of an Executive Management Team aligned to the new organisational structure.
- Appointment of a KCC Head of Procurement.
- Strengthening the relationship and roles of the KCC Head of Procurement and Managing Director of Commercial Services.
- KCC have adopted the role of Intelligent Customer in respect of procurement.
- Clarification and agreement has been achieved in respect of pension liabilities, deconstruction of annual recharges and premises arrangements.
- A Commercial Services internal audit function has been established.
- Reviews were undertaken of each of the business units within Commercial Services.

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### **1.4 Key recommendations**

The following recommendations, whilst outstanding, are on target to be implemented in full and to timetable:

1. Formally constitute a stand alone business as an Arms Length Organisation, which will be fully operational from 1<sup>st</sup> April 2013.
2. Progress the creation of an Advisory Board with external advice in the guise of non-Executive Directors (or similar function), drawn from relevant sections of the market that match those delivered by Commercial Services.
3. A clear Risk Policy covering CS's risk management philosophy and responsibilities should be drafted, approved and published.
4. The defined vision, mission and objectives for the corporate entity should be represented in the individual divisional business plans.
5. Any financial arrangements should be properly documented at the earliest opportunity following establishment of the new companies.

The assistance of staff in providing information during the audit is gratefully acknowledged.

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## 2. Findings

### 2.1 Background/Context

In July 2011, Eversheds and BDO were jointly commissioned to undertake a high level strategic review of the governance arrangements of Kent Commercial Services (CS). The scope of this review covered the following areas:

- The current governance and assurance arrangements of the whole CS entity.
- The legality of the current operating and governance arrangements in CS against the Companies Act and Local Government legislative requirements.
- The financial relationship between CS and Kent County Council (KCC), including an assessment as to the level of subsidy (if any) that KCC provides to CS.
- How well KCC has specified the purpose of CS, how well this aligns with the strategic requirements of KCC, and how precisely this is interpreted and delivered by CS.

### 2.2 Summary of findings

Following the original BDO/Eversheds report a number of changes were made to the operating structure of Commercial Services, with the 25 plus business units being aligned to 5 divisions, all headed by a Director. The new structure lent itself to a new senior management team, resulting in a strengthened Executive being in place by August 2012.

During the same period a Shareholder Board was formed, consisting of representatives from KCC Members, Corporate Directors and CS Executive. The board met monthly and a draft Terms of Reference setting out the purpose and remit of the board has been produced and considered.

The recent Cabinet Member decision of the “*realignment of commercial services company structure*” on 3<sup>rd</sup> October 2012 has significantly helped Commercial Services to progress many of the actions arising from the BDO/Eversheds report, in that it formally approved the new structure and direction of Commercial Services.

The decision approved:

- the formation of two new companies
- the transfer of staff to the new companies
- changes in the companies’ Directors
- the move of operations to a new location
- delegating authority to the Corporate Director for Enterprise and Environment in consultation with the Cabinet member for Environment, Highways and Waste.

Following the above decision, Commercial Services are now able to implement plans already in place to relocate in 2013, and to transfer staff to the new companies and start trading as the two new companies from 1<sup>st</sup> April 2013.

In preparation for the significant changes, the CS Executive are also in the process of reviewing and updating Business Plans to ensure that they are fully aligned with the new Mission, Vision and Objectives of Commercial Services as a whole. These have been

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consistently communicated to CS staff via written and oral briefings from the new Managing Director.

It is anticipated that once the two companies are formally trading from 1<sup>st</sup> April 2013, this will allow for many of the outstanding recommendations to be fully implemented.

Commercial Services has appropriately waited for the formal decision of Cabinet Members to constitute to two new companies. In preparation for this decision the Shareholder Board has been heavily consulted and legal advice sought, business unit reviews have been completed, which have informed the reorganisation of Commercial Services with the introduction of a supporting Executive.

The decision to start formally trading on 1<sup>st</sup> April 2013, fits with the start of a new financial year and provides time for staff to be sufficiently consulted in preparation of the changes and for Directors to produce new business plans aligned to the new structure.