Home Office

AUTHORITY: The Secretary of State for the Home Department

Schedule Q – Financial Reports and Audit Rights

Escorting Services

THE CONTRACT

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Financial Reports and Audit Rights

1 DEFINITIONS

In this Schedule, the following definitions shall apply:

"Annual Contract Report"	the annual contract report to be provided by the Supplier to the Authority pursuant to Paragraph 1 of Part B;
"Audit Agents"	(a) the Authority's internal and external auditors; (b) the Authority's statutory or regulatory auditors; (c) the Comptroller and Auditor General, their staff and/or any appointed representatives of the National Audit Office; (d) HM Treasury or the Cabinet Office; (e) any party formally appointed by the Authority to carry out audit or similar review functions; and (f) successors or assigns of any of the above;
"Contract Amendment Report"	the contract amendment report to be provided by the Supplier to the Authority pursuant to Paragraph 1 of Part B;
"Final Reconciliation Report";	the final reconciliation report to be provided by the Supplier to the Authority pursuant to Paragraph 1 of Part B;
"Financial Pricing Model" or **"FPM"**	The model issued by the Authority for the purposes of pricing the Services in accordance with Schedule F (Payment Mechanism);
"Financial Reports"	the reports listed in the table in Paragraph 1.1 of Part B;
"Financial Representative"	a reasonably skilled and experienced member of the Supplier's staff who has specific responsibility for preparing, maintaining, facilitating access to, discussing and explaining the Open Book Data and Financial Reports;
"Financial Transparency Objectives"	has the meaning given in Paragraph 1 of Part A*;*
"Material Change"	a Change which: (a) materially changes the profile of the Charges; or (b) varies the total Charges payable during the Term (as forecast in the latest Financial Report by £1m or more;
"Monthly Contract	the monthly contract report to be provided by the Supplier

Report" to the Authority pursuant to Paragraph 1 of Part B;

"Open Book Data" complete and accurate financial and non-financial information which is sufficient to enable the Authority to verify the Charges already paid or payable and Charges forecast to be paid during the remainder of the Term, including details and all assumptions relating to:

(a) the Supplier's Costs broken down against each Service and/or Deliverable, including actual capital expenditure (including capital replacement costs) and the unit cost and total actual costs of all hardware and software;

(b) operating expenditure relating to the provision of the Services including an analysis showing:

(i) the unit costs and quantity of consumables and bought-in services;

(ii) manpower resources broken down into the number and grade/role of all Supplier Personnel (free of any contingency) together with a list of agreed rates against each manpower grade;

(iii) a list of Costs underpinning those rates for each manpower grade, being the agreed rate less the Supplier's Profit Margin; and

(iv) Reimbursable Expenses;

(c) Overheads;

(d) all interest, expenses and any other third party financing costs incurred in relation to the provision of the Services;

(e) the Supplier Profit achieved for each Service Period;

(f) confirmation that all methods of Cost apportionment and Overhead allocation are consistent with and not more onerous than such methods applied generally by the Supplier;

(g) an explanation of the type and value of risk and contingencies associated with the provision of the Services, including the amount of money attributed to each risk and/or contingency; and

(h) the actual Costs profile for each Service Period.

PART A: FINANCIAL TRANSPARENCY OBJECTIVES AND OPEN BOOK DATA

1 FINANCIAL TRANSPARENCY OBJECTIVES

The Supplier acknowledges that the provisions of this Schedule are designed (inter alia) to facilitate, and the Supplier shall co-operate with the Authority in order to achieve, the following objectives:

Understanding the Charges

(a) for the Authority to understand any payment sought from it by the Supplier including an analysis of the Costs, Overhead recoveries (where relevant), time spent by Supplier Personnel in providing the Services and the Supplier Profit Margin;

(b) for both Parties to be able to understand the Financial Pricing Model and Cost forecasts and to have confidence that these are based on justifiable numbers and appropriate forecasting techniques;

(c) to facilitate the use of Guaranteed Maximum Price with Target Cost ("**GMPTC**"), Time & Material ("**T&M**") and other pricing mechanisms (where relevant as referred to in Schedule F (Payment Mechanism));

Agreeing the impact of Change

(d) for both Parties to agree the quantitative impact of any Changes that affect ongoing costs and benefits and to identify how these could be mitigated and/or reflected in the Supplier's Charges;

(e) for both Parties to be able to review, address issues with and re-forecast progress in relation to the provision of the Services;

Continuous improvement

(f) for the Parties to challenge each other with ideas for efficiency and improvements; and

(g) to enable the Authority to demonstrate that it is achieving value for money for the tax payer relative to current market prices**,**

(together the "**Financial Transparency Objectives**").

2 OPEN BOOK DATA

2.1 The Supplier acknowledges the importance to the Authority of the Financial Transparency Objectives and the Authority's need for complete transparency in the way in which the Charges are calculated.

2.2 The Supplier agrees to abide by the principles of Open Book Contract Management ("**OBCM**"), as summarised in Annex A to this Schedule Q (Financial Reports & Audit Rights) and as detailed in the Crown Commercial Services ("**CCS"**) guidance entitled Open Book Contract Management Guidance ("**OBCM Guidance**"), accessible at:

www.gov.uk/government/publications/procurement-policy-note-0516-open-book-contact-management

2.3 This Agreement is identified as Tier 3 in accordance with the OBCM Guidance.

2.4 During the Term, and for a period of 7 years following the end of the Term, the Supplier shall:

(a) maintain and retain the Open Book Data; and

(b) disclose and allow the Authority and/or the Audit Agents access to the Open Book Data.

PART B: FINANCIAL REPORTS

1 PROVISION OF THE FINANCIAL REPORTS

1.1 The Supplier shall provide the following financial reports to the Authority, in the frequency specified below:

Financial Report	When to be provided	Purpose
Contract Inception Report	On or before the Effective Date	To demonstrate how charges are calculated from the costs, unit rates and volumes agreed at the time of contract award and to provide a monthly budget baseline for the life of the contract.
Contract Amendment Report	Within 10 Working Days of a Material Change being agreed between the Supplier and the Authority	As the Contract Inception Report, but revised to include the impact of change. To provide a revised monthly budget for the life of the contract.
Monthly Contract Report	Within 10 Working Days of the end of each Month	This report is to be utilised as a financial performance management tool and should provide, inter alia, the following information: Actual costs: - Monthly - YTD (fiscal year) - Full (fiscal) Year forecast All of the above are to be compared to the Contract Inception Report or the Contract Amendment Report, as appropriate, to provide a comprehensive analysis of financial performance, including commentaries on cost drivers, excluding margin, generating material variances and accompanied by a separate margin analysis.
Annual Contract Report	Within 10 Working Days of the end of the Contract Year to which that	This is a full (fiscal) year financial report that provides: Full year actual costs compared to the Contract Inception Report

	report relates	or the Contract Amendment Report, as appropriate, accompanied by appropriate commentaries on performance, including commentaries on cost drivers, excluding margin, generating material variances and accompanied by a separate margin analysis. Also to include a full year forecast for the subsequent fiscal year, accompanied by explanations of variances arising from comparison with the Contract Inception Report or the Contract Amendment report, as appropriate.
Final Reconciliation Report	Within 3 months after the end of the Term	To comprise a comprehensive and professional review of the financial performance of the contract, including a separate margin analysis.

1.2 The Supplier shall provide to the Authority the Financial Reports in the same software package (Microsoft Excel or Microsoft Word) and based on the layout and format of the Financial Pricing Model, which has been issued by the Authority to the Supplier on or before the Effective Date for the purposes of this Agreement.

1.3 The FPM may require amendment to fit the requirements of the Financial Reports. It is the responsibility of the Supplier to prepare and own such Financial Report formats. However, (a) all Financial Report formats require the approval of the Authority and the Authority shall be entitled to require changes or modify the template for any Financial Report by giving written notice and explanation to the Supplier; and (b) no change may be made to the FPM without the Authority's approval.

1.4 A copy of each Financial Report shall be held by both the Authority and the Supplier. If there is a Dispute regarding a Financial Report, the Authority’s copy of the relevant Financial Report shall be authoritative.

1.5 Each Financial Report shall:

(a) be completed by the Supplier using reasonable skill and care;

(b) incorporate and use the same defined terms as are used in this Agreement;

(c) quote all monetary values in pounds sterling;

(d) quote all Costs as exclusive of any VAT; and

(e) quote all Costs and Charges based on current prices.

1.6 Each Annual Contract Report and the Final Reconciliation Report shall be certified by the Supplier's Chief Financial Officer or Director of Finance (or equivalent as agreed in writing by the Authority in advance of issue of the relevant Financial Report), acting with express authority, as:

(a) being accurate and not misleading;

(b) having been prepared in conformity with generally accepted accounting principles within the United Kingdom;

(c) being a true and fair reflection of the information included within the Supplier's management and statutory accounts; and

(d) compliant with the requirements of Paragraph 1.5.

1.7 The Supplier shall:

(a) prepare each Financial Report using the same methodology as per paragraph 1.2 of Part B;

(b) ensure that each Annual Contract Report and each Contract Amendment Report (if any) is a true and fair reflection of the Costs and Supplier Profit Margin forecast by the Supplier;

(c) ensure that the Final Reconciliation Report is a true and fair reflection of the Costs; and

(d) not have any other internal financial model in relation to the Services inconsistent with the Financial Pricing Model.

1.8 During the Term, and for a period of 18 months following the end of the Term, the Supplier shall make available the Financial Representative at reasonable times and on reasonable notice to answer any queries that the Authority may have on any of the Financial Reports and/or Open Book Data.

1.9 If the Supplier becomes aware of the occurrence, or the likelihood of the future occurrence, of an event which will or may have a material effect on the following:

(a) the Costs incurred (or those forecast to be incurred) by the Supplier; and/or

(b) the forecast Charges for the remainder of the Term,

the Supplier shall, as soon as practicable, notify the Authority in writing of the event in question, detailing the actual or anticipated effect. For the avoidance of doubt, notifications provided in accordance with this Paragraph 1.9 shall not have the effect of amending any provisions of this Agreement.

2 FINANCIAL REPORTING REGIME

2.1 Following the delivery by the Supplier of each Annual Contract Report and any Contract Amendment Report:

(a) the Parties shall meet to discuss its contents within 10 Working Days of receipt (or such other period as the Parties shall agree). The Financial Representative shall attend the meeting;

(b) the Supplier shall make appropriate Supplier Personnel and advisers available to discuss any variations between the relevant Financial Report and the Contract Inception Report or immediately preceding Annual Contract Report or Contract Amendment Report (as the case may be) and to explain such variations (with reference to supporting evidence) to the satisfaction of the Authority; and

(c) the Authority shall either within 10 Working Days of the meeting referred to in Paragraph 2.1(a) notify the Supplier that:

(i) the relevant Financial Report contains errors or omissions or that further explanations or supporting information is required, in which event the Supplier shall make any necessary modifications to the Financial Report and/or supply the Authority with such supporting evidence as is required to address the Authority's concerns within 10 Working Days of such notification and the Authority shall following receipt of such amended Financial Report and/or supporting information, approve or reject such Financial Report; or

(ii) the Authority has approved the relevant Financial Report.

2.2 Following approval by the Authority of the relevant Financial Report in accordance with Paragraph 2.1(c), that version shall become, with effect from the date of such approval, the current approved version of the Financial Pricing Model for the purposes of this Agreement, a version of which shall be held by both the Authority and the Supplier. If there is a Dispute regarding a Financial Report, the Authority's copy of the relevant Financial Report shall be authoritative.

2.3 If the Parties are unable to reach agreement on any Financial Report within 30 Working Days of its receipt by the Authority, the matter shall be referred for determination in accordance with Schedule J (Dispute Resolution Procedure).

3 DISCUSSION OF MONTHLY CONTRACT REPORTS AND THE FINAL RECONCILIATION REPORT

3.1 Following the delivery by the Supplier of each Monthly Contract Report, the Parties shall meet to discuss its contents within 10 Working Days of receipt (or such other period as the Parties shall agree). The Financial Representative shall attend the meeting.

3.2 Following the delivery by the Supplier of the Final Reconciliation Report, the Parties shall meet to discuss its contents within 10 Working Days of receipt (or such other period as the Parties shall agree). The Financial Representative shall attend the meeting.

4 KEY SUB-CONTRACTORS

4.1 The Supplier shall, if requested by the Authority, provide (or procure the provision of) a report or reports including the level of information set out in the Financial Reports in relation to the costs and expenses to be incurred by any of its Key Sub-contractors.

4.2 Without prejudice to Paragraph 1.1 of Part C, the Supplier shall:

(a) be responsible for auditing the financial models/reports of its Key Sub-contractors and for any associated costs and expenses incurred or forecast to be incurred; and

(b) on written request by the Authority, provide the Authority or procure that the Authority is provided with:

(i) full copies of audit reports for the Key Sub-contractors (and the Authority shall be entitled to rely on such audit reports); and

(ii) further explanation of and supporting information in relation to, any audit reports provided.

PART C: AUDIT RIGHTS

1 AUDIT RIGHTS

1.1 The Authority, acting by itself or through its Audit Agents, shall have the right during the Term and for a period of 18 months thereafter, to assess compliance by the Supplier and/or its Key Sub-contractors of the Supplier's obligations under this Agreement, including for the following purposes:

(a) to verify the integrity and content of any Financial Report;

(b) to verify the accuracy of the Charges and any other amounts payable by the Authority under this Agreement (and proposed or actual variations to such Charges and payments);

(c) to verify the Costs (including the amounts paid to all Sub-contractors and any third party suppliers);

(d) to verify the Certificate of Costs and/or the Open Book Data;

(e) to verify the Supplier's and each Key Sub-contractor's compliance with this Agreement and applicable Law;

(f) to identify or investigate actual or suspected fraud, impropriety or accounting mistakes or any breach or threatened breach of security and in these circumstances the Authority shall have no obligation to inform the Supplier of the purpose or objective of its investigations;

(g) to identify or investigate any circumstances which may impact upon the financial stability of the Supplier, the Guarantor and/or any Key Sub-contractors or their ability to perform the Services;

(h) to obtain such information as is necessary to fulfil the Authority's obligations to supply information for parliamentary, ministerial, judicial or administrative purposes including the supply of information to the Comptroller and Auditor General;

(i) to review any books of account and the internal contract management accounts kept by the Supplier in connection with this Agreement;

(j) to carry out the Authority's internal and statutory audits and to prepare, examine and/or certify the Authority's annual and interim reports and accounts;

(k) to enable the National Audit Office to carry out an examination pursuant to Section 6(1) of the National Audit Act 1983 of the economy, efficiency and effectiveness with which the Authority has used its resources;

(l) to verify the accuracy and completeness of any Management Information delivered or required by this Agreement;

(m) to review any Performance Monitoring Reports and/or other records relating to the Supplier's performance of the Services and to verify that these reflect the Supplier's own internal reports and records;

(n) to inspect the IT Environment (or any part of it) and the wider service delivery environment (or any part of it);

(o) to review the accuracy and completeness of the Registers;

(p) to review any records created during the design and development of the Supplier System and pre-operational environment such as information relating to Testing;

(q) to review the Supplier's quality management systems (including all relevant Quality Plans and any quality manuals and procedures);

(r) to review the Supplier's compliance with the Standards;

(s) to inspect the Authority Assets, including the Authority's IPRs, equipment and facilities, for the purposes of ensuring that the Authority Assets are secure and that any register of assets is up to date; and/or

(t) to review the integrity, confidentiality and security of the Authority Data.

1.2 Except where an audit is imposed on the Authority by a regulatory body or where the Authority has reasonable grounds for believing that the Supplier has not complied with its obligations under this Agreement, the Authority may not conduct an audit of the Supplier or of the same Key Sub-contractor more than twice in any Contract Year.

1.3 Nothing in this Agreement shall prevent or restrict the rights of the Comptroller and/or Auditor General and/or their representatives from carrying out an audit, examination or investigation of the Supplier and/or any of the Key Sub-contractors for the purposes of and pursuant to applicable Law.

2 CONDUCT OF AUDITS

2.1 The Authority shall during each audit comply with those security, sites, systems and facilities operating procedures of the Supplier that the Authority deems reasonable and use its reasonable endeavours to ensure that the conduct of each audit does not unreasonably disrupt the Supplier or delay the provision of the Services.

2.2 Subject to the Authority's obligations of confidentiality, the Supplier shall on demand provide the Authority and the Audit Agents with all reasonable co-operation and assistance (and shall procure such co-operation and assistance from its Sub-contractors) in relation to each audit, including:

(a) all information requested by the Authority within the permitted scope of the audit;

(b) reasonable access to any Sites and to any equipment used (whether exclusively or non-exclusively) in the performance of the Services;

(c) access to the Supplier System; and

(d) access to Supplier Personnel.

2.3 The Supplier shall implement all measurement and monitoring tools and procedures necessary to measure and report on the Supplier's performance of the Services against the applicable Performance Indicators at a level of detail sufficient to verify compliance with the Performance Indicators.

2.4 The Authority shall endeavour to (but is not obliged to) provide at least 15 Working Days' notice of its intention to conduct an audit.

2.5 The Parties agree that they shall bear their own respective costs and expenses incurred in respect of compliance with their obligations under this Paragraph 2, unless the audit identifies a material Default by the Supplier in which case the Supplier shall reimburse the Authority for all the Authority's reasonable costs incurred in connection with the audit.

3 USE OF SUPPLIER'S INTERNAL AUDIT TEAM

3.1 As an alternative to the Authority's right pursuant to Paragraph 1.1 to exercise an audit either itself or through its Audit Agents, the Authority may require in writing that an audit is undertaken by the Supplier's own internal audit function for any of the purposes set out in Paragraph 1.1.

3.2 Following the receipt of a request from the Authority under Paragraph 3.1 above, the Supplier shall procure that the relevant audit is undertaken as soon as reasonably practicable and that the Authority has unfettered access to:

(a) the resultant audit reports; and

(b) all relevant members of the Supplier's internal audit team for the purpose of understanding such audit reports.

4 RESPONSE TO AUDITS

4.1 If an audit undertaken pursuant to Paragraphs 1 or 3 identifies that:

(a) the Supplier has committed a Default, the Authority may (without prejudice to any rights and remedies the Authority may have) require the Supplier to correct such Default as soon as reasonably practicable and, if such Default constitutes a Notifiable Default, to comply with the Rectification Plan Process;

(b) there is an error in a Financial Report, the Supplier shall promptly rectify the error;

(c) the Authority has overpaid any Charges, the Supplier shall pay to the Authority:

(i) the amount overpaid;

(ii) interest on the amount overpaid at the applicable rate under the Late Payment of Commercial Debts (Interest) Act 1998, accruing on a daily basis from the date of overpayment by the Authority up to the date of repayment by the Supplier; and

(iii) the reasonable costs incurred by the Authority in undertaking the audit,

the Authority may exercise its right to deduct such amount from the Charges if it prefers; and

(d) the Authority has underpaid any Charges, the Supplier:

(i) shall only be entitled to recover the amount underpaid, which shall be calculated using the applicable rates for the Service given in this Agreement that would have been used at the time that the Charges should have been paid. The Supplier shall not be entitled to use any other rates for calculation of the underpaid Charges. This paragraph 4.1d(i) represent the only payment that the Supplier is entitled to in respect of any underpaid Charges;

(ii) shall not be entitled to recover or levy any other costs in addition to the amount underpaid in 4.1d(i), and the amounts underpaid shall not be subject to interest under the Late Payment of Commercial Debts (Interest) Act 1998.

ANNEX A: OPEN BOOK CONTRACT MANAGEMENT

Extract: Crown Commercial Services (CCS)
Information Note 05/16 24th MAY 2016

Overview

Open Book Contract Management ("**OBCM**") is the scrutiny of a supplier's costs and margins through the reporting of, or accessing, accounting data. Its use is often associated with managing and controlling delivery of large, high value, high risk and complex contracts. This transparency allows both parties to be clear on the supplier's charges, costs, and planned return. It also provides a basis to be able to review performance, agree the impact of change and to bring forward ideas for efficiency improvements. If implemented well, this technique should help both to improve value for money outcomes and to build mutual understanding and trust between government and its suppliers.

Background

The Public Accounts Committee report "Transforming Contract Management' said the Government's current approach to contracting gives too much advantage to contractors and Open Book Accounting should be the norm. The Government's response included a commitment to trial the use of Open Book to inform future policy and Cabinet Office led the trial with support from key departmental stakeholders.

With the exception of MoD's use of Open Book on single source contracts, the trial concluded Open Book was not well understood; there was limited evidence of a standard approach in use across industry, and limited common understanding of Open Book. Open Book is often resource intensive and requires a mix of specialist skills to deliver. With limited commercial levers in place and a lack of sound commercial judgement, Open Book can be costly to deliver and poor execution can easily damage commercial relationships with suppliers if trying to retrofit into existing contracts where the right levers are not available.

Implementation of Open Book Contract Management requires a particular combination of skills and capabilities; the approach brings together finance, commercial and subject matter specialists. It is recommended that organisations ensure adequate multi-disciplinary resources are available to implement the new approach.

Approach

The overall approach to OBCM is as follows:

- Decision tool, used to decide the optimal benefit/cost Tier of OBCM application; detailed in the Crown Commercial Services (CCS) guidance accessed via the link below;
- Application Model which identifies the proportionate set of tools and processes for that Tier; and
- Tools used in OBCM processes and collaborative behaviours.

The Tools should only be applied fully for more complex contracts (typically in Tiers 3 or 4). They are built around agreeing and tracking allowable costs: those that qualify as being appropriate and attributable and so valid costs within the contract. A clear

definition of allowable costs is then used in assessing whether the costs incurred are reasonable.

Although assigning a Tier to each contract will determine the most appropriate processes to apply and how to apply them, it remains critical to ensure a ‘commercial sense-check’ is applied. The guidance provides a structure for deciding the most appropriate Tier but the final determination must consider whether the Tier to be allocated will deliver good benefits without being outweighed by the costs.