September 2016

Isle of Wight Council
FINAL Audit Committee Internal Audit Progress Report

Contents

1) Introduction and Internal Audit Overview

Introduction

This report presents a summary of the activities of Internal Audit for the period June to September 2016. It provides executive summaries for the two reports issued as final, rated as medium risk or lower, since the last meeting of the Audit Committee and details progress regarding the wider 2016/17 plan.

Internal Audit Overview

Summary of progress against 2016/17 plan

A number of our reviews have been rescheduled, to accommodate the availability of key contacts and to ensure that our work takes place when it is of greatest value to the Council; changes to the scheduling of our reviews is summarised below:

	Planned	Actual
Adult Social Care – Savings Plans and Dynamic Purchasing System (DPS)	Q2	Q3
IT Strategy	Q3	Q1
E-HR	Q2	Q1
HR – Workforce management	Q3	Q2
Pan Meadows	Q2	Q3
Benefit Payments	Q2	Q3

In addition to the above there have been two substitutions, as below:

- A review of the Council's Constitution has substituted our planned review of Democratic Accountability. Following consultation with the sponsor for the Democratic Accountability review, focussing on the Constitution was identified as of greater value to the Council, supporting a wide ranging review of the Council's Constitution currently being led by Democratic Services.

- A review of Fostering has substituted our planned review of Placements. This is due to the Placements' initiative not progressing as quickly as projected at the time of our audit planning; Fostering was included in our 16/17 Internal Audit Plan as an optional review.

We have now completed our revised quarter one programme of work (E-HR, IT Strategy and Property Assets), with fieldwork underway or imminent for our quarter two reviews. The executive summaries for two quarter one reviews, one rated as medium and one rated as low risk, are summarised in this report. Our third quarter one review, on Property Assets, is in draft, pending finalisation. Fieldwork is underway for our quarter two programme of work, scoping has been completed for the majority of our quarter three reviews and is scheduled to take place imminently for our quarter four programme of work.

TrAction

Current internal audit agreed action status reported from our TrAction action tracking tool, is shown below:

	2014/15	2015/16
Open	68	88*
Completed	52	0

* Provisional total; one report from 2015/16 is pending finalisation.

The Council has responsibility for following up actions stemming from Internal Audit reviews. We recommend that additional resources are made available to ensure that findings are followed in a timely manner.

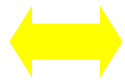**Summary of performance against key performance indicators**

We have met the key performance indicators which were within internal audit's control in relation to providing a high quality internal audit service to the Council. We are pleased to report that our average customer satisfaction score for 2016/17, based on two returned Customer Satisfaction surveys, is 9.7 out of 10.

Full details of performance against key performance indicators for 2016/17 can be found in Appendix 2 within this report.

2) Executive Summaries from Internal Audit Reports

In this Section we provide the executive summaries for the two reports, rated as medium risk or lower, which have been issued as final since the Audit Committee last met in June 2016.

Executive summary – HR Process Digitalisation/E-HR

Report classification	Trend	Total number of findings					
			Critical	**High**	**Medium**	**Low**	**Advisory**
🟡 **Medium Risk**	⬌ We have not previously reviewed HR Process Digitalisation/E-HR.	Control design	0	0	3	0	0
		Operating effectiveness	0	0	0	0	0
		Total	**0**	**0**	**3**	**0**	**0**

Summary of findings:

The original focus of this review was to be on the E-HR Project, its achievements and the governance associated with managing the Project correctly. Subsequent to our initial scoping it became clear that the Project has been suspended, with effort being refocussed on the achievement of cashable efficiencies in HR to support the Council's wider cost saving requirements. Following consultation with the Council's Head of Internal Audit and senior management this review was refocussed on the 'core' of the E-HR Project, specifically the scope of potential enhancements to HR processes, progress enhancing processes achieved to date (including those outside of the formal E-HR Project) and options for how this could be progressed in future.

The need to enhance HR processes through increased automation/digitalisation has been recognised across the Council since SAP (the Council's core HR and finance system) was first implemented in 2010 – the original intention was to purchase the HR recruitment module. However due to lack of funds this was not progressed. While it is clear that a large amount of effort has been expended on E-HR and predecessor initiatives over the past six years (the development work associated with E-HR alone is estimated to have cost £8,163) ultimately only limited progress has been made – only part of one process (the post authorisation to recruitment elements of the starter process) was enhanced under the most recent E-HR initiative in 2015 and, subsequent to this going live, the Council has reverted to the previous process, partially due to issues which were only identified once the new process had actually gone live. We also note that issues identified in Internal Audit's 2010 review of Payroll and HR, for example information from electronic forms having to be manually rekeyed into SAP because the two 'systems' are not integrated, are still issues today, six year later. This does represent poor VfM (Value for Money) for the Council, with considerable effort having been wasted on excessively manual processes since SAP was implemented.

Outside of the formal E-HR Project, there have been a number of enhancements to HR processes through digitalisation, for example job advert and CVDA (Council Vehicle Driver Application) forms. While difficult to quantify in 'cash' terms, these are implicitly more efficient than the more manual processes previously used.

There are a number of wider lessons for the Council from E-HR, for example the need to properly scope projects and quantify benefits, linked to the work which will achieve the benefits and their associated cost – essentially applying good project management practice consistently. Specific to digitalising HR processes to make them more efficient, this needs to be viewed in the wider context of how the Council will satisfy its HR system needs in future, as the Council transitions to being a very different organisation with a much smaller directly employed workforce, managing services which are largely delivered in partnership with third parties and ensuring that process are considered in their entirety, looking at using technology to make them as efficient as possible. The need to address these areas correctly has been recognised by the Council, with initial project documentation for the next phases of the improvement work (scheduled to run up to September 2016) explicitly identifying the need to evaluate what the future HR system needs of the Council will be. This feeds into a wider review of SAP, how well SAP currently meets the needs of the Council and options for how requirements could best be met in future. We have raised three detailed findings, summarised below:

- *Definition/High Level Scope*: at a high level there is a broad understanding of what E-HR and wider HR digitalisation initiatives encompassed, essentially to streamline the suite of electronic HR forms, making them more efficient and reducing duplication. However, while a number of project documents were provided for our review, none of these explicitly identify the benefits of E-HR and how they will be realised through the work planned.

We also note that documentation provided for our review overlaps (for example two different versions of an E-HR Project Charter were provided to us) and is only partially complete.

The wider lesson for the Council from the E-HR initiative is that the starting point for future initiatives of this type has to be the projected benefits and costs, documented in a business case or equivalent, which is signed off by senior management. Following on from this, projects need to be correctly managed, specifically any proposed changes need to be considered in terms of their impact on both benefits and costs. We have raised this area as a **medium risk** finding.

- *Detailed Scope/Delivery*: the 'core' of the E-HR Project which was actually developed covered the starter process, from post authorisation to recruitment. While there was some slippage, this work was delivered largely on schedule and in line with the original specification. Regarding wider enhancements/digitalisation of HR it was the intention for these to be the focus of future E-HR Project phases, although in practice beyond process mapping this did not happen under the E-HR umbrella. However a number of separate initiatives have enhanced HR processes through digitalisation since SAP went live in 2010, for example in addition to the job advert and CVDA forms identified above, enhanced starter and transfer forms were introduced.

The main issues with the delivery of the work under E-HR were weaknesses in testing and change control – essentially a lack of formality. While two testing 'sessions' were hosted by IT for HR staff, with issues identified at the first session addressed and retested at the second session, ultimately the enhanced process was pulled. This was partially due to issues which only became apparent once the new process went live, although the need to achieve immediate cashable savings also informed this decision. Regarding wider HR process digitalisation, our main observation is that the approach has been disjointed – looking at the number of forms submitted during 2015 the development work to produce these forms may not have been justified in all instances by the efficiencies realised; for example the form to join the LGPS (Local Government Pension Scheme) was only used twice in 2015.

Testing should be underpinned by a thorough identification of 'use cases', as far as possible covering all potential 'live scenarios'. In reality there are always likely to be some scenarios which won't be identified and addressed through testing; the best approach when implementing any new system/process is to implement it iteratively, for example to more technically aware users (i.e. a beta release), addressing any issues identified prior to rolling it out to the wider user population.

There was also a change in scope made between the two testing sessions regarding contract types/terms and the non-employee starter element. While there is disagreement between our interviewees regarding this change, what is not in dispute was that it was discussed and potentially agreed verbally. To avoid any disagreements/potential ambiguities it is always best to agree any changes in writing; while not applicable to this change (which was relatively minor) more major changes should be considered on a benefit/cost basis and should require senior approval. Regarding the wider digitalisation of HR processes, in future development work should only be approved when justified by the efficiencies realised. We have raised this area as a **medium risk** finding.

- *Gaps/Opportunities*: the E-HR Project has been closed, succeeded by the Restructure of HR Project; the first phase of this is focussed on the restructure of HR, the second on preparing an options paper, which will be based on the needs of the Council subsequent to the HR restructure. The paper will inform the planned project regarding the future direction the Council will take regarding SAP. A specific issue was identified through our interviews regarding SAP's variable support for HR processes - for example SAP contains a workforce development module, which theoretically should support robust workforce management (this was covered in detail in our 2012/13 HR Strategy and Workforce Planning report). In practice, while significant time and effort was spent trying to implement this to support the PDR (Personal Development Review) process, linked to learning and development, it never worked satisfactorily and the Council has reverted to the previously used, largely manual process.

Identifying the best way forward is beyond the scope of this report. However good practice should feed into options identified, for example adopting standard processes (only deviated from these when there is a genuine organisational need) and ensuring that HR needs are fully considered, so that these are met and synergies and interdependencies are correctly managed. Regarding phase one of this successor project, we note that further

amalgamation of process elements is planned under a new 'employment officer' role. While this will realise efficiencies it will inevitably impact on the control environment, for example segregation of duties – existing controls must be identified and either replicated, or compensating controls identified and implemented as part of implementing this new role. We have raised this area as a **medium risk** finding.

Executive summary – IT Strategy

Report classification	Trend	Total number of findings					
🟢 **Low Risk**	⬆ Reduction in risk level, compared to our 2015/16 review of the IT Strategy		**Critical**	**High**	**Medium**	**Low**	**Advisory**
		Control design	0	0	2	0	1
		Operating effectiveness	0	0	0	0	0
		Total	**0**	**0**	**2**	**0**	**1**

Summary of findings:

This review focussed on the IT Strategy, assessing arrangements in the following areas:

- *IT Strategy*: an approved IT Strategy is in place and aligned with the needs of the Council.

- *Delivery*: the IT Strategy is underpinned by a delivery plan and implementation is on track.

- *Oversight*: progress is reported to and overseen by a forum with appropriate, senior membership.

Our review did not identify any significant issues although there are a number of minor enhancements which should be progressed, for example defining intermediary milestones for delivery (currently only completion dates for activities are defined) and providing fuller reporting to the Organisational Development Board (the primary forum providing oversight). Specifically this should cover the benefits which will be realised from each work stream and any issues which are materialising, to help ensure they are addressed at the earliest opportunity.

However our overarching observation is that the Council's IT Strategy is quite conservative compared to IT strategies we have observed at other organisations; for example the speed at which partnership working will be progressed and adoption of new technologies, specifically the move to Cloud – we have covered options in an advisory finding, summarised further below. In addition to the advisory finding we have raised two detailed findings, all summarised below.

Delivery: the IT Strategy is supported by an implementation plan, this identifies 40 activities, grouped under eight work streams, for example telephony and wireless. Delivery of these initiatives is scheduled to run up to 2017, in line with the projected lifetime of the IT Strategy.

Current planning is high level and would benefit from more granularity, for example identifying intermediate milestones, to ensure that any slippage is identified and addressed at the earliest opportunity. Documenting dependencies between initiatives should also be carried out, this will help to identify and plan for any conflicts, for example staff required at the same time by two or more separate activities. We also noted that the delivery plan is primarily focussed on 'outputs' rather than 'outcomes'. Benefits should be explicitly identified for each activity, for the more significant activities these should be linked to specific deliverables. We have raised this area as a **medium risk** finding.

Oversight: the primary forum monitoring delivery of the IT Strategy is the Organisational Development Board. This forum meets fortnightly and is attended, in addition to IT, by senior representatives of Legal Services and HR/Organisational Development. Progress updates regarding implementation of the IT Strategy to date has been provided verbally to the forum, although we were informed that the intention for future meetings is for the underpinning delivery plan, with updates regarding progress, to be shared with the forum to inform their oversight role. There is also some shared oversight of IT initiatives with the local NHS Trust, although this is at an early stage and minutes/agendas of meetings were not provided for our review.

Our initial observation is that minutes are not currently produced for the Organisational Development Board, although we do note that actions are appended to agendas. Producing a separate action tracker is worth considering, this would enable fuller capture and reporting of updates, slippage etc. Specific to the IT Strategy, more granularity/detailed reporting should be progressed. Reporting progress against intermediary milestones (currently only final milestones are defined), would help ensure any issues are identified and reported at the earliest opportunity. The identification and linkage of benefits to specific deliverables will also help to correctly focus effort and ensure the justification for specific activities is clear. Providing this as a RAG rated report (on time, cost, quality for

each activity) is worth considering, this would enable Organisational Development Board attendees to see at a glance how well implementation is progressing.

Any changes to how the implementation of the IT Strategy is reported does need to be mindful of the wider context, for example transformation at the Council and how this interfaces with increasingly closer working with other public sector partners such as the Isle of Wight NHS Trust. We were also informed that IT is planning to reconstitute the IT User Group, which has not met for some time; this is sensible and will enable the wider IT user population to be kept abreast of developments and feed into the ongoing alignment of IT with the needs of its users. We have raised this area as a **medium risk** finding.

IT Strategy, Longer Term Plan: the IT Strategy sets out how the IT Service will support the Council up to 2017 under five broad strands:

- *Greater flexibility*: for example enabling location independent working through technologies such as IP telephony and Wireless.
- *Efficiencies and IT/ITIL (IT Infrastructure Library) alignment*: for example cashable savings through server virtualisation and improved, good practice processes.
- *Partnership working*: primarily with the Isle of Wight NHS Trust, for example through the adoption of the Paris system in Adults Social Care and the integrated contact hub.
- *Channel shift/digitalisation*: specifically focussing on high volume transactions and 'end to end' digitalisation of processes.
- *Future direction/emerging opportunities*: for example evaluating SaaS (Software as a Service), when new applications are considered, or existing applications reach end of life.

As above the current IT Strategy is conservative, compared with strategies we have observed at other organisations. The Council is planning radical change over the medium term, as it moves to its 'new operating model' where services become primarily commissioned – how IT will support this over the medium term (3 to 5 years) could be further developed to support this aspiration.

The IT Strategy is due for an annual refresh in July 2016; as part of this process there are a number of existing initiatives which could be accelerated, for example partnership working with other public sector organisations and new initiatives which, in the context of wider transformation, would promote flexibility, achieve efficiencies and help to ensure that the IT Service stays aligned with the Council's needs in the longer term. Most significantly this includes planning to move to Cloud technology over a three to five year timeframe. We have raised this area as an **advisory** finding.

Classification of report findings

Assessment rationale

Finding rating	Effect on Service	Embarrassment/ reputation	Personal Safety	Personal privacy infringement	Failure to provide statutory duties/meet legal obligations	Financial	Effect on Project Objectives/ Schedule Deadlines
Critical	A finding that could result in a: • Major loss of service, including several important areas of service and /or protracted period. Service Disruption 5+ Days	A finding that could result in: • Adverse and persistent national media coverage • Adverse central government response, involving (threat of) removal of delegated powers • Officer(s) and/or Members forced to resign	A finding that could results in: • Death of an individual or several people	A finding that could result in: All personal details compromised/ revealed	A finding that could result in: • Litigation/claims/ fines from Department £250k + • Corporate £500k +	A finding that could result in: • Costs over £500,000	A finding that could result in: • Complete failure of project/ extreme delay – 3 months or more
High	A finding that could result in a: • Complete loss of an important service area for a short period • Major effect to services in one or more areas for a period of weeks Service Disruption 3-5 Days	A finding that could result in: • Adverse publicity in professional/ municipal press, affecting perception/ standing in professional/local government community • Adverse local publicity of a major and persistent nature	A finding that could result in: • Major injury to an individual or several people	A finding that could result in: Many individual personal details compromised/ revealed	A finding that could result in: • Litigation/claims/ fines from • Department£50k to £125k • Corporate £100k to £250k	A finding that could result in: • Costs between £50,000 and £500,000	A finding that could result in: • Significant impact on project or most of expected benefits fail/ major delay – 2-3 months

Finding rating	Effect on Service	Embarrassment/ reputation	Personal Safety	Personal privacy infringement	Failure to provide statutory duties/meet legal obligations	Financial	Effect on Project Objectives/ Schedule Deadlines
Medium	A finding that could result in a: • Major effect to an important service area for a short period • Adverse effect to services in one or more areas for a period of weeks Service Disruption 2-3 Days	A finding that could result in: • Adverse local publicity /local public opinion aware • Statutory prosecution of a non-serious nature	A finding that could result in: • Severe injury to an individual or several people	A finding that could result in: • Some individual personal details compromised/ revealed	A finding that could result in: • Litigation/claims/ fines from Department £25k to £50k • Corporate £50k to £100k	A finding that could result in: • Costs between £5,000 and £50,000	A finding that could result in: • Adverse effect on project/ significant slippage – 3 weeks–2 months
Low	A finding that could result in a: • Brief disruption of important service area • Significant effect to non-crucial service area Service Disruption 1 Day	A finding that could result in: • Contained within section/Unit or Directorate • Complaint from individual/small group, of arguable merit	A finding that could result in: • Minor injury or discomfort to an individual or several people	A finding that could result in: • Isolated individual personal detail compromised/ revealed	A finding that could result in: • Litigation/claims/ fines from Department £12k to £25k • Corporate £25k to £50k	A finding that could result in: • Costs less than £5,000	A finding that could result in: • Minimal impact to project/ slight delay less than 2 weeks
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.						

Report classifications

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Points
Low risk	6 points or less
Medium risk	7– 15 points
High risk	16– 39 points
Critical risk	40 points and over

Appendix 1 -Progress on the 2016/17 internal audit plan

Audit name	Fee	Current Status	Report classification for those audits completed
Adult Social Care – Savings Plans and Dynamic Purchasing System (DPS)	£10,500	Planning	-
Benefit Payments	£5,250	Planning	-
Building Control	£5,250	Planning	-
Cash Handling	£10,500	Planning	-
Communications	£8,400	Planning	-
Constitution*	£8,400	Fieldwork	
Democratic Accountability*	£8,400	Suspended	-
Electronic Human Resources (E-HR)	£7,350	Final Report	Medium Risk
Environmental Health	£5,250	Planning	-
Fostering*	£5,250	Fieldwork	
Highways PFI and Waste - Delivery Phase Client Relationships	£9,450	Planning	-

Audit name	Fee	Current Status	Report classification for those audits completed
HR – Workforce management	£9,500	Fieldwork	-
Insurance	£5,250	Planning	-
IT Strategy	£7,350	Final Report	Low Risk
Key Financial Systems:	£12,600	Planning	
o Cash and Bank	-	-	-
o Creditors	-	-	-
o Debtors	-	-	-
o General Ledger	-	-	-
o Payroll	-	-	-
Local Taxation (Council Tax and NNDR)	£5,250	Planning	-
Pan Meadows	£9,450	Planning	-
Payment Card Industry, Data Security Standard (PCI DSS)	£7,350	Planning	-
Payroll and Pensions Administration	£7,350	Planning	-
Placements*	£5,250	Suspended	-
Procurement	£6,300	Planning	-
Property Assets	£7,350	Draft Report	-

Audit name	Fee	Current Status	Report classification for those audits completed
Schools' Audits	£5,250	Planning	-

* Subsequent to consultation with the Head of Internal Audit and senior management two substitutions have been made to our planned programme of work:

- A review of the Council's Constitution has substituted our planned review of Democratic Accountability. Following consultation with the sponsor for the Democratic Accountability review focussing on the Constitution was identified as of greater value to the Council.
- A review of Fostering has substituted our planned review of Placements. This is due to the Placements' initiative not progressing as quickly as projected at the time of our audit planning; Fostering was included in our 16/17 Internal Audit Plan as an optional review.

Appendix 2 - Internal audit performance against key performance indicators 2016/17

Key performance indicator	Adult Social Care	Benefit Payments	Building Control	Cash Handling	Communications	Constitution	Electronic Human Resources	Environmental Health	Fostering	Highways PFI and Waste	HR – Workforce management	Insurance	IT Strategy	Key Financial Systems	Local Taxation	Pan Meadows	PCI DSS	Payroll & Pensions Administration	Procurement	Property Assets	Schools' Audits
Scope agreed prior to fieldwork commencing?	-	-	Y	-	-	Y	Y	-	Y	-	Y	-	Y	-	Y	-	-	-	Y	Y	Y
Exit meeting held?	-	-	-	-	-	-	Y	-	-	-	-	-	Y	-	-	-	-	-	-	Y	-
Draft report issued within 10 working days of completion of exit meeting?	-	-	-	-	-	-	Y	-	-	-	-	-	Y	-	-	-	-	-	-	-	-
Draft report issued within 10 working days of receiving documentation from auditee?	-	-	-	-	-	-	Y	-	-	-	-	-	Y	-	-	-	-	-	-	-	-
Management response received?	-	-	-	-	-	-	Y	-	-	-	-	-	Y	-	-	-	-	-	-	-	-
Final report issued within five working days of agreement of management response?	-	-	-	-	-	-	Y	-	-	-	-	-	Y	-	-	-	-	-	-	-	-
Client satisfaction survey score (if received)?	-	-	-	-	-	-	9.6	-	-	-	-	-	9.8	-	-	-	-	-	-	-	-