Audit Committee, 19 March 2015

Internal Audit Report – Performance Management

Executive summary and recommendations

Introduction

As part of the Internal Audit Plan for 2014-15 Mazars have undertaken a review of arrangements for HR Performance Management.

Decision

The Committee is asked to discuss the report

Resource implications

None

Financial implications

Mazars' agreed fees in 2014-15 are £24,000 including VAT and expenses.

Appendices

Internal Audit Report – Performance Management.

Date of paper

12 March 2015

hcpc health & care professions council

Internal Audit Report

HR - Performance Management (04.14/15)

November 2014

FINAL REPORT

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Appendix 1 – Definitions of Assurance Levels and Recommendations

AUDIT CONTROL SCHEDULE:

Client contacts	Teresa Haskins: Director of HR	Internal Audit Team	Peter Cudlip: Partner Graeme Clarke: Director James Sherrett: Manager David Kershaw: Senior Auditor
Finish on Site \ Exit Meeting:	26 September 2014	**Management responses received:**	21 November 2014
Draft report issued:	14 November 2014	**Final report issued:**	24 November 2014

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1.   INTRODUCTION

1.1   As part of the Internal Audit Plan for 2014/15, we have undertaken a review of the Health and Care Professions Council's (HCPC) arrangements for HR - performance management. This area was included in the Plan due to the significance of risks associated with this area within HCPC's Risk Register.

1.2   The area was last subject to review by the previous Internal Auditor in 2010/11 with 'Satisfactory' assurance provided.

1.3   We are grateful to the Director of HR, members of the HR team and other members of staff for their assistance during the course of the audit.

1.4   This report is for the use of the Audit Committee and senior management of HCPC. The report summarises the results of the internal audit work and, therefore, does not include all matters that came to our attention during the audit. Such matters have been discussed with the relevant staff.

2.   BACKGROUND

2.1   Performance management, training and development requirements for HCPC staff are administered through the HR Department. The Director of HR has overall responsibility for the area with day-to-day responsibility being assigned to the HR team which comprises the HR Business Partner, two HR Advisors, and two HR Officers.

2.2   A number of policies and procedures are in place to assist staff and HR in following HCPC's requirements in relation to performance management, training and development. The policies, procedures, and sections of the Staff Handbook cover Annual Performance Development Reviews (APDR), Code of Conduct and Behaviour, Capability, Dismissal and Disciplinary Policy and Procedure, and Whistleblowing.

2.3   In administering its performance management, training and development processes, HCPC uses a system of documents in Word and Excel formats. Information is available to staff via various intranet pages. Work is underway to automate much of the manual administration involved in processes as they stand currently.

2.4   Performance management, training and development are closely related with the majority of training needs resulting from the APDR. APDRs are undertaken by Managers, conducted annually, and the deadline for review is generally February each year. In addition to helping identify any performance issues, HR collate the results of all APDRs and produce an annual learning and development plan; departmental Directors also have an input to the plan.

2.5   HCPC Council meetings receive updates on performance management, training and development matters at each meeting. Information reported includes employee training activity, and employee appraisals.

2.6   Budgeted expenditure for organisational training (HR) for 2014/15 is £64k. A budget figure of £56k was set for 2013/14, with actual expenditure being £62k. The increase is due, in part, to an increase in staff employed by approximately 44 to 248.

2.7   The programme of audits carried out by BSI includes coverage of staff development and training. The last BSI audit of this area was in October 2013. During the audit, staff training and development processes were assessed for
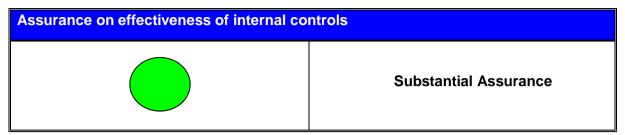
effectiveness, the report states that these appeared to meet the requirements of the quality management system, that APDRs are managed through the HR team and these include an evaluation of training undertaken to plug any competence gaps identified.

3.   SCOPE AND OBJECTIVES OF THE AUDIT

3.1   Our audit considered the following risks relating to the area under review:

- Staff do not know what they are responsible for, or how they should carry out their duties, leading to non-compliance with HCPC policies and procedures;

- Employer/employee inappropriate behaviour (*Risk Register, January 2014, Ref 11.8*); and

- Training and development requirements are not accurately identified and prioritised leading to failure to maintain and develop staff.

3.2   In reviewing the above risks, our audit considered the following areas:

- Policies and procedures for staff performance management, appraisals, training and development;

- Manager and staff training and awareness of appraisal processes;

- Appraisal process – Quality, compliance with Policy/timeliness;

- Processes for identifying, addressing and monitoring staff performance issues;

- Staff key performance indicators;

- Processes for the monitoring of training/course attendance;

- Reporting and management information provided to Management/Committee/ Council covering staff performance reviews, training and development;

- Sources of assurance, including external, such as IIP/BSI; and

- Monitoring of financial and operational performance of Partners through Management/Committee/Council.

3.3   The objectives of our audit were to evaluate the adequacy and effectiveness of HCPC's arrangements for performance management and the extent to which controls have been applied, with a view to providing an opinion on the extent to which risks in this area are managed. In giving this assessment, it should be noted that assurance cannot be absolute. The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control.

3.4   We are only able to provide an overall assessment on those aspects of HCPC's arrangements for performance management that we have tested or reviewed. The responsibility for maintaining internal control rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy of the internal control arrangements implemented by management and perform testing on those controls to ensure that they are operating for the period under review. We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone are not a guarantee that fraud, where existing, will be discovered.

4.   AUDIT FINDINGS: ONE PAGE SUMMARY

Assurance on effectiveness of internal controls	
	Substantial Assurance

Recommendations summary	
Priority	**No. of recommendations**
1 (Fundamental)	None
2 (Significant)	None
3 (Housekeeping)	1
Total	**1**

Risk management
HR as a department has a specific section of the Register dedicated to managing its risks. As identified in 3.1, the HCPC has identified specific risks relating to performance management, with risk 11.8 focusing on employee/employer behaviour. Mitigating controls for this risk include regular one-on-one sessions between manager and employees and regular performance reviews, HR legislation and HR disciplinary policies, and Employee surveys. The risk has impact and likelihood scores of 4, which equate to an overall risk score of 16.
We have reviewed control measures where relevant in our audit and found them to be operating effectively at the time of our review.

Value for money
Value for money considerations arise in this area through the extent of training and other development activities offered and the costs associated with courses through group attendance or individual attendance. Implications also arise through the extent of administrative systems and resourcing.
Although it is difficult to quantify financially with any accuracy, there are benefits from ensuring that the HCPC operates a central point through which all training and development activities pass; this being the HR team. This should help prevent courses/ training being booked where the course may exist internally or may be able to be procured more efficiently. It is becoming more common across our clients to consider on-line training packages to offer greater flexibility and depth in training materials, as staff can take specific courses at a time to suit, and from a management perspective the need for a trainer and/ or accommodation to be arranged and paid for are reduced. HCPC is also currently conducting a system review and upgrade project encompassing HR and Partners.

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5.   SUMMARY OF FINDINGS

Overall conclusion on effectiveness and application of internal controls

5.1   Taking account of the issues identified in paragraphs 5.2 to 5.4 below, in our opinion the control framework for performance management, as currently laid down and operated at the time of our review, provides **substantial assurance** that risks material to the achievement of HCPC's objectives in respect of this area are adequately managed and controlled.

Areas where controls are operating effectively

5.2   The following are examples of controls which we have considered are operating effectively at the time of our review:

- The current HR Strategy covers the period 2011 to 2016. This sets out six strategic objectives; each underpinned by respective policies and actions in the annual work plan and budget;

- The work plan encompasses staff performance management, for example through the reference to "support, advice and training for managers and employees will continue to occupy a significant amount of the team's resources";

- Course availability is offered via HCPC's Organisational Training Plan. A Training Application Form is used by staff when they are requesting authorisation to attend training courses. Our sample testing found all forms had been correctly completed and authorised. The courses tested included training on Project Management, Letter and Report Writing, Finance for Non-Financial Managers, and Business Writing Skills;

- Training sessions are available to appraising managers. The sessions take a practical approach and are based on a case study with the manager asked to consider one member of their team for whom the session is based around;

- The HR team maintains a spreadsheet to record training evaluation and feedback. The feedback includes questions including "how well were your objectives or personal expectations met", "what if anything will you do differently in your role", and "what if anything could have been improved about the training". We were able to trace to the spread sheet from individual employee Training Evaluation Forms;

- A template is used for recording APDRs. Following appraisal, review of competencies, training evaluation, setting of objectives and completion of an Employee Development Plan, there is sign off by the employee and manager or director; and

- The Director of HR routinely presents a report to the Council; the report is structured under the headings of Strategic Objectives. Objective 2 is "Train and develop people".

Areas for further improvement

5.3   We identified certain areas where there is scope for further improvement in the control environment. The matters arising have been discussed with management, to whom we have made one recommendation and comment below in 5.4. The recommendation has been, or is being, addressed as detailed in the management action plan (Section 6 below). 5.4   During our review we observed the current Bond HR system is used to store basic information and is supported by a range of

spreadsheets and other manual records. HCPC is currently conducting a system review and upgrade project covering HR, recruitment, training and payroll. 'Go live' of the new system is expected to be late 2015. As part of our review we have confirmed with management the intention to automate and centralise processes. It is acknowledged that in order to ensure the project objectives are met this is a significant and long term project which will involve the procurement of a new system. We have therefore not made a formal recommendation in respect of this matter as part of our review.

6.   ACTION PLAN

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.1	*Observation:* The APDR is completed once per year. Whilst we would not expect to find something as comprehensive as the full annual review, there is currently no policy requirement for staff to formally complete a mid-year update/review. *Risk:* The identification of, and any remedial action for performance issues and training needs, are not timely.	The period between the formal performance appraisals should be reviewed and a less detailed, more regular mid-year (three or six monthly) review introduced. This may include minimal documentation and may be a discussion to provide the required guidance, support and feedback.	3	This had already been identified as a requirement prior to the audit and has been built into the revised APDR process to be implemented from January 2015.	Jan 2015 HR Director

Appendix 1 – Definitions of Assurance Levels and Recommendations

We use the following levels of assurance and recommendations in our audit reports:

Assurance Level	Adequacy of system design	Effectiveness of operating controls
Substantial Assurance:	While a basically sound system of control exists, there is some scope for improvement.	While controls are generally operating effectively, there is some scope for improvement.
Adequate Assurance:	While a generally sound system of control exists, there are weaknesses which put some of the system objectives at risk.	While controls are generally operating effectively, there are weaknesses which put some of the system objectives at risk.
Limited Assurance:	Control is generally weak leaving the system open to significant error or abuse.	Control is generally weak leaving the system open to significant error or abuse.

Recommendation Grading	Definition
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose, HCPC to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose, HCPC to a moderate degree of unnecessary risk.
Priority 3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

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