

EAST AYRSHIRE COUNCIL

GOVERNANCE AND SCRUTINY COMMITTEE – 14 SEPTEMBER 2012

APPLICATION SYSTEM REVIEW – IMPLEMENTATION OF NEW PAYROLL SYSTEM – REPORT BY AUDIT SCOTLAND

Report by the Executive Director of Finance and Corporate Support

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to submit to the Governance and Scrutiny Committee the Application System Review carried out by Audit Scotland on the Implementation of the New Payroll (Chris 21).

2. BACKGROUND

- 2.1 A new HR/Payroll system was implemented within the Council in April 2012 to replace the existing system.
- 2.2 As part of their 2011/2012 audit within the Council, Audit Scotland carried out an application system review of the new HR/Payroll system – Chris 21 which had been selected after a formal tendering exercise to replace the existing Accero (Cyborg) system.

3. AUDIT SCOTLAND'S REPORT

- 3.1 The Audit Scotland report is attached as Appendix 1 to this report. As with all audit reports a Risk Identification and Action Plan has been set out and is contained as Appendix A to the Audit Report. As can be seen from the Action Plan, six action points have been identified and these have either been addressed or will be by the target dates set out. However, in considering the action points the following should be noted by members:-

Action Point 1 – Project Planning

The HR/Payroll System Project Board met on 13 occasions between August 2011 and April 2012 and has met on 5 further occasions since then. In the latter stages of Phase 2 of the Project (Payroll Implementation) the formal meetings were held on a weekly basis to provide regular and focussed management of the project. The lessons learned from Phase 2 of the project have been taken account of in the planning for Phase 3 (HR implementation). Note: Phase 1 of the Project was the Procurement Phase.

Action Point 2 – Validation of key business functions

The additional functionality referred to in this Action Point relates to the HR elements of the system e.g. absence management and employee self-service which is being developed in Phase 3 of the Project. Accordingly, it was always recognised that full functionality of the HR/Payroll System would be achieved at the end of the Project and not after Phase 2 only.

Action Point 3 – User acceptance testing (UAT)

During Phase 2 of the project there was a significant amount of testing carried out on the system including parallel running of the new and existing system. As the principal user, the Payroll Section was represented on the Project Board and had direct input to the overseeing of the Project generally and system functionality in particular.

Action Point 4 – Parallel Payruns

It should be noted that parallel runs which required payroll information being inputted to the existing payroll system and the new system were a feature of the phase leading to the Payroll part of the new HR/Payroll System going live on 1 April 2012. As noted in the Action Plan these keying errors reduced by the time parallel running ceased at the point the new system went live.

Action Point 5 – Business continuity planning

It should be noted that the Business Continuity Plan referred to has been in place for a number of years and covered the previous payroll system. The Business Continuity Plan is reviewed on a regular basis and there is no significant impact arising from the replacement of one payroll system to another. The HR Business Continuity Plan is also supported by the Council's overall Business Continuity arrangements relating to information technology.

Action Point 6 – Post Project Review

As set out above the HR/Payroll Project comprises two distinct but connected phases – Payroll and Human Resources, accordingly the full post project review will be carried out at the end of the Project. However, the implementation of the Phase 2 of the project has been reviewed and account has been taken of issues raised in the work relating to Phase 3.

- 3.2 It should be noted that the implementation of the new HR/Payroll System is spread over two years with the second phase comprising the implementation of the payroll part of the system. This was achieved by 1 April 2012 and the third phase which addresses the HR aspects of the system has commenced. The audit report is concerned with the work that was carried out to implement the new payroll phase with effect from 1 April 2012 and in particular addresses issues relating to the parallel running of the new and existing systems which was carried out in the months leading to the go-live date of 1 April 2012.

4. FINANCIAL/LEGAL/POLICY IMPLICATIONS

- 4.1 There are no financial, legal or policy implications arising from this report.

5. RECOMMENDATIONS

- 5.1 It is recommended that Governance and Scrutiny Committee consider the content of the Audit Scotland report.

Alexander McPhee
Executive Director of Finance and Corporate Support
4 September 2012

LIST OF BACKGROUND PAPERS

Nil

Members wishing further information should contact Martin Rose, Head of Human Resources, Tel: (01563) 576092.

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East Ayrshire Council

Application System Review - Implementation of New Payroll (Chris21)

2011/12



Prepared for East Ayrshire Council
July 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Summary

Introduction and audit approach

1. As part of our 2011/12 audit at East Ayrshire Council we carried out an application system review of the council's project management arrangements for the implementation of the new Chris21 payroll system which replaced the Accero Cyborg HR/Payroll system.
2. The audit examined key aspects of the project management arrangements as they impacted on the delivery of the council's new integrated human resources (HR) / payroll system as specified in the business case. The key areas examined were project management/planning, user involvement including acceptance testing, functional and data integrity confirmation and the plans in place to complete a close project review and post project review.

Key findings

3. The corporate management team (CMT) approved the project to replace the Accero (Cyborg) HR/Payroll system in September 2010. This included the recommendation that "the Accero (Cyborg) contract should not be extended given past performance and system capability".
4. The integrated HR / Payroll project was controlled and managed using the council's standard project management methodology Prince2; and a project board and full time team appointed. The project manager was appointed in July 2010.
5. The project board, including the project manager met on a regular cycle to monitor and ensure progress was maintained.
6. We concluded that, overall, the project was well based and adopted sound project management principles. It followed the seven principles of Prince2: i.e. it had a business case; organizational structure; plans; quality control; risk management; and recognised the need for change management and progress monitoring.
7. The project Initiation document (PID) recognised from the outset that it was essential that there should be no slippage on what was a very tight timescale to implement the new system by April 2012. In the initial timeline that was produced a "Go Live Core HR & Payroll" was set for 1 December 2011 to ensure post go live matters could be resolved prior to April. Due to slippage with the data cleansing phase the initial "Go Live" was not achieved with a consequent knock on impact to a number of products e.g. management reporting.
8. Parallel payruns commenced during November 2011 and continued to March 2012. The parallel run period was extended to allow more opportunity to resolve differences and errors identified between the Cyborg and Chris21 systems. While the instances of errors are reducing it is important that management continue to monitor this closely.

9. In addition to the issues caused by the delay to "Go Live" we noted a number of control weakness in:
- the absence of a user acceptance plan or user acceptance testing;
 - the need to review business continuity arrangements; and
 - the need to carry out an earlier Post Project Review process than that which is planned.

Planned management action

10. This report summarises the findings from our review and identifies the areas where action is required in connection with the introduction/ project management of the new payroll system, otherwise the council may be exposed to areas of risk. This should be read in conjunction with the agreed action plan at appendix A. Although this report identifies certain risk areas, it is the responsibility of management to decide the extent of the controls necessary to manage the implementation of the new payroll system.

Acknowledgements

11. The contents of this report have been agreed with management to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.

Main Findings

Introduction

12. The Council implemented the Frontier Chris21 integrated HR/Payroll system in March 2012 to replace the Accero Cyborg system. The Chris21 system was chosen after a business case was approved and a tendering process using the Public Contracts Scotland e-Tendering system. The process was in line with the EU tendering regulations, including a notice in the European Journal.
13. A project team reporting through a project manager to a project board was set up to oversee and manage the implementation of the replacement payroll system. The project board reported progress to CMT on a regular basis.
14. The Prince2 project management methodology was used to control and measure the achievement of the project objectives and performance against planned target time, cost and project tolerances.
15. An essential part of the project was ensuring the completeness and accuracy of the data transfer from the old Accero Cyborg system, to the new integrated Chris21 system. This was done through the use of data cleansing and parallel payruns for all 5 payroll types.
16. We consider that there are two distinct phases to the implementation of the new system:
 - The first phase which consists of the implementation of the payroll element of Chris21. This went "live" at the beginning of April 2012 and has been operational since.
 - The second phase. This consists of the implementation of the HR element of Chris21. This will not be completed until mid 2013.

Project planning

17. The project was set up using the council's standard project methodology Prince2. The project board comprised the Heads of Human Resources (Chair), Finance, and IT & Asset Management (along with other senior officers as appropriate). A full time project manager and team were also established.
18. An evaluation panel comprising the project manager, payroll manager, employee relations manager and an IT representative with advice from a procurement section representative conducted the selection process.
19. The project team managed the implementation of the new system and were responsible for developing and maintaining the project plan including reporting progress to the project board.
20. The project was broken down into tasks and activities and work was completed in defined stages with reports provided as required as each stage progressed. However, the data cleansing stage ran behind the original schedule due to delays in getting the Education Department HR/payroll data verified. The possible consequences of this delay were recorded

in the risk register in the context of completing parallel runs in the limited time available for implementation before 31 March 2012. This meant that the project management team required to spend more time than anticipated “micro” managing the project implementation to attempt to mitigate the impact of the slippage.

Refer risk no. 1

Validation of key business functions

21. An important phase of the project was ensuring all key business functions, both retained from the old systems as essential, and the new Chris21 functions designed to improve the efficiency of the services provided, were fully tested.
22. The project plan and reports indicate that the required system testing was carried out as required throughout the configuration of the system. The testing was primarily carried out by the project member seconded from the payroll section to provide continuity.
23. A key feature of the new system functionality is its ability to provide improved management information; i.e. the ability of managers to query the system directly rather than making requests for information. The original project plan indicated that elements of this would be carried out prior to implementing the HR phase of the project. To date, the project team has focussed on ensuring the smooth implementation of the basic payroll elements of the new system to ensure continuity. The enhanced management information capability, although effectively an HR function, was not implemented during the payroll phase of the project, mainly due to the previously mentioned project slippage. The required payroll reports previously available in Cyborg are available through Chris21 while the enhanced functionality will now be part of the next phase of the project.

Refer risk no. 2

24. It should also be noted that there are still a number of other functions still to be implemented such as the electronic payslips scheduled for later in the year.

User acceptance testing

25. User Acceptance Testing is a key feature of good project management when implementing new systems or processes. It is the formal means by which organisations ensure that the new system or process actually meets the essential user requirements. Hence, we carried out testing to establish whether each module to be implemented was subject to one or more User Acceptance Tests (UAT) before being ‘signed off’ as meeting user needs.
26. We noted that UAT was not incorporated into the project plan for the new HR/payroll system. The matter was discussed and noted in the Issues Log thus; "at the HR Managers' meeting of 23 November 2011 it was agreed that the checks being carried out by Internal Audit, who now have a formal brief for the Project, would be sufficient assurance for the Payroll manager".
27. Internal audit therefore became heavily involved in the data analysis work to support data migration and parallel runs. This was agreed by the Project Board and involved re-prioritisation of internal audit's workload. This helped to provide assurance that the new

system was operating properly and producing accurate data. This work was necessary and extremely useful. However, the work of Internal Audit was not the equivalent of UAT. A user acceptance plan drafted by the payroll section should have been determined as part of the project management arrangements and UAT should be carried out and signed off by the user department to confirm that the system functionality is operating as specified. The Decisions Log on 5 December highlighted that user acceptance was not the role of internal audit.

Refer risk no. 3

Data migration

28. It is essential that the completeness and accuracy of data transferred from the old system to the new system can be reconciled. To achieve this a data cleansing strategy was developed to manage the extracting and transfer of data. This required that all user departments staff details (such as names, age, grade etc.) were confirmed using spread sheets provided by the project team.
29. The original target set for achieving completion of the data cleansing phase of the project was 11 July 2011, however, due to the human resource teams responsible for the education department data not meeting this deadline all data could not be cleansed until 9 November.

Parallel payruns

30. In addition to the data cleansing exercise which ensured the completeness of HR/payroll data, the project management arrangements ensured that payments would be calculated accurately. To do this a series of parallel runs were completed for all payruns and a reconciliation plan was developed to identify and reconcile differences between payroll outputs from Cyborg and Chris21.
31. Internal Audit conducted detailed analysis of results of the parallel runs. This involved checking the accuracy of output from the new Chris21 system against the existing Cyborg system. Results of the output were presented to the Project Team for examination and correction as necessary.
32. A key objective was to ensure the BACS payments from each system were the same or within an acceptable tolerance. An agreed de minimis rounding difference was established. While testing focussed on BACS payments other errors were identified which did not always impact on net pay, e.g. non application of sick pay. The test strategy was amended to reflect this and a report was produced for each parallel run to provide detailed analysis of the findings.
33. The "Analysis of BACS Differences" reports that were provided for scrutiny showed a variety of differences:
 - A significant number of specifically Cyborg errors (note - by "significant" we mean more than 10 in each report - but not significant by value).
 - A significant and varied number of "keying errors".
 - A significant number of rounding errors out with the de minimis.

- Several over and under payments in each report.

34. The errors which relate specifically to the Cyborg payruns indicate probable errors in payments made to staff. These errors may not have been detected as timeously had parallel runs not been carried out. There was also a high level of keying errors in the new system during the parallel run phase. While the instances of errors have reduced it is important that management continue to monitor this closely.

Refer risk no. 4

35. We acknowledge that, with the introduction of a new system, certain calculations could be treated differently and rounding errors can occur. The error reports established that while there were significant numbers of rounding errors these did not cause material differences in payments made to staff. Errors in this category should nonetheless be kept under review to ensure they are fully understood as the system is developed.

36. The over and under payments detected by the parallel run analysis ranged from under £50 to one overpayment of £26,185.53 (this was a termination payment which generated both a cheque and a BACS payment - this was detected by routine checks and was not paid). This highlights the importance of payroll officers reviewing the BACS payment run before it is authorised. The differences/ errors analysis concluded that most errors in this category were caused by keying errors and not by the system. We accept that with double entry keying into Cyborg and Chris21 no longer being carried out and staff becoming more acquainted with the new system, the error rate will, as noted, continue to reduce.

Refer risk no. 4

Project risk / issue management

37. The Prince2 methodology requires that risk and issue registers be maintained during project implementation to ensure all possible and actual risks and issues are recorded, managed and reported. This was satisfactorily carried out during Chris21 implementation.
38. In addition to enabling risks and issues to be managed during the project, the registers also provide a record of any residual risks and issues to be managed after implementation. Responsibility for residual risks /issues for payroll would normally pass to the user department after implementation. The risk and issue registers will remain with the project as part of the HR phase as there are linked on-going issues such as "The number of concurrent users could potentially pose volume issues". The project team will continue to monitor these risks.

Business continuity planning

39. Good project management requires that business continuity planning is addressed as part of the project management arrangements. This is also a requirement in line with the council's corporate governance requirements.
40. We note that, thus far, this has not been included in the project "timeline" plans for the new payroll system. The project team recognise that plans covering business continuity and contingency will require to be considered as the new arrangements are developed but

maintain that providing operational efficiency and optimisation of the system has been the main focus to date.

Refer risk no. 5

Post project review

41. Prince2 requires that a "close project phase review" should be completed. This should outline the impact the implementation has had so far on meeting the timescale of the overall project plan, define what the project has achieved with regard to implementation of functionality, and identify risks or issues going forward. In line with this expectation an end phase report has been completed and was issued in early July 2012.
42. In addition following the closure of a project or a major phase managed under the Prince2 methodology, it is a normal expectation that a "post project review" or equivalent will be scheduled. This should be done at an appropriate time after "Go Live" to consider the extent to which envisaged benefits against the business plan have been realised.
43. The HR/payroll project is structured into a two stage project with the payroll implementation now substantially completed. The next major phase; the implementation of the HR part of the system has now commenced. The project plan indicates that this phase is scheduled for completion at the end of July 2013 after which time a post project review will be considered. This means that it could be the end of 2013 before payroll implementation benefits will be assessed. We consider it important that a post project review is carried out prior to this to enable the council to evaluate whether key objectives from the business plan are being achieved, such as streamlining procedures and obtaining better quality management information. Management have advised us that an earlier date is to be considered.

Refer risk no. 6

Training provision

44. An important aspect of a new system is the provision of training. The HR/payroll project recognised the need for training and produced a plan to provide targeted training to staff. The project had an on-going training phase and training was broken into 4 modules to accommodate the different requirements of user staff. The modules are:
 - Introduction - this takes 2 hours and was targeted at 60 staff
 - Payroll function only (Input process) - targeted at 11 payroll staff
 - Payroll Supervisors – Running the Payroll
 - Payroll Supervisors – System Troubleshooting / Problem Solving
45. While a good level of training has been provided during the project, the issues with keying errors identified during the parallel runs may indicate further targeted training should be considered. However, as staff are becoming more acquainted with the system there has been a consequent improvement in error rates.

Appendix A

Risk identification and action plan

Action point	Refer para no	Risk identified	Planned management action	Responsible officer	Target date
1	20	Project planning The project timetable slipped during the data cleansing stage, putting the overall implementation deadline at risk. <i>Risk: the reasons for, and lessons learned, from the delays encountered during the data cleansing phase should be fully reviewed and acted upon, otherwise there is a risk that the HR implementation phase of the Chris21 system could encounter similar problems</i>	The slippage seen during the Payroll Phase has been noted by the Board and an assurance given that appropriate resources will be made available.	Project Manager	Completed
2	23	Validation of key business functions The additional functionality available through Chris21 to enable improved management information from the payroll / HR system is not yet fully implemented. <i>Risk: lack of enhanced management information functionality may lead to delay in realising planned operational benefits.</i>	This is an integral part of the next Phase of the Project. The Project Plan for this next Phase is (at 27 June 2012) in draft and currently under review by HR Managers prior to being submitted to the Project Board.	Project Manager	TBA

Action point	Refer para no	Risk identified	Planned management action	Responsible officer	Target date
3	27	User acceptance testing (UAT) There was no user acceptance plan and, consequently, no UAT has been carried out and signed off by the user department. <i>Risk: lack of direct user confirmation of available controls may lead to the ineffective use of the system or result in potential management information not being utilised.</i>	A User Acceptance Plan will be put in place for Human Resources as the end user.	Project Board	Completed
4	34 / 36	Parallel payruns The parallel running of the new systems highlighted a significant number of keying errors and several under and overpayments. This highlights the importance of checking the BACS report before authorisation and may indicate the need for further training in certain parts of the new system application. <i>Risk: an on-going high rate of errors may cause inefficiency and errors in payments made to staff.</i>	Keying errors have reduced as expected. This area of work will continue to be monitored closely.	Payroll Manager	On-going

Action point	Refer para no	Risk identified	Planned management action	Responsible officer	Target date
5	40	Business continuity planning The HR/payroll project does not currently address the review of business continuity arrangements. This is extremely important when major system or service changes are carried out. <i>Risk: If business continuity arrangements are not fully addressed there is a risk that any service failure will not be dealt with effectively.</i>	The Business Continuity Plan is currently under formal review. The initial stages of the review indicate that there is no impact on the Business Continuity Plan as a result of the change from Cyborg to Chris21.	Head of HR	August 2012
6	43	Post project review The post project review of the payroll stage of the Chris21 system may not be carried out until the end of 2013. <i>Risk: if the time between a major implementation and post project review of benefit realisation is too extended, accurate analysis may be distorted and the benefits of the system may not be fully realised. The need for single / multiple post project reviews should be considered.</i>	The merits of conducting a formal review of the benefits against business case achieved during the payroll phase will be evaluated.	Project Board	September 2012