



# Audit (Monitoring of Investigations) Sub-Committee

## 21 July 2014

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|--|--|--|
| <b>Report Title</b>                            | Internal Audit Report – Performance Appraisal Scheme |  |
| <b>Cabinet Member with Lead Responsibility</b> | Councillor Andrew Johnson<br>Resources               |  |
| <b>Accountable Strategic Director</b>          | Keith Ireland, Delivery                              |  |
| <b>Originating service</b>                     | Delivery/Audit                                       |  |
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| <b>Report to be/has been considered by</b>     | Not applicable                                       |  |

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### Recommendations for noting:

The Sub-Committee is asked to note:

The outcome of the recent internal audit review into the Council's new Performance Appraisal Scheme.

## **1.0 Purpose**

- 1.1 The Audit Committee have been concerned for some time about the low take up of the Council's new Performance Appraisal Scheme, and asked to be made aware of the outcome of the planned internal audit review into this area.

## **2.0 Background**

- 2.1 The Council's new performance appraisal scheme was introduced in April 2013. It has been understood for some time that the completion rate for the new appraisals was very low. The internal audit report confirms this, and has identified a number of issues that may have contributed to such a low take up.

## **3.0 Progress, options, discussion, etc.**

- 3.1 Progress on the implementation of the actions in the internal audit report, will be reported back to the Audit Committee.

## **4.0 Financial implications**

- 4.1 There are no financial implications arising from the recommendations in this report. (GE/27062014/M)

## **5.0 Legal implications**

- 5.1 There are no direct legal implications arising from the recommendations in this report. (RB/26062014/G)

## **6.0 Equalities implications**

- 6.1 There are no equalities implications arising from the recommendations in this report.

## **7.0 Environmental implications**

- 7.1 There are no environmental implications arising from the recommendations in this report.

## **8.0 Human resources implications**

- 8.1 There are no human resources implications arising from the recommendations in this report.

## **9.0 Corporate landlord implications**

There are no corporate landlord implications arising from the recommendations in this report.

## **10.0 Schedule of background papers – None**

# Wolverhampton City Council



## Draft Internal Audit Report – Performance Appraisal Scheme

**Date Issued:** June 2014

### **Contents:**

1. Introduction
2. Executive summary
3. Issues arising

### **Report distribution:**

Keith Ireland – Strategic Director, Delivery

Tim Johnson – Strategic Director, Education and Enterprise

Sarah Norman – Strategic Director, Community

Sue Davies – Chief Human Resources Officer



## 1 Introduction

An audit of the Corporate Performance Appraisal scheme has been undertaken as part of the Council's Internal Audit Plan. In April 2013, a new performance appraisal scheme was launched across the Council. This was communicated to all employees via City People and managers were emailed directly informing them of the scheme and offering support in completing the process. The completion of performance appraisals is being monitored as one of the Council's 51 performance measures which are used to monitor progress towards delivery of the Corporate Plan. Target completion levels have been set for each quarter. However, the table below illustrates that there is a considerable shortfall in meeting these targets.

|           | Target %<br>(Cumulative) | Actual %<br>(Cumulative) |
|-----------|--------------------------|--------------------------|
| Quarter 1 | 25                       | 1                        |
| Quarter 2 | 50                       | 3                        |
| Quarter 3 | 75                       | 10                       |
| Quarter 4 | 100                      | 25                       |

The current RAG rating for this measure on the Corporate Measures report is **Red**.

Our review also aimed to establish if there were any underlying trends that could be identified which are contributing to the problems in embedding the performance appraisals.

It is envisaged that Agresso will improve the monitoring of performance appraisals once the first appraisals have been completed and recorded on the system. However, as the majority of problems identified relate to achieving completion in the first place, then problems may still exist despite the implementation of Agresso.

### 1.1 Scope and objectives of audit work

The objective of our audit was to deliver reasonable assurance on the adequacy and application of the risk management and associated control framework. The control system is put in place to ensure that risks to the achievement of the Council's objectives in this area are managed effectively. Our audit considered the Council's objectives for the area under review and the potential risks to the achievement of those objectives.

| System Objective  | Potential Risks   |
|---|---|
| All employees should receive an annual appraisal from their manager in accordance with Corporate Policy | <ul style="list-style-type: none"> <li>Failure to meet corporate performance measures established to demonstrate that Wolverhampton is a confident, capable Council.</li> </ul> |
|   | <ul style="list-style-type: none"> <li>Low staff morale leading to poor performance and subsequent non delivery of services.</li> </ul>   |

As part of our review we also issues a series of questionnaires to a sample of managers in order to obtain their views on the new performance appraisal scheme, and their views have helped inform sections of this report.

## 2 Executive summary

### 2.1 Overall conclusion

Taking account of the issues identified in this report, in our opinion the controls within the system, as currently laid down and operating, provide **limited assurance** that risks material to the achievement of the Council's objectives for the system are adequately managed and controlled.

Definitions for the levels of assurance that can be given:

|                     |   |
|---------------------|---|
| <b>Substantial</b>  | <ul style="list-style-type: none"><li>• There is a robust framework of controls which ensures that objectives are likely to be achieved and controls are applied continuously or with only minor lapses</li></ul>                   |
| <b>Satisfactory</b> | <ul style="list-style-type: none"><li>• There is a sufficient framework of key controls for objectives to be achieved but the control framework could be stronger or the application of controls could be more consistent</li></ul> |
| <b>Limited</b>      | <ul style="list-style-type: none"><li>• <b>There is a risk of objectives not being achieved due to the absence of key internal controls or a significant breakdown in the application of controls</b></li></ul>                     |

### 2.2 Key issues identified

This report has been prepared on an exception basis. Therefore, we have only reported on areas where action is required to address weaknesses in controls or to limit exposure to risk.

We have identified one **red** and four **amber** and two **green** issues, arising from the following:

- Low number of appraisals completed, including at a senior level
- Inaccurate reporting of performance information
- Low participation in appraisal training

- Unrealistic profiling of performance measure targets
- Lack of clear lines of responsibility
- Insufficient promotion of the scheme
- Work plans not always fully completed

Suggested / agreed actions have been made for these areas and they are shown in the main body of the report. Consideration should be given to, where appropriate, feeding any red or amber issues from this report, into the relevant risk management process in order to help manage any associated risks. Also, the key issues arising from this report may be included in summary form to the Audit Committee.

### **2.3 Acknowledgement**

A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks to all of the individuals concerned.

### 3 Issues arising and suggested/agreed actions

#### Priority rating for issues identified

**Red** - action is imperative to ensure that the objectives for the area under review are met.

**Amber** - requires action to avoid exposure to significant risks in achieving the objectives for the area under review.

**Green** - action is advised to enhance risk control or operational efficiency.

| No                       | Priority                          | Issues arising  | Action to address issues | Responsibility                    | Target date                                 |         |           |     |       |     |          |       |       |     |                          |     |       |     |     |    |    |     |              |              |              |            |  |  |  |
|--------------------------|-----------------------------------|---|--------------------------|-----------------------------------|---|---------|-----------|-----|-------|-----|----------|-------|-------|-----|--------------------------|-----|-------|-----|-----|----|----|-----|--------------|--------------|--------------|------------|--|--|--|
| 3.1                      | <b>Red</b>                        | <p><b>Low number of appraisals completed, including at a senior level</b><br/>                     Within Council policy it is a mandatory requirement of managers to undertake a performance appraisal with the employees that they manage on an annual basis. Despite this requirement there has been a very poor take up on the number of appraisals undertaken across the Council. The new appraisal scheme was introduced on 1 April 2013, and in the first 12 months, as the table below shows, only 25% of employees had received an appraisal.</p> <table border="1"> <thead> <tr> <th>Directorate</th> <th>Approximate Appraisals completed*</th> <th>Approximate Employee Count @ 31 March 2014*</th> <th>Take up</th> </tr> </thead> <tbody> <tr> <td>Community</td> <td>240</td> <td>2,400</td> <td>10%</td> </tr> <tr> <td>Delivery</td> <td>1,200</td> <td>2,400</td> <td>50%</td> </tr> <tr> <td>Education and Enterprise</td> <td>150</td> <td>1,500</td> <td>10%</td> </tr> <tr> <td>OCE</td> <td>15</td> <td>40</td> <td>37%</td> </tr> <tr> <td><b>Total</b></td> <td><b>1,605</b></td> <td><b>6,340</b></td> <td><b>25%</b></td> </tr> </tbody> </table> <p>* These figures are approximate and at a point in time. As expanded upon below and in paragraph 3.2, the lack of an accurate and consistent approach makes it</p> | Directorate              | Approximate Appraisals completed* | Approximate Employee Count @ 31 March 2014* | Take up | Community | 240 | 2,400 | 10% | Delivery | 1,200 | 2,400 | 50% | Education and Enterprise | 150 | 1,500 | 10% | OCE | 15 | 40 | 37% | <b>Total</b> | <b>1,605</b> | <b>6,340</b> | <b>25%</b> | <p>All managers should be regularly reminded through a number of channels, of the need to carry out, and log regular performance appraisals in line with the requirements of the Council's policy.</p> <p>The number of appraisals undertaken against performance targets should be monitored at regular intervals by each directorate's management team, and corporately by the Strategic Executive Board.</p> <p>Formal intervention should be taken in areas of continued non-compliance.</p> |  |  |
| Directorate              | Approximate Appraisals completed* | Approximate Employee Count @ 31 March 2014*   | Take up                  |                                   |   |         |           |     |       |     |          |       |       |     |                          |     |       |     |     |    |    |     |              |              |              |            |  |  |  |
| Community                | 240                               | 2,400   | 10%                      |                                   |   |         |           |     |       |     |          |       |       |     |                          |     |       |     |     |    |    |     |              |              |              |            |  |  |  |
| Delivery                 | 1,200                             | 2,400   | 50%                      |                                   |   |         |           |     |       |     |          |       |       |     |                          |     |       |     |     |    |    |     |              |              |              |            |  |  |  |
| Education and Enterprise | 150                               | 1,500   | 10%                      |                                   |   |         |           |     |       |     |          |       |       |     |                          |     |       |     |     |    |    |     |              |              |              |            |  |  |  |
| OCE                      | 15                                | 40  | 37%                      |                                   |   |         |           |     |       |     |          |       |       |     |                          |     |       |     |     |    |    |     |              |              |              |            |  |  |  |
| <b>Total</b>             | <b>1,605</b>                      | <b>6,340</b>  | <b>25%</b>               |                                   |   |         |           |     |       |     |          |       |       |     |                          |     |       |     |     |    |    |     |              |              |              |            |  |  |  |

| No | Priority | Issues arising  | Action to address issues | Responsibility | Target date |
|----|----------|---|--------------------------|----------------|-------------|
|    |          | <p>difficult to establish the exact figures.</p> <p>Within these figures, the number of more senior employees receiving an appraisal, and employees based away from the Civic Centre were particularly low.</p> <p>A number of reasons for such a low take up were offered from across the Council, including:</p> <ul style="list-style-type: none"> <li>• A lack of awareness of the new appraisal process/differing levels of success in communicating the new process (this matter is further commented on in paragraph 3.6);</li> <li>• Appraisals being undertaken but not being logged on the performance appraisal system;</li> <li>• Time constraints;</li> <li>• Awaiting confirmation of restructures and ongoing uncertainties around changes in line management;</li> <li>• Employees awaiting completion of their own appraisal before undertaking others;</li> <li>• Appraisals completed, but awaiting the return of completed forms/documentation from employees;</li> <li>• Potential restructures;</li> <li>• Appraisals delayed to align with the previous Employee Performance Review Scheme cycle.</li> </ul> <p><b>Implication:</b><br/>The Council's Performance Appraisal and Personal Development Policy is not being followed. Without an appraisal managers and employees do not have the opportunity to review performance or ensure that achievements, strengths and areas for improvement are recognised and acknowledged, personal development needs are not identified and managers are not providing the appropriate support.</p> |                          |                |             |



| No  | Priority     | Issues arising  | Action to address issues   | Responsibility | Target date |
|-----|--------------|---|--|----------------|-------------|
| 3.2 | <b>Amber</b> | <p><b>Inaccurate reporting of performance information</b><br/>                     Inaccurate data on the number of appraisals being undertaken was being reported in the corporate performance report. There were a variety of reasons behind this, predominantly based around difficulties when attempting to reconcile the information held on the performance appraisal system to that on the corporate performance management system TENS, including:</p> <ul style="list-style-type: none"> <li>• No clear definition for the “% of appraisals completed” figure - the performance appraisal system can be updated retrospectively (i.e. appraisals can be added at a much later date) whereas TENS uses data within specific time frames and makes use of cut-off points.</li> <li>• Calculations using the total number of NI numbers appearing as live payroll records, but excluding school based and Pensions Fund employees.</li> <li>• Employees who have been directly employed by the Council for less than six months are not required to have an appraisal. However, these employees are not excluded from the total number of employees reported.</li> <li>• The total number of employees figure includes zero based hours’ employees. Whilst the policy does not specifically state that these employees are not required to be appraised, it would seem reasonable to exclude them from the process.</li> <li>• Uncertainty over how to deal with employees who have more than one job at the Council and if they need a performance appraisal for each role. At the moment they are recorded in the figures as doing so.</li> </ul> <p><b>Implication:</b><br/>                     Inaccurate information on the number of appraisals completed/overall performance reported in corporate performance reports.</p> | <p>The corporate performance measure “% of appraisals completed” should be clearly defined and a data quality review undertaken to ensure the validity of the data provided within the corporate performance report.</p> <p>Following such a review, any required clarification to the performance appraisal policy, particularly around the comments made in this report and the subsequent impact they have on determining and measuring performance, should be addressed.</p> |                |             |

| No  | Priority     | Issues arising  | Action to address issues   | Responsibility | Target date |
|-----|--------------|---|--|----------------|-------------|
| 3.3 | <b>Amber</b> | <p><b>Low participation in appraisal training</b><br/>                     A range of training opportunities to support managers in undertaking performance appraisals, and raise awareness of the Council's Policy, can be accessed through the Council's Learning Hub or a face to face Skills Gym. We reviewed these and found them to offer a good level and quality of training. However, an analysis of training undertaken in the first eight months of the scheme highlighted that only 20 employees had completed e-learning modules, although over 200 employees had attended the Skills Gym.</p> <p><b>Implication</b><br/>                     Low level of engagement with training opportunities may reduce its effectiveness, and contribute towards the low completion rates.</p> | <p>Managers who have failed to carry out appraisals, or feel they have a lack of awareness of what is required, should be encouraged to engage in the various training/policy raising opportunities available to them.</p> |                |             |
| 3.4 | <b>Amber</b> | <p><b>Unrealistic profiling of performance measure targets</b><br/>                     Given the unequal pattern in which performance appraisals have historically been undertaken, the assumption of an equal profile of target percentages across the year (i.e. 25% of performance appraisals to be completed in each quarter) and that 100% would be achieved within the first 12 months, would appear unrealistic.</p> <p><b>Implication:</b><br/>                     Adverse pressure and poor performance reporting through unrealistic expectations.</p>  | <p>The profiling of the corporate performance measure target should be reviewed to ensure that it is both realistic and achievable.</p>  |                |             |

| No  | Priority     | Issues arising  | Action to address issues  | Responsibility | Target date |
|-----|--------------|---|---|----------------|-------------|
| 3.5 | <b>Amber</b> | <p><b>Lack of clear lines of responsibility</b><br/>                     During our review it was difficult to identify exactly who was responsible for undertaking performance appraisals due to the lack of readily available and current structural information and clear lines of accountability. It is envisaged that once fully operational, the Agresso system should improve this situation.</p> <p>Also, at the time of our review, there were approximately 240 agency/ interim/consultancy staff working at the Council. Given the issues identified above, it was not possible to identify which of these officers, if any, were responsible for completing performance appraisals, and if they were, what induction process they had received on this policy.</p> <p>Finally, we noted wide ranging differences in the number of appraisals being carried out by individuals, with many as low as performing just one, but in other cases, a much more significant number. This suggests that the levels of delegation for undertaking appraisals could be improved upon.</p> <p><b>Implication:</b><br/>                     Lack of accountability contributing towards the low number of appraisals being undertaken.</p> | <p>Accurate and up to date structural charts with clear lines of accountability should be maintained to identify responsibility for the completion of performance appraisals (including agency/interim/ consultancy staff). All such accountability should be kept within reasonable and manageable limits.</p> |                |             |

| No  | Priority     | Issues arising   | Action to address issues   | Responsibility | Target date |
|-----|--------------|--|--|----------------|-------------|
| 3.6 | <b>Green</b> | <p><b>Insufficient promotion of the scheme</b><br/>                     From a review of the Council's intranet, only two articles on the performance appraisal scheme could be found. One from March 2013, at the time of the launch and the other in June 2013, promoting the training available to support managers undertaking appraisals. Later in March 2014 the Chief Executive issued an email to all managers, raising the issue of non-completion of performance appraisals. Given the persistent low rates of completion and the overall red RAG rating in the corporate performance report, higher levels of promotion in order to raise employee awareness would have been expected.</p> <p><b>Implication:</b><br/>                     The high priority awarded by the Council to the performance appraisal scheme was not supported by the level of activity promoting the scheme, contributing to the low take up.</p> | <p>A more pro-active promotion of the performance appraisal scheme should be undertaken through mechanisms such as the intranet/Agrosso/payslip messages.</p> <p>Further promotion activities should also be investigated at a local/directorate level</p> |                |             |
| 3.7 | <b>Green</b> | <p><b>Work plans not always fully completed</b><br/>                     As part of each appraisal, an individual work plan should be prepared, setting objectives and key actions for the employee for the year ahead. From our review of a number of appraisals that had been undertaken, we noted that these work plans were not always being fully and correctly completed.</p> <p><b>Implication:</b><br/>                     Maximum benefit from each appraisal may not be obtained and objectives and key actions for employees may not be fully identified.</p>  | <p>Managers carrying out appraisals should be reminded of the need to follow the official guidance, and fully complete the formal documentation (including the work plan).</p>   |                |             |

## Limitations inherent to the internal auditor's work

This report has been prepared solely for Wolverhampton City Council in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

### Internal control

- Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### Responsibilities of management and internal auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.