

MAKING I.T. CHANGE PROJECTS MORE EFFECTIVE: A ROLE FOR INTERNAL AUDITORS



Foreword

IT Change Management is a risky and costly business for most organisations, and everyone has either experienced an IT project disaster first-hand or knows of a calamitous occurrence elsewhere.

There are no guaranteed solutions to achieving a successful IT Change project and the results of our recent survey, which are outlined in this report, confirm that this is an area that is continuing to cause problems for the insurance sector.

There are any number of IT Change Management and Project Management framework templates available that define how to approach major IT projects. Our research confirms that the majority of organisations in the insurance industry have adopted relevant frameworks. In practice, however, there is no 'one size fits all' solution as companies vary enormously in terms of size, resources, complexity of operating model, sophistication of personnel and so on.

Adopting a framework without an ability to 'flex' it as necessary and without appropriate oversight usually leads to an over-engineered or poorly implemented (and, therefore, ineffective) IT Change Management framework that, in turn, leads to user dissatisfaction and poor value-for-money outcomes.

Based on the results of our survey and our direct experience advising the insurance industry, we believe that early intervention by Internal Audit asking the right questions can make a significant contribution to improving the chances of a successful IT Change project.

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Ian is the IT Assurance partner of PKF Littlejohn and heads up the IT Assurance team. He has many years' experience of providing consultancy services to the insurance industry including advice to Insurance Companies, Brokers, Managing Agents and Intermediaries both within Lloyd's and the wider London Market. Ian also designs and implements computerised management information systems including financial ledgers, insurance policy administration systems, fulfilment systems and business intelligence.

His recent projects for insurance industry clients include: the design and implementation of a Policy Administration System for an insurance intermediary; IT General Controls audits, both as internal and external auditor; reviews of the 'fitness for purpose' of IT departments; project trouble-shooting for a medium-sized Insurance Company in respect of its main underwriting system; and data quality reviews for Insurance Companies and Lloyd's Managing Agents.

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Philip provides internal audit services to both managing agents and insurance companies. These services range from the provision of fully outsourced services to acting as mentor to a head of internal audit.

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Jessica has used her technical skills to develop our Internal Audit products and tools including an Internal Audit Effectiveness Review and a Pricing Health Check for Internal Auditors to address the PRA's concerns over pricing adequacy in the soft market. Jessica is a member of the Chartered Institute of Internal Auditors.

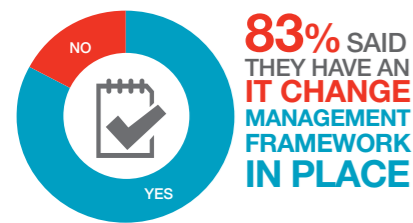
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Survey results

FRAMEWORK

Does your organisation have a formal IT Change Management framework including Project Management policies and procedures?

On the face of it, this is an encouraging response - although almost 1 in 5 organisations do not have an appropriate IT Change Management framework, which is a key requirement of the Prudential Regulation Authority's (PRA) 'Data Governance Framework'.



However, as the subsequent survey results demonstrate, having a comprehensive IT Change Management framework does not guarantee success. There is strong evidence, borne out by both the survey responses and our personal experience of the insurance market, that far too few IT Change projects are completed within budget and timescale and, in too many cases, are cancelled completely part-way through.

POSITIVE

PLANNING

For major projects, are you involved in reviewing the planning and implementation process?

Only 1 in 4 respondents indicated that they were always involved at an early stage of planning and implementation, with a similar proportion stating that they were never involved. Bearing in mind the comparatively low success rate of major IT projects, we would suggest that Internal Audit should always be involved during both the planning and implementation stages.



While there are many reasons why IT projects fail, there are a number of simple questions that can help to identify possible weaknesses. We believe that Internal Audit should act as an early warning system in this regard, highlighting areas of concern that can be addressed before it's too late.

There is also merit in Internal Audit ensuring that the controls that they will be looking for and testing post-implementation have been properly accounted for as part of the project.

NEGATIVE

DELAY & OVERRUN

In the past 3 years, how frequently has your organisation experienced a significant implementation delay and budget overrun for a major IT Change Project?

The response to this question makes a strong case for Internal Audit involvement in the oversight of major IT Change projects: almost a quarter of respondents stated that all major IT projects overrun significantly on timescale and cost.



While this is a cause for alarm in itself, we were particularly concerned to learn that every organisation that participated in the survey experienced significant time and cost overruns at least once in the past three years. This is quite an indictment of the level of the industry's IT Change Management effectiveness.

This being the case, there are grounds for suggesting that IT Change Management frameworks are ineffective without a further degree of oversight - oversight that we propose is provided by Internal Audit.

NEGATIVE

CANCELLATION

In the past 3 years, how frequently has your organisation cancelled a major IT Change Project part-way through?

At face value, this might seem to be an encouraging response with only 10% of respondents suggesting that major IT projects are often cancelled part-way through. However, less than a third of respondents claim that their businesses have never cancelled a major IT project once they have started. This suggests that at least two-thirds of organisations have done so!



Quite apart from the wasted financial and time costs incurred in abandoning a partially completed project, there was presumably a valid business imperative for undertaking the project which will no longer be achieved.

Our view is that the ability to successfully complete major IT Change projects is a vital component for a business's future health, and yet the industry is failing to deliver an appropriate level of success at the moment.

Something has to change - and we would contend that the involvement of Internal Audit as an influential, interested party at the early stages of such projects would be hugely beneficial for the sector.

NEGATIVE

USER SATISFACTION

On average, how satisfied do you think your users are with the major IT Change Projects your organisation has undertaken in the past 3 years?

We think this is a key indicator of the overall effectiveness of a firm's IT Change Management framework. The score of 6 out of 10, which reflects the average mark awarded by respondents in respect of completed IT projects, is by no means a cause for celebration. It says that things are 'OK but not great'. If you stop to think about how much time and money has been expended on merely achieving an 'OK but not great' result, it poses real questions about the return on the organisation's investment.



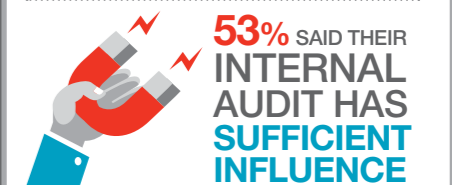
Imagine proposing to the Executive Board a major IT Change project that is going to cost significant sums of money, require enormous amounts of manpower and tie up the IT team's valuable resources for an extended period of time, is almost certainly going to overrun both in terms of time and money and that, at the end of all that, will result in a system that is 'OK but not great'. How many times do you think the Exec would approve such a project?

NEUTRAL

INFLUENCE

How much influence do you feel that Internal Audit has over IT Change Projects?

Interestingly, in the light of the other responses that suggest that IT Change Management frameworks are generally not as effective as they ought to be, more than half the respondents felt that Internal Audit has sufficient influence over IT Change projects.



This either suggests that the respondents feel that the low level of success of such projects is acceptable in the circumstances or that, even though the level of success is poor, an increased role for Internal Audit is not appropriate.

In fact, about half of the respondents felt that Internal Audit should be more involved but were hampered by a lack of resources. Only a small percentage felt that involvement in IT projects would dilute the independence of the Internal Audit function.

Our contention is that firms should be looking to Internal Audit as an important overseer of the way in which major IT Change projects are approached to ensure that at least the obvious risks have been mitigated appropriately.

NEUTRAL

How can we make IT Change projects more successful?

IT projects fail for any number of reasons and there are no guaranteed solutions to achieving a successful IT Change project - but we can offer some helpful guidelines and these are our top tips:

1. ALWAYS ASK THE QUESTION: WHAT HAPPENS IF WE DO NOTHING?

This is a good way of assessing the real value and urgency of a proposed project. Too often, we are told we need to do something: upgrade a piece of software, buy new hardware, change an application system.

This may or may not be true and it is difficult for non-specialists to evaluate the requirement as defined by the IT or operational teams concerned. However, posing this question is an excellent way of forcing the initiator to present their reasoning in a simple, non-technical way that should clearly state the business case and force them to respond to the next point.

2. DETERMINE IF THE PROJECT WILL ADD VALUE OR MITIGATE A RISK

Any project proposal should be able to state how it is either adding value to the organisation or mitigating a risk, and define how this can be measured.

These are the only two reasons for ever undertaking an IT Change project and it is incumbent on the project initiator to provide the relevant justification. If the rationale is not clear, you should have the confidence to reject the project.

3. SELECT THE RIGHT PROJECT MANAGER

All Change projects need a project manager with the relevant skills and expertise, even if this means appointing an external resource.

If you believe an internal candidate has the requisite expertise, it is essential that they are freed up from their day-job to dedicate themselves to the project. Often, the supplier becomes the de facto project manager, which is not usually the best solution as they have no jurisdiction over your resources and may put their own interests first. Whoever acts as the project manager, it is worth remembering that the best project managers are on the side of the project and not the supplier or the end-user. This is important as parochial concerns often override what is sensible or expedient.

4. TRUST YOUR INSTINCTS

If you are evaluating different options, particularly alternative suppliers for a product or service, do not try to score them using a questionnaire (whether self-created or otherwise).

This is not scientific, although it might appear so, and provides a set of totally spurious comparative 'values' that will only randomly produce the right result. Trust your instincts to select a supplier/solution that is appropriate to your budget and the profile of your organisation. Always focus on the key reasons why you are making a change in the first place.

5. DON'T FORGET THE REPORTING

Never forget the reporting output you require: pre-defined reports, downloads to Excel, ad hoc queries, feeds to a data warehouse and so on.

Too often, the ability to use the information you are capturing in a meaningful way is not accounted for properly in the Change project itself. This should never be the case.

6. DON'T RELY SOLELY ON SUPPLIERS' ADVICE

Suppliers are a useful, free source of information but are not usually experts beyond their specific area of expertise (although they will often suggest otherwise).

In particular, issues surrounding integration with other systems, and especially finance systems, are rarely dealt with successfully if you rely solely on the supplier.

7. WHO IS RESPONSIBLE FOR DATA MIGRATION?

Projects often get into difficulty because of problems with migrating data from legacy systems, so it's important not to underestimate the scale of this task.

It's vital to establish who is responsible for mapping the data between the systems and to understand how decisions are taken and what assumptions are made when dealing with anomalies or missing values.

8. INVEST IN EXPERT ADVICE AT THE OUTSET

Independent, expert advice is always valuable although can be expensive.

However, a little investment to gain good advice at the outset of a project can be more than offset by avoiding costly mistakes later on.

9. BE REALISTIC

It is a cliché that the last 10% of any project is the hardest to get right and, regardless of the pressure from end-users to deliver specific functionality, project managers should resist including functionality that is rarely required or software amendments that are hard to deliver.

10. STICK TO YOUR PRINCIPLES

In summary, most IT projects do not succeed and there is no reason why yours should be any different.

You should always assume that you are an average organisation and act accordingly by adopting these tips. Stick to your principles, no matter the pressures to behave differently that will inevitably arise as timetables slip and costs rise.



About PKF Littlejohn

PKF Littlejohn's insurance team specialises in providing assurance, tax, corporate finance and other services to insurance carriers and intermediaries with a strong focus on Lloyd's and the London Market.

We offer bespoke internal audit solutions that recognise the diversity of our clients' needs including outsourcing, co-sourcing, secondments, training and consultancy.

Our membership of PKF International, the eleventh largest network of accounting and business advisory firms, gives our clients access to insurance specialists in all the major insurance markets around the world.

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