



Audit of SAP Implementation

Internal Audit Division

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A. Executive Summary

1. Courts Administration Service (CAS) plans to implement SAP to replace its existing financial management systems (Free Balance Financial System and the Salary Management System). The development of SAP, and corresponding financial processes, is part of a Government of Canada-wide project entitled GCfm (Government of Canada Financial & Material Management) led by the Treasury Board of Canada Secretariat (TBS). CAS is part of the first cohort of GCfm on-boarders, along with other federal organizations still using Free Balance.
2. There were two objectives for this audit: to assess the design effectiveness of GCfm prior to its implementation, and to provide assurance on the effective implementation following stabilization activities. This audit was carried out in conjunction with a readiness assessment led the Internal Audit and Evaluation Bureau of TBS.
3. The GCfm project was experiencing delays late in 2019, which led to the presentation of interim audit results to CAS management in February 2020 to support timely decision-making. The audit concluded that CAS had progress to prepare for SAP implementation within the limits of the overall progress of the GCfm project, however would require an understanding of the fully configured SAP solution to determine if the design meets its needs.
4. Since the presentation of interim results to CAS management, GCfm experienced additional delays with systems testing. The COVID-19 pandemic and activation of business continuity plans both at CAS and TBS have further impacted project timelines. As a result, multiple scenarios are being considered for a new go-live date in 2020-2021 and the GCfm project is reviewing its project plan.
5. CAS is well-positioned in GCfm project governance to provide input to the future go-live date decision. Once a revised GCfm project plan is established, CAS should update its own project costs and timelines. A recommendation is included in this report to formalize a continuity plan to mitigate the risk that SAP will not be fully deployed on April 1, 2021.

B. Statement of Assurance

6. This audit was carried out in conformance with the *International Standards for the Professional Practice of Internal Auditing*.
7. I would like to thank the officials from the Courts Administration Service for their collaboration and support provided to the audit team.

Sophie Frenette, CIA CRMA
Chief Audit Executive

C. Introduction

a) Background

8. The Government of Canada Financial Management Transformation program (under the direction of the Office of the Comptroller General at the Treasury Board of Canada Secretariat (TBS)) is modernizing the financial and materiel management business model across government. This includes the development of a financial management system on SAP's next-generation S/4 HANA enterprise resource planning platform.
9. The purpose of SAP is to have standard, best practice business processes. The new SAP system (entitled GCfm for Government of Canada Financial & Material Management) aims to give managers and staff direct access to consistent and reliable financial and performance information, and to deliver a more intuitive interface for a better user-centric experience.
10. Courts Administration Service (CAS) is part of the first cohort of federal organizations who were planning to adopt the new SAP system in April 2020, to replace the current financial management system (Free Balance Financial System and the Salary Management System). Through Free Balance, CAS manages an approximate annual budget of \$93 million, including 764 Full Time Equivalent¹.
11. A formal partnership agreement is in place between the Office of the Comptroller General and CAS. The agreement was dated March 29, 2019 and planned for the full implementation of SAP (the "go-live date") in April 2020. The agreement set out the following distribution of accountabilities and responsibilities:
 - The Office of the Comptroller General is accountable and responsible for the design and delivery of GCfm. The Comptroller General is the Executive Sponsor and the Assistant Comptroller General, Financial Management Transformation, is the Project Sponsor.
 - CAS is accountable and responsible to provide resources to participate and in some cases lead, change management and onboarding activities. The Deputy Chief Administrator, Corporate Management, and Chief Financial Officer is the senior Project Sponsor and the Director General Finance and Procurement, Corporate Services is the CAS senior project lead manager, for the implementation of GCfm.
12. To support accountabilities and responsibilities, a GCfm project governance structure was established. CAS has actively participated at both the executive and project level-committees. CAS also took a leadership role for some activities as a co-hort organization, including preliminary change management analysis to facilitate the work of the GCfm project team and other co-hort organizations.

¹ CAS 2020-21 Departmental Plan.

13. The Internal Audit and Evaluation Bureau of TBS carried out a readiness assessment to provide a recommendation regarding whether the GCfm solution had in place plans that incorporate critical success factors to undertake this transformational initiative and whether these plans were executed to achieve an adequate state of readiness. The assessment looked at activities within TBS, and federal organizations that were part of the first cohort of on-boarders including CAS. Interim results in December 2019 found that on-boarding organizations were fully committed to the GCfm project, that the project had made some good progress and highlighted outstanding issues. The Internal Audit and Evaluation Bureau of TBS is currently re-scoping the readiness assessment, and has expanded the scope to include an examination of system and user acceptance testing activities.

b) Objective, Scope and Methodology

14. The CAS audit was to be carried out in two phases, with two distinct objectives:

- Phase 1: to assess the effective design of the financial business process and related internal controls required by CAS during pre-implementation of GCfm; and
- Phase 2: to provide assurance that GCfm business processes and controls have been effectively implemented in Courts Administration Service, following implementation and stabilization of GCfm.

The objectives of the CAS audit were designed as to not duplicate the scope of the readiness assessment carried out by the Internal Audit and Evaluation Bureau of the TBS. The CAS Internal Audit Division coordinated the readiness assessment for the Department.

15. The audit criteria, as well as an assessment of result against a scale which will be used to aggregate CAS internal audit results, is presented in Appendix A.

16. The scope of the CAS audit was from April 1, 2019 to substantial completion of the audit work on January 31, 2020. Some CAS internal controls documentation from previous fiscal years was also included in this audit, as it was the most recent available information. The audit scope excluded testing the development of the SAP system.

17. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The audit approach included the following:

- reviewing relevant documentation, including:
 - CAS Internal controls over financial reporting documentation (e.g. controls description, process charts and related framework policies, guidelines and procedures);
 - GCFM project documentation (e.g. templates for co-hort departments, project status updates and project management artefacts); and
 - CAS project documentation for the implementation of SAP (e.g. a project charter and plan).
- conducting interviews with the CAS GCFM implementation team, and attending the CAS interviews for the TBS readiness assessment.

D. Observations and Recommendation

18. The GCfm Partnership Agreement solution partnership agreement between the Office of the Comptroller General and CAS (dated March 29, 2019) planned for the full implementation of SAP (the “go-live date”) in April 2020. The observations which follow were presented to the CAS executive committee in an interim report on February 7, 2020. The purpose of the interim report was to provide timely advice, as the April 2020 go-live date was still being considered at that point and assessed as being at risk. As the GCfm project is currently being re-baselined, it will be important for CAS to continue to monitor the risk of further delays should the SAP system not be ready for implementation in 2020-2021.

a) Identify CAS Financial Processes

19. A series of documented and up to date financial controls descriptions is key for CAS to complete its on-boarder responsibilities to prepare for the implementation of SAP. By comparing existing CAS processes with the design of the new SAP system, practices which will require adjustments can be identified for inclusion in change management plans. Having up to date, tested and reliable financial controls as a starting point also increases the chances of having standard and repeatable practices after SAP is implemented.

20. CAS has an Internal Control over Financial Reporting Framework dated September 2018. The framework includes a business process structure, an approach to assessing risk, a monitoring plan (from 2017-2018 to 2019-2020), and a sampling methodology. The framework also outlines a standard reporting format for controls documenting: a flowchart, narrative description and a controls matrix for each financial process. Control documentation was found for each of the five financial processes included in the CAS ongoing monitoring plan, namely procure-to-pay, payroll and salaries, deposit accounts, tangible capital assets and financial statements.

21. An opportunity for future improvement was identified that is outside the scope of the current audit. In 2017, a new *Policy on Financial Management* was issued for the Government of Canada. The scope of financial controls evolved from financial reporting in the past (*accuracy and completeness of financial statements*), to financial management (*effectiveness and efficiency of the financial management activities of the department*). As a result, CAS should consider reviewing its framework, along with its internal controls documentation, with the broader scope of financial management once SAP is implemented.

b) Assess and Monitor Gaps Between Current and New Financial System

22. It was also expected that CAS compare its existing businesses processes with those developed to support the new SAP. This gaps assessment will allow CAS to determine how to implement the new financial system, and to adjust practices and procedures internally. The gap assessment will also identify if there are any existing financial controls important for CAS, which will not be configured in the government-wide SAP solution. A monitoring process was also expected to be in place, for CAS to raise any important gaps for consideration at the broader GCfm project level for resolution.

23. As an on-boarder organisation, CAS participated in numerous gaps assessment-related activities and was actively engaged in assessing the design of SAP. This includes participation in demos, observing some system tests, and completing a preliminary change management exercise based on high-level description of how the system will work. Monitoring tools were also found to be in place for CAS to raise risks, gaps and issues for GCfm, including an assessment of the level of criticality.
24. CAS would benefit from having access to a fully tested and configured SAP solution prior to implementation. This would enable a complete assessment of the impact on internal controls, to plan for data conversion and change management, and to provide training to the finance, management and administrative communities. As testing is still underway, it is not possible for CAS to fully understand how to implement SAP, to identify gaps and to monitor their resolution.
25. Since the presentation of interim results to CAS management, GCfm project delays, the COVID-19 pandemic and the activation of business continuity plans both at CAS and at TBS have resulted in a revised calendar for systems testing. The latest available plans called for the integrated systems testing to begin in June 2020; however, that was dependent on the resolution of defects found in the first round of testing, including important issues related to pay management, and a return to work for federal organisations. New potential go-live dates are being considered for 2020-2021.
26. CAS has been and continues to actively participating in GCfm project governance. As a result, CAS is well-positioned to provide input to the new go-live date for GCfm, and to make a sound decision on the future implementation of SAP within CAS.

Recommendation 1

The Deputy Chief Administrator, Corporate Management & Chief Financial Officer should formalize a continuity plan to mitigate the risk that SAP will not be fully deployed on April 1, 2021.

27. Management agreed with the recommendation and provided an action plan in Appendix B.

E. Conclusion

28. This audit provides a partial conclusion for its first objective on the assessment of the system design, as a result of the delays in the GCfm project. CAS has made good progress to prepare for the implementation of SAP within the limits of the information available on system configuration. However, CAS would require an understanding of the fully configured SAP solution to determine if the design meets its needs.
29. The second objective of this audit, which was planned for the second quarter of 2020 will be postponed until SAP is implemented and stabilized in CAS. As a result, the second phase of this audit will be placed in reserve in the CAS Risk-based Audit Plan. The progress of the GCfm project will be monitored and the audit will be launched when appropriate.
30. The forecasted cost of GCfm within CAS was originally \$1.8 million (2018-19 to 2021-22) when the system was planned for implementation in April 2020; actual costs were approximately \$650,000 on May 29, 2020 (pending confirmation upon finalisation of the 2020-2021 fiscal year). CAS should revisit its project plan and costing, to align with the new go-live date when it is known.
31. The delivery of a fully tested and configured SAP solution should be considered as a key milestone with a specific date within the context of the GCfm project. Following the successful achievement of that milestone, CAS should plan for a reasonable timeframe to carry out change management activities, prior to the go-live date.

F. Appendix A – Summary of Results

Audit Criteria	Audit Result
1.1 Business process requirements have been identified, analyzed and documented.	Moderate Issues (Control weaknesses, but exposure is limited because likelihood of risk occurring is not high)
1.2 Internal control framework requirements have been identified, analyzed and documented against GCfm design.	Cannot conclude, GCfm testing still underway
1.3 Internal control gaps and solution design gaps are documented and monitored for resolution in accordance with the methodology in place.	

Level	Definition
Well controlled	Well managed, no material weaknesses noted; and effective.
Controlled	Managed with controls working somewhat as expected; improvements are needed.
Moderate issues	Requires management focus (at least one of the following criteria are met): <ul style="list-style-type: none"> ▪ Control weaknesses, but exposure is limited because likelihood of risk occurring is not high. ▪ Control weaknesses, but exposure is limited because impact of the risk is not high.
Significant improvements required	Requires immediate management focus (At least one of the following three criteria are met): <ul style="list-style-type: none"> ▪ Financial adjustments material to line item or area or to the Department. ▪ Control deficiencies represent serious exposure. ▪ Major deficiencies in overall control structure.

G. Appendix B – Management Action Plan

Recommendations	Management Action Plan	Responsible Office	Completion Date
<p>1. The Deputy Chief Administrator, Corporate Management & Chief Financial Officer should formalize a continuity plan to mitigate the risk that SAP will not be fully deployed on April 1, 2021.</p>	<p>Management Agrees.</p> <p>The Deputy Chief Administrator, Corporate Management & Chief Financial Officer already initiated the work to formalize a continuity plan in case of delay of go-live date April 1, 2021, or phased implementation of GCfm.</p> <p>As a mitigation strategy, CAS will ensure that Freebalance System will be available for 2020-2021 and 2021-2022. Also, as part of the GCfm implementation, a CAS cutover plan (activation of SAP and go-live plan) will be documented to identify the key business processes and corresponding options for transactional processing during pre and post go-live period. CAS will continue to work with GCfm during the testing and implementation phase due to dependencies on GCfm cutover plan.</p>	<p>Deputy Chief Financial Officer</p>	<p>January 31, 2021</p>