

Wiltshire Council

Audit Committee

24 MARCH 2010

HEALTH CHECK ON SAP - FINANCIALS

Purpose of Report

1. To advise the Audit Committee of the SAP Health Check on the financial elements of the system and the actions completed as a result.

Background

Rationalise for SAP Health Check

2. The 2009-10 financial year is the first one after the implementation of SAP. Therefore, in keeping with good practice, and to ensure requirements of Section 151 of the Local Government Act 1972 are satisfied a mid-year assessment of the financial integrity of SAP was undertaken.
3. The assessment was undertaken by an appropriately qualified and experienced independent SAP consultant. The scope of the assessment was to assess the robustness of SAP in terms of financial reporting (including preparation of the end of year financial statements), budget management and accounting.
4. The outcome of the assessment has been discussed with the external auditors KPMG. Following discussions with KPMG the Chief Finance Officer recommends that a Post Implementation Review be undertaken on SAP. This will enable the Council to learn and improve its ability for future system implementations.

Outcomes of the Health Check

5. The issues identified from the Health Check, together with the actions that have been either taken or are being taken, are shown in Appendix 1.

Preparation of Accounting Statements

6. The Health Check showed that configuration with SAP had not been completed to an extent that would allow the necessary financial statements including the balance sheet to be extracted from the system in a form compatible with statutory requirements including the International Financial Reporting Standard. The necessary configuration work has now been completed and the authority is able to extract the reports necessary for preparation of the Statement of Accounts for 2009-10.

Financial Reporting

7. The original intention was that SAP would enable budget holders to undertake budget monitoring by use of the IP/Forecasting module accessible via the portal. A key element of this was the use of the Personnel Cost Planning Module.
8. The Health Check identified a number of functionality issues with both the IP/Forecasting Module and the Personnel Cost Planning Module. For instance using the portal access it was not possible for budget managers to have detailed drill down of financial information. With regard to the Personnel Cost Planning Module, the Health Check identified difficulties in linking the budget structure within SAP to the organisational structure. As a consequence budget managers could not readily identify their own staffing budgets.
9. Throughout the 2009-10 financial year accountants have had access to financial information including payroll data and have supported budget managers throughout budget monitoring.
10. The longer term aim remains that budget managers should undertake budget monitoring. Work is in hand to complete the development of the IP/Forecasting for budget managers. As an interim fall-back work is also in hand to extract data directly from the system so that for the new financial year budget managers have direct access to budget information. Accountants will continue to provide support as required.

Purchasing/Procurement

11. The correct use of Produce Categories is essential for effective commitment accounting. The Health Check identified that product categories were not clearly mapped to the General Ledger account, there was also inconsistent use of product categories.
12. A Category Management Strategy has been developed through the Central Procurement Unit. Supported by relevant training this is helping to promote the correct use of Category Management. A review is in progress to ensure product categories are correctly linked to general ledger codes.

Data Quality

13. At the time of the health check various issues with the quality of data were identified. These were caused by a range of issues. One example being the loading of opening balances. At the time of the health check this had not been possible, due to incomplete configuration set up with SAP. These configuration issues have now been resolved and the opening balance loaded.
14. Another issue related to the matching of payroll costs to the correct budget holder. Subsequently a thorough review of payroll costings has been undertaken and as at February 2010 payroll costs are now charged to the correct cost centres. During the 2009-10 financial year accountants have been checking payroll data outside of SAP for budget monitoring purposes.

Capital Accounting

15. The health check identified that capital processing was not in the live system. Key issues related to the field layouts which did not reflect requirements in terms of the data needed to be held for assets, and how asset revaluations would be processed.
16. Subsequent to the health check, the capital processing demands have now gone live. Furthermore, requirements in terms of the data that is needed to ensure compliance with asset accounting practices have all now been resolved.

General Ledger/Accounting

17. The Health Check identified that access to general ledger codes/budget codes was not restricted to the budget holder in question and the relevant accountants. This increases the chances of mis-codings which can prove time-consuming in terms of amending.
18. Subsequent to the Health Check a review has been instigated of authorisation in terms of access. Once this is complete then budget holders will only be able to access their authorised codes.

General Issues

19. Whilst there are Transaction User Guides available, the health Check did identify the need for further documentation. Further challenges included the need to ensure that the system is fully embedded within the organisation, and that the organisation has sufficient SAP expertise and knowledge in the right areas.
20. In response to the general issues, a project plan is being prepared that will ensure process documentation is written and appropriate training is provided to relevant staff. The intention is that this be delivered to ensure that the financial elements of SAP are more fully utilised in the new financial year.
21. The Health Check also identified technical issues relating to Citrix being used for portal access to SAP. These are being investigated by ICT.

Risk Implications

22. Implementation of a new finance system carries inherent risk to an organisation. The SAP Health Check has supported the effective management of some of the risks. It has been decided to extend the Health Check to cover areas such as Accounts Payable and Accounts Receivable. A further report will be made on the actions of these Health Checks. This particular Health Check has been shared with KPMG, so that they can incorporate it as required in their external audit processes.

Financial Implications

23. The cost of the Health Check to date is £10,000. This is considered to be an essential part of ensuring effective internal control.

Environmental Impact of the Proposal

24. None directly relating to this report.

Equality and Diversity Impact of the Proposal

25. None directly relating to this report

Legal Implications

26. None directly relating to this report.

Recommendations

27. That the Audit Committee note the report.

Reasons for Recommendations

28. That the Audit Committee are aware of issues relating to the SAP implementation and how they are being managed.

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The following unpublished documents have been relied on in the preparation of this report:

None

APPENDIX 1

AREA	ISSUE IDENTIFIED	ACTION	STATUS
1. Preparation of Accounting Statements	Incomplete configuration to support extraction of balance sheet and other reports/statements required for preparation of statement of accounts.	<ul style="list-style-type: none"> The relevant adjustments to the configuration have now been completed. All relevant statements and reports including the balance sheet can now be extracted from SAP to support preparation of the Statement of Accounts. 	Completed 5 March 2010.
2. Financial Reporting	The Budget Forecasting/IP Module has not been consistently available to all budget managers. The Payroll Forecasting Module is still under development.	<ul style="list-style-type: none"> Accountants have been provided with direct access to general ledger information for both payroll and non payroll information. In the interim, monitoring reports are being developed to ensure managers have access from the beginning of the new financial year 2010-11. Work is ongoing to ensure that the Budget Forecasting/IP Module is robust. Work is in hand to quantify timescales. 	<p>Available for 2009-10 budget monitoring.</p> <p>Complete by end of April 2010.</p> <p>To be determined.</p>
3. Capital Accounting	At the time of the health check capital processing was not available in the live system.	<ul style="list-style-type: none"> Capital accounting is now live. Issues resolved to ensure all correct capital 	5 March 2010

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AREA	ISSUE IDENTIFIED	ACTION	STATUS
	Key issues related to the field layouts which did not reflect requirements in terms of the data needed.	data requirements can be held on SAP.	
4. General	Lack of process documentation to support Transaction User Guides. The need to fully embed SAP across the organisation, and the need to ensure the organisation has sufficient knowledge in SAP to support finance.	<ul style="list-style-type: none"> Project plan is being prepared to ensure appropriate documentation is prepared, that in terms of financial management SAP is effectively used by budget managers, and that the right knowledge is available to finance. 	Plan to be delivered by 30 June 2010.
5. Purchasing/Procurement	The full range of processes associated with procurement are not fully utilised across the organisation. Product categories are not linked to General Ledger Code.	<ul style="list-style-type: none"> Category Management Strategy supported by relevant training is in place. Review of links between product categories and General Ledger Codes is being undertaken. 	On-going. On-going
6. Data Audits	Data quality was impaired because the rollover of previous years balances had not been	<ul style="list-style-type: none"> Configuration issues resolved and all previous year's balances now loaded. 	5 March 2010

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AREA	ISSUE IDENTIFIED	ACTION	STATUS
	<p>completed. Elements of the configuration within SAP were incomplete. Payroll costs were not consistently matched to the correct budget holder.</p>	<ul style="list-style-type: none"> Review of payroll costings and links to cost centres being undertaken. Anomalies being corrected. 	<p>Work will be completed by 31 March 2010.</p>
<p>7. General Ledger Accountancy</p>	<p>Access to the general ledger codes/budget codes was not restricted to the relevant budget holder and accountant(s). This increases the chance of mis-codings which can prove time-consuming to amend.</p>	<ul style="list-style-type: none"> Review of access authorisation being undertaken. 	<p>To be completed by 31 March 2010</p>