



# Audit of Digital Transformation

Audit and Evaluation Division

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## Table of contents

Executive summary.....	1
1.0 Background.....	3
2.0 About the audit.....	4
2.1 Audit objectives and scope.....	4
3.0 Audit results.....	5
3.1 Reporting of results from past digital strategies.....	5
3.2 Digital leadership.....	6
3.3 Digital strategy.....	7
3.4 Service modernization .....	8
3.5 Audit opinion.....	10
Appendix A - Risk ranking of recommendations.....	11
Appendix B - Audit criteria.....	13
Appendix C – Methodology.....	14

## **Executive summary**

### **Purpose of the audit**

This audit examined the management control framework in place to help ensure the Department has clearly defined its digital transformation goals and is making progress to move services and application processes online, consistent with digital best practices. The audit team examined the activities of the Service Delivery Branch, the Chief Information Officer (CIO) group within the Chief Financial Officer and Corporate Services Branch, and the Strategic Policy, Planning and Performance Branch.

The audit had three sub-objectives:

- to review the performance measurement and benefits realization of digital initiatives
- to review the governance and planning of digital activities, and;
- to examine how progress is being made in the Department's modernization of services.

### **Key findings**

VAC has undertaken several initiatives to modernize its capacity for digital service delivery; however, the Department has not fully articulated its digital vision and does not have a comprehensive digital transformation strategy. Progress on developing a comprehensive Digital Strategy has been hindered by the lack of a clear lead for the Department's digital transformation. The Department has made progress in developing an online single window for Veterans to access programs and services, however additional work is required to define the Department's goals and targets for digital service delivery.

## **Highlights of the recommendations**

It is recommended that the Deputy Minister appoint a senior leader to develop an updated departmental Digital Strategy and coordinate activities across the Department. The updated Digital Strategy should integrate and align with a supporting Data Strategy and Service Management Strategy. The Department should define its goals for the online channel and its services, and establish a process to conduct periodic reviews to identify opportunities to improve digital delivery.

## **Chief Audit Executive's signature**

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## 1.0 Background

Veterans Affairs Canada (VAC) first delivered digital services to Canadians in 2005, when it introduced My VAC Account, allowing Veterans to submit their disability benefit applications online. In 2011, as a commitment to enhancing client service, VAC expanded My VAC Account to allow individuals to view and update basic personal information, communicate with the Department via secure messaging, complete certain applications online, and access the status of some of their services. My VAC Account currently has over 162,000 registered users out of a Veteran population of approximately 461,000.



Canadians have increasingly worked, shopped, learned, and engaged with the private-sector and government online. Their expectations and need for easy to use, accessible digital options continue to grow, and many government departments are transforming to use digital technologies to deliver better programs and services.<sup>1</sup> This requires modern, integrated systems and a dedicated focus on the needs and experiences of Veterans.

**Digital transformation** is the process of organizational change brought about by the use of digital technologies and new business models to improve service delivery and operational performance. It is supported by **digitization**, the conversion of paper

information into a digital format, and **digitalization**, the automation and improvement of business processes by leveraging digital technologies and digitized data.

In 2015 VAC conducted a departmental review of its service delivery approach and published a report ([Delivering Service Excellence](#)) which outlined a 5-year plan for service improvement. In 2015 VAC also released a departmental strategic plan ([Care, Compassion, Respect 2015-2020](#)), which set the context for organizational priorities and identified service excellence as one of the Department's core objectives.

In 2019 the Treasury Board released the [Policy on Service and Digital](#)<sup>2</sup>, setting a new direction and requirements for departmental digital activities. The policy's objective is to improve government operations and the client service experience through digital transformation approaches. The policy is supported by guidance, such as the [Digital Standards Playbook](#)<sup>3</sup>, which outlines principles for improving government services in the

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<sup>1</sup> Canada's Digital Ambition 2022

<sup>2</sup> Treasury Board of Canada Policy on Service and Digital, 2019

<sup>3</sup> Government of Canada Digital Standards: Playbook, 2021

digital age. The *Policy on Service and Digital* supports *Canada's Digital Government Strategy*, and the *Government of Canada's Digital Ambition*.

## 2.0 About the audit

### 2.1 Audit objectives and scope

#### Objectives

The objective of this audit was to examine the management control framework in place to help ensure the Department has clearly defined its digital service modernization goals and is making progress to move services and application processes digital, consistent with digital best practices. The audit had three subobjectives:

- **Performance Measurement and Benefits Realization:** Assess how the Department tracks and reports on its progress related to digital service modernization.
- **Governance and Planning:** Assess the Department's governance and planning process related to the Department's strategy for digital transformation.
- **Progress of in-flight initiatives:** Assess the Department's in-flight initiatives to digitize paper-based forms and applications, and digital transformation initiatives to integrate business processes and program application steps into My VAC Account to improve efficiency and enable greater automation.

#### Scope

The Department has been working on modernizing its technology and services for many years. The scope of this audit covered departmental strategies, plans, initiatives and projects in place from November 2022 to July 2023. The audit team also reviewed past departmental plans and strategies dating back to 2015, as well as historical data of service delivery going back to 2019.

Although considered in the analysis, the audit did not focus on digital transformation activities related to the Department's IT infrastructure, including VAC data centres, networks, cloud migration, application portfolio, or efforts related to accessibility.

The findings and conclusions in this report are based on sufficient and appropriate audit evidence gathered in accordance with procedures that meet the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing as supported by the results of the quality assurance and improvement program.

The opinions expressed in this report are based on conditions as they existed at the time of the audit and apply only to the entity examined.

Additional information including the audit criteria and methodology are provided in Appendices B and C.

## 3.0 Audit results

### 3.1 Reporting of results from past digital strategies

#### Why it's important

Under the *Policy on Results*<sup>4</sup>, departments are expected to measure and evaluate their performance, using the resulting information to manage and improve programs, policies and services. Having a clear understanding of the results achieved from past digital strategies helps course correct and inform the development of future plans.

#### What we found

Since 2015, the Department has developed multi-year departmental strategies with linkages to digital and service improvement, including:

- Five-Year Strategic Plan (2015-2020)
- Delivering Service Excellence: A Review of Veterans Affairs Canada's Service Delivery Model (2016)
- VAC Digital Strategy (2017)

Although these plans outlined ambitious desired improvements in departmental practices, some of which have been achieved, the Department did not develop mechanisms to measure or report on the accomplishment of the goals set out in these strategies. As a result, the Department has not been able to report the organization's progress towards its digital or service modernization goals, or on the results of the activities pursued through these strategies and the benefits achieved.

The Department has a performance measurement framework which it uses to collect data and report on the progress from its services, programs, and departmental initiatives. This framework did not contain performance indicators related to digital service or the Department's digital goals, and the strategies mentioned above did not have specific performance measures to track results.

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<sup>4</sup> Treasury Board of Canada *Policy on Service and Digital*, 2019



## **Recommendation 1**

It is recommended that the Assistant Deputy Minister, Chief Financial Officer and Corporate Services develop a measurement and reporting process to document results of future Digital Strategies in consultation with the Director General, Strategic Planning, Results and Cabinet Business.

### **Management agrees with the recommendation.**

The VAC digital strategy will incorporate measurable criteria to track progress toward digital transformation. As the strategy will be reviewed annually, the criteria will be reviewed for relevancy and adjusted as required. Reporting against these criteria will be coordinated with the Strategic Policy, Planning and Performance team.

**Target date: April 2024**

## **3.2 Digital leadership**

### **Why it's important**

Under the *Policy on Service and Digital*, departments are responsible for establishing governance to ensure the integrated management of service, information, data, IT, and cyber security within their department. Clear accountabilities for digital strategies help ensure that departmental priorities and goals are accomplished.

### **What we found**

Digital transformation impacts all aspects of the organization and seeks to align business process change, service delivery, data, and supporting information technology to innovate and modernize the organization's ability to meet client needs. The audit team found that the Department did not have a single lead of digital transformation and departmental accountabilities for digital transformation were dispersed across multiple branches. This diffusion of accountability impeded the various branches in the Department from developing a cohesive and consistent strategy for data, service management, and information technology.

Digital transformations are most effectively led at an enterprise level with clear senior leadership to guide the organizational change. Within VAC, the Service Delivery branch is responsible for service management and data, and the Chief Financial Officer and Corporate Services Branch is responsible for IT and digital modernization. There is a strong linkage and some potential overlap among strategies for digital, service modernization, and data. These linkages have created a challenge with each group developing independent plans across the branches, as many of the planned activities would necessitate resource allocation and accountabilities from multiple branches.

## **Recommendation 2**

It is recommended that the Deputy Minister appoint a departmental lead for digital transformation with clear accountabilities to develop and implement the Department's Digital Strategy and to coordinate digital goals across branches.

### **Management agrees with the recommendation.**

VAC's Deputy Minister will appoint a Departmental Lead for Digital Transformation. This individual will have clear accountabilities to lead the coordination of the digital strategy, service strategy and data strategy in the pursuit of digital transformation goals across branches. The announcement of the appointment will be communicated to all staff by VAC's Deputy Minister.

**Target date: April 2024**

## **3.3 Digital strategy**

### **Why it's important**

A clear and comprehensive digital strategy is an essential tool for the Department to define its priorities, digital vision, and strategic goals. Having a clear strategy promotes accountability, helps define the desired service delivery results, and supports the alignment of investments in information technology needed to support the service delivery model.

### **What we found**

VAC did not have a comprehensive digital strategy to guide the Department's modernization, and has not fully defined the strategic vision, priorities, and departmental goals for digital transformation.

Since 2016 VAC has developed annual Departmental Plans which include goals for service and IT modernization. Although the Department has identified high-level goals for modernization, it has not developed detailed departmental priorities to guide a comprehensive plan for modernization.

In 2017 VAC's Chief Information Officer (CIO) developed a Digital Strategy that outlined improvements in service delivery, case management, and supporting technology. Although comprehensive at the time, the plan is no longer reflective of the organization's goals or activities. Since then, the Government of Canada introduced the *Policy on Service and Digital* requiring departments to submit annual 3-year plans to the Treasury Board of Canada Secretariat (TBS). VAC has completed these plans annually; however, these plans are not a substitute for a digital strategy and are not detailed or comprehensive enough to explain the Department's approach to digital transformation.

Comprehensive digital strategies require alignment of goals between service management, information technology, cybersecurity, and data. In 2019, VAC developed a departmental data strategy, however due to a lack of capacity and clear direction many of the actions in the strategy were not completed. In 2023 the Government of Canada released an updated [2023–2026 Data Strategy for the Federal Public Service](#)<sup>5</sup>. VAC has yet to plan an updated departmental data strategy.

### **Recommendation 3**

In line with recommendation 2, it is recommended that leadership for digital transformation develop an updated Digital Strategy and Data Strategy for the Department and conduct consultation across the Department in its development.

#### **Management agrees with the recommendation.**

The updated three year VAC Digital Strategy has been drafted and is in review. It has been developed in consultation with many groups across the organization with a particular focus on alignment with service and data strategies and in the context of the Government of Canada's Digital Ambition. Once the updated digital strategy and data strategy is completed, it will be published within the Department.

**Target date: August 2024**

### **3.4 Service modernization**

#### **Why it's important**

Service modernization and service excellence have been key departmental priorities in the Department's last strategic plan and multiple annual Departmental Plans. The Department's goals include reducing processing times, increasing the use of automation, and improving the Veteran experience. Under the *Policy on Service and Digital*, departments are responsible for ensuring the development and delivery of client-centric service by design and maximizing the online end-to-end availability of services and their ease of use for all service delivery channels.

#### **What we found**

VAC has a mature service delivery model and online channel through the use of My VAC Account, the Department's digital system for Veterans to apply for benefits, track their applications, and communicate through secure messaging with VAC employees. Since its introduction in 2005, the number of users of My VAC Account has been gradually increasing and the Department has made consistent investments into the system's capabilities. In 2023 the Department reported that 58 percent of its 28 Veteran

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<sup>5</sup> 2023–2026 Data Strategy for the Federal Public Service, Treasury Board of Canada Secretariat, 2023

facing services<sup>6</sup> can be completed online end-to-end from the client's perspective. Although this was the first year the Department measured this statistic, it is consistent with a trend towards greater digital enablement of VAC's programs and services.

Despite the positive trend in adoption of the online channel, telephone remains the primary method of Veterans contacting VAC and the Department receives approximately half its benefit applications from other service channels (mail, telephone, in-person). Although the Department tracked many details related to applications, the Department did not have a reliable and complete measurement process in place to accurately track the volume of applications by service channel. VAC has also not defined any targets or plans for the adoption of the online channel, either in terms of My VAC Account usership or for targeted volume of online applications. Although a service may be available online end-to-end, the majority of the processing, deliberation, and information management tasks behind the scenes continue to be paper-based and inefficient.

Digital transformation of service entails providing services to clients online, integrating paper-based information into digital data, and improving business processes to deliver the services more efficiently<sup>7</sup>. VAC needs to digitally transform most of its services or develop a clear and comprehensive strategy for service modernization. In 2020 the service delivery branch began developing a departmental service management strategy and completed a preliminary digital maturity assessment of the Department's services. It noted that the majority of program and service information is not digitized, and virtually all of VAC's services are reliant on manual back-end processes such as printing off, signing, scanning, and uploading paper forms. Although an initial draft was developed, VAC had not finalized its service management strategy or aligned it to other departmental strategies and activities.

Under the [Directive on Service and Digital](#), departments are responsible for periodically conducting service reviews to identify opportunities for improvement, and assess digital enablement, online uptake, efficiency, and client focus. Although VAC has embraced client-centric development efforts, the service delivery group has not conducted formal reviews of its services or developed a roadmap to complete them.

One of the Department's service modernization goals has been the digitization of benefit application documents and developing automated tools to support VAC operational employees in their work. Over the past year VAC has been working on development in this area for specific programs, such as the recent development of the Service Health Record Search Tool which enables the automated search of digitized records for hearing loss and tinnitus benefits. Although the Department is working in this

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<sup>6</sup> Examples of Veteran facing services include Career Transition Services, Health Care Costs & Support, and the Income Replacement Benefit.

<sup>7</sup> *Canada's Digital Ambition 2022*

area, there is no plan yet in place for the majority of VAC's programs and services, and the extent of digitization remaining in the Department has not been measured.

#### **Recommendation 4**

It is recommended that the Assistant Deputy Minister, Service Delivery:

- develop a process to accurately measure the volume of program and benefit applications by service channel, and develop targets for the adoption and use of the online channel.
- define a target digital end state per service, finalize the development of a departmental Service Management Strategy, and incorporate this Strategy into a newly developed Departmental Digital Strategy.
- develop a roadmap and process for conducting periodic service reviews in keeping with requirements under the *Directive on Service and Digital*.

#### **Management agrees with the recommendation.**

Service Delivery will develop and finalize the Departmental Service Management Strategy in alignment with the Government of Canada digital vision and in compliance with the Policy on Service and Digital. The Service Management Strategy will provide the vision for client-centric service delivery. It will identify the existing gaps and include recommendations to lay the foundation for digital transformation as it relates to service delivery and digital end states per service at Veterans Affairs Canada. Using the Service Management Strategy, a Service Management Operational and Implementation Plan will be developed to establish processes and targets for enhanced service reviews and real-time performance reporting. The Service Management Strategy will be aligned with a newly developed Digital Strategy, if and where applicable.

**Target** date: September 2025

### **3.5 Audit opinion**

Based on the findings VAC has undertaken several initiatives to modernize its capacity for digital service delivery, however the Department has not fully articulated its digital vision and does not have a comprehensive digital transformation strategy. Progress on developing a comprehensive Digital Strategy has been hindered by lack of a clear lead for the Department's digital transformation. The Department has made progress in developing an online single window for Veterans to access programs and services, however additional work is required to define the Department's goals and targets for digital service delivery.

## Appendix A - Risk ranking of recommendations

Recommendation	Risk Ranking
<p><b>Recommendation 1</b></p> <p>It is recommended that the Assistant Deputy Minister, Chief Financial Officer and Corporate Services develop a measurement and reporting process to document results of future Digital Strategies in consultation with the Director General, Strategic Planning, Results and Cabinet Business.</p>	<p><b>Important</b></p>
<p><b>Recommendation 2</b></p> <p>It is recommended that the Deputy Minister appoint a departmental lead for digital transformation with clear accountabilities to lead the development and execution of the Department's Digital Strategy and coordinate the pursuit of digital goals across branches.</p>	<p><b>Critical</b></p>
<p><b>Recommendation 3</b></p> <p>In line with recommendation 2, it is recommended that leadership for digital transformation develop an updated Digital Strategy and Data Strategy for the Department and conduct fulsome consultation across the Department in its development.</p>	<p><b>Critical</b></p>
<p><b>Recommendation 4</b></p> <p>It is recommended that the Assistant Deputy Minister, Service Delivery:</p> <ul style="list-style-type: none"> <li>• develop a process to accurately measure the volume of program and benefit applications by service channel, and develop targets for the adoption and use of the online channel.</li> <li>• define a target digital end state per service, finalize the development of a departmental Service Management Strategy, and incorporate this updated strategy into a newly developed Digital Strategy.</li> <li>• develop a roadmap and process for conducting periodic service reviews in keeping with</li> </ul>	<p><b>Essential</b></p>

Recommendation	Risk Ranking
requirements under the Directive on Service and Digital.	
<p><b>Critical:</b> <i>Relates to one or more significant weaknesses for which no adequate compensating controls exist. The weakness results in a high level of risk.</i></p> <p><b>Essential:</b> <i>Relates to one or more significant weaknesses for which no adequate compensating controls exist. The weakness results in a moderate level of risk.</i></p> <p><b>Important:</b> <i>Relates to one or more significant weaknesses for which no adequate compensating controls exist. The weakness results in a low level of risk.</i></p>	

## Appendix B - Audit criteria

Objective	Criteria (source)
1. Performance Measurement and Benefits Realisation	A. The Department has measured and reported benefits realized to date related to digital service modernization.
	B. Progress to modernize and digitally transform services is tracked and reported on an ongoing basis.
2. Governance and Planning	A. Clear Departmental strategies and plans for digital service modernization are documented and approved.
	B. Governance, roles, and responsibilities for digital service modernization are clearly defined.
	C. Service modernization plans are aligned with IT capacity to support the digital transformation.
3. Progress of in-flight Initiatives	A. The current state and digital modernization objectives of each of VAC's services is documented.
	B. Service modernization initiatives are prioritized, resourced, and approved.
	C. Development activities are managed, monitored, and proceeding as planned.

\* The audit team confirmed that all of the above criteria were met unless otherwise stated in this audit report.



## Appendix C – Methodology

The audit findings and conclusions contained in this report are based on sufficient and appropriate audit evidence gathered in accordance with procedures that meet the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing as supported by the results of the quality assurance and improvement program. The opinions expressed in this report are based on conditions as they existed at the time of the audit and apply only to the entity examined.

Methodology	Purpose
Interviews	<p>Interviews with Chief Financial Officer and Corporate Services Branch to understand digital planning to support service modernization initiatives. Interviews to focused on management and employees involved in IT planning.</p> <p>Interviews with Service Delivery Branch to understand current plans and status of service modernization initiatives and My VAC Account adoption. Interviews with selected project teams to understand status of modernization initiatives.</p> <p>Interviews with Strategic Policy, Planning and Performance Branch management to understand performance measurement and reporting of departmental progress on corporate objectives related to service and digital modernization.</p>
Documentation Review	<p>Review of documentation related to performance measurement, departmental planning, service and IT planning, and project activities to support service modernization.</p>