

MEDIA RELEASE**21 February 2020****Shared Services Delivery of HR and Finance Services**

Auditor-General, Mr Michael Harris, today presented a report on **Shared Services Delivery of HR and Finance Services** to the Speaker for tabling in the ACT Legislative Assembly.

Mr Harris says ‘Governance and oversight arrangements of Shared Services’ delivery of HR and finance services to ACT Government directorates and agencies have not been effective.’

‘A *Services Partnership Agreement* that had been in use for some years between directorates and Shared Services was discontinued in 2016. The reasons for this decision are not clear and no replacement agreement between Shared Services and directorates has been documented since that time for what is essentially a purchaser-provider relationship’.

The audit found that Customer Council was not operating effectively. Not all meetings proceeded as planned and council members were often absent or sent lower level proxies in their place. A new Quality and Measurement Advisory Committee was established in July 2019 to replace Customer Council and this committee is expected to address shortcomings that were associated with the council. It has commenced some positive initiatives in a comparatively short period of operation.

Mr Harris says, ‘Shared Services’ performance in delivering HR and finance services is assessed through key performance indicators, customer satisfaction surveys and benchmarking exercises. The Quality and Measurement Advisory Committee has improved the quality of Shared Services’ performance indicators. Customer satisfaction surveys have shown an increase in satisfaction with finance services between 2018 and 2019. However, there has been continuing decline in satisfaction with HR services since 2015 and the most recent benchmarking exercise did not provide sound and useful information on Shared Services’ performance.’

The audit found considerable attention needs to be given towards improving the methodology and reporting processes for future benchmarking exercises.

The summary of the **Shared Services Delivery of HR and Finance Services** audit, with audit conclusions, key findings and three recommendations are attached to this media release.

Copies of **Shared Services Delivery of HR and Finance Services: Report No. 01/2020** are available from the ACT Audit Office’s website www.audit.act.gov.au . If you need assistance accessing the report please phone 6207 0833 or go to 11 Moore Street, Canberra City.

SUMMARY

Conclusions

GOVERNANCE ARRANGEMENTS FOR THE DELIVERY OF SERVICES

Governance arrangements for the oversight of Shared Services' delivery of HR and finance services to ACT Government directorates and agencies have not been effective. While a range of governance mechanisms have been put in place over a period of years, these were not consistently applied or effective in their implementation.

A Services Partnership Agreement developed and agreed in October 2013 between Shared Services and the Strategic Board provided a basic framework for the delivery of HR and finance services. It documented governance and accountability arrangements, monitoring and reporting arrangements and processes for the setting and review of pricing. A key feature was that it articulated and documented a service catalogue for all of the shared services, which provided a sound basis on which to understand processes and responsibilities and set service level expectations and prices. The Services Partnership Agreement was discontinued in May 2016 without sufficient explanation, and in its absence there has been no similar mechanism for what is essentially a purchaser-provider relationship between directorates and agencies and Shared Services.

A series of governance and oversight bodies were also established, which were expected to have a key role in the governance and oversight of Shared Services and its delivery of HR and finance services to ACT Government agencies. The Customer Council, which was the main forum for Shared Services' accountability, was not operating effectively as a governance and oversight mechanism since the discontinuation of the Services Partnership Agreement. The Finance Collaboration Forum and HR Collaboration Forum were effective forums for Shared Services and directorates and agencies to discuss service initiatives and issues associated with servicedelivery.

In July 2019 the Quality and Measurement Advisory Committee was established to replace the Customer Council. Arrangements put in place for the establishment and administration of the committee are expected to address shortcomings that were associated with the Customer Council. In its comparatively short period of operation the committee has commenced some positive initiatives including documenting process maps to assist in identifying roles and responsibilities between Shared Services and directorates and agencies for HR and finance services and reviewing and revising key performance indicators for Shared Services' delivery of services.

SERVICE DELIVERY

Shared Services' performance is primarily reviewed and appraised through the Customer Council's (Quality and Measurement Advisory Committee) consideration and review of key performance indicators, annual customer satisfaction surveys and benchmarking reviews.

Key performance indicators have been documented for the delivery of HR and finance services since the establishment of the Services Partnership Agreement in 2013. The key performance indicators have been changed and amended over time and, since October 2019, have had a greater focus on Shared Services' processes and its performance with respect to timeliness, quality, customer satisfaction and value for money. The revised key performance indicators are expected to provide a greater opportunity for directorates and agencies to obtain assurance of Shared Services' service delivery performance.

The annual customer satisfaction survey provides useful information on Shared Services' performance from the perspective of users. Results from the customer satisfaction survey have been discussed in various governance and oversight forums and are expected to have greater visibility through the recently revised key performance indicators. Recent customer satisfaction surveys have shown mixed results including a continuing decline in satisfaction with HR services (since 2015) and an increase in satisfaction with finance services between 2018 and 2019.

The most recent exercise to benchmark Shared Services' performance, conducted in 2018 and reported in January 2019, does not provide sound and useful information on Shared Services' performance. The methodology to perform the benchmarking exercise did not have sufficient oversight and involvement from directorates and agencies and the relevance of the organisations against which Shared Services was benchmarked was not clear. Many of the measures against which Shared Services is benchmarked are not relevant and the reporting of results does not give an accurate view of its performance. Considerable attention needs to be given towards developing a robust methodology and reporting processes for future benchmarking exercises.

Key Findings

GOVERNANCE ARRANGEMENTS FOR THE DELIVERY OF SERVICES

Paragraph

The Services Partnership Agreement, a memorandum of understanding between Shared Services and the ACT Government Strategic Board (representing all directorates), was developed and agreed in October 2013. It was a sound mechanism for documenting the governance and accountability arrangements for human resources and finance service delivery, monitoring and reporting activities, and processes for the setting and review of pricing. A key feature of the Services Partnership Agreement was the articulation and documentation of a service catalogue for all of the shared services. The Agreement was an improvement on previous service level agreements that were developed between Shared Services and individual directorates and agencies on an annual basis. A November 2010 post-implementation review of Shared Services noted that these 'existing [service level agreements] are not generally agreed by agencies, or agreed very late in the budget cycle'.

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In May 2016 the Customer Council decided that ‘a partnership agreement is no longer required to move forward during the mature phase of governance’ and the Services Partnership Agreement was ceased. There was no supporting documentation or information to explain why Customer Council had come to this conclusion and made this decision. The possibility of developing a revised Services Partnership Agreement has since been raised at subsequent Customer Council meetings. To date a revised Services Partnership Agreement has not been developed. In the absence of a Services Partnership Agreement (or similar document), there is no mechanism in place between directorates and agencies and Shared Services that provides a basic framework for what is essentially a purchaser- provider relationship.

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Under the auspice of the Services Partnership Agreement (2013) three groups or forums have had a key role with respect to the governance and oversight of Shared Services and its delivery of services to ACT Government agencies: the ACT Public Service Strategic Board (as the Shared Services Governing Committee); the Customer Council; and collaboration forums. The establishment of these groups provided a sound basis for the oversight of Shared Services’ delivery of human resource and finance services to ACT Government agencies and provided a mix of opportunities for the oversight of Shared Services and its activities, ranging from the strategic to the operational.

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In May 2016 the Strategic Board endorsed revised governance arrangements for the oversight of Shared Services and its delivery of services to ACT Government directorates and agencies. The Services Partnership Agreement was replaced with revised and strengthened roles and responsibilities for the Customer Council and the collaboration forums, which were documented in each body’s terms of reference. According to the Strategic Board paper that proposed the revised governance arrangements, ‘the existing [Services Partnership Agreement] arrangement is replaced by updated Terms of Reference for the Customer Council and each of the collaboration forums’. The revised terms of reference for the Customer Council made more explicit its role for the strategic direction and oversight of Shared Services as it was explicitly tasked with ‘supporting Strategic Board to provide whole of government leadership and strategic direction’.

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The Customer Council was not operating effectively as a governance and oversight mechanism for Shared Services’ delivery of human resources and finance services to ACT Government agencies. Between 2016 and 2018 not all meetings proceeded as planned and members from directorates were often absent or sent lower level proxies in their place. On repeated occasions items requested by the Chair of Customer Council or other forum members and other actions were not prepared, not tabled or were closed with inadequate or no explanation. A review of Customer

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Council meeting minutes also shows mixed results in terms of its discharge of its responsibilities. The Customer Council's efforts could be seen in some cases, such as monitoring collaboration forum activities, but it did not provide strong leadership and direction for reviewing Shared Services' strategic direction. While it was able to effectively debate and influence some activities, such as cross-agency debt management arrangements, for other activities it was an information sharing forum and not a decision-making body. Throughout the period under review, questions were repeatedly raised on the effectiveness of Customer Council. While the HR and Finance collaboration forums were able to establish annual work plans, the Customer Council had difficulty with clearly expressing its future plans for service delivery improvement while questions over its effectiveness remained.

The Finance Collaboration Forum and HR Collaboration Forum (and other project-specific forums) were effective forums for Shared Services and directorates and agencies to discuss service initiatives and issues associated with service delivery. The forums developed annual work plans, which listed specific tasks and projects which the forum was expected to discuss, action and report on progress to the Customer Council. Collaboration forum progress against each of their objectives was generally well demonstrated, particularly in the earlier periods reviewed. In 2016, the HR Collaboration Forum reported project plans for each of its priority projects to Customer Council and both collaboration forums reported action plans during 2016 and 2017 which demonstrated ongoing progress in a structured format. Minutes of these forums in 2018 confirmed the collaboration forums were progressing their agendas on key projects and working across forums on relevant activities.

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In July 2019 the Customer Council was replaced by the Quality and Measurement Advisory Committee. The Committee's terms of reference are simpler, when compared to the terms of reference developed for the Customer Council in 2016, and explicitly focused on its role in overseeing the performance of Shared Services, specifically with respect to quality and timeliness of services, in meeting customer expectations and providing value for money services, and proposing and endorsing strategic initiatives. The committee is expected to have high-level representation, having its Chair and Deputy Chair roles filled at the Director-General level, and clearer rules associated with representation at the meeting by proxies. Since its establishment in July 2019 the committee has met four times and there is evidence of its activities to improve Shared Services' accountability and service delivery arrangements. The present governance arrangements for Shared Services introduce dual accountabilities that are a hybrid of purchaser-provider and appropriated agency approaches that are not featured in other ACT Government appropriated agencies.

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The roles and responsibilities of Shared Services and directorates and agencies were documented as part of a service catalogue for the purpose of the Services Partnership Agreement in 2013. The service catalogue sought to identify responsibility for different parts of the service activity, i.e. whether responsibility lay with Shared Services or directorates/agencies. When the Services Partnership Agreement ceased in 2016 the Customer Council was responsible for maintaining the service catalogue and the description of shared services activities. It is not clear what action the Customer Council took in relation to this requirement as there is no evidence that the documents were updated or reviewed. In July 2019, however, the Quality and Measurement Advisory Committee requested Shared Services develop

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process maps for its services. A review of the roles and responsibilities documents, and follow up discussions with Shared Services and directorates/agencies selected for the audit, suggest that the roles and responsibilities documents did not reflect the current interactions and responsibilities of each party, particularly for more complex services such as financial statements, taxation and recruitment activities.

At its first meeting on 1 July 2019, the Quality and Measurement Advisory Committee discussed key performance indicators for Shared Services' activities. In doing so the committee also discussed the development of process maps to assist in identifying roles and responsibilities between Shared Services and directorates/agencies. Shared Services has since prepared a Draft Services Catalogue for HR, finance, records management and related customer support functions. According to the Draft Services Catalogue (August 2019) 'the document includes workflows and information regarding roles and responsibilities for each service'. The draft catalogue articulated and documented a range of information including: a description of the function and services; roles and responsibilities for the service activities (assigned to either directorates/agencies or Shared Services); a description of factors influencing service delivery; and a series of workflow process maps for key activities covered by the services. The *Draft Services Catalogue* (August 2019), once agreed with relevant directorates and agencies, is expected to provide a sound basis for the ongoing management and accountability of Shared Services' delivery of services as originally intended by the Services Partnership Agreement.

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SERVICE DELIVERY

Paragraph

Shared Services has developed a sound framework for the delivery of transactional HR and finance services to ACT Government directorates and agencies. This includes the *Shared Services Customer Service Charter*, policy and procedural guidance for its Service Desk staff and training and support processes for its Service Desk staff, including quality assurance processes. More complex HR and finance activities are also supported by specialist HR, finance and recruitment teams in Shared Services, specifically to assist directorates and agencies' strategic HR and finance teams. Feedback from representatives of some directorates and agencies suggested that processes for escalating and resolving issues with more complex services were not clear and were inconsistently applied.

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Shared Services has a strategic risk register to document the controls and mitigation strategies that it uses to manage the risks to achieving its organisational objectives. The risks are documented at a high-level, and the risk description includes a range of activities and business processes that may affect or contribute to the risk, or be a control or mitigating factor for the risk. These descriptions are light in detail in terms of their influence on the risk and some of the processes and activities that were identified to treat risks were not yet implemented. The risks identified in the strategic risk register for Shared Services are not allocated to an individual risk owner, nor are the risk controls or actions identified in the treatment plans. In relation to operational risks Shared Services has a Shared Services Finance risk register (marked as draft and dated March 2016) and a Shared Services HR risk register (appears to have been last updated and signed off in July 2016). The

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connection between the business unit or branch level risk plans and the strategic risk register in Shared Services was not clear. Business unit level risk management plans were not being used to track risk management activities by the managers of these functions.

Key performance indicators for Shared Services' delivery of services were developed and implemented as part of the Services Partnership Agreement in 2013. 'Shared key performance indicators' were developed, which were intended to be a shared responsibility between Shared Services and directorates and agencies. 'Cascading key performance indicators' were also developed, which were only examined if the shared key performance indicators were not met. Fifty-seven shared and cascading key performance indicators were developed for the finance services and 19 shared and cascading indicators were developed for the HR services. The large number of key performance indicators in the Services Partnership Agreement and the shared nature of the key performance indicators made it difficult for Customer Council to keep Shared Services accountable for its performance in HR and finance service delivery. The shared indicators diluted accountability and responsibility for Shared Services' performance.

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With the cessation of the Services Partnership Agreement in 2016, a significantly reduced set of key performance indicators was subsequently adopted and reported to Customer Council. These indicators were reviewed and revised on a number of occasions by the collaboration forums and the Customer Council. An Audit Office review of the key performance indicators for finance services and HR services as at May 2019 shows:

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- the key performance indicators did not consistently consider service quality and did not sufficiently address customer satisfaction;
- the key performance indicators did not cover all elements of Shared Services business in relation to customer engagement and satisfaction;
- there were no key performance indicators that measured progress against strategic priorities and measures, and implementation of strategic directions; and
- there was a lack of alignment between the Shared Services strategic direction and major activities and projects and the key performance indicators for HR and performance services.

A key priority of the Quality Measurement and Advisory Committee on its commencement in July 2019 was to review and agree on revised key performance indicators for Shared Services and its delivery of services. The minutes of its first meeting on 1 July 2019 indicated that directorates and agencies were of the view that the key performance indicators were not relevant to the services provided. The Quality and Measurement Advisory Committee requested that the new indicators focus on: Timeliness, Quality, Customer satisfaction and Value for money. An Audit Office review of key performance indicators for finance services and HR services as at October 2019 shows:

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- improvements have been made to the completeness of reported service measures with recruitment services now including all key stages of the process; and
- performance measures focus on activities that are within Shared Services' responsibility. This focuses the Quality and Measurement Advisory Committee on its responsibility to oversight Shared Services' performance. Measures are still available and reported on directorate and agency performance for activities within their responsibility.

The Chief Minister, Treasury and Economic Development Directorate conducts an annual customer satisfaction survey among ACT Public Service staff 'to assess the degree of satisfaction with Shared Services'. Satisfaction with HR services has been steadily declining since 2015, with an overall satisfaction rate for 2019 of 67 percent down from 70 percent in 2015. Changes to the methodology for reporting satisfaction with finance services makes a similar comparison difficult. However, it is apparent that the overall satisfaction rate for different finance services have increased between 2018 and 2019 (Accounts Receivable 63 percent to 73 percent, accounts payable 66 percent to 72 percent and the Accounts Payable Invoice Automation Service activity from 40 percent to 56 percent). The low results for the Accounts Payable Invoice Automation Service relates to significant shortcomings associated with its implementation by Shared Services in change management and communication with users, with comments from directorates and agencies noting issues with the lack of training, data accuracy, timeliness of processing, difficulty of using the system and lack of communication. The identification and reporting of key performance indicators associated with customer satisfaction to the Quality and Measurement Advisory Committee since October 2019 is expected to provide a means by which the performance of Shared Services can be reviewed and discussed in an effort to identify service delivery issues and potential improvements.

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Periodic benchmarking exercises of Shared Services' human resources and finance services are relied on to demonstrate Shared Services' efficiency. The reported results of the 2018 benchmarking review do not provide a sound basis for assessing the efficiency of Shared Services:

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- benchmarking results are presented with reference to the 'Global Public Sector Percentile', i.e. a 'Global Public Sector Peer Group' comprising 290 entities. Presenting the benchmarking results against the Global Public Sector Peer Group weakens the value of the benchmarking exercise as it impairs the direct comparability of ACT results;
- further benchmarking is reported to be performed with reference to an 'Australian and Canadian Public Sector Peer Group' of 31 organisations which purports 'to provide high level of comparability to Australian Public Sector Organisations'. The organisations are varied and diverse in nature and include a mix of Australian Government agencies and their business units, Australian state and territory government agencies and a range of municipal, provincial and federal Canadian agencies and other entities which do not appear to be relevant or for which it is unclear what entity is being considered. Less than half of the HR measures and finance measures are reported against entities selected from this pool. There is no further information in the report with respect to which of the 31 agencies were selected for benchmarking for the different measures. This does not allow for transparency in the benchmarking exercise;
- most benchmarking results are presented against an 'Adjusted Global Public Sector Quartile', which purports to reflect the scope of services of Shared Services with respect to directorates and agencies. The proportion of responsibility between Shared Services and the directorates and agencies was estimated by Shared Services and was not discussed and agreed with directorates and agencies. It would be appropriate given the role of directorates and agencies in jointly delivering human resources and finance services to involve them in this process;
- in reporting the benchmarking results against an 'Adjusted Global Public Sector Quartile', performance is reported as follows (outperforming – top 25 percent (i.e. top quartile), aligned – 25 to 75 percent (i.e. middle two quartiles) and underperforming – bottom 25 percent (i.e. bottom quartile). Using this scale a measure may be identified as 'aligned' but be below average;
- a number of measures against which Shared Services is benchmarked for the purpose of this exercise do not relate to the performance of Shared Services and its delivery of services to ACT Government agencies, e.g. percentage of new hire retention after 12 months. The inclusion of these measures in the report is not useful to the reported performance of Shared Services and its activities;

- half of the HR and finance measures used for benchmarking are ACT Government revenue based, e.g. ‘number of HR FTEs per \$1 billion revenue’ or ‘total HR cost per \$1,000 revenue’ and are based on total Territory revenue of \$4.5 billion. The relevance of revenue-based measures is questionable as the link between the magnitude of revenue and its impact and relevance to Shared Services and its activities is weak. More relevant measures would be based on the number of creditors or debtors within the scope of Shared Services’ activities or the number of invoices processed;
- no benchmarking comparisons are made with commercial providers despite intentions indicated in Chief Minister, Treasury and Economic Development Directorate planning documents. The applicability and reasons for differences in results would need to be analysed to satisfy competitive neutrality requirements.

The Customer Council was briefed on the results of the benchmarking review at its meeting of 10 May 2019 and the minutes record ‘The Council noted the papers as read’. The meeting minutes record that there were eleven apologies for the meeting from directorates and agencies and eight attendees at the meeting; five attendees from Shared Services and three attendees from directorates and agencies (two of these attendees were proxies). The results of the benchmarking review are reported through an Accountability Indicator ‘% of measures in line or exceeding benchmark peer group’, with an associated target of 80 percent. Aside from this, there is no further documentation with respect to the benchmarking review, its results, how it will be reviewed or further analysed to drive performance improvements.

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Recommendations

RECOMMENDATION 1 SERVICES AGREEMENT

Shared Services, in cooperation with directorates and agencies and under the auspice of the Quality and Measurement Advisory Committee, should develop and agree a services agreement (or similar document) with directorates and agencies which:

- a) identifies and documents respective roles and responsibilities;
- b) documents mechanisms that govern service delivery and assurance;
- c) performance management arrangements; and
- d) how often the agreement will be reviewed.

The recently developed Draft Services Catalogue (August 2019) commissioned by the Quality and Measurement Advisory Committee could serve as a foundation for the agreement.

RECOMMENDATION 2 DELIVERY OF COMPLEX SERVICES

In conjunction with Recommendation 1, Shared Services should agree and document with directorates and agencies how strategic human resources and finance teams:

- a) access Shared Services' more complex services; and
- b) escalate and resolve complex service delivery issues.

RECOMMENDATION 3 RISK MANAGEMENT

Shared Services should improve its risk management activities to ensure:

- a) risk assessments are comprehensive and accurate;
- b) treatments effectively address the risk and are assigned to a specific responsible individual or position;
- c) strategic and operational risk registers are clearly linked; and
- d) managers at all levels of the organisation can clearly understand the risk treatments they are responsible for and are able to evidence their risk management activity.

RECOMMENDATION 4 BENCHMARKING REVIEWS

Shared Services, in cooperation with directorates and agencies through the Quality and Measurement Advisory Committee, should develop and agree an approach to benchmarking of its services that:

- a) uses measures that are directly relevant and focused on Shared Services, its activities and accountabilities;
- b) provides transparency in the nature of organisations and activities against which it is benchmarked; and
- c) makes qualified comparisons with commercial entities.

Agencies responses

In accordance with the requirements of the *Auditor-General Act 1996*, the Chief Minister, Treasury and Economic Development Directorate, ACT Health Directorate, Education Directorate, the Emergency Services Agency within the Justice and Community Safety Directorate and the Long Service Leave Agency were provided with:

- a draft proposed report for comment. All comments were considered and required changes were reflected in the final proposed report; and
- a final proposed report for further comment. As part of this process, recipients were offered the opportunity to provide a statement for inclusion in the final report in the Summary chapter.

No comments were provided for inclusion in this Summary chapter.