

**STANDING COMMITTEE ON  
ESTIMATES AND FINANCIAL OPERATIONS**

**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
MONDAY, 18 JUNE 2007**

**Members**

**Hon Giz Watson (Chairperson)  
Hon Ken Travers (Deputy Chairman)  
Hon Anthony Fels  
Hon Nigel Hallett  
Hon Sheila Mills**

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**Hearing commence at 3.00 pm****MURPHY, MR COLIN****Auditor General,****Office of the Auditor General, examined:****BARKER, MRS LINDA****Acting Director,****Performance Review,****Office of the Auditor General, examined:**

**The CHAIRPERSON:** First of all, congratulations on your appointment.

**Mr Murphy:** Thank you very much.

**The CHAIRPERSON:** On behalf of the committee, I welcome you to the hearing this afternoon. You will have signed a document entitled "Information for Witnesses." Have you read and understood that document?

**The Witnesses:** Yes.

**The CHAIRPERSON:** These proceedings are being reported by Hansard. A transcript of your evidence will be provided to you. To assist the committee and Hansard, please quote the full title of any document you refer to during the course of this hearing for the record, and please be aware of the microphones and try to speak into them. I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in closed session. If the committee grants your request, any public and media in attendance will be excluded from the hearing. Please note that until such time as the transcript of your public evidence is finalised, it should not be made public. I advise you that premature publication or disclosure of public evidence may constitute a contempt of Parliament and may mean that the material published or disclosed is not subject to parliamentary privilege.

Thank you for coming this afternoon. The committee would like to hear from you about your latest report. If you would not mind giving us some opening statements, we might have some questions.

**Mr Murphy:** Thank you. I am happy to do that. I introduce my colleague, Linda Barker, who has been involved in the preparation of this report.

I am happy to make some introductory comments about the project. Firstly, as it says in the commencement of the report, we support the notion of government looking to obtain efficiencies and economies through shared services. However, this particular project, as we have said in the report, is certainly in trouble. It is some two years behind schedule and \$76 million above budget. To date they certainly have not been able to overcome technical difficulties, particularly with the payroll element of the system.

We had to make a decision as to whether we would conduct an examination of this project and, if so, at what time. We did feel that if we did an examination at the end of the project, it would be of limited value in helping the project to move forward. We conducted a preliminary examination to see if there were any lessons to be learnt and recommendations for going forward. We were convinced that we could add some value by reporting mid-term on the project, and we have done

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so. The reasons for doing an examination mid-term were, firstly, to clarify what the current situation is because I think there has been quite a bit of conjecture about costs and the current status of the project; secondly, to see if there were any lessons that could be learnt - we certainly believe there are lessons to be learnt from the project; and, thirdly, to make recommendations that we hope will be helpful for the project moving forward.

Perhaps you would like me to go a little bit further into some of the key elements of the findings. Firstly, we felt that there is no doubt that the project itself was ambitious. It is a high-risk project that involves using software that has never been used in the Western Australian public sector, and what we term a "big bang" implementation process of taking agencies away from their existing systems and moving them on to brand-new systems that they have not used before. It involved a major change to a significant number of agencies. Such a high-risk, major change project would require very tight governance and project management. Our findings were that, instead of this, the governance arrangements from the outset - from the start of the project - were inadequate. There was a whole-of-government steering committee put in place in addition to the line management responsibilities that the people in charge of the project had. Both were given accountability for the project. Rather than enhancing accountability and project management, we believe these arrangements actually blurred the lines of accountability so that there was not clarity for who was responsible. There is some evidence that in the early stages of this project there were delays in actually taking action or reporting difficulties. They contributed to delays in actually addressing the issues and problems that have appeared.

The system itself relies on delivering an integrated solution for agencies. The three core elements are finance, procurement and payroll. It is very important, in the delivery of the overall benefits and efficiencies, that that integrated solution be delivered. To date the project has been able to deliver only two out of three. They have finance and procurement working but, at this stage, the payroll component of the Oracle suite is not working and has not been able to deliver the intended benefits. That remains a major obstacle to achieving the intended benefits of the project. Difficulties with that particular software were identified as a key element. Difficulties attracting and retaining appropriately skilled staff, both contract staff and agency staff, were identified as another issue. A third issue was inadequate project management expertise and skills.

Perhaps going forward, our key recommendations are that a number of short-term fixes have been put in place to get around the problems that have been experienced. Our key recommendations relate to the fact that those short-term solutions should not be allowed to become permanent otherwise the benefits and efficiencies that are sought will not be achieved. The other main recommendations relate to transparency: transparency of reporting around cost and performance. There have been difficulties in people getting a clear picture of exactly what the costs of the project have been. We have encouraged government to be transparent about these going forward. That is probably a lengthy introduction and overview, but I am happy to either run through a presentation or, alternatively, just take questions.

[3.10 pm]

**The CHAIRPERSON:** The presentation would be good.

**Mr Murphy:** I will run through that fairly quickly. In terms of what we examined, we looked at the whole-of-government reform, not just the Office of Shared Services, which is only one of three shared services centres. There was a focus on government agencies. We looked at the agencies themselves, not individuals, not ministers and certainly not contractor performance. We did not look at the performance of the contractors involved. We looked at implementation up to the end of April. We looked at the effectiveness of governance arrangements and the cost of implementation. That is the scope of our examination.

The government-endorsed reform model - this is in the report itself and I will not talk to it in any detail given the size - really does look at the existing arrangements with agency-based services in

2003. The centre is about the plan to consolidate those individual agency arrangements. On the right-hand side of the slide is the expected benefits that will arise from putting that changed arrangement in place. There are three shared services centres. The Health Corporate Network looks after health portfolio agencies; that is, the Department of Health, metropolitan health services and country health services. The second one is the Education and Training Shared Service Centre, which takes in the Department of Education and Training, schools and TAFE colleges. The third one is the Office of Shared Services, which picks up the remaining agencies. There are approximately 90 of those general agencies. They are all fairly large. Even though health and education are departmentally based, they are both very large in their own right by the time you take in all those hospitals, schools and TAFE colleges.

We found that implementation was more than two years behind schedule, and, to date, only two of the three components of the integrated system have been established - finance and procurement. The next slide shows how finance, HR and payroll, and procurement are the three elements of the integrated system. By having those systems integrated, the benefits are cost savings, economies, better services and flexibility. What is missing at the moment is that payroll component. We have only two out of three. As a consequence of delays in delivering the third element, one estimate is that the cost of delays is in the order of \$400 000 a month at the Office of Shared Services alone, and those inefficiencies include split roll-ins to OSS - instead of rolling in completely, it is rolling in just the finance element, not the human resource. The Health Corporate Network is running multiple instances of its HR systems and is manually handling large volumes of paperwork. Although health is up and running, there are lots of inefficiencies in what it is doing. The Education and Training Shared Service Centre is proposing to enhance its existing system because it obviously cannot use the whole-of-government system. We can understand why these temporary solutions have been used to date, but if they become permanent, the benefits will be either watered down or lost. The temporary solutions obviously have not been based on any analysis of cost and benefits; they have simply been done because they had to do them.

It is not all bad news. Some aspects of shared services have been implemented successfully. Obviously, we have the finance and procurement elements running, and health and education have substantially met their time lines. The costs have been greater and the efficiencies are yet to be fully delivered, but they have essentially met their implementation schedules in their own business plans.

**Hon KEN TRAVERS:** Does that include for payroll and HR, or just for the procurement?

**Mr Murphy:** No. They do not have the whole-of-government procurement solution; they are running with their existing payroll and they have rolled in the finance elements, so there are inefficiencies in that. There are contributing factors. As I said in the introduction, the shared services model was ambitious and high risk, but the governance arrangements were inadequate. A whole-of-government steering committee was put together for a number of reasons and one of them was to provide good agency consultation, which it did. It was very effective in getting the agencies on board and having that consultation. However, the evidence suggests that that committee did not provide good oversight and governance of the project. This model simply lists the elements of high-risk ICT projects on the left, and that is in the report as well, and whole-of-government change management on the right. In comparing the elements of a high-risk project with the shared services model, you will see all these components are present. It should be fairly obvious that this was a high-risk project from the outset. I will leave you to go through those.

As this model shows - there are a couple of diagrams in the report itself - there was cross-agency consultation. This shows the different shared services centre. In addition to its normal management reporting, it reported up to a client management council. The client management council reported to a whole-of-government steering committee, and that committee reported to the strategic management council, which is good for consultation because there was a lot of effective

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consultation that went on. However, in setting up that whole-of-government steering committee, the committee was actually given accountability, and that accountability sat alongside the existing accountabilities that people heading up those shared services had. In my view, that blurred accountability rather than enhanced it. In addition to the governance problem, other contributing factors are listed here. Weaknesses in project management certainly led to time blow-outs and increased the uncertainty for agencies. There were increasingly complex software development requirements. This is specifically referring to HR and payroll. The software had not been used by any Western Australian government public sector agencies in the past, so it was new to them. There are a number of awards in 90 government agencies. One agency had a dozen awards individually, so the complexities of a large number of agencies and a large number of awards, together with software that had not been used before, proved to be a huge difficulty. The final one, which is certainly common to a number of areas of endeavours these days, is a high turnover of key contract staff and skill shortages within agencies. There is a lot of evidence in the project. Some areas have had 10 different heads to individual components over a period, and that has contributed to the difficulties and delays as well.

I now move on to the cost. We have determined that the cost of the project to date is \$198 million, and this is \$20 million more than was reported to Parliament. If I flip over to the table that appears in the report, it shows that the cabinet decision of December 2003 suggested that the reform would cost \$82 million. It did also flag that that did not involve setting up a shared services office, as is now in place at Cannington. In terms of setting up OSS, that is \$27 million on top of that. There are additional modules and additional costs that took the total cost of the project up to \$142 million prior to November 2006. Some of that funding was described in the papers that we reviewed as offset funding against projected savings, so it was not included in a report that the Treasurer made to Parliament. It is \$20 million. That amount, we believe, does need to be included in the total cost of the project.

[3.20 pm]

Our costings prior to November 2006 are \$142 million. The Treasurer announced additional funding, due to delays in November 2006, of \$56 million, which takes the total project to \$198 million. There has been other spending: in addition to that \$198 million there are costs within government agencies, the total of which are unknown. It is not possible to get this number for a couple of reasons. Firstly, obviously, the project is still in train. Secondly, it is not clear the extent to which the agencies can accommodate these costs or whether they need to seek additional funding. We certainly identified that there are costs. We have listed agency spending on implementation: Main Roads, about half a million; the Department of Culture and the Arts, a quarter of a million; and the Department of the Premier and Cabinet, again, about a quarter of a million. The delays have created further expenses. The Health Corporate Network has needed to spend money on its existing HR system to keep it going. Agencies have needed to spend money on their existing systems, which they did not think they would have to do. Some of the training given to staff in anticipation of rolling into the system has been lost because they have needed to delay the implementation, in which case, staff move on and the training is dated now. There are also the impacts of uncertainty and project fatigue. Accordingly, the business case is being revised. The Department of Treasury and Finance has said it will be putting up a revised business case for the project in October.

The last couple of slides are our recommendations for moving forward. We have said that the departments should consider the impact of departures from the original plan and the cumulative impact of all the departures from the plans on long-term costs and benefits. If the short-term fixes that have been put in place become permanent, there will be a risk to the savings and the benefits of the project. We have said that the operational arrangements for shared services should prevent cross-subsidisation, so that the costs are clear. The final point on that page is to make sure that

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information about the costs and the performance of the initiative is transparent so that we can benchmark performance and know accurately what the costs are.

On the last slide, there should be coordination between the three services to ensure they achieve the greatest possible benefits. Given the difficulties that have been experienced, each individual centre at the moment is coping with its own difficulties. Therefore, perhaps, understandably, they have not spent as much time coordinating between the three. We strongly support the whole-of-government initiative and have suggested that shared responsibilities should continue. Finally, if there is a need to supplement the agencies, and we believe there will be, those amounts should be reported separately because they are part of the cost of the shared services project. That is our recommendation. I will happily discuss aspects as you like.

**Hon GIZ WATSON:** Will the restructuring to be presented in October be presented to Parliament?

**Mr Murphy:** There are two elements. The project governance has undergone restructuring a number of times. On page 33 of the report, the diagram in the middle of the page shows that the governance arrangements for the project have changed three times. Prior to July 2005, the functional review implementation team had responsibility. It reported up through the Department of the Premier and Cabinet to the Minister for Public Sector Management. The July 2005 arrangements were changed so that the Office of Shared Services reported directly to the Minister for Public Sector Management. In January 2007, the whole arrangement was changed again, so that the initiative reports to the Under Treasurer and the Under Treasurer reports to the Treasurer. Having taken on responsibility for the initiative within Treasury, Treasury is keen to, I guess, revise the budget based on its understanding after the new arrangements. Treasury has told us that it intends to take a revised project plan to the expenditure review committee in October. I do not know what plans government has to then make any or all of that information public. However, I expect in terms of Treasury's normal reporting cycle, it has an obligation to report at midyear review, which is December.

**Hon KEN TRAVERS:** With regard to the table on page 33, what is the difference between the shared services program office and the Office of Shared Services?

**Mrs Barker:** The shared services program office is responsible for coordinating the whole shared services reform, and the Office of Shared Services will be looking after just the shared services in Cannington.

**Hon KEN TRAVERS:** Is it a functional line agency, whereas the shared service program office is the body within Treasury implementing the whole program?

**Mrs Barker:** They are both within Treasury, if you like, but they are different responsibilities. Previously, those roles were combined.

**Hon KEN TRAVERS:** Is there an equivalent position to the executive director, Office of Shared Services in the health and education services?

**Mrs Barker:** No there is not. There are general managers for each of those shared services. The executive director's role is a little more complex because there are 90 separate agencies, so there is, if you like, another level of management beyond just running the corporate services that are being delivered. I think that, because of all the establishment issues of shared services, it has always had an executive director.

**Hon KEN TRAVERS:** Are the problems you identified not just in the Office of Shared Services but also in education and health?

**Mr Murphy:** Yes, although most of the difficulties really relate to this payroll issue. The payroll for the whole of government was to have been developed in Cannington. Once it had been developed and was working in Cannington, it was then to be transferred to health so that it could replace its multiple payroll systems. That has not happened, so health needs to maintain those

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legacy systems. Similarly, at a much later date in the future, consideration was given to replacing the PeopleSoft HR system in education with the whole-of-government solution again, the Oracle. The difficulties being encountered at Cannington are impacting on all three centres now. It is identified in the report that health had specific difficulties with an electronic document management system, and that is covered in a bit of detail in the report. That delayed their implementation a fair bit and created some inefficiencies.

[3.30 pm]

**Hon NIGEL HALLETT:** I find the report quite alarming. Basically, the state will look at several years before it gets any savings out of it. When would you recommend that we put a line through it?

**Mr Murphy:** Certainly, I think, the next six months, hopefully not six to 12, but the next six to 12 months will definitely tell a story on that. There are some promising signs coming out. The Office of Shared Services in Cannington had eight agencies rolled in when we did the report. I understand that on the day we tabled it they had 15 agencies rolled in at that stage. I understand they are making progress with getting the awards within the payroll system working. However, it really depends on whether they can get the payroll system operating effectively within some government agencies. I expect that is why Treasury will want to review the project going forward to make those decisions. At the moment, if government achieves the benefits it is looking for of \$55 million a year, then it is still worth pursuing this project if it can be done with something of the order of the current budget.

**Hon NIGEL HALLETT:** Okay. By the time you get there you are looking at being \$100 million out, so it is two to three years of savings. Will you let it go for another two or three years?

**Mr Murphy:** I hear what you are saying. The investment is much greater than was originally anticipated. If they could deliver at this stage with the increased investment, it is still worth doing because it is net positive over a period of time. The question I cannot answer is whether they will be successful in implementing the payroll and getting those benefits.

**Hon NIGEL HALLETT:** I find it amazing you can keep going with it without some guarantee of the software working. Private enterprise could not do it.

**Mr Murphy:** I just do not know the answer to that. I know the software works in a number of agencies and jurisdictions in other parts of the world. Certainly, there are a number of Western Australian companies that are operating on this Oracle payroll system.

**Hon NIGEL HALLETT:** So, does it come back to the contractors not performing? I notice you have not assessed the contractors.

**Mr Murphy:** We have deliberately not looked at contractor performance. That is a live issue. Managing that contract and trying to get the right outcome out of it is a challenge for the Department of Treasury and Finance. We have not sought to make that any more difficult by getting in between that arrangement. The contractor and shared services are having difficulties in implementing the solutions; there is no doubt about that. They are working together to try to achieve an outcome. We have sought to look at government agency performance and not the contractor performance at this stage.

**The CHAIRPERSON:** High stakes, are they not, when you are dealing with such large sums of money and there is that thing about keep going and assuming it will get there or cut your -

**Mr Murphy:** I have to say there are options available to the government. The Oracle software is not the only solution and government would be well aware of that. Getting an integrated solution whereby all government transactions are aggregated and put through the same system can be done with the Oracle software and that would be the ideal solution because it would be matched up with Oracle finance and procurement. However, if government took the decision that the Oracle software was not the right solution and was not capable of being made to work, shared services

could still operate with a different payroll product. There are a number of options available to government to move forward with this project apart from simply going back to the way things were done in the past.

**Hon KEN TRAVERS:** You may not be able to answer this question: if the Oracle software does not work, the Oracle company will have failed in meeting its tender criteria. Is that right?

**Mr Murphy:** That is a possibility. It is possible that that could prove to be the case but that would be a matter that would need to be worked out between the parties as to what the reason for the failure was. Those arrangements tend to be highly contentious and sometimes involve litigation, so one would need to be very careful about predicting what the outcome might be in a circumstance like that.

**Hon NIGEL HALLETT:** Would it be normal for government to go into such a high-risk untried arrangement?

**Mr Murphy:** We have pointed out that the Western Australian government's approach to shared services is a riskier approach than governments in other jurisdictions have undertaken, and there are some reasons for that, because I think the payroll and human resource products in use in Western Australia are more diverse than they are in some other jurisdictions, as a starting point. It is pretty easy with the wonderful benefit of hindsight to say that this was a very risky venture, a very risky proposition, but looking back at the information that was available, they certainly based their decisions on a very thorough consultants report. The Oracle software that has been chosen, while it has not been used in government in Western Australia, is very widely used in the private sector in Western Australia, in government in Victoria and by many users around the world. It is not small and untried in that sense; it is quite large and well used around the world. They would have had a reasonable expectation of success. As it turned out, our audit really stopped at the point of saying that given the software that we had not used before, the complexities of a large number of agencies and a large number of awards, between the contractor and the government agencies, they have not been able to get it to work. Given that that is a work in progress, we have not sought to try to identify who is at fault in that process. They are still working together to try to overcome those difficulties and we do not think it would be helpful for us to get in the middle of that and try to find fault. We have simply commented and observed that it has not been made to work and a critical element in moving forward is to get that arrangement to work.

**Hon KEN TRAVERS:** One of the issues we looked at last year as a committee was to ask agencies to identify how their budgets were being adjusted to pick up the implementation of the Office of Shared Services. I guess it is fair to say that in the responses we got there did not seem to be any consistency across the agencies in how they were handling budgeting for the services, savings and implementation. It was a mixed view. Is that something you have looked at yet?

**Mr Murphy:** We looked at two things: we were trying to capture the overall cost of the project and we note at the back end of the report, on page 45, some of the harvested savings. We said that in the 2006-07 budget process the government had harvested \$34 million from the agencies and had had to refund \$19 million of that. It has now harvested \$55 million in the 2007-08 budget. It may well be that some of that needs to be refunded. We have looked at amounts that have been taken out of agencies and that have had to be handed back. The other point, which is covered on one of the slides, is that agencies have had to bear costs beyond what has been taken out of their budget, due to the fact that they have not been able to roll onto the new system as they thought they were going to do. Therefore, they have had to bear a lot of additional costs.

[3.40 pm]

**Hon KEN TRAVERS:** It would appear from the answers that we were given that there was not a consistent approach to how this issue was being handled in terms of identifying what the savings were, and factoring that into the budget, or, if those savings were not realised, putting that money

back into the budget. When the Office of Shared Services appeared before the committee, I remember asking some questions to see how, at the end of the process, we could identify whether those savings had actually been achieved. I do not want to put words into their mouths, but it was almost like they were saying, "You people are just going to have to trust us." There did not seem to be any way in which, at the end of the process, an outsider or a parliamentary committee would be able to say, "This agency used to spend \$30 million a year on providing these services. These services are now being provided by the Office of Shared Offices for \$25 million, so there is a net saving of \$5 million that has gone into the pool of savings."

**Mr Murphy:** I can say that this project has gone to great lengths to try to get a starting point or baseline measure. When they did the review, there were three deliverables. Those deliverables were very creatively called deliverable A, deliverable B and deliverable C. Deliverable A was intended to be precisely that; that is, a baseline record of costs within agencies, to identify the existing costs of providing the services. That was done for a couple of reasons. One reason was to assist government with the exercise of recovering money from agencies' budgets. It was also intended so that a look-back review could see how much was being saved. Therefore, they certainly went through the exercise of doing the starting point measure of costs. I would have to add, though, that it will be very difficult for anyone to do the measurement that was intended, because the time taken to get to implementation from where we are could be something like five years. Agencies typically change size, agencies are abolished, and other agencies are created. All the shifts that will occur over that time will make that measurement very difficult. That is why we believe it is important that there are no offset amounts or hidden amounts. We believe all the costs need to be as transparent as they can be, to facilitate that measurement. We have encouraged transparent reporting, so that to the greatest extent possible there can be measurement of the cost and the benefits. However, given the time delays and the changed arrangements, that exercise will not be easy. One example is that it was always envisaged that an agency would be rolled in, and we would be able to look at how it conducted its corporate services under the old arrangement, and compare that with the new Oracle suite of integrated finance, human resources and procurement. We do not have that at the moment. We have a hybrid arrangement, where the agencies that have been rolled into shared services, such as health, are using the new finance system, but practically their old human resource system. Therefore, it is a compromise arrangement at the moment, which is a hybrid between what they were doing in the past, and the new arrangements.

**Hon KEN TRAVERS:** Where are the staff located at the moment?

**Mr Murphy:** When an agency has been rolled in, the staff have typically gone to the shared services centre. However, agencies have found that it has been difficult to have part of the corporate staff in one location and part in another. That is really the reason for having some of these short-term fixes in place, if you like. By moving all the staff out to the shared services centre and running on the existing payroll, they have been able to achieve and outsource the corporate services arrangement. However, it is not the full benefits that were envisaged when the shared services project was embarked upon.

**Hon KEN TRAVERS:** So even the HR people have gone out?

**Mr Murphy:** Yes, they have, and they are operating on the old payroll system.

**Hon NIGEL HALLETT:** Is the cost for the individual departments on top of what has been lost through this project?

**Mr Murphy:** Yes, it is. We have said it is \$198 million to date. There are additional agency costs, and they are very, very difficult to measure. There are a couple of reasons for that. Firstly, the project is in mid-term, so it is halfway between. Therefore, how much it will cost at the end, we do not know. Secondly, those costs will materialise to government only if the agency makes a claim on central government. Now, government has indicated that agencies have made some savings by not upgrading their existing systems. If they do incur additional costs, some of those costs may be

offset. There are additional costs within agencies. We have made that point, and we have listed some examples, but it will be very difficult to measure those additional costs, particularly at mid-term now.

**Hon NIGEL HALLETT:** Could you not make a guesstimate?

**Mr Murphy:** We have looked at a number of agencies, and the cost rather quickly got to \$1 million, so we have said in the report that it is likely to be millions. It is extremely difficult, and I do not believe it is possible to quantify it at this point. It will be as agencies are rolled in. Once each individual agency has been rolled in, it will then be possible to see how much it has cost. That is one of the reasons why our report has really advocated transparency, to the extent that it is possible to do so. If there are refunds of harvested savings, or if supplementary funding is provided to agencies, we believe that needs to be counted as part of the project costs and not hidden away somewhere else.

**Hon KEN TRAVERS:** How has it gone with regard to the responsibilities under the new Financial Management Act? Is that working okay with the system as it is?

**Mr Murphy:** I do not believe there is any fundamental change with the new legislation. There were some changes to make sure that the new arrangements could be put in place without breaching any legislation.

**Hon KEN TRAVERS:** But the chief financial officer has a fair degree of responsibility.

**Mr Murphy:** That is correct. The new legislation makes it quite clear the chief financial officer is responsible for budgeting and strategic financial advice, but not for the transaction processing, which can be done under an outsource arrangement. The new legislation makes it very clear that the strategic functions of the chief financial officer still exist within the agency, even though the transaction processing can be done somewhere else. As far as I understand it, that is working quite well. There are no difficulties with that.

**Hon KEN TRAVERS:** There was no indication that even though agencies have transferred their staff across, they are still keeping a bit of a mirror system of staff within their home office to manage some of the functions.

**Mr Murphy:** I do not believe so. We certainly saw a number of impacts on agencies. They included staff fatigue - agencies worked on this for a long period without seeing any benefit. Certainly the prospect of changed arrangements has caused some staff to make decisions about their career options and leave the public sector, or go into some other role. There are also all the costs of uncertainty in terms of things like accommodation planning, future strategic planning for systems, and those sorts of things. There are a range of impacts on agencies due to the delay. Some of those are listed in the report. In the responses from the agencies, while they support the initiative if it delivers the benefits and the savings, they have pointed out that it has come at some cost to their individual agency.

**Hon KEN TRAVERS:** Are health and education still physically located in East Perth?

**Mr Murphy:** I believe their shared services centres are both at new locations.

**Mrs Barker:** Education is at the foot of Plain Street, and health is in St Georges Terrace, further up town. They both have new premises.

**The CHAIRPERSON:** It is a huge and ambitious project, with high risks.

**Hon NIGEL HALLETT:** Do you ever get to the point, Colin, where you recommend that, okay, enough is enough?

[3.50 pm]

**Mr Murphy:** I do not know if I can envisage us making that call, but I dare say the department would have looked at that issue in a lot of detail. It has a number of options available. As I say, it

could depart from the Oracle software and go onto some other software. My view is that we will have shared services in Western Australia in some shape or form. The report is saying, "Let's make sure it's one that actually delivers efficiencies and economies." It would be possible or very easy to put in a shared services arrangement that gave the window-dressing appearance of shared services, but the objective was not to change where people were sitting or what they were doing; the objective was to get efficiency and economy. That, in my view, is the hard part of this project. Implementing shared services can be done. Implementing it in a way that delivers efficiency and economy is the real challenge for this project.

**Hon KEN TRAVERS:** My only other question is: when do you expect that you will go back in? Is it ongoing monitoring?

**Mr Murphy:** Shared services has a big impact on my office because we are about to embark on the attest audits for the June cycle. A number of agencies are now operating under a shared services arrangement. We look at shared services in this way, which is a performance examination. We look at it through IS audit, because it is one of the bigger systems in government, and we look at it in the context of our attest audits. This is part of our life going forward. We get a significant amount of feedback from agencies, as we conduct their end-of-year audits, about the impact of shared services on their operations, so I think we have a pretty good understanding of where things are at. From time to time we will again make the call as to whether we should go back in and do another review. Certainly, having done this report, we would not be doing anything inside, say, the next six to 12 months. As I have indicated before, I think that is really the critical period for this project in getting more agencies rolled in and determining whether a successful integrated software solution can be put in place. I expect we will know fairly shortly whether it is capable of delivering.

**Hon KEN TRAVERS:** As part of your ongoing audit processes with agencies, things like their annual attest audits, do you look at the way they have accounted for things? Will issues such as the way in which they have accounted for the Office of Shared Services, and the issue of transparency be things for which you will try to ensure there is a consistent approach across agencies, as part of their attest audits? I know they can present and that at one level, your job is to check their accuracy. Would that be something where you would be trying to get them to consistently -

**Mr Murphy:** The presentation and recording of information is pretty clear. It is not a difficult matter for us to conduct an audit and identify what costs have been spent on shared services by the agencies or by the shared services centres. Our comments about reporting are really to make sure they are externally transparent, so that a separate line item is delivered in the annual reports to Parliament. There is the risk that these shared services centres will now each be buried within an agency - the Department of Health, the Department of Education and Training or the Department of Treasury and Finance. We think it is important that there be -

**Hon KEN TRAVERS:** Is that something you will be monitoring as you do the attest audits - the way in which the final annual reports are presented to Parliament?

**Mr Murphy:** We will be having a look at the presentation of that information.

**The CHAIRPERSON:** I refer to another matter that has been raised in the committee's ongoing hearings on your second public sector performance report of 2006. The committee has been asking some generic questions about fees and charges. In the compilation of the committee's annual report, we started to compare the responses. We found that responses were consistent with the findings you had reported, and that the level of disclosure provided varied between agencies. Some provided adequate disposal while others provided little or no meaningful information about how they price their goods and services. I thought it might be useful to provide that feedback. That was the committee's observation of the agencies that we have spoken to. Have you looked into that area any more? Are you following that up?

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**Mr Murphy:** Not in recent times. I note that Treasury has recently put out a new publication on cost of government services and costing guidelines, but it has not been drawn to my attention recently. I am certainly aware of the work that has been done by the committee.

**Hon KEN TRAVERS:** This is about calculating fees and charges and the need for agencies to be open in their annual reports. It seemed to be inconsistent across the board. Many of your recommendations, or the Auditor General's recommendations - were you acting Auditor General at that stage?

**Mr Murphy:** No, that would have been well before my time, but they are still recommendations that need to be followed.

**Hon KEN TRAVERS:** The same goes for information systems security as well, which was another area we asked agencies about. Some agencies seemed to be right on top of it, but there was a real level of inconsistency between those that had picked up what the previous reports had said and those that had not.

**Mr Murphy:** Information systems security is certainly an area that we continue to have difficulties with. We raise issues repeatedly, year after year.

**Hon KEN TRAVERS:** Is that because people just do not agree with your findings, or are agencies just not getting onto it?

**Mr Murphy:** No, quite often they accept the findings and do something about it in a specific area. One of the things we have suggested is that agencies need to take a more holistic approach to information systems security, and in fact address it in total rather than just fix individual things as they emerge. They need to take the whole issue a bit more seriously. We find that the lessons learned in one agency are not translated to another agency. It seems to me that that issue comes up far too often. It is one of the few issues one sees time and time again in agencies.

**Hon KEN TRAVERS:** Under the shared services model, would fees and charges start to be done centrally?

**Mr Murphy:** No, in fact the accounting and reporting for fees and charges may be facilitated, but at the end of the day it is a policy decision about the calculation of fees and charges - what they do, how they go about it - and it is done at the agency level, so the agency needs to fix those. Hopefully, if the recording mechanisms are effective, it might facilitate more clarity and transparency about what the real costs are and help people to get a better handle on their fees and charges. There is some prospect that shared services would improve that.

**The CHAIRPERSON:** Thank you very much. That concludes our questions for this afternoon. We appreciate your time; it has been most useful.

**Mr Murphy:** Thank you very much. Always a pleasure.

**Hon KEN TRAVERS:** Once again, congratulations.

**The CHAIRPERSON:** Yes, indeed.

**Mr Murphy:** Thank you. I appreciate that.

**[Conclusion of evidence]**  
**Hearing concluded at 3.58 pm**

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