VALSTYBĖS KONTROLĖ
PUBLIC AUDIT

CENTRALISATION OF ACCOUNTING MANAGEMENT AND PERSONNEL ADMINISTRATION FUNCTIONS

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SUMMARY

RELEVANCE OF THE AUDIT

The European Commission underlines that the main factor in promoting participation in the establishment of the Shared Service Centres (SSCs) is the savings of costs of shared processes. Governments are also motivated by the wish to increase efficiency and improve the quality of domestic services by pooling resources and making use of specialisation. By consolidating support activities within a single centre, organisations can also devote more resources to their core mission and direct functions. The establishment of the SSCs is a process of large-scale changes, and governments must carefully consider what is the best strategy to overcome potential resistance and reduce the risk of failure[1].

The Objective of Priority 5 of the National Progress Programme 2014–2020 “To strengthen strategic competencies in public administration institutions and improve the management of the activities of these institutions” noted that shared functions are not performed efficiently and cost-effectively enough in the institutions of the State executive system, and there is a need to increase the efficiency of the activities of public administration institutions (in particular, of institutions and establishments of the State executive system, as well as of municipal institutions and establishments)[2].

In order to ensure that public administration institutions perform shared functions that are not directly related to public needs in an efficient and cost-effective manner, it has

[1]The organisation of Shared Service Centres (SSCs) in public administration (europa.eu) (see 11 August 2022).

[2] Objective 5.1 of the National Progress Programme for 2014-2020 approved by Government Resolution No 1482 of 28 November 2012.

been decided to optimise them, assess them on a continuous basis and improve their management and capacity[3]. The centralisation of shared functions in the institutions reporting to the Government started in 2018 with the establishment of the National Shared Functions Centre and the transfer of accounting and personnel administration functions to it.

In order to assess the implementation of the objectives of centralising shared functions, we carried out a public performance audit.

Objective and Scope of the Audit

The objective of the audit is to assess whether the centralisation of the functions of accounting management and personnel administration creates conditions to perform them efficiently.

Key audit questions:

- whether the preparation for the centralisation of the shared functions is appropriate;
- whether the proper performance of the functions assigned to the National Shared Functions Centre is ensured.

Audited entities:

- The Ministry of Finance, as it implements the rights and duties of the owner of the National Shared Functions Centre[4], analyses the activities of the Centre (activity reports), sets objectives and provides methodological guidelines where necessary[5];
- The National Shared Functions Centre, which is established by the Office of the Government of the Republic of Lithuania, ministries, Government establishments, Government representative services, establishments subordinate to the Ministry under the management of the Minister concerned, other budgetary establishments whose ownership rights or duties are exercised by the Government of the Republic of Lithuania or an institution authorised by it, and public sector entities controlled by such entities to carry out accounting and personnel administration functions on a centralised basis[6].

We surveyed 131 budgetary establishments (ministries and other establishments) whose functions of accounting management and personnel administration are centrally carried out by the National Shared Functions Centre. 109 out of 131 establishments participated in the survey, as well as 339 (out of 447) Centre's employees provided their answers. During the audit, we collected information from the Office of the Government, the Ministry of the Interior, the Information Technology and Communications Department, and communicated with representatives of these institutions.

[3] The Programme for the Improvement of Public Governance for 2012–2020 was approved by Government Resolution No 171 of 7 February 2012, p. 12.5 and 13.2.2.

[4] Resolution No 125 of 23 January 2018 of the Government of the Republic of Lithuania On the Establishment of the Budgetary Institution National Shared Functions Centre and the Approval of its Regulations, p. 4.

[5] Regulations of the Ministry of Finance, p. 8.13.2.

[6] Resolution No 125 of 23 January 2018 of the Government of the Republic of Lithuania, p. 3.

The audited period is 2018–2021. In order to assess the preparation process for consolidation of the shared functions, tendencies and changes related to the consolidation of shared functions; the information provided by the institutions on the analyses or feasibility studies carried out between 2014 and the end of the audit was analysed and assessed.

The audit has been performed in accordance with the International Standards of Supreme Audit Institutions. The scope of the audit and the methods used are described in more detail in Annex 2 “Audit Scope and Methods” (p. 45).

Key Results of the Audit

Ministry of Finance and the National Shared Functions Centre, by improving the monitoring of the Centre’s activities, setting criteria for the centralisation of institutions, developing missing information systems, and ensuring human resources competencies to perform functions, would create conditions for more efficient centralised performance of accounting and personnel administration functions.

1. Preparation for the centralisation of shared functions had deficiencies

- Before the establishment of the Centre, shared information systems for accounting management and personnel administration functions were not created. During the first phase of centralisation of shared functions, as it was decided, the functions were transferred to the Centre without changing the information systems used, therefore the Centre had to use 17 accounting and even 9 wage accounting information systems. Shared information systems had to be implemented at the beginning of the second centralisation phase, however, works on the development and improvement of common information systems for personnel administration and document management and the improvement of financial management and accounting information systems have not yet been completed. The lack of shared information systems does not create opportunities to save funds, and human resources, and the completion of the centralisation of accounting management and personnel administration functions has been postponed three times (from 2020 to 2025) (Section 1.1, p. 14).
- There are no established criteria (principles) for the adoption of Government resolutions on lists and centralisation dates of establishments whose accounting and/or personnel administration functions need to be centralised. Although the system is working (currently the functions of accounting management of 144 establishments and personnel administration of 237 establishments are performed centrally), the centralisation of some of these functions is postponed several times due to the lack of common information systems and unpreparedness of the establishments. The purchase projects of shared information systems are expected to be completed in the fourth quarter of 2023, but the end of centralisation is postponed to 2025. We found that the list of budgetary establishments whose accounting management and personnel administration functions are centralised does not include 6 budgetary establishments subordinate to the Government and 18 budgetary establishments intend to consolidate only one of the functions, the reasons for which

were not provided. By postponing the centralisation of shared functions, the target of 71 % of all establishments whose functions are to be consolidated was not reached in the Strategic Action Plan of the Ministry of Finance for the 2021 evaluation criterion "Proportion of centralised accounting management and personnel administration functions in the total number of establishments to be consolidated". Without the established criteria for the adoption of resolutions on the management of the accounts of institutions and the centralisation of the functions of personnel administration, the centralisation of part of these functions is unduly postponed, and some of the establishments subordinate to the Government may remain not centralised. The delayed centralisation process does not allow economies of scale to be achieved and the quality of the shared functions guaranteed (Section 1.2, p. 15).

- Before the first phase of centralisation of shared functions, matrices of accounting management and personnel administration functions were established and as well as the proportions of these positions (proportion remaining within the establishment and proportion to be transferred to the Centre), however, they were not followed in subsequent centralisation phases. The Centre and the surveyed establishments indicated several ways: by internal legislation of the Centre, according to the data provided by the establishments for the Performance Assessment Report, or positions are transferred by negotiation. Part of the establishments providing data to the Centre for the performance assessment reduces the number of positions to which the functions of accounting management and personnel administration are assigned (in 2021, the number of accounting positions of public sector entities decreased by 5.87 % in total, staff administration — by 5.52 %), thus transferring fewer positions to the Centre than they would have to. Failure to adopt criteria for determining the number of positions in accounting management and personnel administration to be transferred to the Centre and the number of positions to remain within the establishment results in failing to ensure the optimisation of human resources, different practices are applied, and some of the positions carrying out these functions are not transferred to the Centre. This delays the achievement of one of the objectives of centralisation, which is to save public budget resources for the performance of the shared functions of the public sector (Section 1.3, p. 18).

2. Proper monitoring of the Centre's activities is not ensured

- The Ministry of Finance, responsible for the coordination of the Centre's activities, did not adopt the qualitative evaluation criteria needed to measure the qualitative change in the performance of accounting management and personnel administration functions performed by the Centre. Since 2021, the Centre has started submitting activity reports to the Ministry of Finance and a responsible unit for the evaluation of the Centre's activities has been designated within the Ministry but did not prepare the conclusions on the performance assessment. The Ministry did not pay sufficient attention to the provision of information in the Ministry's activity reports, as the 2019 and 2020 reports do not contain information on the implementation of one of the two assessment criteria set out in the Ministry's Strategic Action Plans. The Centre's 2020 and 2021 activity reports also do not contain information on the achievement of all the objectives set out in the establishment's annual activity plans. If the Ministry does not ensure the monitoring of the Centre's activities, the change is not assessed and the opportunities to make the necessary decisions to improve the operation of the Centre are missed (Section 2.1, p. 20).

3. Standardised and automated performance of functions lacks proper conditions

- 4 years after the establishment of the Centre, due to the lack of shared information systems necessary to carry out the activities the standardised and automated performance of the Centre's accounting management and personnel administration functions is not ensured:
  - 1 of the 3 information systems (to perform accounting management functions) The Financial Management and Accounting Information System (FVAIS) was developed and used; however, there are weaknesses in the compatibility of the data of this system with the Public Sector Accounting and Report Consolidation Information System (VSAKIS). For example, FVAIS does not cover all areas of accounting (medicaments, catering accounting); when importing data that need to be coordinated into the VSAKIS, part of the cash flow statement (PSA) inflows is not transferred; the accounts plan, etc., cannot be uploaded from FVAIS to VSAKIS.
  - 1 out of 3 information systems, namely for performing personnel administration functions was not created. The full functioning of the system was planned for 5 years after the establishment of the Centre (in Q3 2023), but, according to the data provided by the Information Technology and Communications Department of the Ministry of the Interior on 8 September 2022, the implementation of the project was terminated due to a lack of public procurement; in the future, it is planned to re-launch the procurement using other sources of funding. Currently, wage accounting and related human resources management processes are carried out in a non-standardised way within the institutions and the degree of computerisation varies between institutions.
  - 1 of the 3 information systems — Document Management System DBSIS — was developed and launched 4 years after the Centre was established (in June 2022). It is planned that all State and municipal institutions, establishments and companies will become recipients of DBSIS services by the end of the project in the fourth quarter of 2023,[7] which will provide the preconditions for ensuring document management processes in a standardised way within a single system.
- For the standardised exercise of the functions of personnel administration, the legal acts provide for the time limits for their performance. After analysing three of the 14 personnel administration processes of the Centre[8], we found that the legal acts set the preconditions for prolonging the process to 9 working days. According to a survey of establishments, 58 % of them reported that the process had been prolonged by 1–3 working days. According to the Centre, the processes of carrying out the functions of personnel administration are not prolonged in cases where templates developed by the Centre are used in institutions. Based on the auditors' assessment, for a more effective process of carrying out personnel administration functions it is important to harmonise the formats for the presentation of information between the establishments and the Centre and to review the processes of personnel administration.

[7] https://ird.lt/lt/naujienos/dbsis-sukurimo-ir-idiegimo-projekto-pristatymo-renginys (seen 26 May 2022).

[8] Approved by Resolution No 507 of 30 May 2018 of the Government of the Republic of Lithuania for the centralised performance of personnel administration functions, Section 2-16.

Due to the fact that personnel administration and document management information systems were not created in time, and the operation of finance management and accounting information system is flawed, the Centre has not been able to perform the functions of accounting management and personnel administration in a standardised and automated manner (Section 2.2, p. 23).

4. Centre's actions to ensure the quality of the functions performed are not sufficient

- At the end of 2021, 71 positions out of the 525 approved were vacant and up to 54 % of competitions were successful in 2021. Between 2018 and 2021, the number of vacant positions increased from 7.1 % to 13.5 %. Personnel turnover at the Centre fluctuated between 17.6 % and 22 % in 2018–2021. The actions taken are insufficient as the change has increased and amounted to 21.98 % as of 31 December 2021. As of 2020, surveys of employees leaving their jobs and analysis of the reasons for leaving have been carried out, according to which the main reasons for leaving the Centre are set out: heavy workload; lack of management, lack of communication and feedback from direct managers; uncompetitive wages. The high number of vacant positions leads to an increased workload, which leads to an increase in personnel turnover. Due to great turnover, the experience of leaving employees necessary to perform functions is lost (Section 3.1, page 29).
- The analysis of personnel workload was started in 2019, but until 2022 the workload analyses were not carried out systematically as it was not possible to compare the workloads of employees performing accounting management functions before the accounts of all establishments were transferred to FVAIS. The function of personnel administration is still performed in different information systems, as a result, it is not possible to compare the amount of work carried out by employees and how much time is spent on this in order to equalise workloads. In 2023, the Centre plans to purchase and implement a workload management system. Having surveyed the Centre's employees performing accounting management and personnel administration functions, 55 % (187 out of 339) indicated that their workloads are suitable for them. A high workload is identified by employees as one of the main reasons for leaving work. Without periodic analysis of the workload, the real situation regarding the differences in the workload of individual employees is unknown, which influences employees' dissatisfaction and change (Section 3.1, p. 29).
- The need of the Centre's employees for training must be assessed, however, only 65 %[9] of the employees indicated that the Centre asked them to provide information on which vocational training they would like to take part in. The Centre did not collect data on what training each employee attended and whether everyone had participated. According to the survey, in 2018-2021, 11 % of employees recruited in the Centre's Departments of Accounting and Personnel Administration did not receive any vocational training in the past 12 months, and only half of the personnel reported that the training had been organised according to their stated needs and only 43 % that training was sufficient. Failure to collect training needs and to train personnel annually

[9] A survey of employees performing functions of the Departments of Accounting and Personnel Administration of the National Shared Functions Centre was carried out during the audit of the National Audit Office.

results in failing to ensure that they have the necessary competencies. The Centre established the Academy of Training[10] in September 2022 (Section 3.2, page 32).

- In 2018, the Centre approved the employees' adaptation period procedure[11]. According to the survey[12], 14 % of the employees who started to work in 2019 to 2022 reported that they had not been assigned a mentor, while for 6 % the tutor did not help. In order to attract and retain employees of the competence needed for the centralised functions of accounting and personnel administration, a motivating salary for their work is necessary, however, the average salary of the employees performing the functions of Centre's personnel administration in 2021 was EUR 307.80 lower than that of the employees performing these functions in the establishments planned to be centralised. If salaries are lower than those in the establishments planned to be centralised, it is difficult to attract and retain employees with the necessary competencies (Section 3.2, p. 32).
- The Centre takes action by carrying out an analysis of the errors in accounting management and personnel administration since 2020, nevertheless:
  - The National Audit Office identifies material errors in the sets of financial reports prepared by the Centre[13];
  - 26 % of the establishments surveyed[14] by the National Audit Office indicated that there are errors in the sets of reports on the implementation of the estimates of budget expenditure, 30 % – in the financial reports, 50 % – in calculating the salaries of the employees of the institution. The satisfaction of public sector entities with central functions of the Centre decreased by 2.5 % in 2021 compared to 2020. This was due to a decrease of 8.1 % in satisfaction with the accounting functions performed in a centralised way;
  - and of the 8 values of delays in accounting reporting and process monitored by the Centre, only 1 (reporting to Seimas) had delays of less than 5% in the period 2019–2021. The biggest delays in the preparation of certificates on financing amounts (up to 34.12 %) and sets of financial reports (up to 33.83 %). According to the survey of public sector entities[15], 17 % of them reported that data are not included in the accounts in a timely manner. Given the large turnover of the Centre's employees, there is not only a problem of delays in the performance of accounting management functions, but also 54 % of the institutions that participated in the survey indicated that all relevant information about the institution is not communicated to the new employee, 15 % indicated that the information relevant to the establishment was lost and accounting operations were not registered, 5 % stated that the necessary drafts of legislation were left not prepared.

[10] A part of the employees' training system that includes learning and training to acquire and provide new knowledge, competencies and skills or to enhance existing knowledge and competencies necessary for professional activities.

[11] Order No V-210 of the NSFC's Director of 31 October 2018.

[12] A survey of the employees carrying out the functions of the National Shared Functions Centre's accounting and personnel administration was performed during the audit by the National Audit Office.

[13] Public Audit Reports: No FAE-13 of 1 October 2021 "Assessment of 2020 Set of National Financial Statements Data of Public Debt and its Management"; No FAE-6 of 3 October 2022 'Results of Financial Audit of the 2021 Sets of State Consolidated Financial and Budget Execution Reports".

[14] The National Audit Office's audit includes a survey of public sector entities for which the NSFC performs both accounting and personnel administration functions.

[15] The National Audit Office's audit includes a survey of public sector entities for which the NSFC performs both accounting and personnel administration functions.

Due to a high number of vacant positions leading to an increased workload and the high turnover of employees, not sufficient development of qualification, the proper quality of the functions performed is not ensured: more errors are made, the performance of functions is delayed and the dissatisfaction of establishments, the functions of which are performed in a centralised way by the Centre, increases (Section 3.3, p. 34).

Recommendations

To the Ministry of Finance:

1. In order to achieve the objectives, set out in the centralisation of the shared functions, the following need to be established:

   1.1. criteria/principles for including establishments in the process of centralising accounting and/or personnel administration functions;

   1.2. criteria (proportions) for the transfer of positions from establishments to the centre.

2. In order to make informed decisions on the operation of the Centre in a timely manner, assess the qualitative change in the functions performed by the Centre by establishing qualitative evaluation criteria.

3. In order to ensure the proper and timely implementation of the personnel administration function, clarify, together with the authorities responsible for the formulation of personnel administration policy, the processes of personnel administration laid down in the legislation (e.g., organising a competition for positions, recruitment, etc.) in order to avoid any delays in their centralised implementation.

To the National Shared Functions Centre:

4. In order to ensure that the functions of accounting management and personnel administration are performed qualitatively and in a timely manner:

   4.1. to envisage measures to harmonise workloads by measuring them at specified intervals;

   4.2. to ensure that all employees involved in the accounting management and personnel administration receive professional training on an annual basis.

Measures and deadlines for the implementation of the recommendations, the expected impact of the audit and indicators for measuring change are set out in the “Recommendations Implementation Plan” section of the Report (p. 38). Relevant information on the status of implementation of the recommendations, results and developments is published as open data on the National Audit Office’s website https://www.valstybeskontrole.lt/LT/AtviriDuomenys.