CIPFA

audit viewpoint

Malicious attacks on public sector technology resources

Over the last few years malicious attacks against the public sector have increased significantly whilst the threat from within remains ever present!
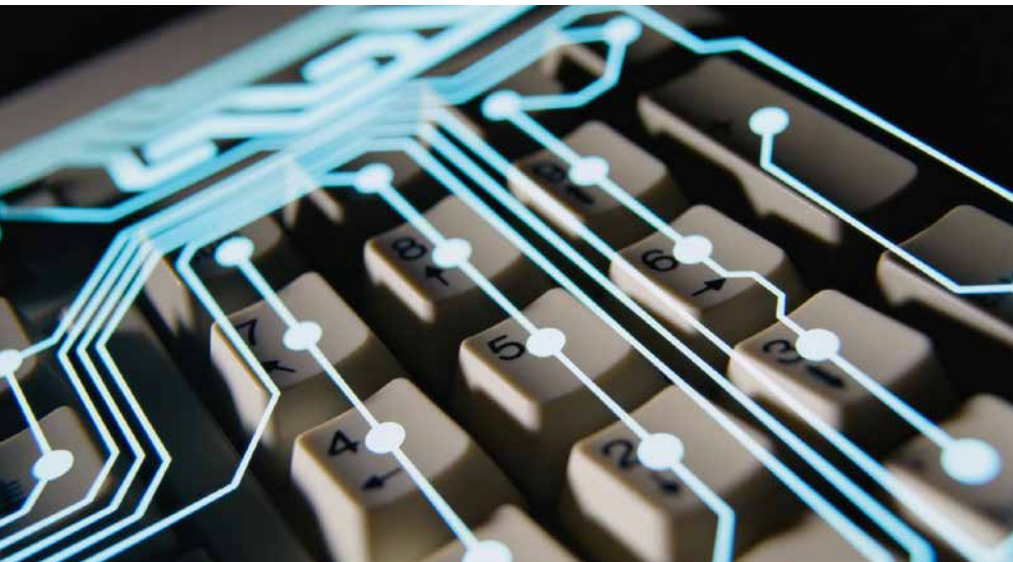
- New survey highlights worrying lack of guidance from employers on use of personal devices (ICO, March 2013).
- Council website hacked with pages replaced with references to David Miranda (BBC, August 2013).
- Approaching 50% of employees who left their jobs over the last 12 months retained confidential corporate data (Symantec Global Survey, 2013).

With this in mind the annual CIPFA IT Audit and Information Security Conference on 19 June 2013 brought together specialists from across various disciplines to discuss the hot topics facing the IT audit profession and highlight future challenges. Phil Spencer, a member of CIPFA's Audit Panel and chair of the event, provides an overview of the discussions.

Jackie Cain, Editor

Including

INVESTORS IN PEOPLE

© 2013 CIPFA

CIPFA's IT Audit and Information Security Conference brings you IT audit hot topics

In these times of austerity cuts, outsourcing, collaborative working and the increased cost of compliance, coupled with the need to identify an organisation's key IT systems/processes and associated risks, it is imperative that scarce internal audit resources are targeted effectively. Speakers from the Wales Audit Office, Information Commissioner's Office, the Met Office, Information Security Forum and RSM Tenon provided guidance, insights and, even, thrills.

The importance of effective long term planning was evident during the presentation by Jonathan Kidd from the Met Office. Jonathan provided a hands-on demonstration on how to create an IT audit plan taking account of both key systems and other sources of assurance. The resulting plan maximised the effectiveness of the available audit resource with different sources of assurance addressing all the key systems and applications. As more and more public services transfer to an online delivery model the need for an effective audit assurance on IT systems has never been more critical.

Clearly, any IT audit plan over the last few years would not be complete without the inclusion of one of the key growth areas in IT architecture – cloud computing. Kawser Hamid from the Information Commissioner's Office eloquently presented the benefits and associated risks of cloud computing. He provided real life examples where ill-informed projects have left an organisation exposed to the risks of loss of data or of incurring excessive charges to access their own information.

Janet Villars of the Wales Audit Office outlined the opportunities that exist to identify efficiencies through the deployment of effective IT systems and procedures. Her presentation explained how the Wales Audit Office had undertaken an extensive piece of research and incorporated guidance on how the report could be adapted by IT auditors to help focus future testing within key areas of IT service delivery. As the move towards shared services and collaborative working continues, asking the right questions and providing the correct level of support is paramount in any audit service seeking to add value to new IT projects being considered by an organisation.

Note from Editor: Janet provides more detail on the WAO work in the next article in this issue.

Your organisation may have spent years adopting revised security and governance procedures, improving physical controls and training staff to secure corporate information, only for a data leak further down the supply chain to unravel all this hard work. Steve Durbin from the Information Security Forum explained how organisations who fail to undertake the appropriate security due diligence checks on suppliers and contractors are playing Russian roulette with their data. In today's global business environment where the sharing of information between organisations is frequently instantaneous and across borders, it is difficult to manage all locations holding corporate information particularly where an organisation has thousands of suppliers. The challenge increases geometrically

when you think of all your suppliers' suppliers, etc. It should be remembered that security is only as strong as the weakest link.
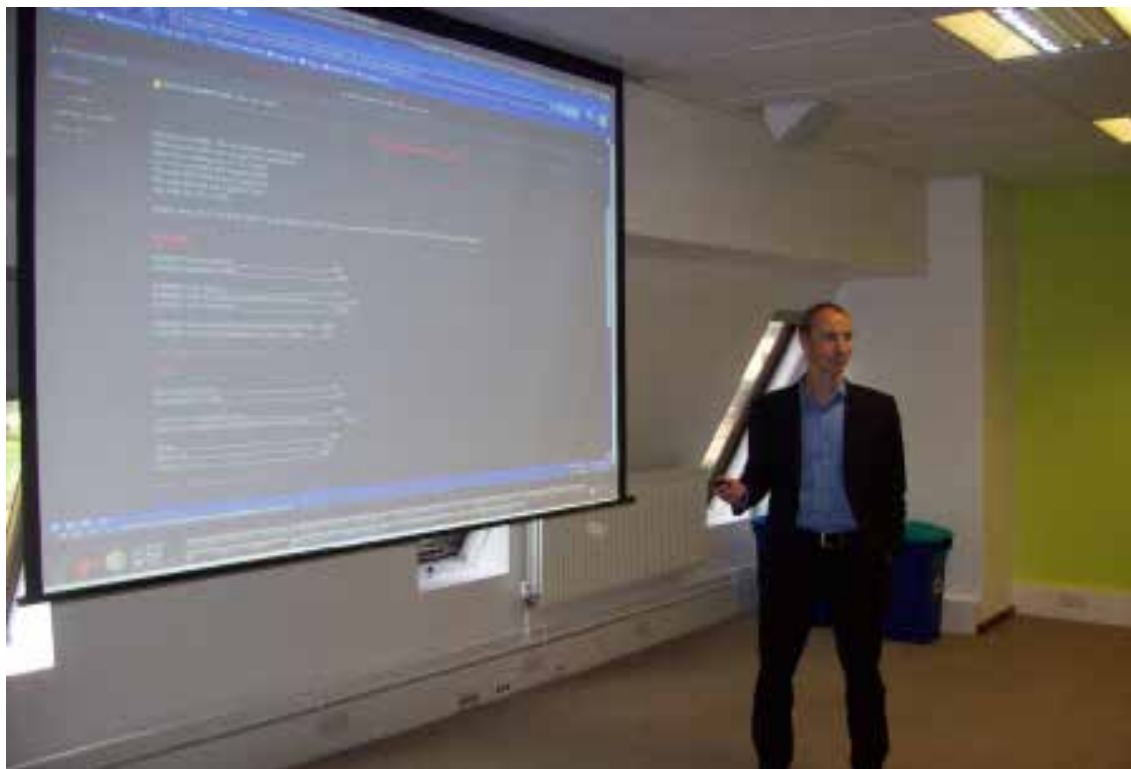
Steve Snaith from RSM Tenon (now trading as Baker Tilly), pictured here in full flow, rounded off the event with an insight into the minds of individuals who attack corporate networks. Some do it for the 'fun of it'; others to cause significant disruption with a view to obtaining financial reward or notoriety within their community. Steve demonstrated how to use the tools freely available on the internet. He exposed the ease with which anyone with little, if any, technical skill could launch a serious attack against an organisation's website and network. Delegates were left to ponder how secure their networks really were!

Phil Spencer
Derbyshire County Council

Using technology to transform services, improve outcomes and save resources

Effective use of technology is essential for transforming the delivery of public services, improving outcomes for citizens and delivering efficiency savings. Technology can support different ways of working, delivering services and engaging with citizens, enabling councils and fire authorities to deliver more for less.

The Wales Audit Office (WAO) observed that many local authorities were grappling with using technology effectively to achieve these aims. The WAO undertook a review at all councils in Wales to answer the question: "Are councils' arrangements for developing, using and supporting technology likely to support continuous improvement?" The review's findings, which Janet Vilar presented at CIPFA's IT Audit and Information Security Conference in June 2013, have much to offer to all organisations seeking to exploit modern information and communications technology (ICT). Janet provides a summary of the report's findings below.

The full report *Use of Technology to Support Improvement and Efficiency in Local Government* published in December 2012, can be found on the **WAO website in English** and in **Welsh**.

Jackie Cain, Editor

Overview of WAO's report on technology use by councils in Wales

The article summarises the findings under three headings: national strategic planning, local leadership and exploiting the potential of technology.

Improved national strategic planning

It is important that councils' ICT plans link closely to their other plans for improving the wellbeing of local people. The needs and goals of the organisation should drive the ICT plans rather than available technology driving the plans of the organisation. ICT should be an enabler, supporting new ways of working, rather than determining them. To be successful the focus must be business change and the challenges and impact must be fully addressed and associated risks realistically estimated.

We found that at council level, strategies and plans generally support and underpin local improvement but do not link to clear regional and national strategies and outcomes.

Public sector service delivery models are changing, joining up to achieve improved outcomes. ICT plans and delivery arrangements need to take account of these changes.

We found widespread uncertainty about the links and priorities between local, regional and national plans for ICT. This uncertainty hinders local decision-making and delivery of the national ICT strategy. Welsh Government and councils need to ensure that all technology plans support the delivery of agreed outcomes and priorities and are supported by sound business cases.

National standards should support improvement and collaboration

Interoperability within and across councils and the public sector, establishing common, corporate technology platform and systems is essential, but difficult to achieve because of the range and complexity of existing local technology platforms and service management processes. There have been many attempts to define good practice and some improvements but there is a long way to go.

Technology collaboration is evolving

Current models of ICT service delivery are unsustainable, given the unprecedented pressures on public finances and ever-increasing demands for local public services.

Joint arrangements for delivering ICT services are starting to evolve but are not yet well established, and generally lack clear strategic direction. Collaboration in service areas other than the ICT service has an impact upon ICT services. The impact and implications arising from collaboration need to be identified and considered as part of business case consideration and planning.

> **Characteristics of good ICT collaboration arrangements**
>
> ■ Technology standards are clearly defined, open and reusable.
>
> ■ Senior management is focused on data and information handling (personal and public) and information assurance.

Stronger local leadership is needed

Senior managers need ownership of ICT governance

The arrangements for making strategic ICT plans, decisions and the adoption and enforcement of related policies and procedures are referred to in this article as ICT governance.

Changing the way people access council services (customer channel shift) and the way councils deliver services, depends on exploiting technology effectively. This requires cultural change and acceptance, not just words of support, but leadership and a real commitment to make change happen. Senior management and political leaders need to understand and embrace the contribution that technology can make to radically reforming local public services.

In a few councils, we found that strong local ICT governance at management team level was driving local transformation. Where senior officers engaged and

understood technology opportunities and risks, councils were more advanced at using technology to deliver transformation and realise efficiencies.

In most councils, ICT governance arrangements are weak. We frequently found senior managers delegated this responsibility to the head of ICT and technology and consequent plans tended to be service-focused and piecemeal, lacking a clear corporate strategic direction.

Characteristics of effective ICT governance

- Members and senior management understand the technology environment in which the council operates and exercise collective responsibility for corporate technology.

- Decision-making arrangements for technology developments are based upon open transparent evaluation.

- ICT risks are embedded in project risk management arrangements.

- Standards and policies are agreed, documented and owned by senior managers.

Case study of good ICT governance – Newport City Council

During 2011, the Council developed its information and technology strategy to support and underpin delivery of improvement objectives over the period 2011-2014. It provides a sound basis for identifying and agreeing technology priorities and recognises that investment in technology and effective information management are integral to service transformation.

In 2010, to ensure that technology closely aligns with the Council's priorities, the corporate directors took over strategic governance for technology and information. Technology resources were centralised, with staff and desktop ICT equipment rationalised across the Council.

The portfolio member responsible for technology and information has a good understanding of the issues and risks, and the strategy is seen as underpinning the Council's transformation agenda.

Well planned arrangements to fund technology development are important

We found that the funding for technology development across councils in Wales was mainly through devolved service budgets and determined by the availability of funds within those budgets. Hence they were aligned with service rather than corporate priorities. Most councils were considering moving towards a more centralised approach and some have established technology 'invest to save' or 'transformation' funds to support the innovative use of technology achieving greater impact by focusing on key priorities.

Broadly though, the approach to funding ICT initiatives was opportunistic, taking advantage of external funding opportunities and Welsh Assembly grants wherever

possible. This approach diverts limited skilled resources into meeting funding requirements and impacts on the delivery timescales of other projects. Councils with a corporate transformation programme where technology development is considered an integral part of a project rather than a separate project were the most effective.

The financial impact of technology changes and developments on current delivery arrangements, all need to be fully identified at the planning stage but only a minority of councils were working towards this level of financial planning.

Characteristics of good technology development funding arrangements

- Technology funding decisions are made corporately after careful consideration of a comprehensive business case.

- A corporate technology development fund is used to fund all developments with commitment that efficiencies replenish funds.

- Effective corporate programme and project management arrangements are rigorously used.

- Swansea City Council effectively manages the growth in demand for technology without affecting the quality of service provision. It has a sound and disciplined basis for identifying and agreeing its technology development priorities. The Council's ICT provision is outsourced and a detailed delivery plan forms a key part of the contract. This has helped the Council to formalise its approach to approving and prioritising technology development.

Funding uncertainty puts technology arrangements at risk

We found the majority of councils are now dependent upon bidding for capital funds to renew and refresh ICT infrastructures. The current economic climate means that capital funds, historically earmarked to refresh, renew and replace technology, are reducing, or are no longer available to ensure that the ICT infrastructure is sustainable and able to meet current and future services. In some Welsh councils this has led to the infrastructure becoming out of date, supplier support not being available, increased maintenance and support overheads. We found that the majority of councils have, or are moving to a corporate approach to funding and replacing desktops.

ICT work force plans are key to successes

The review found that ICT work force plans in Wales were not based upon an evaluation of the skills and capacity needed. Budget pressures and increasing demands on ICT services to help other services cut their costs, whilst at the same time cutting ICT service costs, were resulting in councils not being able to exploit fully the investment in and potential of technology. ICT services often did not have sufficient capacity or skills effectively to develop planned technology and at the same time support existing infrastructure and users.

We found that many councils were not effectively managing the growth in demand for technology. Only two councils had increased revenue funding for their ICT services in order to achieve greater transformation and efficiency savings. Most councils' approach to achieving efficiencies savings was based on top-slicing revenue service budgets and freezing vacant posts rather than on an evaluation of the skills and resources needed. In some councils, ICT skills and capacity issues were affecting the quality of ICT service provision.

Characteristics of good ICT work force planning

- Key IT skills are identified in work force plans that are developed alongside stakeholders and aligned with aspirations for improvement.

- Strategy and plans are in place to address recruitment and retention difficulties.

- Technology skills are developed as part of cultural change and modernisation.

Councils are not fully exploiting the potential of technology

The current climate of austerity is a driver and opportunity to exploit the potential of technology more effectively. The challenges to achieving this lie not with technology. They lie with the cultural and organisational changes that are required to embed the use of technology so that it consistently supports improved services and outcomes for citizens.

Exploiting technology to deliver services and work differently

As the public become increasingly familiar with transacting online they expect to be able to do so anywhere, anytime, from any device. Digital delivery will form the majority of local public service interactions in the future, delivering cheaper, faster services that are more accessible. But, we found that councils in Wales are slow to develop technology to its potential.

Only a few councils had developed a channel access strategy. But, some websites are now accessible to a range of mobile devices and social networking is being promoted by most councils to engage a wider range of users.

The use of technology to support flexible ways of working varies and potential benefits are not being maximised although some councils in Wales are making good progress in this area.

Case Study: Effective use of mobile technology – Monmouthshire County Council

Monmouthshire County Council's Agile Working Strategy is linked to the Council's accommodation and HR strategies.

■ There has been significant capital investment in the infrastructure performance and capacity to support mobile working.

■ All of the Council offices are wireless enabled.

■ All staff have a laptop and soft phone using voice over IP technology, unified communication and video conferencing functionality.

■ The Council has implemented a ratio of 10 people to 5 desks and introduced flexibility in how employees are empowered and enabled to work, at home, on site, or in customers' homes.

■ Tangible and intangible benefits have been delivered – increased accessibility leading to increased productivity.

Exploiting technology to rationalise ICT infrastructures and applications

We found that nearly all Welsh councils were using centralised storage technology and a few were taking advantage of tiered storage. But the potential was not being fully exploited because staff continued to store data locally on desktop devices and a silo approach to information remained.

Plans to exploit technology and achieve efficiency savings by rationalising applications and optimising business processes are not well developed and councils have considerable funds tied up in applications systems. Frequently councils focus on prioritising new developments and do not consolidate and decommission applications and processes to reduce costs and maximising their use. The Welsh ICT strategy is to create a Wales Application Store, enabling the sharing and reuse of business applications, services and components across the public sector with organisations migrating from existing systems and contractual arrangements when feasible. We found that no council is formally and robustly reviewing and rationalising its application portfolio. However, a range of associated activities are taking place across Wales.

Characteristics of effective rationalisation of applications

- The Council knows what applications and processes are used and has a plan to consolidate and optimise and an annual application review process

- An application decommissioning strategy is in place.

- Business Process Re-engineering teams work with service areas and the ICT service to improve business

- Service areas collate and submit information to senior managers so that they can make decisions

- There is a solid foundation of data about the application inventory

- Scalable, agile solutions are based upon components, which can be brought together in different ways.

- Integrated applications ensure information is stored once but used many times

- Resilient through using shared services and application stacks.

Review and evaluation promotes further improvement and demonstrates efficiencies

Welsh Government and councils do not challenge and scrutinise technology plans, nor evaluate the impact of technology, but are good at sharing experience.

There is little evidence of robust and effective scrutiny and challenge of councils' use of technology. In a few councils, members take an active role but typically, members do not formally endorse ICT strategies and scrutiny agendas have not included technology-based issues. Councils are not effectively demonstrating the impact of technology and return investment is not well established. Few councils have undertaken robust evaluations of benefits, costs and efficiencies or are effectively reviewing and monitoring different channel use and assessing the impact and cost savings. Most have opted to use SOCITM's indicative costs.

Technology has the potential to deliver efficiencies but ICT developments can be expensive and cause inefficiencies if not properly planned and managed from an organisation-wide perspective. Many technology developments do not realise their full potential in terms of benefits and efficiencies because of an unwillingness to change.

Conclusion

Key, well established uses of technology include:

- providing different, cheaper ways (access channels) to interact with citizens such as web and telephony based technology
- providing flexible, mobile and remote working arrangements
- rationalising printing to achieve savings in the order of 25%, and
- consolidating electronic storage, providing a simple, cost-effective way to meet growing requirements for data sharing, high performance, and high availability of data and information.

These and other uses of technology can assist organisations in transforming services, improving outcomes and saving resources.

However, the way in which technology is delivered and managed has a direct impact on the efficiency, effectiveness and quality of work undertaken across a council and affects almost every worker. Poor ICT governance can lead to the use of inappropriate systems, system unavailability and frustration throughout an organisation.

Janet Villars
Principal Performance Specialist, Wales Audit Office

Internal auditing in a shared service world

The shared services service delivery model has taken Local Government by storm! In 2005 about 20% of local authorities in England had some form of shared service; in 2013 it was 95%. The Department of Communities and Local Government defines a shared service as:

"... one where two or more authorities work together to commission and/or deliver a service or function for the purposes of improving that service or function."

The first shared service arrived in my authority in 2008. Since then, the concept has taken off, with examples including:

- shared
  - CEO
  - directors, heads of service and other officers
  - finance, procurement, payroll and human resources
  - ICT, legal, internal audit, building control
- environmental services company
- leisure and culture trust
- outsourcing, co-sourcing and many other forms.

So why am I writing this article?

To share with colleagues some of my knowledge and experiences, and my findings so far from my PhD thesis. I will try to keep this article balanced between reality, professionalism and academia.

First things first: should shared services interest internal audit?

CIPFA's 2010 *Statement on the Role of the Head of Internal Audit* says that our role includes commenting on responses to emerging risks and proposed developments. Shared services certainly qualify. And, the nature of our work, according to the *Public Sector Internal Audit Standards*, includes all aspects of the organisation's governance, management of risk and control.

I have evidence showing how serious a risk shared services can pose. If they go wrong and your organisation needs to unravel the shared service, it can be very expensive in monetary terms and in terms of staff morale, management time and loss of services to local people.

I believe, therefore, there is a clear rationale for internal audit to get involved at various points in a shared service's life. The question is how and when?

Concepts from my research that have helped me

Role of internal audit is the 'act of assuring'

We talk about internal auditing providing assurance. I've found it useful to define assurance as the act of assuring.

I believe, based on my research, that we need a more fluid approach to our role. We need to identify the object we are looking at and the different stakeholders to whom we are providing assurance. As we provide assurance to various parties, at various times, and in various spaces, we have to address the many different faces or perspectives of the object.

Each shared service is an object. It has many different faces on which we have to report differently at different times to different stakeholders. I'll try to illustrate that in the rest of the article.

The concept of a boundary object

My PhD research has shown me the importance of setting out the criteria and objectives against which the shared service can be managed. An academic concept called the 'boundary object' (BO) has helped me rationalise and understand this need.

Susan Star and James Griesemer defined the boundary object in 1989 as:

"scientific objects which both inhabit several intersecting social worlds and satisfy informational requirements of each of them."

This means key documents, devices, tools and behaviours that help link different parties together. For example, a business case document is a key boundary object.

BOs exist where the different parties to an agreement or transaction overlap or meet. A simple illustration shows a boundary object located at the intersection of three parties (or social worlds, to use the academic language) – A, B and C.
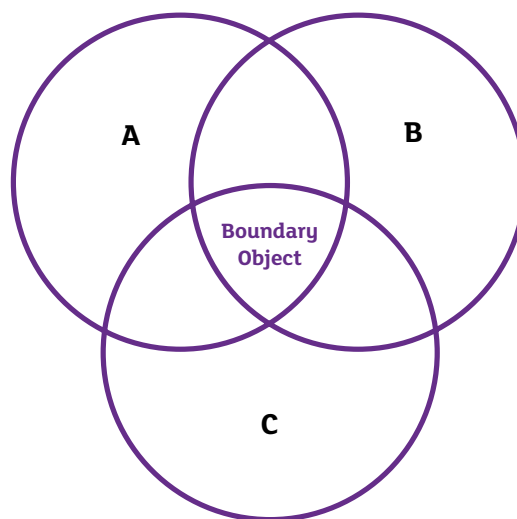
A and B could be local authorities and C the new trust they have set up. Or A, B and C could be three different authorities coming together to set up a new shared service. You can have more than three parties too, for example, one of the shared services I have seen involves four local authorities and two companies.

With many parties involved, it helps to ensure we are all singing from the same hymn sheet – the BO being that hymn sheet.

When there is more than one internal audit service seeking to provide assurances to their own organisations, the BO can help to avoid duplication and give us a basis for discussing assurance mapping and where we rely on one another.

The phases of shared service development

I have identified five phases of the creation of a shared service. The phases are not necessarily clearly distinguished and a shared service project may exist in multiple phases at the same time. Let's discuss each of these phases in a bit more detail.

Phase 1: Concept to business case

At the start of this phase, internal audit is in a mode of horizon-scanning, on the lookout for emerging risks and new developments.

Internal audit will monitor the activity of commissioning schemes, the senior leadership team and other groups; review documents such as the corporate strategy, medium term financial strategy, cabinet forward plan and the risk register; and discuss what is going on in the business with managers during the course of internal audit engagements.

Once a shared services project has been identified one of the internal audit team will undertake a watching brief, assessing key indicators of risk, eg financial, operational, strategic and legal.

Internal audit should be looking for sound controls over the development of the business case as the concept develops. This will include such things as clear and clearly articulated objectives, proposed benefits that are within the tolerances of each party, and risks assessed as being in line with each party's appetite.

The act of assuring may include providing assurance to the audit committee or to senior management that the governance, risk management and control processes for developing a business case are effective. It may also include a more consulting role, coaching the team developing the business case in adequate levels of challenge to support the development of a robust business case and advising them on the adequacy of the design of governance, risk management and control aspects of the business case. It may also include providing an independent review of the business case or assistance with a Gateway[1] review. The exact nature of the work will depend on the party and the perspective of project involved.

The boundary objects in Phase 1 include business cases, change programmes, senior management decisions and gateway reviews. They hold a record of events that can be used to control the shared service development and help ensure it meets the requirements of the organisations involved.

The approval of a final business case, through all the necessary executive and council decision steps, brings Phase 1 to an end. The approved business case is the critical boundary object.

Phase 2: Business case to final implementation

Phase 2 includes all the work to implement the approved business case.

---

1   The Gateway review is a point in time where key stakeholders can review and agree stages in the project, this can include legal documentation review, business case and collaboration agreements, any stage regarded as significant and warranting a consensus (based on the OGC Framework).

The team who developed the business case may go on to manage the implementation but more often than not the team will be different and will certainly involve different stakeholders.

The implementation of the business case may involve several projects running at the same time. There should be an overarching group, making decisions from the perspective of the overall programme.

Internal audit can operate multiple roles in this phase, largely driven by the 'get it right first time' principle – as once the project is complete, further changes will be harder, and more costly, to implement.

This makes time and space of the act of assuring, ie when assurance is given and to whom, critical. Some things are practically speaking irreversible. This is a particular issue if a company type model is used for the shared service. The company will have its own internal governance and board, operating in a manner that is potentially invisible to the internal auditors from the shareholders, unless suitable provision is made during the implementation planning.

Internal auditors can access some entities more easily than others. There may be rights of audit written into the contract. Where that is the case, internal auditors must be mindful of issues of confidentiality and conflicts of interest. If you provide internal auditing services to both the new shared service entity and the local authority, then you must take great care to operate at all times within the appropriate jurisdiction and act for the right party. Your own operating procedures will need to be checked to ensure appropriate Chinese walls or similar are in place.

Again, the BO will be crucial here to set out the governance of the shared service and if it is appropriate for you to access the information. Do not assume that because there is a link to the original local authority provider that you as the internal auditor of that local authority can still have access to the shared service information.

Phase 3: Implementation to stability/structure

Once the shared service is live there is a period where the new entity attempts to stabilise its local world. This is the time when the new management of the service works to operate the service as initially intended in the business case. Key boundary objects in this phase would be the Gantt charts, project updates, project board/management decision logs, minutes of meetings and legal agreements.

Internal audit is now closer to being able to provide assurance over the operation of the new entity but it will still provide a significant amount of consultancy.

There are new parties interested in the assuring work. For example, internal audit may now operate an internal audit plan for and on behalf of the entity, focussing on its own risks.

Internal audit may still issue reports to the audit committee at the shareholder authority, but they are different from reports on the system prior to the shared service. They now provide assurance to audit committee that the control framework at the authority operates effectively to monitor service delivery, not to deliver the service; and that the delivery of the service is as set out in the agreements. (Legal agreements are key boundary objects that have a substantial durability.)

Phase 4: Stability/structure to cultural identity

In this phase any new structures or systems have been fully implemented and their controls framework is stable. The shared service is now fit for purpose and delivering the agreed specification.

There is a shift in accountability from project management or programme boards to individual officers, eg new payroll clerks. This phase is where the employees understand and develop their roles and responsibilities. The internal audit may look to benefit realisation as part of the engagement objective as well as an assessment of the control framework. The type of boundary objects at this stage would include job descriptions, business cards, structure charts and mission statements.

Phase 5: Exit, collapse or other significant variance

At any point in the process the project may cease or change significantly.

In the event of a shared service failure, internal audit may undertake a post-collapse review or a lessons learnt exercise. There are different kinds of failure; one that permits lessons to be learnt may be regarded as a useful kind of failure. The act of assuring here can help ensure that we do learn.

Causes of significant change include the entry of a new partner, the change of service delivery model or of host employer. Significant changes will trigger a repeat of phases 1 to 4. In which case, internal audit work will follow the ideas above.

Some other factors considered by internal audit

■ **Instability of systems**

During the development phases, the instability of the systems hamper the efforts of those responsible for governance and of internal audit to gather sufficient information from which to draw a conclusion on the effectiveness of the internal control framework.

It may be possible to defer internal audit work until the shared service stabilises. However, this doesn't help management and the audit committee who expect and need a conclusion every year. It is worth noting that some of the shared services I have seen have taken years to stabilise and some are still trying. The moment of tranquillity may never actually come but the act of assuring can continue.

The system needs to be stable for long enough for testing and information gathering to take place. Where the system is not yet stable enough for a full opinion to be given, an interim report may be issued.

■ **Costs of unravelling a failed project**

There is a great deal of evidence of the costliness of trying to reverse a shared services project. The nature of the risk depends on the shared services model used. The basic rule is that the more complex the model, the greater the risk of expensive failures. The more complex models I have seen have required initial investments by the local authorities and significant movement of staff and structures, for example, the TUPE of staff to the new company. Once the service is in its new model of delivery it can become more difficult to work out who should bear costs of failures and who should transfer back to the authority. There are

examples of authorities attempting to sue another party as a result of a shared service failure.

■ **Co-ordination and co-operation**

As indicated above, with shared services there is a real possibility of more than one internal audit service being involved. For some shared services, it may be only one other, but in some cases it could be one internal audit representative for each involved partner. Therefore it is a requirement of the head of internal audit to ensure that assurance provider activity is co-ordinated and there is avoidance of duplication. This requires the co-operation of each internal audit service involved.

■ **External audit**

The external auditor has a responsibility, inter alia, to form an opinion on the final accounts and, to varying degrees, relies on the work of internal audit. This is no different for a shared service, but its precise way of working may vary depending on the model used. For example, a company has its own external auditor for its own accounts, whereas hosted shared services will be audited by the host's external auditor. This process could lead to duplication of effort or wasted effort if not carefully managed.

■ **Internal audit standards**

Some shared services operate under different core governance arrangements from local authorities, eg Companies Act, Charities Commission. This requires internal audit to be versatile enough in operational standards and expertise to deliver internal audit services to these organisations or reconsider the nature of the engagements in response to changing corporate governance specifications. The *Public Sector Internal Audit Standards* apply across the UK public sector and incorporate the *International Standards for the Professional Practice of Internal Auditing* which are used in other sectors. Therefore, it is possible that this will provide consistency of language and expectations that will assist internal auditors.

■ **Residual service**

Once a shared service has been established, there will inevitably be some residual service left within the organisation, even if it is only service delivery monitoring. These elements should be reviewed by internal audit in part due to the intrinsic instability to existing structures created by the changes and in relation to the residual risks of the normal service delivery that remains. In my experience, what remains is rarely the focus of institutional designers and policy makers. They are focused on the object to be changed, not the object that remains.

■ **Interference, interdependencies and 'double hatters'**

As has been discussed above there are phases to the establishment and delivery of a shared service. However, at any point in time and space as one shared service moves through those phases, another shared service may be birthed. The new shared service will demand resources. In most organisations there is a finite amount of suitable resource. Therefore, as resources move to feed the new shared service, this is likely to create 'interference' in the time-line of the existing shared

service. This can be particularly troublesome where the critical path of both shared services is targeted to the same point in time.

An interdependency may arise from such interference, or from other causes. This is where one or more shared services depends on other shared services and/or vice versa.

Finally, we consider the concept of the 'double hatter'. This is where one officer finds they have more than one role to play. How does this arise? The shared services are developed within particular governance frameworks and may, for example, entail the use of a director on a client officer group. However, when the director has already been shared it is possible that they find themselves trying to act on behalf of the two partner authorities, holding two votes on a client officer group. The internal auditor role here is particularly useful in looking out for these potential conflicts of interest but also being pragmatic in terms of what other compensating controls could be in place or prioritising the conflict risks.

Conclusion

This article has described a small part of my PhD research project into the governance of shared services in Local Government. The issues described are not exhaustive.

I hope this has been an interesting read. There is a lot more to come in the future.

Acknowledgements

The Audit Cotswolds Team, in particular Duncan Edwards, for their efforts in finding a way through the fog of shared service auditing. And to Dr Paul Davis, my Director of Studies at University of Worcester, for his time in challenging debates over this interesting subject.

Robert Milford
Head of Audit Cotswolds

Future courses from CIPFA

IIA and CIPFA awards for public sector internal audit

Study with us to develop your understanding of internal audit principles and their application in the public sector, courses running 19-20 and 21-22 November 2013.