AUDITING SHARED SERVICE PROJECTS: WHO GETS THE VOTE?

Robert Milford
MA, PGDip, CMgr, FCMI, CFIIA, MMS
Head of Audit
Cotswolds

Two significant factors are at risk if a room full of people all make a decision; namely accountability and appropriate authority.

I am in my final year of a PhD, finalising my model for internal auditors to use in the collaborative working world, and the following example is one area of complexity that should concern us all.

When multiple organisations form a group or board to manage a change programme, the group will often be advised by management change theorists to seek 'buy-in' from the group. Buy-in helps to ensure everyone is behind the change proposed. However, herein lays the risk that internal auditors need to safeguard against.

Two significant factors are at risk if a room full of people all make a decision; namely accountability and appropriate authority.

Using a fictional case we can map out these two issues/risks.

A group of six local authorities is looking to create a more efficient and effective finance service that as a whole reduces the cost of the service for each partner.

Each LA has appointed a senior officer to represent them on the change programme board. Also, the board has recognised that they will need help from the following support services: finance, human resources, legal, internal audit, ICT, property, procurement and the project office.

These resources have been sought from each LA and is set out in the table below.

A decision is to be made in this meeting on how the first £1m is to be spent on project management. The group has a debate and the following happens:

- The group has appointed the CEO of LA2 as the Chairman for the group, due to her status and experience.
- The CEO LA2 steers the meeting using internal audit and legal to support her opinion.
- The CFO LA3 is aligned to the CEO LA2 opinion and uses influence to ensure finance, HR, property and procurement all align.
- The Senior Manager LA6 is silent throughout.
- The CEO asks for a consensus from all present on the action to spend the £1m and achieves a majority of 10 to 4 hands in the air and the money will be spent on LA3 ICT systems.

The partnership collapses three weeks later as LA1 and LA6 pull out.

Senior Officers	Support Officers
1. Director LA1	1. Finance LA3
2. Chief Executive LA2	2. Human Resources LA3
3. Chief Finance Officer LA3	3. Internal Audit LA2
4. Director LA4	4. Legal LA2
5. Director LA5	5. ICT LA3
6. Senior Manager LA6	6. Property LA3
	7. Procurement LA3
	8. Project Office LA1

Collaborative working that has already linked senior management of two or more organisations may result in the 'shared manager' also representing these authorities in another collaborative working exercise. In this instance, it is important that the group recognises who the individual is voting for.

What happened?

Internal Audit has now been asked to find out why this project went wrong by the Audit Committee of LA1. Internal Audit has a number of aspects to consider**:**

Accountable decision-makers:

Who should have the decision-making powers to act on behalf of each LA? The answer is going to be subject to local decisions at each LA (in this example). However, it should be viewed from an accountability perspective. Only one person must be accountable for decisions in the group that affect the organisation they represent.

Independent chairman for the meetings:

It is recognised governance best practice that a chairman running a meeting should be independent of decisions made in that meeting if possible [based on corporate governance models for companies – CEO/Chairman split]. The chairman should be focusing on the running of the meeting and ensuring comment is received by all (should have ensured LA6 was engaged).

Professional advisors:

The support services are all there to advise the group on matters relating to their areas of expertise. Particularly, internal audit and legal – their independence is an aspect that should be safeguarded; by involving them in the decision their independence is compromised.

By opting to use consensus to make the decision, then all the support services generate a vote. In the case example, the support services swung the vote in favour of two LAs.

Multiplicity and double-hatters:

When considering decisions in the environment where more than one organisation is present, it is important to also consider where officers may represent more than one organisation.

Collaborative working that has already linked senior management of two or more organisations, may also result in the 'shared manager' representing these authorities in another collaborative working exercise. In this instance, it is important that the group recognises who the individual is voting for.

For example, asking the individual to state which organisation his vote represents on each occasion. The minutes would then record this and it keeps the vote linked to the appropriate organisation and clarifies accountability.

Governance and multiple organisations

The collaborative programme group will need to establish itself as an 'entity' relatively quickly.

This does not mean that they need to be legally established, just that they need to behave in the way organisations would. The collaborative group is a networked construct and will not initially have a hierarchy of decision-making and indeed an identity or culture.

This will be necessary when project management tools are introduced and such systems as risk management are established. The issue is all about appetite, in particular, risk appetite. The organisations from which the group's representatives have been appointed will have an embedded risk appetite, ie what they will tolerate, treat, terminate, transfer and exploit in terms of risks.

The collaborative group should therefore establish a risk management scheme that they can work with and capture the 'entity's' risk mitigation strategies.

This appetite will be put to the group by each individual representative. The result in a six-way collaboration is six risk appetites and therefore six rationales for certain decisions. It is not practical (and basically impossible) for the collaborative group to reflect all these difference appetites, thus negotiation and compromise are triggered.

However, the risks faced by the collaborative group will be different to those back at the representatives' organisations and therefore the actions necessary to mitigate those risks.

The collaborative group should therefore establish a risk management scheme that they can work with and capture the 'entity's' risk mitigation strategies.

The representative should then take these risks back to the individual organisation, convert them to reflect the impact on their organisation and reassess.

This can be seen as an arduous task by some, but inevitably it helps by ensuring the risks to the collaborative programme are appropriate and the impact back at the organisations is also appropriate.

An example could be the impact on a collaboration group due to unexpected increase in ICT infrastructure requirements.

If all partners need to be on a Windows 2010 platform – some organisations may already be there, others may need complete rebuilds. The cost implications therefore may be huge on one and negligible on another, but the cost across the collaboration may be balanced.

This will require partners supporting each other. In a risk register for the collaboration it may be 'green'; in the local registers it could be 'red' due to the impact (based on RAG rating system).

Don't forget the machines:

It is all well and good that we have clarified the people able to vote, but in situations where complex ICT systems are involved it may be necessary to have a vote from the ICT representative.

This enables the group to consider if the system can do what they are voting for. This is often a retrospective influence on the group, ie the ICT project is tasked to do something and then find they are unable to deliver.

References

Czarniawska B. (2004) *On Time, Space and Action Nets*, Paper prepared for the International Conference on *Spacing and Timing: Rethinking Globalization and Standardization*, Palermo, Italy, November 1-3, 2001.

Lindberg K. and Czarniawska B. (2006) *Knotting the action net, or organising between organisations*, Scandinavian Journal of Management, volume 22 number 4

Milford R. (2013b) *Internal Audit in the Shared Service World*, Audit Viewpoint, CIPFA Publishing

You can contact Rob at:
Robert.Milford@cotswold.gov.uk