



## Shared IT Services: how to ensure integrated IT Governance

Track C



# Shared IT Services: How to Ensure Integrated IT Governance

**Lily Bi**, Director of Technologies Practices, IIA

**Karine Wegrzynowicz**, Internal Audit Director, Lafarge Group Audit





# Outline

- Business and IT
- Governance and IT governance
- Shared IT services: co-sourcing / outsourcing
- Integrated governance
- Service Level Agreements and SAS 70





# Governance

## IIA's Definition of Internal Auditing

Internal Auditing: an independent, objective assurance and consulting activity designed to add value and improve organization's operations. It helps organization's accomplish objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes.

### From 1999 – 2009

<u>Focus</u>	<u>Score</u>
Control:	A
Risk Management:	B
<b>Governance:</b>	<b>C</b>
	<b>(Evolving)</b>



# Governance

- The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.
  - IIA's International Professional Practice Framework (IPPF)
- Four corner stones of governance





# IT Governance

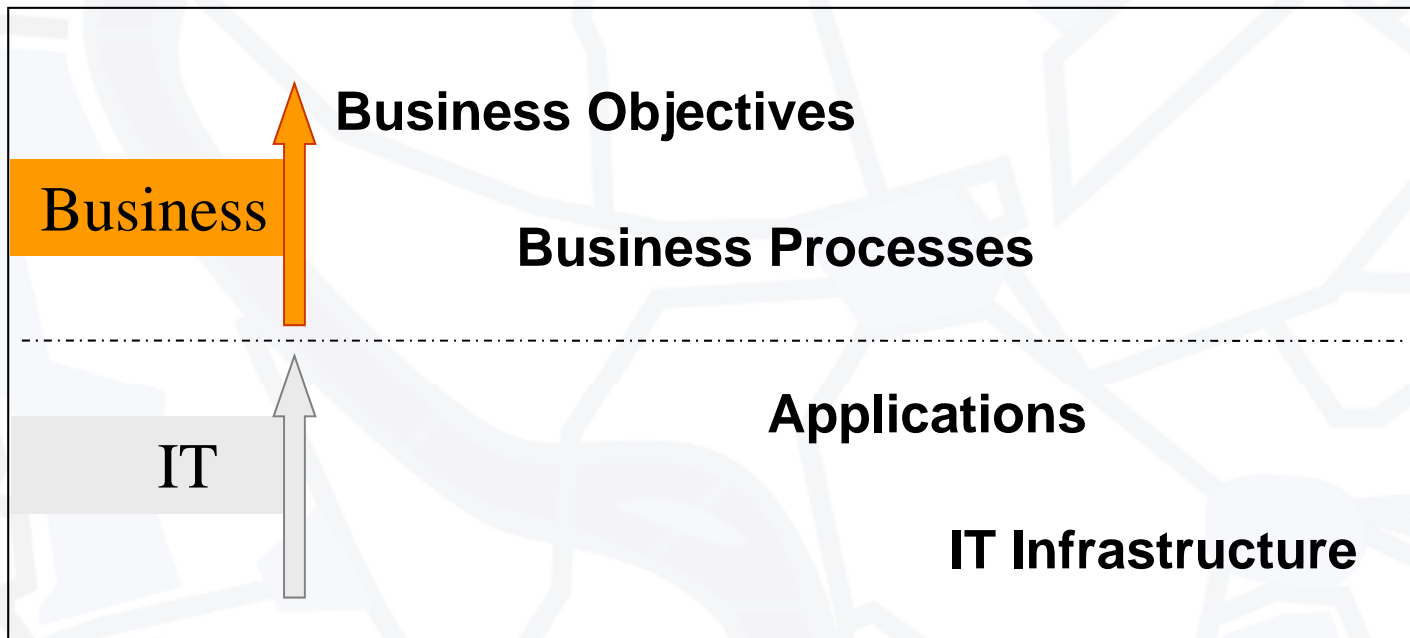
- Consists of the leadership, organizational structures, and processes that ensure that the enterprise's information technology sustains and supports the organization's strategies and objectives.
- *Standard 2110.A2* – The internal audit activity must assess whether the information technology governance of the organization sustains and supports the organization's strategies and objectives.

– IIA's IPPF



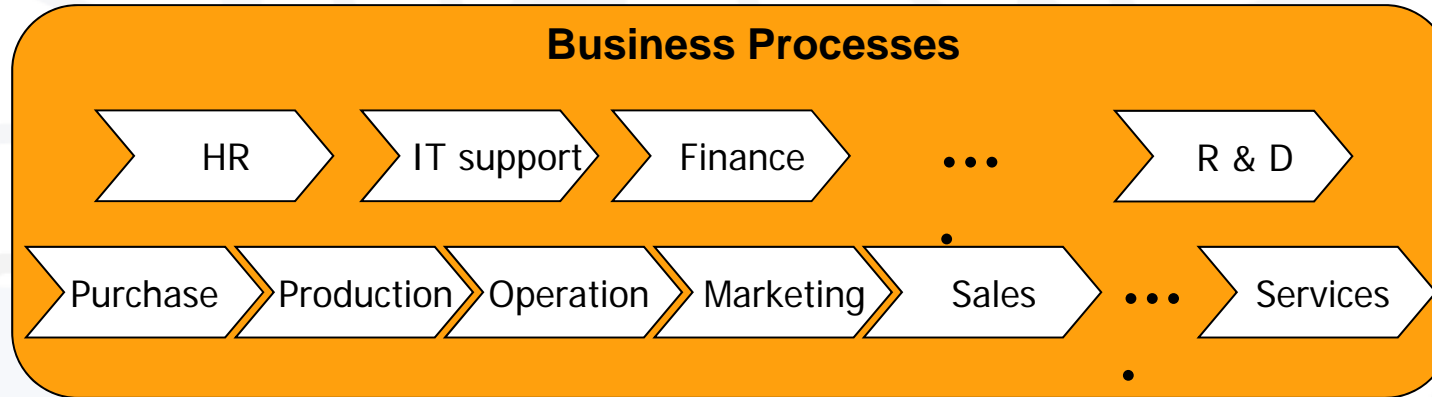
# Business and IT

- IT exists to support & further business objectives.

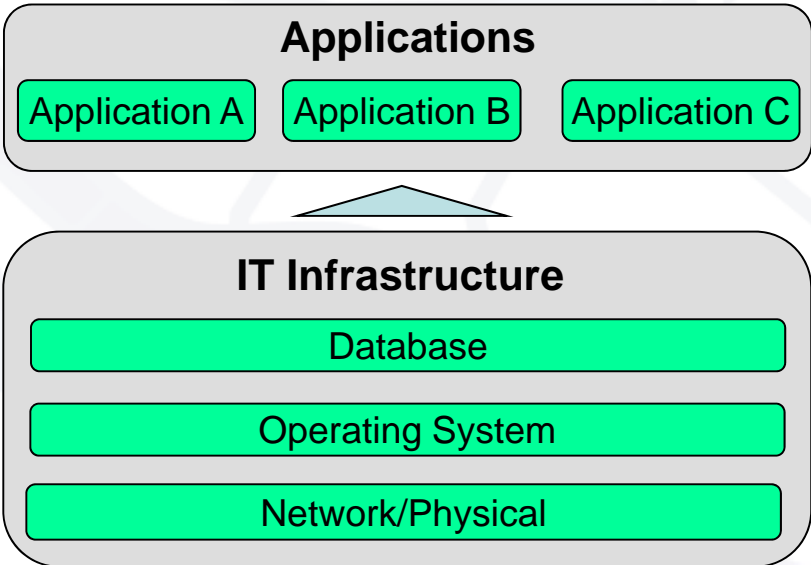




# Business and IT – An Example



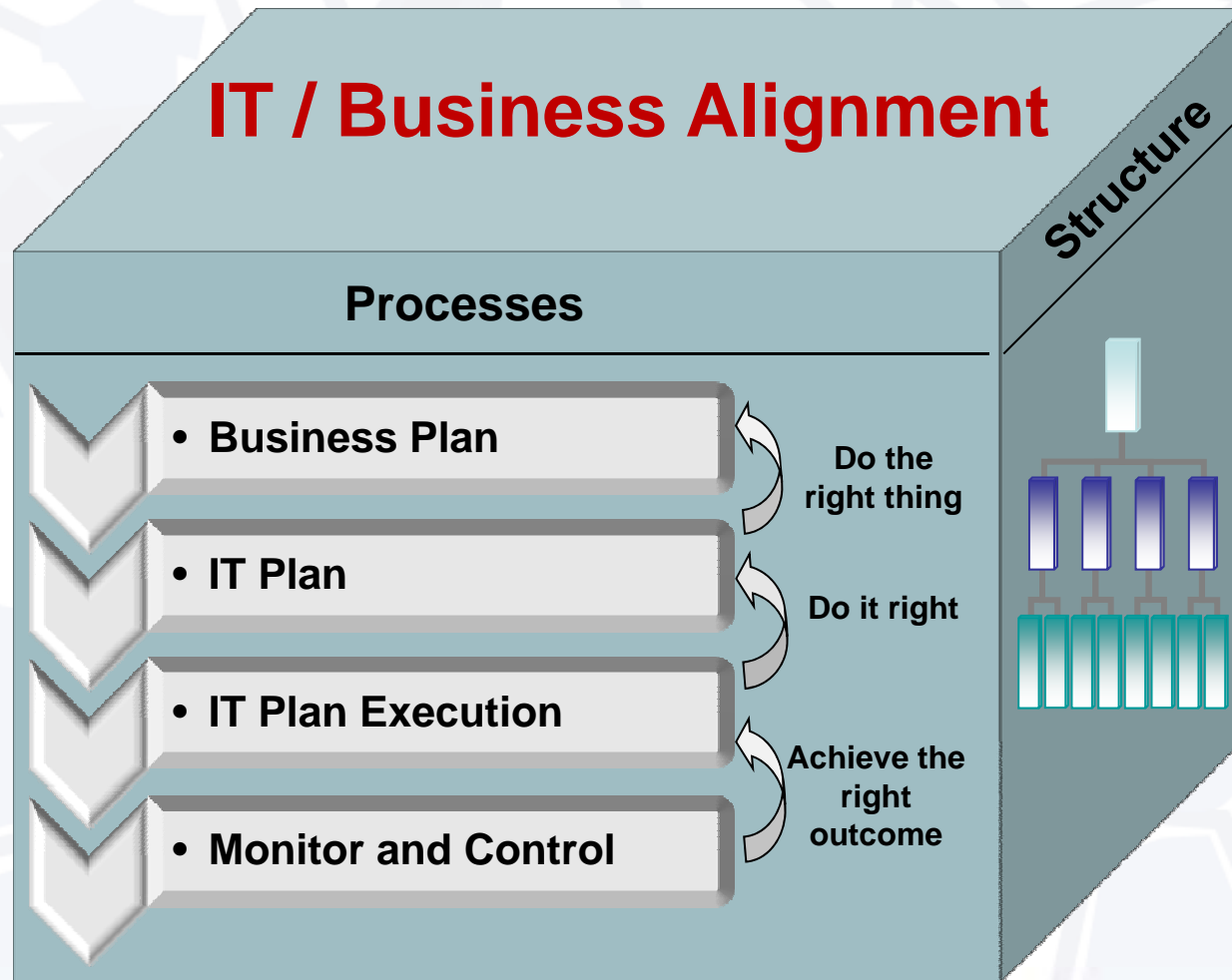
- IT General Controls**
- Systems Dev.
  - Change Management
  - Logical Access
  - Physical controls
  - Service & Support Processes
  - Backup & Restore



- Application Controls**
- Authorization
  - Integrity
  - Availability
  - Confidentiality
  - Segregation of duties



# IT Governance Framework





# Examples of Good IT Governance Practices

## At structure level:

- IT steering committee,
- CIO reporting line and interaction with C-suite,
- IT leadership

## At process level:

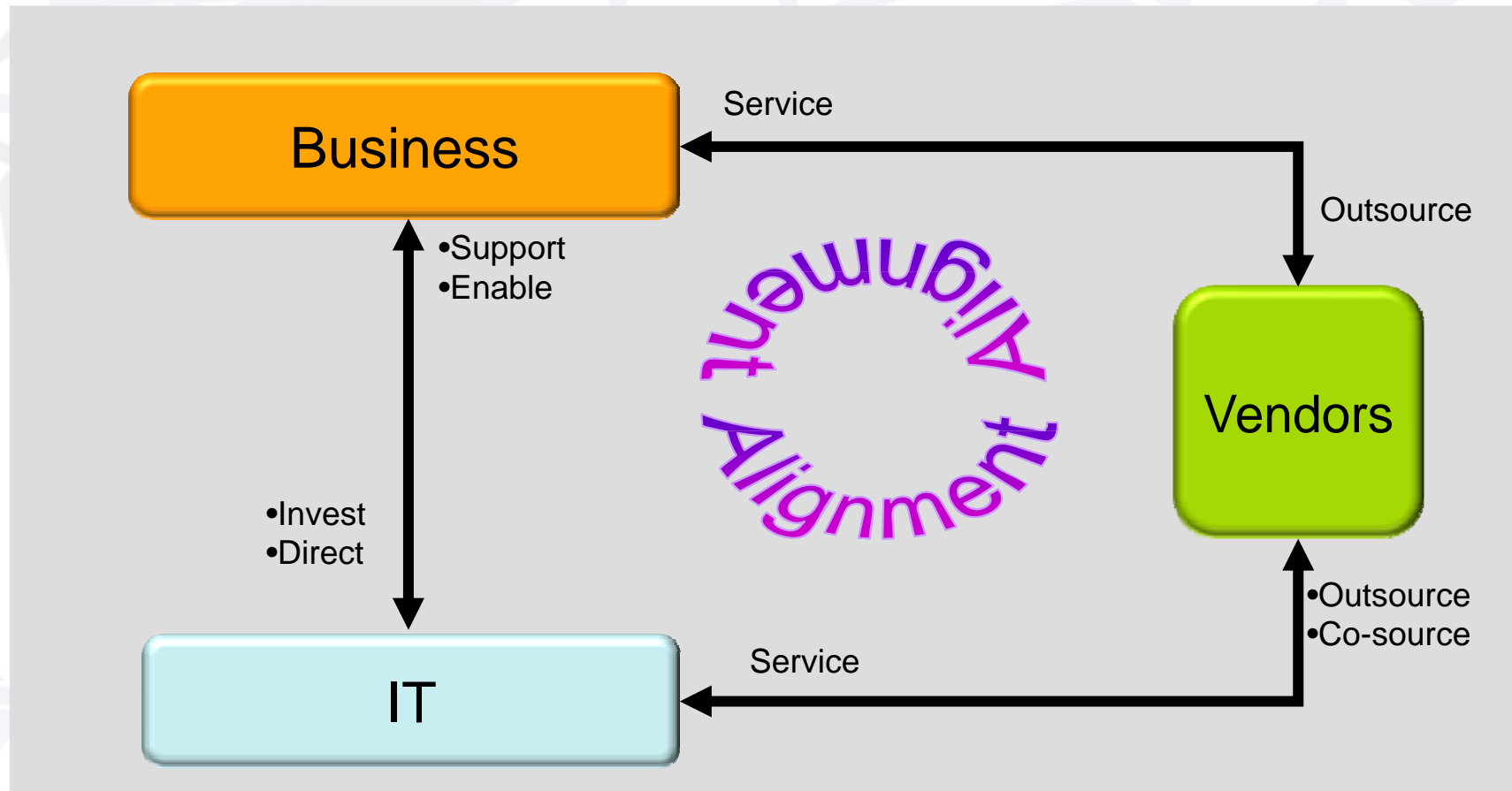
- Strategic IS planning,
- Project management methodology,
- IT budget control and reporting,
- Portfolio management,
- Balance scorecard
- Formal and informal meeting between business and IT senior management





# Integrated IT Governance

Consider integrated IT governance in a shared service environment.





# Governance Considerations In Shared Services

Shared services	Governance Considerations
Co-source program development	<ul style="list-style-type: none"> <li>• Define roles and responsibilities among vendor, internal IT and user departments in the contract</li> <li>• Ensure vendor has a well-defined Systems Development Methodology, programming standards, an effective system to prioritize all program modification requests.</li> <li>• Involve both IT and user and clearly define system requirements to ensure the new system meets the business goals</li> <li>• Monitor of development process</li> <li>• Involve both IT and users and develop test plan to ensure the new system meets the original requirements</li> </ul>
Outsource computer operations	<ul style="list-style-type: none"> <li>• Define the service level expectation in the contract</li> <li>• Have a mechanism to monitor security - physical and logical access, and privacy</li> <li>• Ensure the vendor has adequate business continuity plan</li> <li>• Ensure the compliance with law and regulations</li> </ul>





## Types of Outsourcing / Co-sourcing

- Infrastructure and computer operation
- Application development & maintenance
- Independent testing & validation services
- Systems integration

Question: Give an example of your organization





# What Could Go Wrong?

- Security
- Unauthorized access
- Availability
- Data loss
- Loss of knowledge
- Failure of IT investment
- Breach of contract/risk of legal action
- Reputation damage
- ...





# Outsourcing Life Cycle

## Alignment

- Validating the strategy
- Identifying the options
- Preparing the business model
- Agreeing on sponsorship and building the team

## Transaction

- Structuring the deal
- Agreeing on the assets
- Negotiating the contract
- Delivering the deal and the business case

## Optimization / transformation

- Monitoring the contract and resolving disputes
- Transforming the business
- Re-assessing the relationship
- Delivering the business case – realizing the benefits

governance process

alignment

feasibility

transaction

transition

optimization /  
transformation

termination/  
renegotiation

project and risk management

## Feasibility

- Building the business model and case
- Creating the baseline
- Understanding the market
- Assessing and benchmarking the options

## Transition

- Delivering the change
- Getting quick wins
- Establishing the culture
- Managing the people

## Termination / renegotiation

- Planning the termination
- Renegotiating the contract
- Decommissioning and/or reallocating





# IT Outsourcing Risks

**You can outsource services, risks remain in the organization**

**Strategy:** Outsourcing strategy is not aligned with corporate objectives.

**Feasibility:** Assumptions (e.g., payback period, customer and supply-chain impacts, and cost savings) are wrong as the result of inadequate due diligence from suppliers and the organization's failure to assess relevant risks.

**Transaction:** Procurement policies are not met; proper service-level agreements are not implemented; operational, human resources (HR), and regulatory implications are not considered; and contingency arrangements are not planned.





# IT Outsourcing Risks

Some more examples

**Transition:** There is a lack of formal transition planning, failure to plan for retention of appropriate skills, and an ineffective escalation and resolution of operational IT issues.

**Optimization and Transformation:** The outsourcing contract is not managed effectively. Therefore, outsourcing benefits and efficiencies are not achieved.

**Termination and Renegotiation:** There is an inadequate termination of outsourcing processes.





# Integrated Governance – Alignment and Feasibility

- Align the outsourcing decision with the organization's key business objectives
- Build the business case
- Identify the options – outsourcing, co-sourcing, in-house.
- Leadership and ownership
- ...





# Integrated Governance – Transaction

- Choose the right service provider, who
  - Understand the needs of the organization
  - Maintain financial and operational well-being
  - Has the expertise, experience and sufficiency of resources
  - Maintain adequacy of internal controls
  - ...
- Legal and contract considerations





# Integrated Governance – Transition Management

- Loss of key resources
- Operational difficulties encountered
- Loss of customer confidence
- ...





# **Integrated Governance – Transformation and Optimization**

- Services provided fall below expectations
- Return on investment not as expected
- Rise in or unplanned costs
- Organization changes





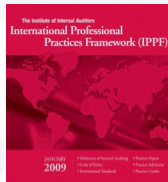
# Examples

- Service Level Agreements (SLA's)
- US SAS 70 Type II
- ISA 402: International Standard on Auditing (ISA) 402 is an international equivalent of SAS 70 in the US, also uses designations such as AGS 1042 (Australia), Section 5900 (Canada), FIT1/94 (United Kingdom), IDW PS331 (Germany), and ASCR18 (Japan).





# Reference



- International Professional Practice Framework (IPPF)



- GTAG 7: IT Outsourcing



- GTAG 11: Developing the IT Audit Plan





# Q & A

Contacts:

[Lily.Bi@theiia.org](mailto:Lily.Bi@theiia.org)

[Karine.Wegrzynowicz@lafarge.com](mailto:Karine.Wegrzynowicz@lafarge.com)

