Internal Audit perspectives.

Is your shared service center
cutting edge or cutting corners?

PricewaterhouseCoopers

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Today's economic challenges and uncertainties have business leaders looking for every possible means by which to protect the bottom line. The smart money knows that chipping away at—or worse yet, slashing—only obvious cost targets will not yield sustainable results.

In the midst of ongoing fiscal frugality and growing global interdependence, shared service centers (SSCs) continue to gain momentum as senior leadership assesses long-term strategies for improving operating efficiencies in day-to-day activities. In fact, an estimated 80 percent of the global top 2,000 organizations have deployed some degree of shared services, according to PricewaterhouseCoopers (PwC) research.[1]

Although companies generally do not appear to be rushing rashly into SSC models[2], the decision to implement such a model requires careful risk and control oversight—expertise that Internal Audit (IA) is well positioned to provide from the earliest stages of adoption and throughout implementation.

Changing times, changing ways

Shared service center models traditionally have aimed to save money by consolidating a set of competencies and standardized services into a single entity serving multiple business units. SSCs increasingly have been seen as a way to build flexibility, redesign business models, spark innovation, and access human capital and skills.

SSCs can also provide a boost to companies undertaking acquisitions by streamlining integration and helping to pare redundancies.

To establish an effective SSC and mine its potential, a company must look beyond near-term cost benefits and identify long-term strategic goals. Leadership also needs to plan for the cultural changes that accompany the transformation to an SSC model, including through acquisitions. Change management challenges can be significant, depending on how the entity and its impacted functions were organized prior to the SSC rollout. Training, communication, and related programs are key to successful implementation.

1 Driving efficiency through shared services, http://www.pwc.com/us/en/issues/efficient-shared-services-centers/shared-services-efficiency.jhtml, PwC.
2 PwC 2008, as referenced by Shared Services News, February 2009.

The changing scope of the shared service model

Who, what, where	Traditional view of SSC	New SSC approach
Functional scope	Highly transactional activity, such as Accounts Payable and IT	Any function can be considered, including customer-facing activities; operational functions; and centers of excellence/ program management.
Driver	Tactical initiative at the functional level	Element of a company-wide strategy
Primary goals	Cost reduction from centralization	Process improvement, service level and capability enhancement, and cost reduction
Location	Centralized at or near the company	Proximity to the company not a key determinant
Scale	Typically limited to specific functional areas in large companies	Scalable to smaller companies and a broader range of functional areas

Sourcing approaches

- **Outsourcing:** Sending job functions outside of the organization, as opposed to having them performed in-house
  - **Offshoring:** Replacing domestically supplied service functions with imported services produced offshore
  - **Nearshoring:** Sending job functions outside of the organization but relatively nearby
- **Insourcing:** Delegating work to internal resources within a company, rather than outsourcing work
- **Co sourcing:** Collaborative partnering between an organization and a third party, an arrangement that typically involves risk sharing

Note that while a centralized processing business model relies upon co-located transaction processors, SSCs can take on a variety of formats.

What constitutes a successful shared service center?

SSCs may be proliferating, but volume does not mean value, and success is not an out-of-the box commodity or an out-of-the-gate win. Careful planning, a focus on long- and short-term benefits, and a comprehensive change management plan that is developed early and applied throughout the implementation are crucial. The company should also maintain flexibility, anticipate changes to the business and emerging trends, and adjust the service portfolio to respond quickly to changing conditions. Clear and measurable KPIs and SLAs should be established, and monitoring controls over performance should be implemented.

How Internal Audit can help

Internal Audit can be an important resource for companies seeking to take their operations beyond traditional structures and roles.

Companies should involve IA during each stage of implementation to provide insights on risks and assist in an evaluation of the controls management has put in place.

A risk assessment should help determine the strategy for IA's role in the migration by assessing the extent and impact of change to the organization. IA's involvement can vary from a role on the steering committee throughout the process to milestone reviews during implementation.

When IA is on board as a key stakeholder throughout implementation, a senior IA leader should participate on the steering committee to provide guidance and insight into the design of processes and controls from the outset.

Once the SSC is operational, IA can test transactions, monitor service levels, and recommend process improvements through objective reviews of operations. IA can also bring insights and focus on leading practices and emerging trends to help enable the company to respond proactively to a changing business environment.

Shared service centers provide a timely solution to continuing pressures for greater cost control, innovation, and global solutions to business needs. While they may well offer viable solutions to immediate challenges, SSCs are not a panacea and should not be embarked upon without close scrutiny, careful planning, and long-range goals and objectives. The work is keenly aligned to internal audit's expertise in risk, control, and operations. And the group should be at the table as SSC plans take shape and take flight within the enterprise and around the world.

Internal Audit perspectives.

Shared Services

Key questions for SSC audits

- Does my audit universe need to be redefined? How can I better define my audits in the new environment?
- How should I reassess my audit strategy on an ongoing basis?
- Do the controls now reside at the SSC or are they still in the business units?
- How much coverage can I get as a result of auditing at the center?
- Do I need to audit only at the SSC?
- How does an SSC affect sample size and sample selection when one moves from a decentralized environment to a shared environment?
- Are the processes and templates used across the SSC consistent? Do work-arounds proliferate?
- Can I use automation in the audit process more effectively now that I am auditing in an SSC environment?

Specifically for outsourced service centers:

- Who is monitoring risks during the transition?
- What is the steady state assurance strategy? (Who will provide monitoring and assurance, and what is the scope?)
- What audit clauses exist contractually for an outsourced center?
- Are you able to measure the risk exposure presented by each service provider?
- Has a steady state governance structure been put in place to manage both the shared services and the outsourcing arrangements?
- What are the regulatory constraints and how does the organization monitor changes and their potential impact on the SSC or the service providers?

Right here, right now. Your source:

PwC has published a series of comprehensive thought leadership articles on shared service centers, including *10Minutes on Finance and Accounting Shared Services.*

Contact information

For a deeper discussion on how Internal Audit can help support shared service center initiatives, please contact:

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