IT GOVERNANCE

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The Institute of
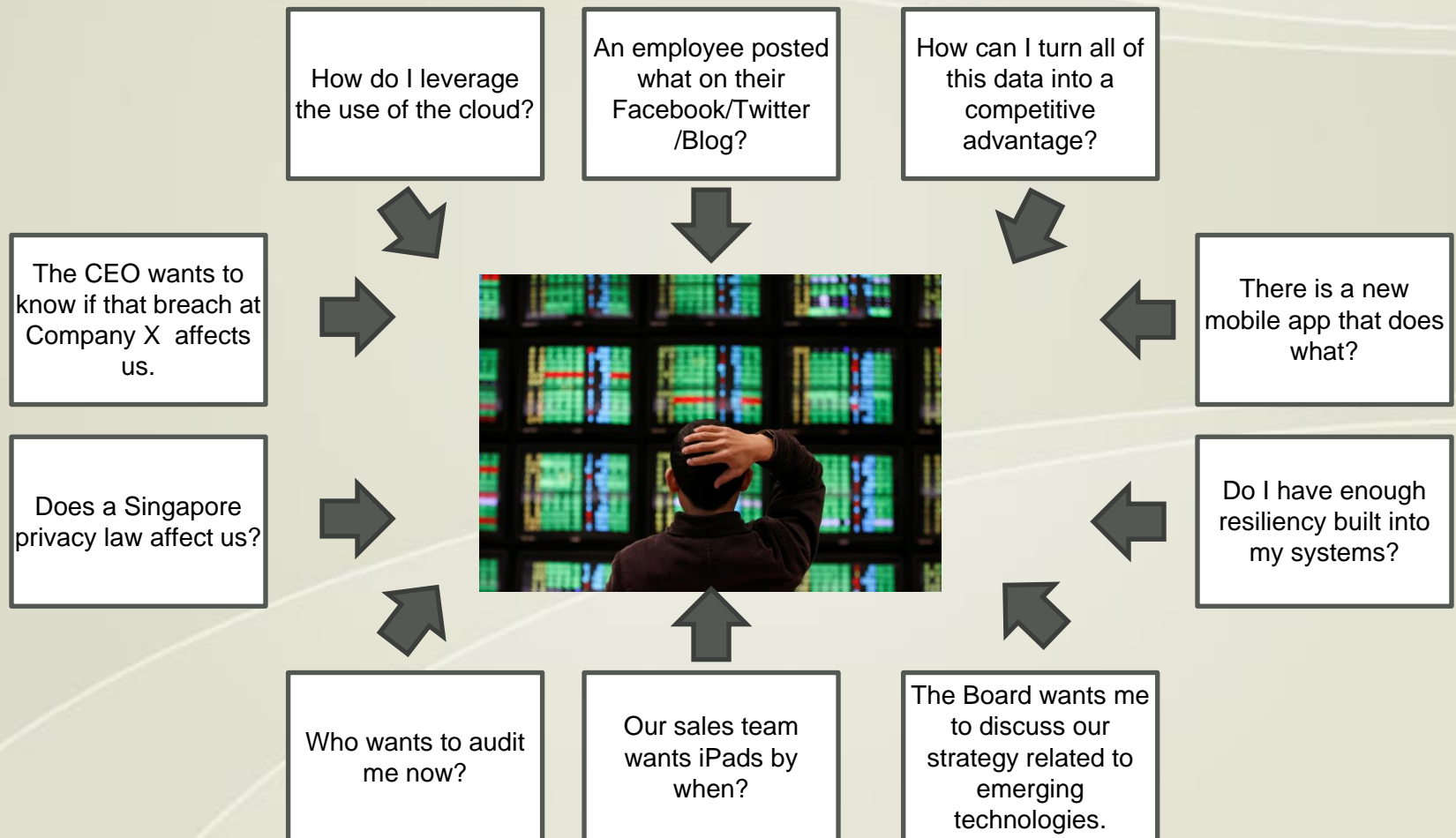Internal Auditors

Agenda

- The challenge
- IT Governance defined
- IT Governance components
- Next steps
- Questions

THE CHALLENGE

The Challenge

In a heavily digitized global business environment, it is difficult to assess risk levels and understand IT regulatory compliance. The continuous evolution of IT, combined with resource constraints, creates enormous governance and management challenges for the Chief Information Officer (CIO).

How do I leverage the use of the cloud?

An employee posted what on their Facebook/Twitter/Blog?

How can I turn all of this data into a competitive advantage?

The CEO wants to know if that breach at Company X affects us.

There is a new mobile app that does what?

Does a Singapore privacy law affect us?

Do I have enough resiliency built into my systems?

Who wants to audit me now?

Our sales team wants iPads by when?

The Board wants me to discuss our strategy related to emerging technologies.

Opting Out Of Social Media Is No Longer A Viable Option. CEOs Recognize The Power Of Their Online Dialogues.

US CEOs catching up to rise of social media

To what extent do users of social media influence your business strategy?

53%
US CEOs who say social media users influence their business strategy

69%
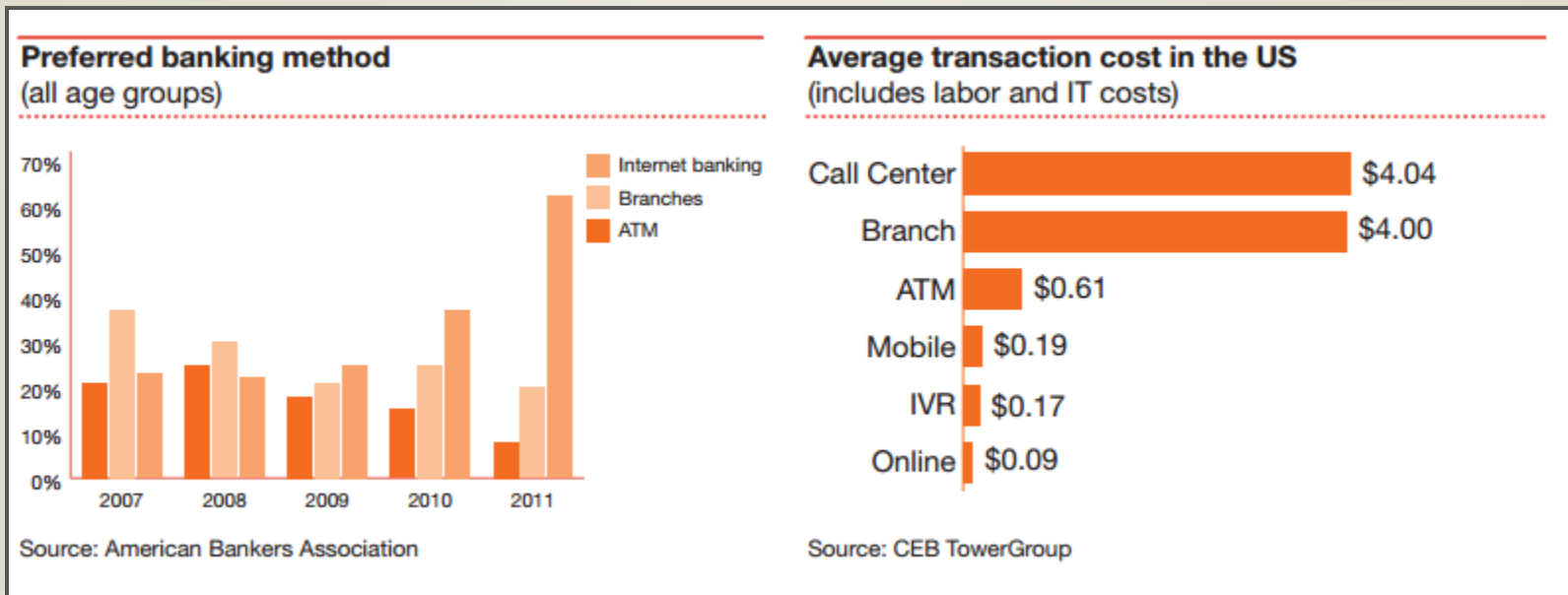US adult online users connected to at least one social network

Base: 167. Sources: PwC, *16th Annual Global CEO Survey*, 2013; Pew Internet Project, *Social Networking*, November 2012.
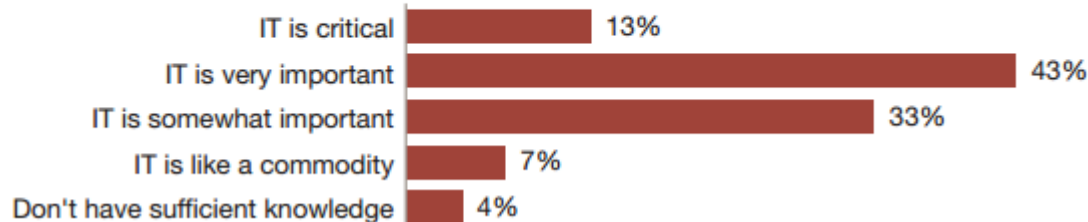
The Rise Of The Digital Consumer And The High-cost Infrastructure Of Physical Banking Locations Are Leading To A Declining ROI For Branches

- If the branch model stays on its current course, it will become a financial burden to banks, cutting deep into cross-channel profitability.

Preferred banking method (all age groups)

Legend: Internet banking, Branches, ATM

Source: American Bankers Association

Average transaction cost in the US (includes labor and IT costs)

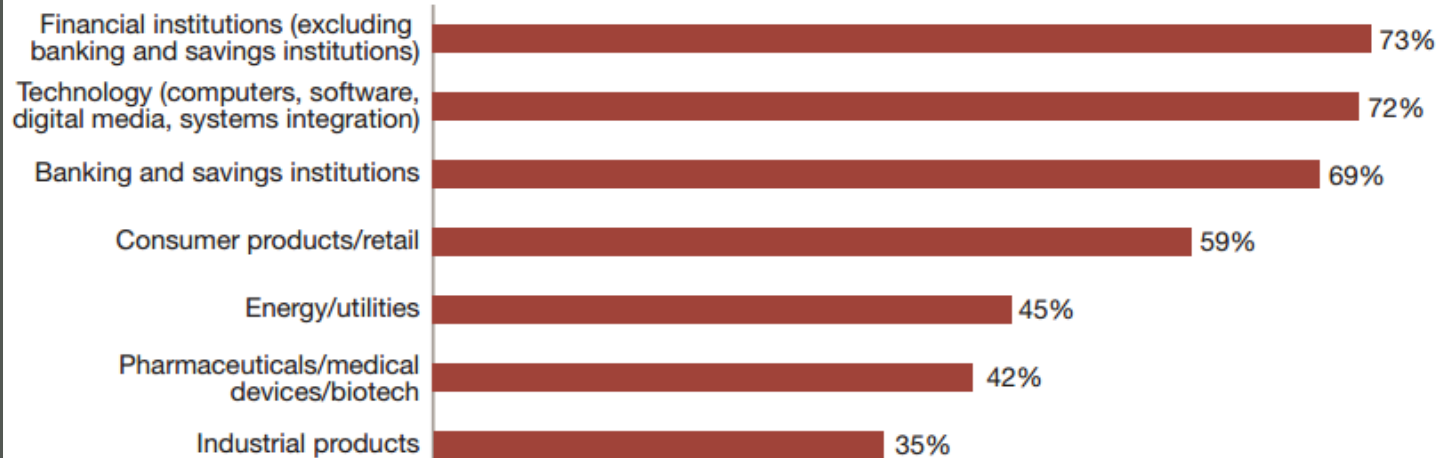| Channel	Cost
Call Center	$4.04
Branch	$4.00
ATM	$0.61
Mobile	$0.19
IVR	$0.17
Online	$0.09

Source: CEB TowerGroup

The Importance Of IT And How An Organization Governs IT Is Increasing

How critical is the effective use of information technology in creating long-term shareholder value at your company?
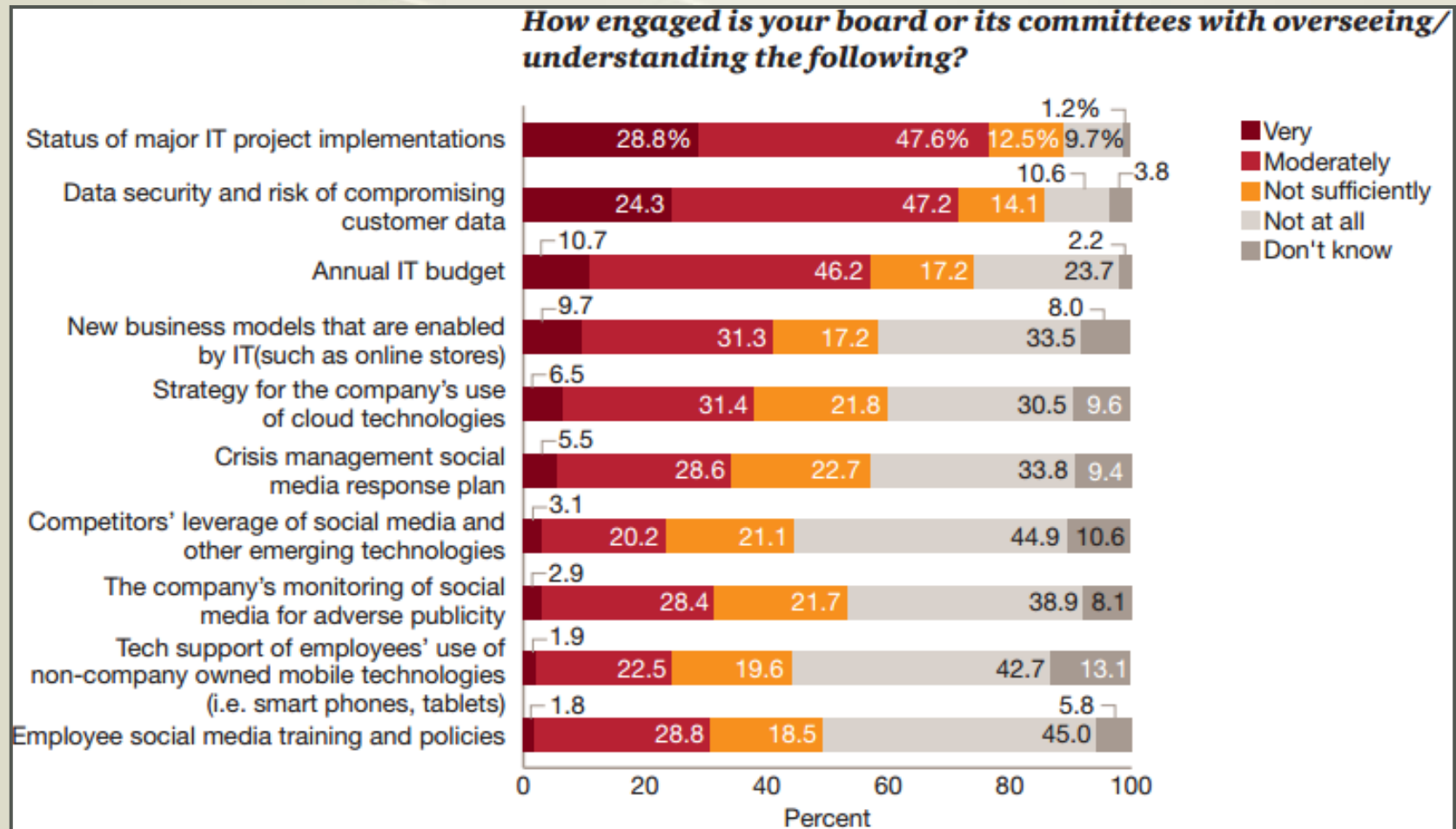
IT is critical	13%
IT is very important	43%
IT is somewhat important	33%
IT is like a commodity	7%
Don't have sufficient knowledge	4%

The percentage of companies that consider IT to be at least very important to their success, by industry (top respondents)[4]

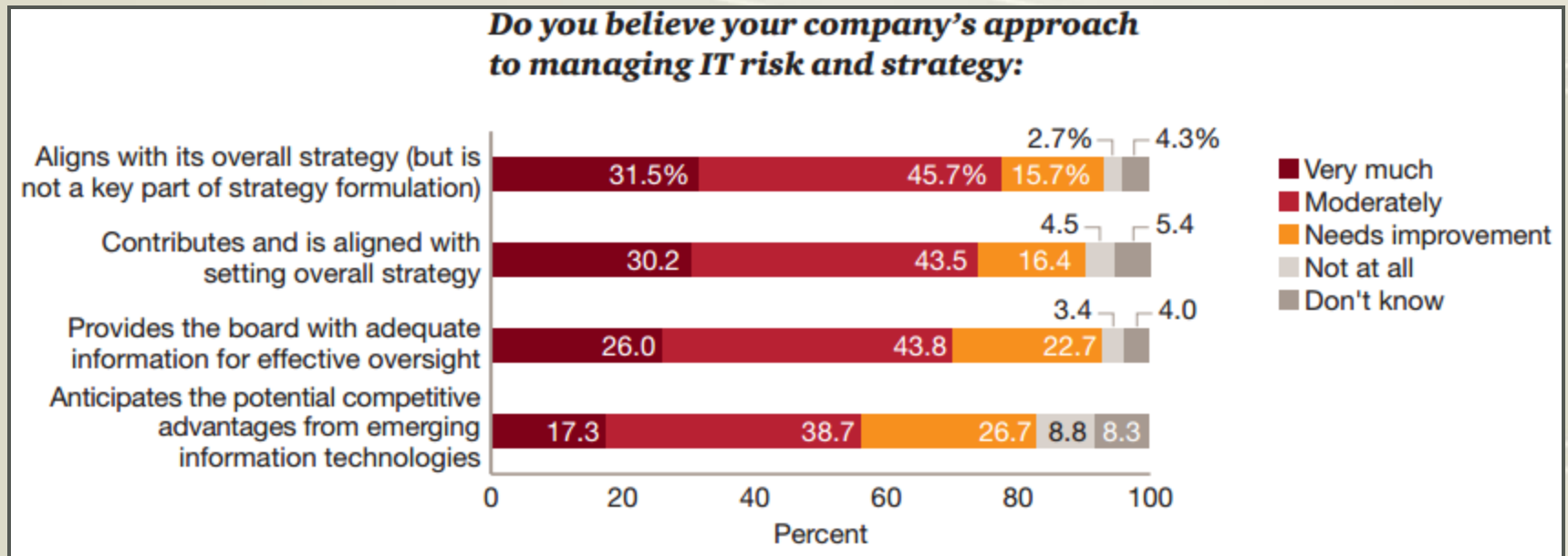|	
Financial institutions (excluding banking and savings institutions)	73%
Technology (computers, software, digital media, systems integration)	72%
Banking and savings institutions	69%
Consumer products/retail	59%
Energy/utilities	45%
Pharmaceuticals/medical devices/biotech	42%
Industrial products	35%

Source: PwC Directors and IT: What Works Best. A user friendly board guide for effective information technology oversight.

Boards Are Increasing Their Attention To IT Management

How engaged is your board or its committees with overseeing/understanding the following?

Source: PwC's 2012 Annual Corporate Board Directors Survey

Boards Are Increasing Their Attention To IT Management - Continued

Do you believe your company's approach to managing IT risk and strategy:

	Very much	Moderately	Needs improvement	Not at all	Don't know
Aligns with its overall strategy (but is not a key part of strategy formulation)	31.5%	45.7%	15.7%	2.7%	4.3%
Contributes and is aligned with setting overall strategy	30.2	43.5	16.4	4.5	5.4
Provides the board with adequate information for effective oversight	26.0	43.8	22.7	3.4	4.0
Anticipates the potential competitive advantages from emerging information technologies	17.3	38.7	26.7	8.8	8.3

Source: PwC's 2012 Annual Corporate Board Directors Survey

Poll 1

What percentage of US CEOs say social media users influence their strategy?

   a) 0%

   b) 100%

   c) 26%

   d) 53%

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    c) 26%

    d) 53%

IT GOVERNANCE DEFINED

IT Governance Defined

- **ISACA's IT Governance Institute** - IT governance is an integral part of enterprise governance and consists of the leadership and organizational structures and processes that ensure that the organization's IT sustains and extends the organization's strategies and objectives.

- **IIA's International Professional Practices Framework (IPPF)** – IT governance consists of the leadership, organizational structures, and processes that ensure that the enterprise's [IT] supports the organization's strategies and objectives.

- IPPF was revised in 2009 and states, "the internal audit activity **must assess whether the information technology governance** of the organization sustains and supports the organization's strategies and objectives (Standard 2110.A2)."

- **IIA's Global Technology Audit Guide (GTAG)** - Further breaks down the IPPF definition and highlights the following five important components of effective IT governance:

  - ✓ Organization and Governance Structures
  - ✓ Executive Leadership and Support
  - ✓ Strategic and Operational Planning
  - ✓ Service Delivery and Measurement
  - ✓ IT Organization and Risk Management

Poll 2

When was the last time your Internal Audit department assessed whether the information technology governance of the organization sustains and supports the organization's strategies and objectives?

    a) Annually

    b) 2011 or 2012

    c) 2009 or 2010

    d) Earlier/Never

    e) Not applicable

IT GOVERNANCE COMPONENTS

IT Governance Components – Organization and Governance Structures

- **Clear organizational structures and accountability** are critical for IT to deliver value and enable the organization to meet its strategic objectives.

- IT organization structures should **align** with the organization of the business.

- Organization structures should include **clear** lines of reporting and responsibilities.

- Communication between the business and IT should **occur frequently**. Examples of various committees to enable communication include:
  - IT Steering Committee
  - IT Risk, Control and Compliance Committee
  - IT Alignment Forum
  - Business Relationship Managers
  - Project Management Office
  - Capital Approval Committee

Risk Indicators

• *No formal communication channels between IT and the business*

• *IT projects are not aligned to the organization's strategic goals*

• *No formalized intake process for IT resource requests from the business*

• *IT risk management and control is not addressed in an integrated manner with the business*

IT Governance Components – Executive Leadership and Support

- Executive support and tone at the top is **critical** for an effective ROI on IT spending.

- Executives need to **clearly articulate how IT supports** and enables the organization to achieve its strategic objectives.

- Without a **clear strategic business vision**, the CIO will not be able to make appropriate investments in IT.

Risk Indicators

- *How IT supports the achievement of the organization's strategic goals cannot be clearly articulated by senior management*

- *CIO is **NOT** part of the senior management team*

- *IT does not have appropriate funds to address the organization's needs*

IT Governance Components – Strategic And Operational Planning

- The **strategic plan** should define **organizational dependencies of IT** and IT's role in achieving the organization's goals.

- IT should be **managed like a business** and create a strategic and operating plan.

- The **operating plan** should be **tactical** and **aligned** with the strategic plan of the organization. The operating plan provides the mechanism for how the IT function is measured in terms of supporting and enabling the achievement of goals defined within the strategic plan.

Risk Indicators

• *No IT strategic or operating plan*

•*Lack of proper definition and identification of IT goals within the strategic plan*

• *Lack of key performance indicators to measure and monitor IT performance*

Poll 3

Which of the following best describes how your organization's strategic plan describes the organizational dependencies on IT?

a) Does not reference IT dependencies

b) Broad reference to IT, but not clearly articulated

c) Specific IT dependencies are articulated

d) Do not know

e) Not applicable

IT Governance Components – Service Delivery and Measurement

- Proactively managing IT spending and **measuring the resulting value** increases the likelihood of greater ROI from IT investments.

- A performance management framework that captures the right quantitative and qualitative data to enable **proactive measurement, analysis, and transparency** further assures sound IT governance.

- IT related **financial metrics** play an important role in measuring strategic, operational and technical results.

- Outcomes enabled by IT should be **measured** to show the value contribution at the strategic and tactical levels.

Risk Indicators

- *Senior management does not have a clear understanding of IT costs.*

- *IT does not have a formalized process to allocate IT related costs to the business*

- *No meaningful metrics or too many metrics*

IT Governance Components – IT Organization And Risk Management

- An organized and well controlled IT environment should **include methodologies and standards** for technology selection, acquisition, implementation, security administration and maintenance.

- How an organization is structured (e.g. centralized, decentralized, hybrid) will dictate how **IT and their associated risks** are managed.

- IT organizations are beginning to create/develop **risk, control and compliance assurance functions/skill sets** within their departments due to the increasing complexity and number of requirements related to IT, security and privacy.

Risk Indicators

• *Lack of methodologies, policies and associated standards related to technology selection, acquisition, implementation, security administration and maintenance.*

• *Methodologies, policies and associated standards are not understood and communicated across the organization.*

• *IT does not have a clear understanding of compliance or regulatory requirements.*

NEXT STEPS

Next Steps

1. Determine whether the information technology governance of the organization has been assessed to determine if it sustains and supports the organization's strategies and objectives per Standard 2110.A2.

2. Inspect the IT strategy and/or operating plan to determine if it is aligned with the organization's strategic goals and objectives.

3. Determine if senior management can articulate how IT enables the achievement of the organization's strategic goals and objectives.

4. Understand how IT communicates with the various business units to process the intake, understand and prioritize IT resource requests.

Next Steps - Continued

5. Understand how IT monitors and measures IT spend, financial metrics and value contribution.

6. Determine the extent IT monitors risk and the increasing regulatory/compliance requirements for IT.

7. Engage and participate in the IT Steering, Governance, Project/Portfolio Management and Compliance Committees to gain perspectives on your organization's IT governance practices.

QUESTIONS

Questions

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