



# **The IT Oversight Committee**

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# Agenda

- The Corporate Governance
- The Audit Committee
- The Role of IT
- IT Expenses and Disasters
- Internal Controls
- The IT Oversight Committee
- Conclusion

# Corporate Governance

“The Corporate Governance Framework should ensure the strategic guidance of the company, the effective monitoring of management by the Board, and the Board’s accountability to the company and the shareholders.”

OECD Principles of Corporate Governance, April 1999

# Corporate Governance

King recommends the following Board Committees:

- Executive Committee
- Audit Committee
- Remuneration Committee
- Nomination Committee
- Employment Equity and Skills Retention Committee
- Environment, Health and Safety Committee
- Risk Management Committee

# Corporate Governance

## Audit Committee

- Financially oriented
- No reference to IT per sé
- “Review the company’s statement on internal control systems ....”

# Corporate Governance

## Risk Management Committee

- No IT person suggested to serve on committee
- No direct reference to IT
- Terms of Reference of committee include:
  - Technology risk
  - Disaster recovery risk
  - Operational risk
  - Compliance and control risks

# The Role of IT

“IT has had a major impact on the way business is conducted and how businesses are assessed.”

“IT is now seen as being an integral part of enterprise strategy rather than a mere enabler within organisations.”

King Report 2002

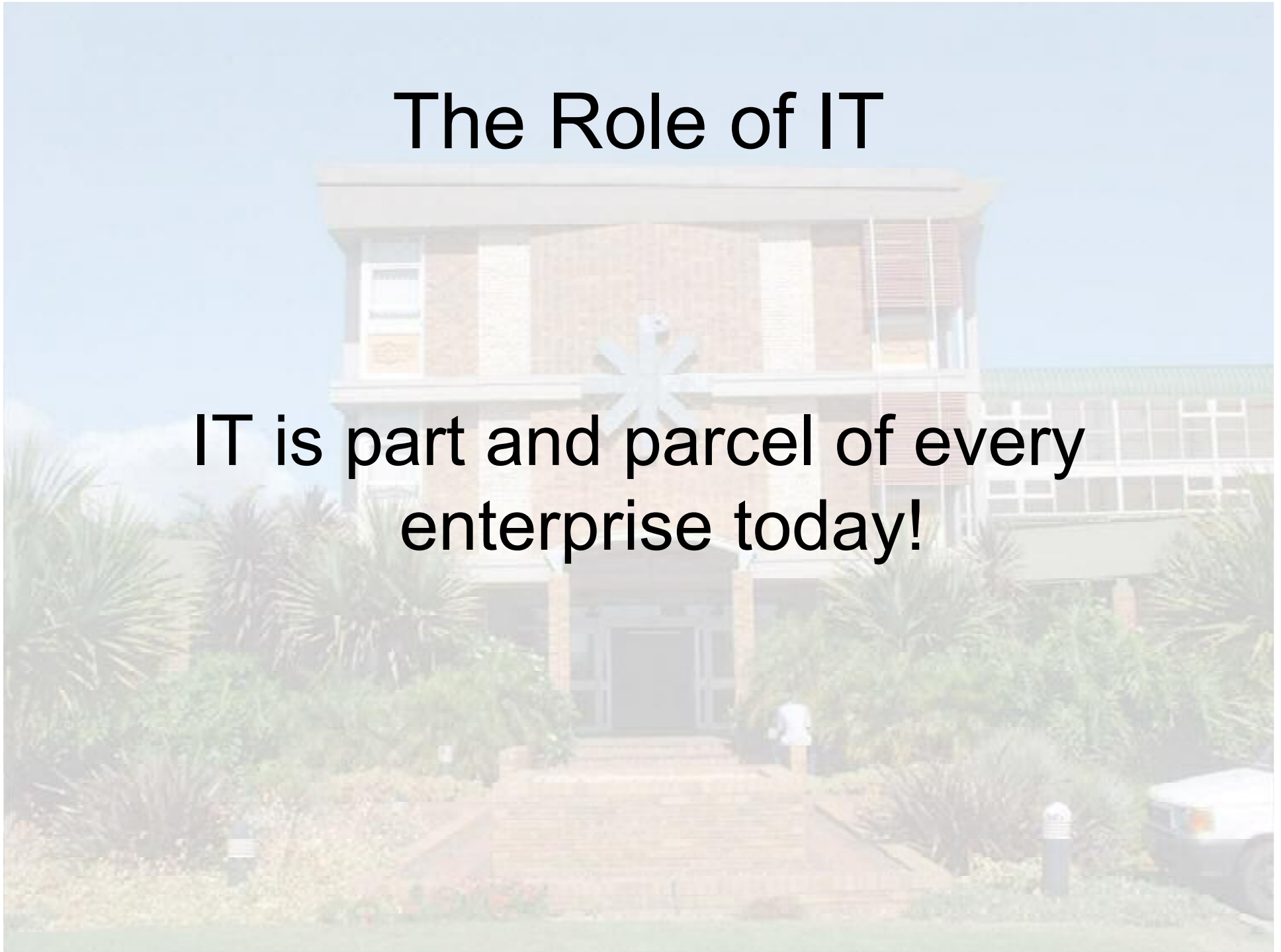
# The Role of IT

- “55% of the capital investment of an average company is now going into information technology. That in and of itself demands more senior management attention.”
- “IT is expanding both deep within organisations and across organisations.”
- “Every organisation today is absolutely dependent upon IT.”

Richard Nolan, Harvard Business School

# The Role of IT

IT is part and parcel of every enterprise today!



# The Role of IT

- “Executives at FoxMeyer Drug Co. contended that the failure of its ERP system helped drive the company into bankruptcy in 1996.”
- “After spending seven years and close to half a billion dollars implementing a mainframe ERP system, the Dow Chemicals Co. stopped and started over with a client-server version.”

# The Role of IT

## Major IT Write-offs

- Nike - \$400 million against their supply chain management system
- Disney - \$878 million against its Go.com web portal
- Kmart - \$195 million against supply chain hardware and software
- Gateway - \$143 million against IT projects no longer fitting its strategy

Kim Girard, Baseline

# The Role of IT

Who is responsible to oversee  
IT strategy, potential disasters,  
expenditure?

The Audit Committee?

The Risk Management Committee?

# Internal Controls

- “The directors have a responsibility to ensure that an effective internal control system is being maintained.” King Report
- “It’s hard to sign off on the validity of [financial] data if the systems maintaining it aren’t secure. It’s the IT systems that keep the books ...” US attorney, Gary Saidman.
- Before the CEO and CFO sign off the financial reports of the company, the effectiveness of the internal control structure and procedures that provide information to the financial reports must first be signed-off. SarbanesOxley, Section 404

# Internal Controls

Who will sign-off the IT internal control system and procedures?

The Audit Committee?

The Risk Management Committee?

# Which Committee?

Which committee is going to oversee IT direction and control?



# IT Oversight Committee

- “Senior management is not engaged enough in strategic information technology decisions and situations that could put the company at risk.”
- “Information systems could cause the next outbreak of Enron-like corporate scandals.”
- “IT is the next corporate disaster waiting to happen.”
- “We haven’t seen huge blowups or disasters over privacy so far, but it’s certainly waiting to happen.”

Richard Nolan, Harvard Business School

# IT Oversight Committee

- The establishment of a well-balanced IT Strategy (Oversight) Committee will help to overcome these obstacles
- “One of the most effective mechanisms for helping to establish governance over IT is the IT Strategy Committee.”
- “The IT Strategy Committee is well-placed to assist the Board on all aspects of IT governance.”

IT Strategy Committee, IT governance Institute

# IT Oversight Committee

## Composition of Committee:

- CIOs (independent)
- IT consultants (independent)
- General managers
- CEO
- The chairperson should be an independent board member

# IT Oversight Committee

## Responsibilities:

- Monitor system controls and oversee compliance to good business and best practices in IT
- Serve in an advisory capacity to the CIO and senior IT staff
- Oversee architecture planning
- Exercise oversight of IT asset management, service levels, strategy, legal and governance practices
- Monitor quality and effectiveness of IT security
- Monitor quality and effectiveness of IT internal controls
- Report regularly to the Board

# IT Oversight Committee

## Relationships to the:

- Board
  - Report directly to the Board
- Audit Committee
  - Report and consult periodically with Audit Committee i.c.w.
    - Major IT risks
    - Internal control systems in terms of IT systems and processes
- IT Steering Committee
  - Steering Committee at management level vs Oversight Committee at board level

# Conclusion

“This IT Oversight Committee is the right thing to do for good corporate governance. The sooner it’s done, the better it’s going to be for companies in general.”

Richard Nolan, Harvard Business School