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IT Governance Integration

Auditors can use their assessment and advisory skills to help management strengthen alignment between the IT function and enterprise strategy.

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Several years ago, the IT department at a large retail company paid millions of dollars to upgrade its organization's general ledger and financial-decision support environment to a state-of-the-art system. Industry observers considered the effort a huge success. Numerous publications featured articles detailing the achievement, and a prominent trade association even declared the chief information officer "CIO of the year."

What no one realized at the time was that the organization was in desperate need of a new inventory and reporting system. Not long after receiving praise for innovative work, the organization experienced a devastating inventory system failure and was forced to close its doors. If the IT department's plans had been better aligned with the organization, resources would much more likely have been spent on the appropriate system upgrades. In other words, the organization would have benefited from effective IT governance.

The IIA's International Professional Practices Framework defines *IT governance* as "the leadership, organizational structures, and processes that ensure that the enterprise's information technology supports the organization's strategies and objectives." Providing that support involves meeting the expectations of IT stakeholders and ensuring effective stewardship of technology resources — an often daunting task. System complexity, rapid technological changes, and increasing organizational demands are just some of the factors that create challenges for those charged with governing IT.

Even more challenging, perhaps, is the need to make sure IT governance aligns with enterprise governance processes. Is the IT department seen as an enabler of services? What is management's perception of the department? How effective is IT throughout the organization? Negative answers to these questions could suggest that governance alignment has not been achieved.

Effectively incorporating IT into the larger governance structure can help ensure the department adds value and helps achieve the organization's business objectives — and that it avoids technology decisions that put the company's very survival at risk. Drawing on both their operational audit and consulting skills, internal auditors can play an important role in helping IT achieve this outcome and facilitate steps toward improved overall governance.

THE IT DEPARTMENT'S NEW REALITY

Executive management at a manufacturing firm recently shifted its view of the IT department from an expendable cost center to a pivotal part of the organization's future. Previously, senior management believed that the organization could survive without the IT department. It was considered just another support function for work activities – operating on a small budget, its primary goal was to help reduce or minimize organizational costs.

Now, IT management is struggling with its new reality. The department has received an increased budget, and executive management views its contributions as essential to the organization's future growth. The internal audit department has agreed to assess IT governance and to advise management on forming a plan to incorporate IT into the organization's overall governance structure.

Governance Element	Internal Audit Assessment	Management's Action Plan
Chief information officer (CIO) reporting lines	The CIO is not part of the executive committee and reports to the chief operations officer; the CIO has never met with the board and has no involvement in the organization's strategic decisions.	» The CIO will report to the CEO and become part of the executive committee. » The CIO will meet quarterly with the board's governance committee.
IT service to business units	The IT department has minimal involvement with the business units.	IT will hire business analysts to help determine business unit needs and gauge customer satisfaction.
Alignment with strategic plan	IT is not aligned with the strategic plan; assessments of IT product- and service-related needs are made autonomously by the department and reflect short-term thinking.	» IT will develop a strategic plan for service delivery based on the organization's plan. » Short- and long-term service delivery plans that align with the organization's strategic plan will be developed.
Service delivery accountability	There is no accountability in the organization for delivery of IT services. Some key performance indicators (KPIs) exist, but they are strictly IT-focused and are not made from a service delivery perspective.	» Implement organization-centric KPIs. » Discuss the KPI dashboard at the monthly executive management meeting.
Organizational perceptions	Organizational perceptions of IT are negative, stemming in part from the department's inability to cope with its new role. Executive management has a low opinion of the CIO, whose primary responsibility and skill set is operations-focused rather than strategic.	» Assign a business analyst to each business unit to focus on business needs and customer service. » Incorporate customer service KPIs into the KPI dashboard. » Develop a new CIO job description and requirements to ensure the existing officer's skill set matches the position's new role as a strategic partner rather than operational manager.

ASSESSING IT GOVERNANCE

Before the organization can begin moving toward integration, the current extent of governance over IT must first be assessed. In most instances, there are already technology-related processes and systems in place that provide at least some level of governance. Internal auditors can identify these items and determine the extent to which they've been formally incorporated into governance organizationwide.

When conducting the assessment, auditors should determine the extent to which IT activities are consistent with several preferred governance practices:

- **Chief information officer (CIO) reporting role.** The CIO is a member of senior management, meets with the board, and has a seat at the table when strategic decisions are made.
- **IT organizational and operational role.** The IT department is positioned within the organization to serve as a significant enabler of services.
- **Alignment of IT within the organization.** IT is integrated into the organization's strategic and operational plans.
- **Accountability.** Processes exist to hold IT accountable for its service delivery. Auditors can assess accountability through use of key performance indicators (KPIs) and other measures of value.
- **IT organizational perceptions.** The board and senior management view IT as a strategic partner; business units throughout the organization view IT as a partner in conducting business operations and achieving business objectives.

Each of these areas represents a key measure of the way in which IT is administered and controlled in the organization. During their review, internal auditors can ask several questions to assess these areas further and determine the current role of IT governance:

- Which of the IT department's external committees include individuals with IT expertise? Ideally, IT should be represented on any external committee that would have a direct — or, depending on the committee, even indirect —need for IT resources.
- To whom does the CIO report? As a best practice, the CIO should be part of the executive committee and report to the CEO. The organization may also require that the CIO report to the organization's board or one of its committees regarding the status of IT.
- Do all the organization's IT departments report to the CIO? All IT departments should report to one member of senior management — commonly the CIO. This reporting

structure helps ensure common use of legal resources, consistent policies and procedures, and alignment of technology acquisitions among the departments.

- Does an IT strategy exist? IT should have a strategic plan to ensure resources are maximized in a cost-effective manner.
- How does line management view IT? The IT function ideally should survey management periodically to assess its work quality and use the results to improve IT processes.
- How dependent are the organization's critical business processes on IT? The IT function should perform an annual assessment of its activities against overall business processes to determine criticality — the results should help IT gauge its resource allocations among business units.
- How is IT accountable to the organization? How does IT know it is doing a good job? IT should develop a dashboard of key indicators, enabling executive management to measure IT's accountability and success.

A governance maturity model can equip auditors with a common framework for assessing processes. ISACA's COBIT framework is commonly used for this purpose, though various maturity models are available. These tools help define the scope of governance activities, facilitate assessments of alignment between business goals and IT goals, and gauge the maturity of IT governance.

Auditors could also consider using surveys to evaluate IT governance. The survey results could then be entered into a dashboard and benchmarked against best practices. Moreover, auditors can review minutes from governance committee meetings to determine the extent of IT involvement, as well as examine trending of IT staffing levels against other organizations, including specifics by job type.

GOVERNANCE CONSULTING

After the assessment is complete, internal audit's findings can serve as the basis for helping management develop short- and long-term action plans to align IT with the organization's governance process. The determination of what is to be completed short- and long-term is driven mostly by the organization's strategic plan. For example, if a short-term goal is to complete a major acquisition, then short-term IT plans should consist of ensuring sufficient system capacity is available and that appropriate IT personnel are included on the acquisition evaluation team. A long-term goal, by contrast, might be to complete alignment with the organization's committee structure and to support both future systems and long-term new business development needs. Internal auditors can assist by proactively working with management in a consulting capacity to help facilitate governance alignment.

In the majority of organizations, the most efficient path to increasing IT governance integration involves using what's already in place as a starting point to increase governance maturity, rather than removing what exists and starting from scratch. Internal audit should discuss the current status of IT governance with management, per the results of the audit review, and determine the desired level of maturity. Management can then develop plans to reach that maturity level and better align with the overall governance structure.

Once the parameters are established, internal audit can add value as a facilitator by reviewing management's action plan to help ensure it achieves the intended outcome. For example, suppose the internal auditors' assessment revealed the CIO does not participate in executive committee meetings and is not part of the strategic decision-making process. Management's action plan could include shifting the CIO's organizational role to the executive management team and evaluating his or her current job description. Using their knowledge of the organization and following best practices, the auditors could suggest revisions to the job description and help assess whether the final draft of responsibilities and qualifications will achieve the desired results.

Internal auditors can also add value by evaluating IT's planned technology purchases and comparing them against the organization's strategic plan. For example, suppose IT has a large capital budget and plans to purchase costly high-capacity servers, while the strategic plan calls for multiple acquisitions over the next year. The acquisitions, in other words, could require extensive technology support that may not be available if capital expenditures focus on server upgrades. Auditors could suggest alternatives — such as virtualizing existing servers, which could be more cost efficient and provide the same outcome — to ensure IT maximizes services using the available funds to their full potential.

GREATER IT EFFECTIVENESS

In most organizations IT represents a major expense and plays a key role in achieving the organization's objectives. Clearly, a well-structured IT governance process can assist in the effective delivery of IT services, thereby adding value and driving profitability. The internal auditor can play a significant role in gauging IT's ability to serve in this capacity and help management address any deficiencies. With improved governance alignment, management can be assured its technology use is consistent with the overall aims of the enterprise and that IT is deployed in a way that best serves stakeholder needs.

FURTHER ALIGNMENT REQUIRED

The IT department plays a role in achieving the organization's objectives. Various IT governance activities exist but have not been aligned with the organization's strategy, goals, and overall governance processes. Internal audit has assessed IT governance and agreed to advise management on developing a plan to incorporate IT within the organization's governance structure.

Governance Element	Internal Audit Assessment	Management's Action Plan
Chief information officer (CIO) reporting lines	The CIO reports to the CEO but is not part of the executive committee. Currently, the CIO plays a minimal role in the organization's strategic decisions.	The CIO will become a member of the executive committee and will have input on all strategic decisions.
IT service to business units	The IT department is structurally aligned with the business units and is perceived as a service enabler.	No action required.
Alignment with strategic plan	The IT department's planning process is removed from the rest of the organization. However, due to the competence of IT management, the department's planning efforts have achieved a moderate level of alignment with the organization's strategic plan.	Remove the IT department's silo barriers and require planning to be aligned with the organization's plans.
Service delivery accountability	An excellent key performance indicator (KPI) dashboard exists, but it is not shared with executive management or the organization.	Discuss the IT KPI dashboard at monthly executive committee meetings and post it to the organization's intranet to ensure management access companywide.
Organizational perceptions	The organization sees IT as a partner and enabler of services that helps achieve business objectives. However, the IT department occasionally acts independently when planning future service delivery.	Incorporate IT planning efforts into the organization's strategic planning process to better align the department's plans with the overall enterprise.

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