



The Infonomics IT Governance Letter August 2006

Information, news and views on Corporate Governance
of Information and Communications Technology

Welcome to the August 2006 Infonomics IT Governance Letter

Dear Reader,

That's right – this is the August edition – arriving in your in-box overnight on September 4th. It may be a touch late, but we still hope that you'll find the points of view interesting and topical.

Would it be unreasonable to expect organisations to learn lessons from their own experience and the experience of others? Amazingly, when it comes to IT, it seems that the expectation is unreasonable, and we continue to see organisations being damaged by avoidable failures at both project and operational levels. Analysis of failures generally points to a fairly small set of basic underlying causes. One would expect that with bodies of evidence in hand, the people who control and monitor IT activities would be able to identify signs of trouble and initiate corrective action well before trouble sets in.

For many though, the reality seems to be far different. In general conversation with directors, executives and IT leaders, I get the impression that everybody agrees that IT failures are a serious issue, and that they also think that their own organisations are not at risk.

I wonder what the leaders at Australian Pharmaceutical Industries thoughts about risk in IT were as they embarked on a complex replacement of core accounting systems. API found itself newsworthy in a most inauspicious way in mid-July, when it asked the ASX to suspend trading in its shares. The situation that developed gave us the key article in this month's IT Governance Letter, and another case study from which we hope organisations of all types can learn valuable lessons.

Some months ago, Pickfords Record Management, a long term client and friend of Infonomics, was acquired by Iron Mountain, the leading provider of records management and data protection services for organisations around the world. Ian Hollow, a leading innovator in Australia's records management industry was appointed Managing Director. This month, we welcome Iron Mountain as a sponsor of The IT Governance Letter, with an article penned by Ian and looking at the very serious issues that can arise when records management disciplines go wrong.

And we welcome back Compuware in its bi-monthly sponsorship, with an article from its governance solutions lead Mark Green.

As always, we sincerely hope that you enjoy this edition and that you see fit to share it with your friends and colleagues. If this copy was forwarded to you, we do hope that you will choose to subscribe. It's easy – just email your request to subscribe@infonomics.com.au.

Kind regards
Mark Toomey
4th September 2006



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Headlines and Contents – August 2006

A Salutory Lesson for ALL Directors

On July 14 Australian Pharmaceutical Industries issued a press release announcing that it had asked the ASX to suspend trading in its shares. Included in the announcement was a specific reference to the linkage between new systems and the company's inability to release full-year accounts. The recently released 2006 Annual Report says: *"Since the end of the 2006 financial year, the company has been through a trying period and the events are unacceptable for shareholders... The announcement of our full year financial result was delayed, as during final consolidation of the 30 April balance sheet, a number of significant items did not reconcile."*

Where are my car keys? - A human approach to corporate records management

By Iron Mountain's Australasian MD, Ian Hollow

For many organisations, corporate records management is a lot like the human memory – mounds of (probably useless) information stored because that's what the law requires. It's organised in a questionable fashion in the hope that one day someone might want a sample of it. But seldom are we able to retrieve a vital fact when we really need it – at least not without a whole lot of effort – and that assumes, of course, that it hasn't already been wiped from the record!

New IT Governance Research

RMIT University School of Management and Infonomics have agreed to collaborate on a preliminary research initiative entitled: "Achieving Business Sustainability: Directors' Perceptions of Information Technology Investment, Corporate Monitoring and Governance"

Establishing IT Governance

For quite some time, we've been recommending that organisations need to establish an effective system of governance for their use of IT. As pointed out below by our correspondent from Compuware, establishing a system of governance is not achieved merely through installation of a software product.

Profiling your organisation's IT Governance

Most organisations regardless of size, ownership and profit orientation depend on information and communication technology for their effective day to day and long term operations. This dependence includes ubiquitous functions like telephone and email, basic administrative functions like financial records keeping and banking, and, increasingly, essential business growth functions like customer retention, management and acquisition. In larger organisations, many fundamental business processes are designed to operate partly or wholly with information systems support. If systems are not effective, generally the processes perform poorly and limit the organisation.

Approach to ICT Planning

How often do we hear discussion of IT plans not being aligned to the business? It seems to be one of today's hot topics – though it's been around for years. When I was with DMR, more than ten years ago, we spoke of services to help clients with "Business-IT Alignment".

Doesn't it strike you as unusual that IT would not be aligned with the business? How could situations arise where the IT department is doing things other than what the business needs, or working to priorities different to the business priorities?





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Wide Angle Vision Enabled by Changepoint

By Mark D Green, Business Development Manager - Governance Solutions Compuware Asia Pacific.

Without sight how does one see? This is a common dilemma within business and I'm quite confident it is a topic of re-occurring pain in your business too, with only the intensity differing.

Events

Last edition, we reported on the reaction of participants in our one-day seminar IT Governance: The Business and Boardroom Perspective. Your input will help guide us in terms of timing and venues. Please email your thoughts to seminars@infonomics.com.au.

Recently we've attended AFR Banktech.06 and Government Technology Evolution 2006 – spreading the word about governance of IT and becoming concerned about how these conferences are losing their delegates during the course of the conference.

A Salutory Lesson for ALL Directors

"Since the end of the 2006 financial year, the company has been through a trying period and the events are unacceptable for shareholders... The announcement of our full year financial result was delayed, as during final consolidation of the 30 April balance sheet, a number of significant items did not reconcile."

"It is the view of the company that the discrepancies related to the processes in the conversion from the previous legacy IT systems to the new IT platform. The unreconciled balances totalled \$17.2 million."

"The review also identified improvements in the financial processes, controls and resourcing which were inadequate during the conversion process."

"From the investigation undertaken it appears that the unreconciled balances are related to the upgrade of IT systems in the Pharmacy Distribution business. API had changed from two legacy IT systems to a fully integrated ERP system. The changeover was extremely complex; and, to minimise disruption, financial transactions were maintained on all three systems as each state's operations converted separately and progressively."

The above text is extracted verbatim from the Australian Pharmaceutical Industries (API) 2006 Annual Report. These quite profound statements are presented in the Chairman's Report, which is the first chapter in the Annual Report (http://www.api.net.au/investor_relations/2006_annual_report.pdf).

The problem became public knowledge on July 14 when API issued a press release announcing that it had asked the ASX to suspend trading in its shares. Included in the announcement was a specific reference to the linkage between new systems and the company's inability to release full-year accounts. A further statement, made by API on July 28th, promised a thorough investigation, with direct board oversight through a specially-formed board sub-committee.

The consequences to date

Corporate disasters are usually accompanied by top executive changes and sometimes by board departures. In this case, there have been two changes in the executive and one at board level – though none of these have been explicitly linked to the problem with statutory reporting.

Chief Executive (Group Leader in API parlance) Jeff Sher was first to exit with the details of his departure subject to a confidentiality agreement. A press release dated August 14th announced his departure and the appointment of Stephen Roche to the role.

API lodged its statutory accounts on August 21st. A press release explained the decision to report a "one-off Other Expense of \$17.2 million" and the findings of the review and the steps that API is taking in response to the situation. Among other matters, it makes specific reference to



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developing procedures to reduce complexity and risk in certain procedures for manual journal entries.

Also on August 21st, another API press release announced that Chief Financial Officer Daniel Lucas had been asked by the board to leave with immediate effect. Mr Lucas had been with the company for less than 6 months. The press release states unequivocally that Mr Lucas' departure "is not linked to the \$17.2 million one-off Other Expense that the company announced on 14 August 2006".

The same press release announced the forthcoming retirement of non-executive director Michael Smith, and his immediate resignation as Chairman of the Audit and Compliance Committee. The press release noted that Mr Smith had served the company for 25 years and his retirement plans had been previously advised to the board.

The ASX share trading suspension was lifted on August 22nd. From a closing price of \$2.25 immediately prior to the suspension, API opened at \$1.63, rising to a high for the day of \$1.94 and closing at \$1.86. More than 8.5 million shares were traded on August 22nd. Since then the share price has seen a high of \$2.06. At the time of writing, the company's share price was \$2.00.

The press has a field day

The consequences of the situation described above are profound. Not unexpectedly, API has been the subject of extensive press coverage – much of it by its very nature damaging to the firm. For example, on August 15th, The Age (<http://www.theage.com.au/articles/2006/08/14/1155407742080.html>) said "Missing \$17m floors API" and noted that the ongoing investigation was likely to cost more than \$1m (according to page 19 of the 2006 API annual report the IT system implementation cost was \$1.125million for 2006. The 2005 report shows costs for the Business Transformation initiative as \$12.7m in 2005 and \$5.8m in 2004).

Some explored deeper – quoting various sources and perhaps speculating about the wider causes. On August 16, the Sydney Morning Herald asked "Has API looked behind the sofa?" (<http://www.smh.com.au/news/xchange/has-api-looked-behind-the-sofa/2006/08/15/1155407809134.html>). The article quoted concerns from a Macquarie Equities analyst who joined the missing money to concerns about dividend policy and operations risks. A related article, "Brokers dump API" (<http://www.theage.com.au/news/business/brokers-dump-api/2006/08/15/1155407809704.html>) said that brokers had heavily downgraded their share price targets for API and were advising investors to dump shares in the company.

Prior to the release of API's results, web-based journal www.crikey.com.au speculated that API might be weakened by the events and susceptible to a takeover. After trading resumed, Reuters reported that API had hit a life low against an overall rise in the market. The Age said "API shares plunge as trading resumes". The Herald Sun headline read "API belted on return" (<http://www.news.com.au/heraldsun/story/0,21985,20219873-664,00.html>) and the article speculated that the departing CFO Daniel Lucas had been blamed from the delays in producing final accounts.

On August 23rd, The Age continued its discussion in "API mauled on its return" (<http://www.theage.com.au/news/business/api-mauled-on-its-return/2006/08/22/1156012541991.html>) and cast doubt on prior assurances that the new IT systems were working as intended. It quoted an ABN Amro analyst who reported that some, but not all pharmacists were receiving incorrect invoices. It also suggested that rumours of a takeover deal with Symbion Health (formerly Mayne) had limited the share price drop.

Did the spreadsheets play a part?

In a somewhat chilling link to our discussion of spreadsheets (Spreadsheet Havoc <http://www.infonomics.com.au/ITGL2006July.htm>) in the July 2006 IT Governance Letter, a Kelly Mills article (<http://australianit.news.com.au/common/print/0,7208,20098218^24170^^nbv^24169,00.html>) "Finding the right modelling tool" in The Australian on August 15 opened with the statement "Australian



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Pharmaceutical Industries needed to go beyond spreadsheets to improve its budgeting and make its business processes more flexible". The article appears to indicate that API was undertaking two projects – one to implement the new ERP system and a project to implement new financial planning and reporting tools. It links the statutory reporting problems to the ERP system and suggests that the planning and reporting system is not involved. Yet it quotes API's Information Management Leader Doug Horwood, who is reported as saying of the spreadsheet based process: "It was also fraught with the possibility of manual error in the processing".

ASIC comments

Australian Securities and Investments Commission Chairman Jeffrey Lucy spoke at an AICD Luncheon on August 17th. His topic: ASIC's regulatory approach to directors' responsibilities. The promotional literature said that he would provide ASIC's view on how directors can better meet their obligations in an evolving regulatory environment.

At the end of Mr Lucy's speech, Infonomics Managing Director opened the questions from the floor by asking what advice Mr Lucy might offer to directors in the light of the API experience. His reply was succinct. He noted that directors are accountable for the company's ability to fulfil its statutory obligations – including keeping of proper records and production of required reports. He said that audit committees should pay particular attention to the accounting systems.

Perusal of API's annual reports indicates that he directors are well aware of their responsibilities. The Corporate Governance Statement in the 2005 Annual Report says:

"The Board's primary role is the protection and enhancement of long-term shareholder value.

*To fulfil this role, the board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and **ensuring the integrity of internal control and management information systems (bolding by editor)**. It is also responsible for approving and monitoring financial and other reporting.*

The Board has delegated responsibility for operation and administration of the Company to the Group Leader and executive management.

Responsibilities are delineated by formal authority delegations."

It would seem that, in this case, the API board has been unsuccessful. We won't speculate on why they were unsuccessful. Without a detailed investigation of the company's procedures relating to governance of its management information systems, we cannot be sure that even the most skilled and well-equipped board could have detected the problems that beset API.

We note the review findings regarding "*financial processes, controls and resourcing which were inadequate*". History shows that many projects are not properly resourced, and this is an area where increased board oversight may reap considerable dividends – particularly considering the currently buoyant professional skills market.

What can Directors Do?

Current reality is that problems with IT projects are quite common. With the support of an effective system of governance, directors can be quite effective in detecting and, more importantly, preventing failures in IT projects (for example, see our discussions of the Australian Customs Service problems in the November 2005 IT Governance Letter

<http://www.infonomics.com.au/ITGL2005Nov.htm>).





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Directors commonly use audit and related techniques to assure themselves of the integrity of the governance and management systems in other areas of their organisations. With information systems now clearly on the table as key risk factors, directors should consider similar techniques to assure themselves that their organisations system of IT Governance is effective.

The Australian Standard for Corporate Governance of Information and Communication Technology (AS8015:2005) provides guidance on how the board should oversee the organisation's use and control of IT – in both projects and operations. It establishes the vital top-level framework for an effective system of governance that can be lead by the board, and does not require the directors to have specific knowledge of information technology.

Assessment of their organisation's approach to governance of IT against the recommendations of AS8015 can give boards clarity on whether or not they can effectively evaluate, direct and monitor the use of IT by the organisation.

Our recent experience of assessing IT governance in diverse organisations is that considerable improvement is possible. Our findings have been quite consistent with those of major consulting and research organisations, such as Gartner, who recently said that "75% of organisations have ineffective governance of IT, which they are better to discard and rebuild".

Our experience is also that a straight-forward 12 point self-assessment gives an accurate indication of the performance of the governance system. The Infonomics 12 point self-assessment is part of a series of Executive Briefs which are freely available at the Infonomics Web site (<http://www.infonomics.com.au/Executive%20Briefs.htm>).

Where are my car keys? A human approach to corporate records management

By Iron Mountain's Australasian MD, Ian Hollow



So you know that the capital of Swaziland is Mbabane; that Janis Joplin, Jimi Hendrix, Jim Morrison and Kurt Cobain all died aged 27; you can sing all the words to the French national anthem (Allons enfants de la patrie...), you can even quote the value of pi to ten decimal places...but you can't for the life of you remember where you've left your car keys!

For many organisations, corporate records management is a lot like the human memory – mounds of (probably useless) information stored because that's what the law requires. It's organised in a questionable fashion in the hope that one day someone might want a sample of it. But seldom are we able to retrieve a vital fact when we really need it – at least not without a whole lot of effort – and that assumes, of course, that it hasn't already been wiped from the record!

But brace yourself, because it just got even harder! As SEC Chairman, William Donaldson says: "Simply complying with the rules is not enough. They should make this approach part of their companies' DNA. For companies that take this approach, most of the major concerns about compliance disappear. Moreover, if companies view the new laws as opportunities – opportunities to improve internal controls, improve the performance of the board, and improve their public reporting – they will ultimately be better run, more transparent, and therefore more attractive to investors."

Corporate governance is a lot more than ticking the boxes or passing an audit. And compliant records management is a lot more than making sure you put every piece of paper in a box, duly archiving the boxes every quarter. How about all the other records? How many emails did you receive/send/file/delete today? Public policy and corporate governance touches on the fundamental controls of every aspect of your enterprise. So compliant records management is about having control over the storage and transmission of all information – both in paper hard copy and digital forms. Do your policy settings determine the storage rules on your email server?



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Are they about saving IT costs, limiting the disk usage of email accounts or are they aimed to retain the right records, remove the wrong ones, and ultimately save you from legal penalty?

SCENARIO 1: Choose your risk. You're not sure what records you should keep. You think the law says seven years, but being a responsible, risk-averse type, you keep everything for 10 years, and then destroy it.

Risk management in record keeping is not just about retaining records for as long as you can bother storing them. Managing risk is about retaining the right records for the right period of time – for corporate reasons (corporate memory) or for legislative reasons (compliance with regulations and law) – and then securely destroying them at the right time.

Yes, wrongfully destroying records too early can be illegal. And yes again, a bower bird who retains them too long can also trigger a legal liability or two. Certain components of an HR file must be deleted upon departure of the staff member, others, such as injury records, must be retained for decades. Arbitrary rules of thumb simply don't measure up.

Over the last decade or so some high profile cases were profoundly changed when records that should have been destroyed were actually found and they became the evidence that cost their owners millions. In other recent news, the wrongful act of destroying records that were subject of a legal action cost even more. Ultimately today the penalties can include a journey to jail.

SCENARIO 2: Suffering Monday-itis? Your DBA didn't quite finish analysing how customer purchasing patterns have changed in the last 12 months. She copied the database onto her laptop to work on over the weekend. The computer never made it home – went missing Friday night on the peak hour train, was traded for a few bucks on Saturday morning, and the data – unencrypted personal information on 130,000 customers – was published on a website on Monday...

Current reports indicate that for an 18-month period in the United States, that bastion of Sarbanes-Oxley and litigation-driven corporate governance, there have been 190 known incidents of such data breaches, leading to 88 million individual records potentially being compromised. With a population of 300 million, that means, on average, every third person may have had their privacy breached. Major insurance, finance and educational bodies, together with internal revenue and other government departments, have reported such data losses and had their wake-up calls. Simple accidental disclosures? Perhaps! Nothing really malicious or grossly negligent? Maybe! The results are still compliance breaches and will be so judged – statutory and civil penalties then follow. In Australia and New Zealand the laws and statutes differ – and litigation may be less developed than US – but it's just a question of time. Either we can use that time to reduce risk, increase compliant records management or tempt a similar fate of our own.

For every Worldcom or Enron there are thousands of simpler breaches awaiting discovery. Compliant records management is about more than just records retention – it's about taking every necessary step to ensure and manage the records. Whether those records are digital or paper-based, organisations must have demonstrably adequate processes to manage, protect, control access and securely dispose of all records – paper or digital – according to policy and law. Do you have unencrypted IT backups; confidential paper files or media left within public view; unlocked filing hardware; inadequate security screening of staff? Minimum acceptable standards have changed and any breaches of security during storage and movement of data are now seen as business governance issues for all responsible officers, not just a few IT records specialists.



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SCENARIO 3: You've got mail! As a diligent organisation you retain copies of all email correspondence. And as a multinational corporation the law of averages means you will be the subject of many legal suits every year. A key part of your defence for each lawsuit is being able to produce certain relevant classes of email for up to seven years. You have just been served with a legal discovery order – you have 14 days to produce and swear to the fact that ALL records on the subject are present before the court. The consequences of you being inaccurate...you lose every case, every time!

A recent survey predicts that US companies will spend nearly US\$2 billion in 2006 in e-discovery – the search for electronic documents. Earlier this year, one major bank was fined US\$15 million for not retaining emails; another was fined US\$2.5 million for failing to produce emails after a 16-month search. Whether it's an email, a Blackberry message, a voicemail transcript, or a call centre recording, a "document" is nowadays held by many laws and jurisdictions to include these items. Words such as "any other material data or information stored or recorded by mechanical or electronic means" is now what may define your document. And just storing the documents is not enough – you need to be able to locate every single one – and swear you have.

What role does compliant records management play in achieving compliance and efficiency? Compliant records management has three key phases:

- Reduce the risk/cost of automatic penalty. Organisations must develop records policies that meet the legislative obligations to maintain records of all transactions and retain all those records for adequate periods. A compliant records management programme helps organisations demonstrate that they are not only meeting the letter of the law but the spirit of the law as well.
- Reduce the cost/risk in legal defence. A programme puts into place processes and systems that help organisations respond timely and more effectively to the tide of increasing legal discovery orders and regulatory investigations – and to reduce legal exposure by providing the owner with the ability to analyse its information, not just frantically gather it in response to an urgent order or request.
- Reduce the cost and risk in retaining mounds of useless information. A programme helps reduce the costs of compliance by proactively reducing both the amount of information that your company needs to retain and the costs of searching and recovering records for use/discovery/decision making/disposal.

Compliant records management is about managing risk, cost and information flow in your organisation. It is not about performing an annual office cleanse, just in time for the office party, using a temporary clerk to rough index records and scribble a date seven years hence on the carton. And in the digital world, it is not about the invisible accumulation of redundant back-up tape/disk records in dark corners – nor the mindless imposition of disk space reductions and email account cleansing. It is about understanding your business, the information it produces, and paying due respect to the legislative framework. Above all, it's about managing the risk.

And for the record, the value of pi to ten decimal places is 3.1415926536. File that under useless information, and destroy in December 2007.

This article was previously published in "The Strategic Path" (www.strategicpath.com.au).

For more information about records and information management solutions for your business, please contact Iron Mountain on 1800 181 800 or visit www.ironmtn.com.au.



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New IT Governance Research

RMIT University's School of Management has secured a \$5000 grant to commence preliminary research into an initiative entitled: "Achieving Business Sustainability: Directors' Perceptions of Information Technology Investment, Corporate Monitoring and Governance". Infonomics will be partnering with RMIT in this research which lays the foundation for a major Australian Research Council Linkage Grant submission entitled "The Impact of Information Technology and E-Business on Australian Industry: A Management, Commitment and Culture Perspective" which is awaiting feedback this November.

The research will be conducted by Dr Fang Zhao & Associate Professor Adela J. McMurray.

The funding submission for the research said: "Today's best companies embrace information technology not as a means of cost-cutting, but as a tool for business success and sustainability. Studies show that the key success factor of IT use is strongly linked to effectiveness of IT governance. The international competitiveness, innovation capacity, and sustainability of Australian industry and business are significantly influenced by the ability to develop and harness the power of information and communication technology. While information technology has created abundant business opportunities, it has also rendered many traditional business management models obsolete. IT requires digital transformation and profound changes in corporate governance, organizational and business structure, strategy and culture."

The outcome of this exploratory study will uncover directors' perceptions about IT Governance in today's large organisations and how to embed an effective IT governance framework for Australian industry, business and infrastructure into their organisation's culture and hence sustainability. These findings will be used to inform organisational policy, procedures and practices that will lead to the development of sustainable business practices through responsible IT governance that reflect the interests of all stakeholders.

The research will assist Australian industry and business to be more culturally prepared, open and inclusive to maximise the return of their IT investment. This is a significant aspect of the research as organisational culture is predominantly overlooked in the IT Governance literature.

The project is important and timely given the current trend of the booming e-business and IT economy in Australia and overseas, and the increasingly dominant roles that IT plays in helping organizations improve efficiency and productivity of their business. The project assists Board Directors, and hence organisational managers to formulate and implement effective strategies to align and integrate technology, operation, strategy, structure, culture and human resources in IT governance. The findings will provide a greater understanding of the important issues involved in IT governance and management in a wide range of industries and businesses.

Work on the research will commence shortly. The team would be delighted to hear from IT Governance Letter readers who would like to contribute a point of view.

For further information, please contact Mark Toomey at mttoomey@infonomics.com.au.



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Establishing IT Governance

For quite some time, we've been recommending that organisations need to establish an effective system of governance for their use of IT. As pointed out below by our correspondent from Compuware, establishing a system of governance is not achieved merely through installation of a software product.

For organisations that understand the value in effective governance, and which are not experiencing any particular difficulty at present, we suggest a five step approach to establishing effective system for Corporate Governance of IT.

1. Develop Awareness;
2. Benchmark;
3. Design Governance Program;
4. Implement Progressively;
5. Review.

Step 1 – Develop Awareness

The essential starting point is development of top management awareness of IT Governance. Regardless of how IT is delivered, responsibility for determining the way that the organisation uses IT remains with management and the board, and a broad management and board awareness of the issues to be addressed in IT Governance is vital.

Infonomics Executive Briefings and related material can assist with the introduction, as can sources such as the IT Governance Institute (www.itgi.org).

The Infonomics Seminar "IT Governance – Insight and Perspective at the Top" is designed to develop a solid appreciation of what IT Governance is about. Designed for executives and directors (and also relevant to IT specialists), the one day seminar introduces the Australian Standard for Corporate Governance of ICT (AS8015), and a framework against which the key processes for the System of IT Governance can be designed. It provides a valuable grounding for an organisation that intends to establish a formal system of governance.

Step 2 – Benchmark

It is often said that organisations can only manage what they can measure – and it will be valuable for any organisation to establish a benchmark measure of its existing control over IT, before embarking on change. The benchmark will serve two purposes: initially it will assist in prioritising the work on improving governance and subsequently it will serve as a yardstick against which improvements can be reported and assessed.

Preparing the benchmark involves completion of a comprehensive questionnaire by selected personnel. The results of the questionnaire are modelled to generate a profile of areas requiring attention and to provide an "alignment index" or score.

Step 3 – Design Governance Program

Taking into account the increased awareness of the important aspects of IT Governance, this step commences with establishment of the IT governance model specifically for the organisation. The design process focuses on:

- Establishing corporate policy corresponding to the six principles for good governance of IT as set out in AS8015;
- Identifying (but not detailing) the key processes and structures (such as management and board committees if necessary) required for control of planning, delivery and use of IT;
- Prioritising and scheduling the effort to implement the processes, taking into account overall corporate priority, availability of relevant personnel, information from steps 1 and



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2, and outcomes of the current IT review. As far as practical, the schedule should link development of the governance elements to the time when they will be needed.

Step 4 – Implement Progressively

Working to the plan established in step 3, develop the processes, structures, templates and any other tools required, and establish these as normal practice in the running of the organisation. This effort may include training and coaching to ensure that the relevant personnel are adequately equipped to perform the required roles.

Step 5 – Review

At key points through the implementation process, on completion, and on a periodic (annual) basis, review the effectiveness and performance of its IT Governance. An effective way to do the periodic assessment is to repeat the assessment from step 2. The interim reviews would use more specific measurement criteria, linked to the specific objectives to be set out for the Governance Program.

Organising a Governance Program

An effective system of governance for IT depends on the top levels of management and the board having appropriate understanding of, and confidence in the system. It is therefore appropriate for top management and the board to be involved in the development of an organisation's IT Governance.

We suggest that two or three board members also participate in the process – ideally through establishment of an appropriate board committee that ensures the same attention to IT matters as the Audit committee gives to finance and the risk committee gives to risk. This will assist the board members in their contribution to the design of the governance system – particularly regarding the means by which the board engages in the system to provide appropriate oversight.

The first three steps of the above approach can and should be completed promptly – within approximately four weeks, as follows:

- Week 1 – Conduct Seminar and issue assessment questionnaires;
- Week 2 – Collect questionnaire responses and compile benchmark report;
- Week 3 – Deliver benchmark report and develop policies;
- Week 3 & 4 – Finalise governance program design.

Timing of subsequent work would be mapped out as part of designing the governance program.

To enquire about assistance in developing an IT Governance model for your organisation, please contact Infonomics Business Development Manager Ben Scheltus at bscheltus@infonomics.com.au.



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Profiling your organisation's IT Governance

Why is AS8015 Alignment Important?

Most organisations regardless of size, ownership and profit orientation depend on information and communication technology for their effective day to day and long term operations. This dependence includes ubiquitous functions like telephone and email, basic administrative functions like financial records keeping and banking, and, increasingly, essential business growth functions like customer retention, management and acquisition. In larger organisations, many fundamental business processes are designed to operate partly or wholly with information systems support. If systems are not effective, generally the processes perform poorly and limit the organisation.

So it is not surprising that business performance and improvement generally involves the efficient, effective and acceptable use of information and communication technology (IT). But often, problems with IT in projects and operations can result in wasted funds, distraction of managers, disruption in business operations, poor business performance, unacceptable risk and in extreme cases, destruction of the business. Extensive, rigorous research in Australia and globally reveals that probability of success with use of IT is strongly linked to effectiveness of IT Governance, and particularly to the aspects of governance that deal with the demand for, or business use of IT.

AS8015-2005: Corporate Governance of Information and Communication Technology provides guidance to directors, including business owners and their advisors, to assist them in ensuring that their organisations use of IT is effective, efficient and acceptable, and that it maintains proper balance in contributing to organisation performance and control of risk. It is written in non-technical language, addressed to senior officers including directors, provides a straight-forward governance framework comprising three tasks and six principles (for more information see Infonomics Executive Brief # 2 <http://www.infonomics.com.au/Executive%20Briefs.htm>).

The Thumbnail Assessment

Does your organisation exhibit the characteristics and behaviours of good corporate governance of IT? This thumbnail assessment assists you in forming an initial view. To use it, rank each assertion using this scale:

<i>I don't know enough to express a view:</i>	<i>We are not like this at all:</i>	<i>We are a little like this, but only a little:</i>	<i>We mostly match, with some lapses:</i>	<i>We match strongly and consistently:</i>	<i>We match the best in the world</i>
1	2	3	4	5	6

System of IT Governance		Ongoing Operations and Risk		Improving Business Performance	
Assertion	Rank	Assertion	Rank	Assertion	Rank
We have an effective system for governance of IT:		Ongoing business dependence on IT is well understood:		IT capability matches business needs and forward plans:	
Everybody understands and complies:		IT adequately protects business continuity and sustainability:		Use of IT balances business innovation against risk:	
It protects you from IT failures in operations and projects:		IT resource allocation matches the needs of the organisation:		IT investments deliver results as per a formal business case:	
It keeps management and directors properly informed of IT status:		The business risk of serious IT failure is understood and managed:		Demonstrated capability to deploy IT initiatives matches aspiration:	
Governance System Total		Ongoing Total		Improving Total	
Grand Total – Your Thumbnail Index of Alignment					

Understanding Your Results

The most fundamental part of understanding your result in this thumbnail assessment is to reflect on your scoring pattern. Were you brutally honest? Do your scores reflect reality, or were you



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more generous, giving yourself, your organisation and the people you work with the benefit of the doubt? Can you afford to be optimistic about something as fundamental as whether or not your organisation's IT is effective, efficient and acceptable? Before proceeding, you may want to go back and revise some of the scores you allocated.

How many one's did you allocate? Recently published research suggests that less than 40% of managers in leadership positions can accurately describe their organisation's IT governance, but in top performing organisations, this rises to around 80%. If you scored any one's, ask questions and find out what the situation is.

Did you score higher in the middle column? That's normal, particularly in larger organisations with distinct IT services. The IT specialists tend to ensure that operational matters are under control, because they can do so with a moderate deal of autonomy.

	Score	What it may mean and what you might do next
System of IT Governance	4 – 12	Key managers may not know enough about what's happening with IT. Decisions may be isolated and inappropriate. Try to get a big picture view of how you use and control IT.
	13 – 18	Some foundations exist, but key decision makers may not be properly involved. There is a risk of poor decisions and of surprises. Try to get top level executives fully engaged in IT Governance.
	19 – 24	Good information and sound decisions underpin effective use of IT and continuous governance improvement. Look for opportunities to improve the detail.
Ongoing Operations and Risk	4 – 12	Problems with IT probably occur frequently and may damage the business. Fire-fighting mode may prevail – especially at busy times. Try to better manage and learn from problems.
	13 – 18	Day to day operations are probably secure, but surprises may be just around the corner. Use current knowledge as a basis for forward assessment to check that demand will be satisfied.
	19 – 24	Strong operational governance delivers stability and provides a sound base for ongoing improvement. Maintain balance and ensure that that routine does not diminish attention to detail.
Improving Business Performance	4 – 12	IT probably does not figure in business planning, and attempts to add new IT capabilities may prove quite troublesome. Look critically at business plans, and ask how IT should be used.
	13 – 18	The need for IT in support of business improvement may not be matched by capability to deliver. Prioritise work and focus on a small portfolio of initiatives that are within your capability to succeed.
	19 – 24	Your experience and controls probably gives you a competitive advantage. Ensure that your control mechanisms keep balance between essential, safe activities and high risk, high reward projects.
Overall	4 – 24	Unless you are a very small organisation, you probably have no real control over IT, and are at risk of serious business damage through operational and project failures.
	25 – 48	Most contemporary organisations score in the 20's. Don't be concerned if you are in this range, but look objectively at your approach and consider the benefits of stronger governance.
	49 – 72	If this is an accurate reflection, your organisation probably is making effective, efficient and acceptable use of IT. Use this competitive advantage to the benefit of your stakeholders.



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Comparing with Other Organisations

The Thumbnail Assessment of IT Governance is intended to give you a first awareness of whether or not your organisation might benefit from improving alignment with AS8015. While experience to date is limited, it appears likely that most Australian organisations will rank in the lower to middle part of the 25 – 48 range, and relative strength in operational governance will be apparent. This is because IT departments tend to have more independent responsibility in these areas and maintain control, albeit often in the face of dissatisfaction from non-IT departments. Poorer performance is generally likely in IT Governance and Business Performance, where there is a much greater need for strong executive leadership and engagement. Future Executive Briefs will provide high level comparison of results from the Thumbnail Assessment.

Rigorous Alignment Assessment

The Thumbnail assessment necessarily avoids detail. To increase your organisation's understanding of what is important and how it performs, Infonomics offers a range of comprehensive assessment tools. Each assessment provides high impact graphics and no-nonsense discussion that expose the reality of your situation, and puts all of your managers and executives "on the same page" so that you can identify the most relevant opportunities for improvement. Every organisation is different, and few are perfect. Can better IT Governance improve yours?

Critical factors in ICT Governance Change

Probably the most fundamental guidance given in AS8015 is that responsibility for the use of ICT in an organisation should rest, in most cases, with the business. While an ICT department or supplier may well be responsible for the supply, it is the business that should determine what business processes are used, and how they are supported and implemented using ICT. Clearly, the processes needed for planning, implementing and operating ICT in a business need to be founded on clear and appropriate allocation of responsibility across business and IT executives. The processes need to ensure that the right executives are engaged at the appropriate points.

It can require strong persuasive capability to establish and embed changes in assignment of responsibility and adjustment of processes. Meeting the AS8015 expectations of business responsibility for the use of ICT is likely to involve business managers addressing matters that have been previously outside their field of attention and the change may not be a comfortable one. Ensuring that the need for change is recognised, and that the delivery of change is successful depends on strong sponsorship. Our experience is that peer sponsorship (ie CIO sponsoring change across the executive level) is often unsuccessful. For this reason we generally recommend that sponsorship of an AS8015 assessment should be from the CEO or board. This does not mean that the CIO can't initiate an AS8015 improvement program – it means that the CIO's first task is to secure strong sponsorship from the highest levels in the organisation.



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Approach to ICT Planning

How often do we hear discussion of IT plans not being aligned to the business? It seems to be one of today's hot topics – though it's been around for years. When I was with DMR, more than ten years ago, we spoke of services to help clients with "Business-IT Alignment".

Doesn't it strike you as unusual that IT would not be aligned with the business? How could situations arise where the IT department is doing things other than what the business needs, or working to priorities different to the business priorities?

Such situations are of course likely to reflect a lack of two-way engagement in the development and ongoing management of business and IT plans. In recent years, we have seen several situations where this is exactly what happens. We saw an organisation that was frustrated because IT never delivered what was required – for which the principal reason was exclusion of IT from the planning process and lack of any vehicle for communicating business requirements to IT. More recently, we heard of an organisation in which service units and operational units were all treated as being independent – to the extent that they prepared plans and budgets independently and then bartered over how much funding each would receive. Not surprisingly, the IT group was struggling to achieve high levels of customer satisfaction, and was frustrated that it could not achieve on its own plans.

Planning the use of IT independently of business is rather like planning the meals agenda for a family holiday independently of the travel and entertainment schedule. A mid-trip five-course gourmet dinner in a top class restaurant might be a great idea in its own right, but not if its timing coincides with a day-long trail ride which leaves the travellers weary and saddle-sore. Planning a five-year overhaul of a key operational system makes little sense if the organisation is struggling in that particular line of business and contemplating a tactical withdrawal.

It's not hard to work out that human resources are essential to the operation of most organisations, and that proper, effective management of the human resources is essential if they are to maintain optimum performance. But in most effective organisations, HR planning is not the exclusive province of either HR departments or operational units. It's something that needs to be done collaboratively. The HR department does not, in its own right, generate revenue for the organisation. But its performance in development of effective HR practices can be a significant contributor to the success of the operational units.

The same principles should be applied to IT. In the contemporary organisation, IT underpins business systems that enable operational units to generate income. But the IT department does not, in its own right, generate income. It makes sense then for IT planning to be a collaborative effort between business leaders and IT leaders, with the clear focus of the planning being achievement of short, medium and long-term business goals.

A slightly better, but still inadequate approach to IT planning is for business unit plans to be developed first, followed by IT plans that aim to meet the needs of the business plans. While this approach may provide for better alignment of IT plans to business plans, it suffers significant limitations. It assumes an almost infinite elasticity in IT supply, through which business plans are established with significant dependence on IT, but no recognition of whether there is capacity to deliver on the IT requirement. It also fails to take into account any constraints in existing IT – systems and people – that might limit the ability of the organisation to achieve new business targets.

Who's responsible for planning IT to best serve the organisation?

The first two principles for good governance of IT as set out in AS8015 focus on responsibility and planning. The requirement that organisations should establish clearly understood responsibility for IT demands recognition that the critical factor is not the delivery of IT, but the USE of IT. This



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is a business issue, and demands that business leaders take responsibility for determining the extent to which IT is used in achieving the organisation's goals.

The requirement that plans be made so that IT best support the organisation cannot necessarily be satisfied when organisation plans are made in isolation, without proper understanding of the capabilities and limitations of IT. Some aspects of organisation planning need to be informed of IT matters, ranging from the viability of existing systems and infrastructure, through to the near, medium and long-term emerging capabilities of technology and the organisation's IT specialists.

As organisations work to improve their system of governance for IT and to better align their governance to the recommendations in AS8015, Infonomics recommends that top level policy direction be given to ensure that business leaders take on significant responsibility for the use of IT. In concert with this allocation of responsibility, the organisation's planning approach should embed IT planning as an integral part of the business planning process.

Within such a model, the planning process should give specific attention to each of three questions:

- For the continued effective and efficient operation of the current business, is the existing IT satisfactory?
- For the changes we need to make to the business, what are the corresponding changes that we need to make to our IT capability?
- Considering market developments in the capability and use of IT, are there any changes that we should be making to the business?

Using this approach should result in the situation that IT activity (including infrastructure activity) is unequivocally driven by the business intent and need, and that excessive demand can be tempered from the outset. If business intent is beyond the capability of the organisation to achieve due to resource constraints or technology issues, the limitation should be recognised from the outset. There should be much greater business ownership of initiatives and there should be less tension with respect to unfulfilled demand.

Of course, this approach does not remove IT specialists from the planning process. Specialists should have a specific responsibility to inform the planning process in respect of each of the three questions. Preparatory effort may be required. Organisations that don't have a continuous awareness of the status of their current ICT will need to prepare an assessment and may also need to develop a map of how their ICT systems (and infrastructure) support their business activities. If business managers are not aware of the ICT systems on which they depend (at a suitable level), they may need an appropriate briefing.

Adopting this approach to planning helps to position organisations for strong alignment to the principles set out in AS8015. This is because it underpins the first principle – "Establish clearly understood responsibilities for IT" – with the business leaders effectively becoming responsible for setting the IT agenda (in close liaison with the IT specialists). It also underpins principle 2 – "Plan ICT to best support the organisation" – because planning done in this way is most likely to be strongly aligned to the real future needs of the organisation.

Upgrading the entire system of governance to align with AS8015 involves more than merely establishing a joint approach to annual planning. There are numerous other facets to the governance system and effort needs to be prioritised to ensure that the most important issues are resolved first. It is for these reasons that we generally recommend starting with an assessment of the organisation's existing approach to ICT Governance and developing a top-management understanding of why effective ICT Governance is important.



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Wide Angle Vision Enabled by Changepoint



By Mark D Green

Business Development Manager - Governance Solutions Compuware Asia Pacific.

Without sight how does one see? This is a common dilemma within business and I'm quite confident it is a topic of re-occurring pain in your business too, with only the intensity differing.

Sight within business is typically expressed as "visibility" and let's be honest with ourselves – lack of visibility is one of the biggest issues we combat on a daily basis within our careers. This can take all sorts of forms: – some common examples being reporting cycles and processes that deliver up information that is incomplete, incorrect or just out right all too late; the right hand not knowing what the left is doing; or worst of all, the business focusing on the wrong thing and more so, with gusto. I'm assuming you have heard similar stories and are familiar with phrases like:

- Budget overrun;
- Project Failure;
- Project scope change;
- What do customers think of our performance;
- Do you think this is going to succeed;
- Not a priority at the moment;
- How are we tracking;
- How are you going compared to planned;
- What should I/we be doing.

The list goes on and on, but the issue however remains constant. The issue or bottom line is the lack of "wide angle visibility" across your business. Once you have "wide angle visibility" across your IT organisation and know what should be focused on, then strategic/corporate direction will enable you to prioritise correctly.

Once you know your priorities (with complete business visibility), you can measure your IT effectiveness and alignment to the business and at any given point in time and be agile enough to change where and when needed. Given that priorities and strategic directions can and do change, your organisation needs the agility to move and change with informed decision making that includes consolidated, timely and accurate information at you finger tips.

It could be said that IT Governance is: "The organisational structure, leadership and processes ensuring IT sustains and/or enhances business strategies and objectives in a known way embraced by the whole business".

In my various roles and 25 years within the IT industry, I have seen a lot of change but also a lot of similarity too. What we have done in a short period of time is enable a lot of technology within our businesses and handed "IT" to the users' right at their finger tips.

PC's have become, and are treated as commodity items. What were once specialist applications have become commonplace desktop items.

One example that springs to mind is the common "word processor". In the late 80's it was more of an "art form" and the artist were called typists, WP operators and desktop publishers and mostly called miracle workers when it went as expected. Advanced functions like setting a page layout for the yearly Christmas party with more than two "fonts" was also somewhat of a specialised task that required real expertise to get it looking right when printed. To get it printed in colour well that was "Very Special". These "SPECIAL TASKS" were in fact usually done by a "Desktop Publishing Guru" and not the day to day user. If you compare it with today, these "SPECIAL TASKS" are now done very well and in fact most times better by the DAY TO DAY USER using their standard applications on their PC and in colour. Not only that, the kids at home are doing it on the home PC's better than we at work in some cases!

My point is that we have created and handed over awesome power to the everyday user in a relatively short period of time. Individual users and whole organisations have the ability to create



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new systems and information in diverse forms. They can share and transfer items and information and in doing so have created a new set of issues - managing this mass creation of information - filing, access, interpretation - managing its existence across disparate systems and managing the issues of integration and redundancy.

This leads us into one part of the Governance and visibility puzzle - the challenge of electronic document and information management, Governance rules need to establish the orderly and structured manner of which electronic items are stored, used, distributed, accessed, updated and tracked from a history point of view. The explosion of information has happened in an "organic fashion" and mostly independently across multiple sub-businesses (L.O.B. and separate Business Units) and systems. These systems now too require integration and information sharing which further compounds the potential complexity.

The necessary intervention is for business leaders to establish orderly governance structures to ensure appropriate visibility of the IT their organisations use. These structures need complementary business cultures that recognise the importance of material and information and the need for controls. The culture and controls should promote understanding of the business value in all forms of information - from the humble email through to important correspondence; business documents, contracts and financials; through to the "gut feel", "market perception" including what your customers think and feel when dealing with you plus any other information used and needed on a day-by-day basis that forms up the under pinning information on which decision making is based.

True Governance goes far deeper than merely tracking activities, tasks, projects and portfolio of projects. Knowing what project to persevere with, what to stop, and when to change priority, is front of mind in most businesses involved with projects every day.

The complexity of auditable decision making relating to this example goes far deeper than the time and cost. It involves ensuring that every project, portfolio or program will in fact deliver true business value and is properly aligned to the strategic objectives of the business. It involves monitoring additional factors which can not be quantified by a time or dollar value, such as what the client, customer and/or end user thinks about the outcomes. It needs audit trails of change requests ("scope creep") to demonstrate whether due process was followed. It means having timely and relevant reports available where and when you need them. These and many other factors form a part of a true IT Governance solution.

This is where enabling tool suites like Compuware's ChangePoint IT Governance solution suite makes the difference when the business "is able to be enabled". Enabling "wide angle visibility" of the business includes many other facets of its IT organisation not just projects.

Only one who believes in fairies would also believe that installing software tools changes culture, procedures and enforces good process effectively. This is why I say "able to be enabled". Organisations that adopt a tool like ChangePoint need not just software - they need process and culture that will work with the software to achieve the required results.

I personally stand by the three "P's" of IT success, People, Process and Product. Without all of these pieces most, if not all, initiatives will fail to deliver effectively. To achieve true effective control over your IT situation, the first step is to embrace IT Governance as an agreed way forward. Then align the culture and define your processes. As the final piece of the puzzle ensure it is enabled with the correct integrated ITG tool suite.

It is not a matter of if, but it is a matter of when and where your business is at to embrace true IT Governance. How ready you are to enable "wide angle visibility" for your business?

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Events

IT Governance: The Business and Boardroom Perspective

Last edition, we reported on the reaction of participants in our one-day seminar. With increasing visibility of IT as a top level governance matter, we believe that the seminar is increasingly relevant and so we are again considering scheduling a series. We would be most interested to learn of readers who would like to attend a seminar. Your input will help guide us in terms of timing and venues. Please email your thoughts to seminars@infonomics.com.au.

AFR Banktech.06

The 7th Annual Banking Technology Summit was held on July 27 and 28, at Dockside in Sydney. Infonomics founder Mark Toomey spoke to a packed day one plenary session. No surprises about the theme - how better IT Governance and leveraging of standards can contribute to improved business performance. We will discuss the conference further in the September edition, and we will look at the somewhat troubling trend we have noticed of industry conferences losing their audiences well before the information sessions are complete.

Government Technology Evolution 2006

This major conference addressing IT leaders in federal and state government took place on August 29 and 30, in Canberra. Mark Toomey stood in for Dr Ed Lewis, chair of the Standards Australia committee responsible for AS8015, delivering his own version of Ed's topic: "Managing the Risks of ICT Governance: How AS8015 Can Help You Keep Out Of Trouble". Again, the conference exhibited the pattern of attendees disappearing early, and Mark's presentation, relegated to last session of the conference, attracted only a handful of listeners. We will discuss this further in the September edition.

Sponsorship Arrangements and Opportunities

Infonomics welcomes sponsorship enquiries. Our monthly IT Governance Letter is evolving in scope form, and circulation base. We started in August 2005 with 450 names, and a year later we have more than doubled that list. Much of the expansion is coming as readers forward their copies to their colleagues and friends both local and international. Our readers range from senior members of the company director community, through senior business and IT executives, consultants, project managers and business change agents. We have modest and increasing global reach, with subscribers in Europe, Great Britain, America, Canada, New Zealand, Asia and the Middle East.

The Infonomics Mailing List, SPAM, Privacy and feedback.

Nobody likes SPAM – and we don't either. The Infonomics mailing list complies with the requirements of the Spam Act: 2003, as described in the advice provided in "Spam Act 2003: A practical guide for business" which was published by the National Office for the Information Economy in February 2004. We believe that we have "Inferred Consent" to send you this newsletter because we have obtained your details through direct contact with you in a business context, as a friend, colleague, or client, or through meeting you and exchanging business cards at a legitimate business networking event.

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If you think a friend or colleague would find this newsletter and its attachments useful, please forward it to them, or ask them to [subscribe](#) here or by sending us an email requesting subscription to the mailing list.

Did you find the newsletter interesting and useful? What could we do to improve it? Do you have something to say about what Corporate Governance of IT is about, or why it is important? We will be delighted to take on board your [feedback and inputs](#).

To learn more about Corporate Governance of IT, or to gain a clearer view of what is happening with your organisation's IT, please contact Infonomics now. Email: info@infonomics.com.au Web: www.infonomics.com.au.

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