Tutorial 10b
Outsourcing and Governance
Suggested Solutions

Objectives:
- **Discuss the risks associated with IT outsourcing**
- **Discuss the control and governance of IS**

1. How has the Sarbanes-Oxley Act had a significant impact on corporate governance?

   The Sarbanes-Oxley Act requires all audit committee members to be independent and requires the audit committee to hire and oversee the external auditors. This provision is consistent with many investors who consider the board composition to be a critical investment factor. For example, a Thomson Financial survey revealed that most institutional investors want corporate boards to be comprised of at least 75 percent independent directors.

   Two other significant provisions of the act relating to corporate governance are (1) public companies are prohibited from making loans to executive officers and directors, and (2) the act requires attorneys to report evidence of a material.

2. Why is there a growing interest in corporate governance?

   Financial scandals lead to bankruptcies at companies such as Enron, Tyco and Worldcom in the US and OneTel and Ansett in Australia. Oct 2001 Enron – poor financial reporting, Arthur Andersen was Enron's auditor. Many Enron executives were indicted for a variety of charges. Company hid debts from shareholders and share price plummeted.

   Worldcom – Telecoms Company. Hid operating costs, use of reserves to manipulate their earning. Executives bought apartments, excessive spending, etc.

   Students should research these companies to further understand the reasons for the need of corporate governance. They can discuss their findings in the class.

3. What is IT Governance?

   IT governance is a part of broader corporate governance concept. It also identifies the components of IT governance: which include leadership, org. structure, and org. processes (see Lecture 10 slides)