



# Corporate Governance and Software Asset Management

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Comments are those of author and do not necessarily represent  
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## Objectives

- § Reinforce common-sense observations about corporate governance with selected quotes from industry, professional and regulatory sources
- § Give practical linkages into SAM
- § Introduce the draft ISO/IEC 19770-1 SAM standard



## Corporate Governance By the Book

- § World-wide corporate guidance legislation/regulation/guidance continues to evolve
- § Absolute need to check detailed requirements for all countries where an organization has operations – generalizations will not suffice
- § [http://www.ecgi.org/codes/all\\_codes.php](http://www.ecgi.org/codes/all_codes.php)
  - § Excellent source of corporate governance links for countries world-wide



## Requirements for SAM

- § Licensing compliance – clearest corporate governance requirement in most cases
- § Asset protection – potential corporate government requirement, but may depend on definition of assets and on materiality



## Definition of Assets?

- § What is a software asset?
  - § Software use rights: licenses
    - § Expensed or fully depreciated?
  - § Software for/in use
- § **“Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.”**
  - US FASB Statement of Financial Accounting Concepts No 6
- § **Business asset ≠ capitalized asset**



## Overselling

**“There’s hardly a software vendor out there that doesn’t make some argument that whatever they’re selling has something to do with compliance”**

Lane Leskala, research director for Gartner as reported by Phone Plus Magazine re SOX



## Oxley on SOX

"Any time that you legislate in that kind of arena, in that kind of atmosphere, probably the pendulum's going to swing too far," Oxley said. He said nearly all the complaints he has heard about the law relate to its Section 404, which adds internal controls on public corporations' financial reporting and disclosure. ... the accounting industry has been overly conservative of late, Oxley said. "That will change, the pendulum will continue to come back," he said.

Michael Oxley, 6 May 2005, reported by Dow Jones Newswires



## SEC and PCAOB on SOX

'...the Securities and Exchange Commission (SEC), along with the Public Company Accounting Oversight Board (PCAOB, created by the law), told accountants that they were being too inflexible, "overly cautious" and "mechanical" in interpreting the statute.'

Concerning statements on 17 May 2005 as reported by the Economist 19 May 2005



## SAM and Sarbanes-Oxley (US)

- § Legal and regulatory compliance is not an issue unless it affects financial reporting
  - § License compliance not a driver unless material to financial statements
- § Issue of 'assets' also dependant on financial statement materiality: not normally a driver
- § SAM is part of general IT controls
  - § Covered only to extent it affects internal control over financial reporting
  - § Operational and efficiency issues not in scope



## SAM and Combined Code (UK)

### C.2 Internal Control

#### Main Principle

The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.

#### Code Provision

C.2.1 The board should, at least annually, conduct a review of the effectiveness of the group's system of internal controls and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.



## Corp Governance Code (Germany)

(4.1.3) "The Management Board ensures that all provisions of law are abided by and works to achieve their compliance by group companies."



## SAM and Swiss Code

"10. Swiss company law lays down the inalienable and non-transferable primary functions of the Board of Directors.

- The primary functions are: ...

5. the ultimate supervision of the persons entrusted with the management, with regard, in particular, to compliance with the law, the Articles of Association, regulations and directives."



## Corporate Governance in Spirit

**“Simply complying with the rules is not enough. [Companies] should, as I have said before, make this approach part of their ... 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.”**

William Donaldson, SEC Chairman, at National Press Club – 30 July 2003



## Corporate Governance in Spirit

**“The mindset of your management and board is the critical factor. Companies that focus on complying only with the letter of the law – doing just enough to get by – may find themselves in a quagmire of bloated controls, burgeoning expenses, and enduring headaches.**

**But corporate leaders who embrace the spirit of the law – strong ethics, good governance, reliable reporting – will get a re-energized company, reassured investors, and maybe even reduced costs.”**

Deloitte's Point of View: Sarbanes-Oxley Compliance - 2004



## Corporate Governance and ITIL

**"A recent Gartner survey shows increasing interest in improving IT management process maturity and progress in the adoption of process methodologies — most notably in the use of IT Infrastructure Library (ITIL) guidelines."**

Gartner, 4 April 2005



## Corporate Governance and ITIL

**Figure 1—Structure Amongst Standards**

	<b>International Standard</b>	<b>National Standard</b>	<b>Organisational Standard or Guidelines</b>
<b>IT Management</b>		<ul style="list-style-type: none"><li>• BS 15000</li></ul>	<ul style="list-style-type: none"><li>• COBIT</li><li>• MOF</li><li>• ITIL</li></ul>

Extract from Ernst Jan Oud, 'The Value to IT of Using International Standards', Information Systems Control Journal, Vol 3, 2005



## ITIL and SAM

### § ITIL Best Practice in Software Asset Management

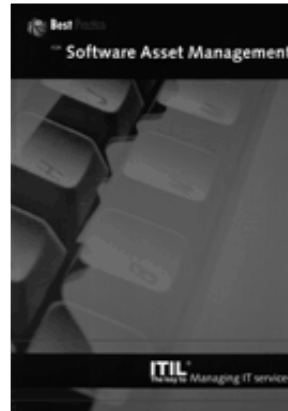
#### § Book

§ Published 9  
September 2003

§ ISBN:0113309430

#### § CD

§ ISBN:0113309449



## How to Demonstrate

### § Financial auditor opinion

### § Private certifications

§ Software manufacturer

§ Compliance organization eg FAST

### § Public certifications

§ BS15000 for service management  
(becoming ISO/IEC 20000)

§ ISO/IEC 19770 for software asset  
management (in draft)

## ISO/IEC 19770-1

- § Background
- § Status: Final Committee Draft



## Principles

- § Comprehensive
  - § Aligned to BS15000 (ISO/IEC 20000)
  - § Not focused on license compliance (although included)
- § Certifiable
- § Driven top-down by corporate governance requirements
- § Allows for outsourcers



<b>Organizational Management Processes</b>			
<b>4.2 Control Environment for SAM</b>			
Corporate Governance Process for SAM	Roles and Responsibilities for SAM	Policies, Processes and Procedures for SAM	Competence in SAM
<b>4.3 Planning and Implementation Processes for SAM</b>			
Planning for SAM	Implementation of SAM	Monitoring and Review of SAM	Continual Improvement of SAM
<b>Core SAM Processes</b>			
<b>4.4 Inventory Processes for SAM</b>			
Software Asset Identification	Software Asset Inventory Management	Software Asset Control	
<b>4.5 Verification and Compliance Processes for SAM</b>			
Software Asset Record Verification	Software Licensing Compliance	Software Asset Security Compliance	Conformance Verification for SAM
<b>4.6 Operations Management Processes and Interfaces for SAM</b>			
Relationship and Contract Management for SAM	Financial Management for SAM	Service Level Management for SAM	Security Management for SAM
<b>Primary Process Interfaces</b>			
<b>4.7 Life Cycle Process Interfaces for SAM</b>			
Change Management Process	Software Development Process	Software Deployment Process	Problem Management Process
Acquisition Process	Software Release Management Process	Incident Management Process	Retirement Process
Copyright 2005 ISO/IEC – used by permission			

## Corporate Governance for SAM

- § Recognition of responsibility by corporate board or equivalent body
- § Identification of corporate governance requirements by country of operation
- § Risk assessment
  - § Regulatory non-compliance
  - § Licensing non-compliance
  - § Interruption of operations
  - § Excessive spending
  - § Centralized vs decentralized management
  - § Specific countries of operation
- § Approval of SAM management objectives

## Next Steps

- § ISO/IEC review and approval processes being followed – target May 2006 for being an official standard
- § Test certifications to be organized by Investors in Software (not-for-profit organization)



## More Information

- § [www.InvestorsInSoftware.com](http://www.InvestorsInSoftware.com)
  - § How to obtain copy of 19770-1 draft
  - § Related materials
  - § Information about proposed 19770-2 SAM data standard



Questions?

