

A newsletter for people committed to enhancing decision-making and improving performance through control, risk management and governance

Guidance for Directors – Dealing with Risk in the Boardroom (Released April 2000)

Comments by Roy Bennett, Chair, Criteria of Control Directors Advisory Group

One of the key challenges for directors is endeavouring to ensure that the organization on whose board they serve is adequately prepared to deal with potentially adverse developments and to capitalize on new opportunities.

In preparing *Guidance for Directors – Dealing with Risk in the Boardroom*, the Advisory Group hopes to stimulate more thinking in this area of director responsibility and to provide an approach for boards to assess the effectiveness of risk control within the organizations for which they are accountable.

To ensure that this document incorporated broad management points of view and not just a financial perspective, the Advisory Group was constituted with eight individuals who have had diverse educational background (e.g. only two CAs) and all of whom have occupied substantial leadership roles with extensive experience on boards of directors.

Uppermost in our thinking was the belief that boards need to spend more time in looking ahead than in reviewing past performance. They need to be equally sensitive to the potential opportunities as well as the risks and hazards. The risks of omission can be as serious as the risks of commission.

There is often a tendency to think of risk as a negative factor which should be handled within the terms of reference of the audit committee. Such an approach runs the risk of having too narrow a focus and not addressing opportunities as well as risks. Risks and opportunities can exist throughout the organization and may apply to all aspects of strategies, plans and procedures. It is therefore important that this element of board responsibility be dealt with by the whole board and not be delegated to one specific committee.

Hopefully our current document will prove to be a useful complementary document to *Guidance for Directors – Governance Processes for Control* in focussing directors' attention on the important issue of risk in this broader context.

CoCo and Bell Canada – a win-win combination

Downsizing: hardly a new word at Bell these days. As a matter of fact, it has been part of our corporate vocabulary for quite some time now. It also applies to internal audits: we have downsized from 108 to 40 in the last 10 years.

A partnership orientation, coupled with a risk-based approach and a focus on key business processes, a renewed workforce whose competency profile more closely aligns with that of the entire company, *plus* improved communications with our client groups, and new tools (hardware and software), have all helped achieve this remarkable reduction in staffing level and cost – without giving up on our obligations vis-à-vis our senior management team and the board of directors.

The last round of reductions (summer of 98) was particularly difficult as the challenge put to the team can be best depicted by the following “classic” phrase: do more with less.

Clearly, new approaches and new techniques were required if the department was going to be able to continue to assess and report on the overall control effectiveness at Bell.

In August of 1998, an internal audit swat team was charged with delivering a new assessment process based on the principles embodied in the CoCo model, co-mingled with techniques which had been used in internal self-assessment initiatives, and incorporating the defined key management objectives for Bell Canada.

Bell audits had formally adopted the CoCo control model at the end of 1996, and the audit committee endorsed that choice at its October 1996 session.

The process that was developed to meet this challenge, is now known as the Control Assessment (“CA”) process. It uses the CoCo criteria as the basis for a series of interviews and enquiries regarding the alignment and resourcing within a selected Bell Department, vis-à-vis the stated objectives for that area of the business. It also includes a review of the effectiveness of the monitoring mechanisms in place to assure continuous improvement.

The CA process itself is very structured.

- It starts with an internal pre-assessment of the client department by the three-person audit team including the organization, prime functions, objectives, the potential external risks to that area of the business, any internal concerns, etc. This assessment was not initially shared with the client, but forms a background for the auditor to proceed to the next stage.

- Next, in groups of two, the audit team conducts a series of interviews, using a standard set of about 35 scripted, interview-style questions, based on the major CoCo criteria. The interview process starts with the department head, and during that session, evidence to support the responses to the questions is also sought (e.g. business plan, objectives, dept. communications memos, management reports, score cards, etc.).
- This is followed by 3 to 5 interviews with mid-level managers, using the same question set, and looking for alignment and consistency with the direction and emphasis of the department head interview, and with departmental objectives.
- Finally, workshops (2 – 3) are held with “working level” staff – again using the standard question framework, with adaptations for the group environment.
- The results of all the interviews and workshops are then consolidated, key observations extracted and validated, process notes and/or accumulated evidence reviewed; and an initial report prepared.
- This “CA Report” is a very structured and short document: 4 pages only – one for each of the main CoCo segments. Individual question/response blocks are aligned with the underlying assessment criteria (CoCo criteria, Bell key objectives). If a specific line item requires attention, that is noted in bold type for emphasis. Client initiatives are recognized. When appropriate, recommendations for improvement are also provided.
- Each report page, representing one of the four main CoCo criteria, is then evaluated as a whole vis-à-vis that CoCo element. The evaluation is expressed by the assignment of a color code for that page (green / yellow / red). The cover page for the report contains a snapshot of the CoCo model, with appropriate colors displayed for each of the four constituent parts.
- The preliminary report is presented by the audit team to the senior management of the department in a face-to-face or teleconference session. The results of this session provide validation and agreement for the team’s observations and conclusions – or an opportunity to reassess or see things from a different viewpoint.
- Once consensus has been reached, the CA Report is finalized for publication.

Each control assessment report is formally delivered to the client department head; it is up to that department head to share the results with his/her team who were part of the assessment. No specific results are presented upward.

Our intent was to use the cumulative results of the CA’s conducted to assess the control climate for the entire company. However, because of our 1999 strike, we have not been able to complete enough CA’s to constitute a representative sample of the company.

As auditors came back from strike duties, we decided to take the time to assess what we had learned from the twenty or so CA's completed, addressing a few shortcomings and confirming those elements that proved to work well in the field.

What we have learned so far confirms that the CA process:

- Increased the scope of the assessment, with lower invested manpower, and quicker throughput
- Provided an ability to assess soft issues within an organization
- Improved our assessment capability relative to organizational alignment with corporate priorities and objectives
- Is an excellent control educational opportunity with assessed staff – via promotion of CoCo model – with emphasis on the “friendly promotion” of control principles
- Is compatible with Bell's previous Total Quality (TQ) orientation
- Added confidence and security from using an externally-recognized control model.

If you require further information, please contact Michel Doyon by telephone (514) 870-8395 or email michel.doyon@bell.ca.

Global business professional designation proposed

Eight leading professional institutes from around the world have formed a Global Task Force to explore the creation of a new international business professional designation.

The proposed designation would enable professionals from a wide range of disciplines to build on their ethical standards, traditional skills and expertise, helping them to provide a broader range of globally relevant services to clients, customers and employers.

The aim of the Task Force is to create a globally recognized designation that would enable professionals to seize the opportunities presented by an increasingly globalized economy.

Discussions are being initiated with leading business professions and accountancy institutes around the world to attract support for the new designation.

This designation would complement existing professional credentials, as well as the work of such international associations as the International Federation of Accountants and the International Accounting Standards Committee.

The new designation would provide its holders with international recognition and credibility as business professionals operating in the global marketplace.

We will keep you informed of developments as they unfold.

connections



CoCo speaking engagements

As part of the marketing strategy for *Guidance for Directors – Dealing with Risk in the Boardroom*, a speakers' bureau has been set up, and our staff and volunteers have been busy doing a tour of the country talking about our latest publication, as well as giving general presentations on CoCo. Listed below are the places we've been (or will be) promoting the work of the CoCo board:

- Conference “Corporate Governance and Accountability in the Public Sector” – April 11, Ottawa
- Institute of Internal Auditors Conference – April 17, Toronto
- McMaster University – May 2, Annual meeting of the Ontario Universities Internal Auditors
- Institute of Internal Auditors – May 16, Edmonton
- Corporate Governance Group – May 18, UK
- Nortel Networks Conference – May 25, Hockley Valley
- Manitoba Institute Annual Meeting – June 8, Winnipeg
- Legal Services Society of BC – July 5, Vancouver
- Institute of Internal Auditors – September 20, Vancouver
- Deputy Ministers of Alberta – date TBA
- Institute of Internal Auditors – Fall 2000, Calgary

We expect to have more speaking opportunities in the Fall, so if you require further information, please email: janice.turner@cica.ca.

On the humorous side

Q. Why are they putting the accountants at the bottom of the ocean?

A. They found out that deep down they're really not so bad.

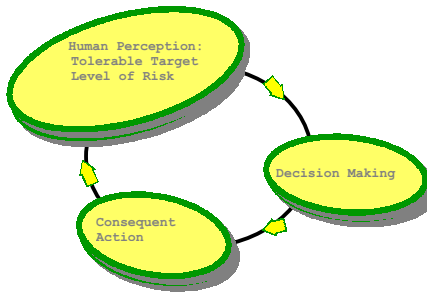
From the bookshelf

Target Risk by Gerald J.S. Wilde, PDE Publications, 1994

This book on Risk Homeostasis Theory (PDE Publications Toronto; Gerald J.S. Wilde) appeared on an interesting web site on risk. While RHT is a set of interrelated hypotheses developed to explain the accident rate of large numbers of socially-interacting road users over a considerable length of time, its lessons can be valuable for the CoCo practitioner in understanding the power of CoCo in relation to sustained organizational change. The web site reference is: www.erisks.com/pillar/education/bookopen.asp.

Risk Homeostasis Theory (RHT) states that in any ongoing activity, people continuously check the amount of risk they feel they are exposed to. They compare this with the amount of risk they are willing to accept, and try to reduce any difference between the two to zero.

In RHT we are looking at a closed loop system which can be viewed in terms of Human Perception, Decision Making and Consequent Action – a continuous adjustment cycle to return an individual to their “tolerable target level of risk”. Decision Making and Consequent Action have a short term effect. All they do is influence what is happening inside the closed loop.



In RHT, human behaviour is described as the dominant force where technological changes will be completely offset by user response unless the target level of risk is changed.¹

What we find is that there is “behavioural compensation” in response to changes in risk and that the challenge of life is not to eliminate risks because zero risk equals absence of behaviour

(after death). The challenge to the individual is to optimize the level of risk taking in such a way that the overall expected benefits accruing to that person are maximal.

Implications of RHT for the CoCo Model In Relation to Sustained Organizational Change

This book is very informative in terms of helping us to understand why humans behave the way they do. It gives us insight into why it is impossible to sustain change if organizational members are not **motivated** to make the “inner” shifts that result in change in attitudes and subsequent behaviour.

As Senge points out in the Dance of Change², in order to have sustainable organizational change, there must be a combination of “inner” shifts in people’s values, aspirations and behaviours combined with “outer” shifts in processes, strategies, practices and systems. The 20 CoCo interconnected criteria motivates people to make these inner shifts. Through the application of the CoCo model, the organizational members’ voices are heard, trust is increased and problems are viewed as systemic, not as an individual’s problem, where blame is laid.

As members’ perceived personal risk in the organizational setting decreases below their tolerable target levels of risk, they will be freed of the uncertainty of consequence, or fear of reprisal, which exists in many organizations, and be enabled to change their behaviours, more freely and effectively pursuing the goals and objectives of the organization.

(If anyone wishes a “long” version of this review, please email: vivienne.livick@cica.ca)

FEEDBACK

Copies of *Connections* may be obtained: off the CICA web site at www.cica.ca/control; by e-mailing janice.turner@cica.ca; or by calling Janice Turner (416) 204-3241.

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I am interested in contributing to the newsletter and would like someone to contact me.

I would like to receive a hard copy of *Connections* on a regular basis.

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¹ The Dance of Change; 1999 Doubleday; P. Senge)

W. Edwards Deming stated: “Nothing changes without personal transformation”.

² The Dance of Change; 1999 Doubleday; P. Senge)