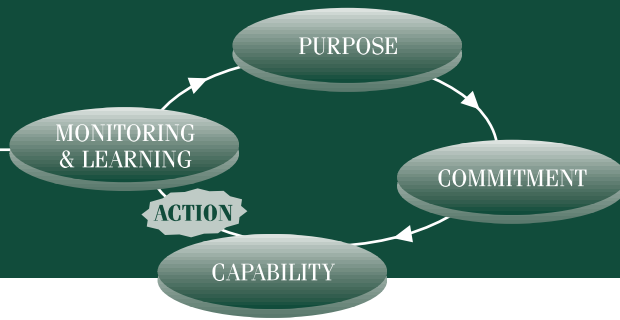


connections



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

FEBRUARY 1998

The Millennium Bug – CoCo strikes back

CICA has just published *Guidance for Directors – The Millennium Bug*. You may be wondering why was this not mentioned in the September edition of *Connections*. After all, *Connections* is meant to keep you in the picture! Here's what happened.

In November, Statistics Canada discovered that the majority of organizations in Canada are not well prepared for the millennium bug. The bug is lethal. Unless appropriate changes are made, when computer systems read the date January 1, 2000, they will assume that the year 1900 has been reached. The potential consequences are horrendous, and could lead to the failure of organizations, accounting systems, communications systems and numerous automated devices. Yet Statistics Canada found that only one organization in ten even had a formal work plan to deal with the issue.

CICA President Michael Rayner serves on Industry Canada's *Task Force Year 2000*. He volunteered CICA to develop material to meet a pressing need: clarifying what directors can do to help ensure their organization addresses this issue promptly. The CoCo team worked with CICA's information technology specialists. Our CoCo Board and Directors Advisory Group helped by reviewing the resulting guidance.

The document reflects the sobering conclusions of thousands of experts. There will be no "silver bullet" to provide a quick-fix universal solution.

Rather, each organization will need to perform a painstaking analysis and a step-by-step plan to address the high-priority problems. Contingency plans will be needed for the unforeseeable problems that are almost certain to occur.

When you read the document you may wonder: Where is the CoCo model of Purpose, Commitment, Capability, and Monitoring & Learning? It has faded into the background, as it often does when applied to a specific problem. You will find the model useful, though, in asking some high-level questions to focus yourself and your colleagues on the key issues.

- **Purpose.** Do we realize that this issue is a threat to our survival?
- **Commitment.** Have we asked our people to help identify the problems? Have we given them a way to be part of the solution?
- **Capability.** Have we tapped the best talent we have, even in unsuspected places, and given them enough resources?
- **Monitoring & Learning.** Are we tracking progress and making adjustments? Are we paying attention to small warning signs that could spell disaster later on?

You will probably find the millennium bug an unwelcome interruption to your normal priorities. We did! But tackling it did fit right in with our long-term mission: *improving decision-making and organizational performance through control and corporate governance*. You can get more information on the Year 2000 Issue through the CICA web site at www.cica.ca.

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Audit committees and CoCo

The report of the TSE Committee on Corporate Governance recommended that “the duties of the audit committee should include oversight responsibility for management reporting on internal control”. Most audit committee members would probably interpret the scope of what is meant by “internal control” in the context of the committee’s responsibility for financial reporting and conclude that they are not responsible for addressing control more broadly.

But the audit committee would be well advised to be proactive in raising the CoCo approach to control at board level. “Ensuring that there is effective control is a way for a board to exercise (and demonstrate that it has exercised) due diligence in discharging its various responsibilities, both with respect to risk management and with respect to value creation.” (*Guidance for Directors – Governance Processes for Control*)

Some organizations may conclude that responsibility for addressing the CoCo approach to control should be assigned to the corporate governance committee; others may constitute a separate committee. A lack of effective control at board level undermines all the other strengths of the organization. The important thing is to make a start.

John Hughes, CA, is a principal with Ernst & Young

Corporate governance: a review of disclosure practices in Canada

Just out: the 1997 edition survey of *Corporate governance: a review of disclosure practices in Canada*. The first-place award again went to NOVA Corporation. Honourable mention went to Canadian Fracmaster Ltd., Imasco Limited and Rio Algom Limited.

Some highlights:

- Disclosure was rated as good or very good for about 40% of companies.
- There is a big gap between the leading companies and the majority – the majority still have plenty of room for improvement.
- The majority of companies have established governance committees.
- Only a few companies are yet addressing three emerging areas of governance disclosure: ethics, stakeholder needs, and the effectiveness of control systems.

The publication, available in English only, can be purchased (product code 04000005) for \$10.00 (or 5 copies for \$30) through the CICA order desk: telephone (416) 977-0748 (Toronto area) or 1 (800) 268-3793 (rest of Canada) or fax (416) 204-3416 or e-mail orders@cica.ca.

Competencies in control

On December 19, seven people joined the CoCo staff for a half-day brainstorming session to describe the competencies of people who deal with control and risk in their organizations. The results will help people consider their professional development programs.

Some of the needed competencies go beyond the traditional accounting and auditing paradigm. For example:

- a technical understanding of leading-edge control models, governance requirements and risk frameworks;
- an understanding of human behaviours and dynamics, both in individuals and in teams;
- the ability to ask questions and to take in both the verbal and non-verbal responses;
- the ability to see patterns in tremendous amounts of data and information;
- an understanding of self;
- an ability to deal with ambiguity;
- an appreciation of the need for multiple models and perspectives.

Participants said they obtained these competencies in a variety of traditional ways: reading, “on the job” experience, networking and mentoring. They also referred to participation in non-traditional programs in areas such as human resources, organizational development, and facilitation.

“A CoCo-based assessment or audit can quickly get at the most important and sensitive issues in an organization. People resonate with the CoCo model because it uses plain language and it makes intuitive sense. You get enormous leverage from your efforts. This doesn’t mean that implementation is easy. Among other things, you must have

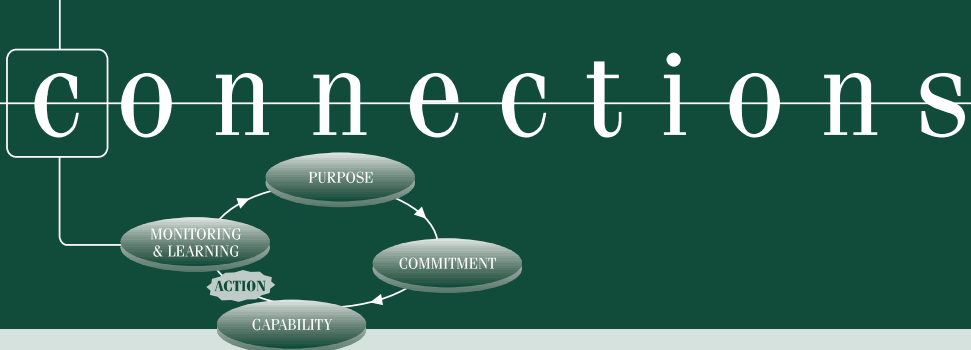
a strong knowledge of the industry, superlative enquiry skills to interpret code-words, body language and emotions, together with a rigorous way of converting the evidence you gather into “facts” that will withstand the challenge that they are ‘just subjective opinions’. We used a form of computer-based statistical analysis.”

Fred Jaakson, CA

Don’t forget the web site as a source of CoCo news

www.cica.ca

That’s also the location for our discussion forum of threaded discussion groups on control, governance and risk management.



CoCo '98 conference – Mining new opportunities in risk and control

How do you move great ideas into practical applications? How do you use the CoCo model to help effect significant organizational change?

The CoCo '98 conference will feature stories from leading organizations around the world. Our speakers include:

- **Dee Hock**, founder and CEO emeritus of VISA, will speak about implementing his vision of an organization balanced between chaos and order. It must focus on purpose, principles and people (sounds similar to CoCo, eh?)
- **Michael Gunns** will describe how implementation of a CoCo-based "Taking Control" program helped turn Zurich Canada into an international benchmark.
- **Michael Goldfine** will describe the implementation of General Motors' Business Risk Management process, for which he has world-wide responsibility.
- **Duncan Galloway**, founding Chair of the CoCo Board, will describe the relationships between the General Motors process and the CoCo model.
- **Trish Ridsdale** will describe how the CoCo model was implemented in Western Mining Corporation and other leading mining companies in Australia.
- **Rod McQueen**, journalist and award-winning author, will share the lessons he's learned from looking at troubled companies like Confederation Life and Eaton's.
- **Rick Anderson** will describe how scenario planning helped Noranda Inc. decide to divest its forest products and oil-and-gas interests and provided the basis for a fresh look at strategic risk management.

The conference is scheduled for May 25-26 in Toronto. To receive future mailings, contact **Leta Hautamaki** at (416) 204-3318 or fax (416) 204-3415 or e-mail leta.hautamaki@cica.ca.

About volunteers and staff

CoCo Board member **Marnie Kinsley**, FCA has assumed the responsibilities of Executive Vice-President at mbanx.

Patricia Faiello, CA joins CoCo as a Senior Manager. Patricia will be working on the *Assessing Control* Project.

Leigh Morris, CA has completed his term on the CoCo Board. Leigh is Vice-President Continuous Improvement at Zurich Canada.

Joining the CoCo Board is **Fred Jaakson**, CA. Fred is currently the Director General of Consulting and Audit Canada and has held senior positions within the federal public service and as a partner in Peat Marwick Mitchell.

Alan Willis, CA, joins the team on a temporary basis to work on the *Risk* project.

- Guidance for Directors – The Millennium Bug
- CAMagazine control columns

From the bookshelf

These are Peter's picks. We'd like to hear what you have found to be most helpful in learning about control, risk and governance.

Systems 1 – An Introduction to Systems Thinking, *Draper L. Kauffman, Jr.*, Pegasus Communications Inc. 41 pages. This book explains complex ideas in simple and amusing ways. For example, to explain the importance of interrelationships, Kauffman says, "Dividing a cow in half does not give you two smaller cows!".

The book includes useful rules of thumb that you can return to time after time. My favourite: *Everything is connected to everything else*.

Pigs Eat Wolves, *Charles Bates*, Yes International Publishers, St. Paul, 1991, 97 pages. "Once upon a time there were three little pigs. They lived with their mother in a happy home in the middle of a peaceful glen." Bates uses this fairy tale to describe the stages of human development and self-knowledge in simple, accessible and memorable terms.

To the extent we remain naïve innocents like the first little pig, taking our marching orders from the Mother Pigs in our lives, the wolf will blow our house down. To survive in the world, we must learn from the wolf. In Bates' thinking, the wolf is the part of yourself that you have not embraced – the unexamined prejudices and assumptions that can blind you to what is really going on.

Dwight Lacey, CEO of CIBC Insurance, says this about Bates' work: "If you accept that you must know yourself before you can truly know and work effectively with others, this is a journey you must take." If you agree your self-awareness is at the root of your effectiveness, you will find Bates' book helpful.

Status of CoCo projects

Guidance on Assessing Control – The CoCo Principles

Draft for Comment released in June 1997. Final Guidance expected in 1998.
CONTACT: **Vaika Murusalu**
(416) 204-3234; vaika.murusalu@cica.ca

External Reporting on Control

Draft expected in summer 1998.
CONTACT: **Ella Kila**
(416) 204-3273; ella.kila@cica.ca

Risk Identification and Assessment

Issues paper expected in summer 1998.
CONTACT: **Alan Willis**
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Released in the past 9 months

- Draft for Comment, *Guidance on Assessing Control – The CoCo Principles*
- *Corporate Governance: A Review of Disclosure Practices in Canada*

Comments on the newsletter

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

Yes No

I plan to read future issues of *Connections* on the web site

Yes No

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

Yes No

Here's what was useful

Here's what was not as useful

Here's what I would like to read about in future

One question/comment I have is

Books, magazines and web sites that have helped me think and learn about control, risk management and governance are

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FEEDBACK

Connections is a periodic newsletter published by the CICA Criteria of Control staff. It is intended for people with an interest in control, risk management, governance and the activities of the Criteria of Control Board. Contributions from readers are welcomed.

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

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