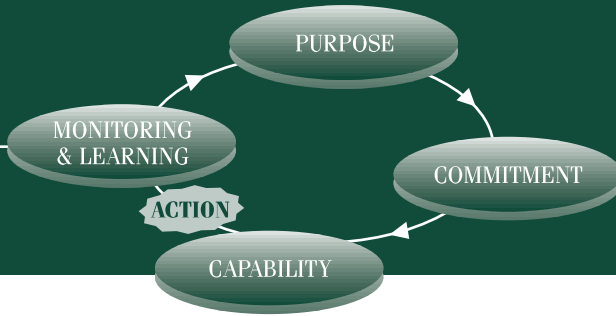


connections



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

SEPTEMBER 1997

Announcing the newsletter

As the interest in and relevance of control, risk management and governance continues to grow, the CoCo staff is launching *Connections*.

We believe a vibrant and growing community of people committed to effective control, risk management and governance in organizations is emerging. The Criteria of Control initiative at the CICA is part of that community. And, by publishing this newsletter, we want to share information about control, risk management and governance to help this community learn and grow.

But, to do that, this newsletter can't just share CoCo news with you, for example, our story on page 2 about some initial comments about the Draft for Comment on assessment. This newsletter is intended to also help you share information with others and to tell you about the activities of other organizations. Take a look at page 3, for example, for a story about the preliminary report from the Committee on Corporate Governance. The UK certainly seems to be leading the way on public disclosures about control and governance.

So, what can you do now to be part of this growing community? You can fax us the last page of this newsletter and:

- subscribe as an on-going recipient of the newsletter
- provide your feedback as a reader
- contribute ideas and stories from time to time, particularly your stories (good or bad) about implementing CoCo.

You can help make this newsletter an important element of our learning community.

Ella

Janice

Peter

Vaike

WHAT'S INSIDE

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- Corporate governance disclosure practices
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Early feedback on Draft for Comment, Guidance on Assessing Control – The CoCo Principles

Our usual process of obtaining views on draft material involves asking people to write us with their comments. Some early birds have already provided us with their views on the Draft for Comment well in advance of the November 14, 1997 deadline. Don't forget to provide your views in whatever way you can – by writing or e-mailing us; using the Discussion Forum threaded discussion group on the CICA Web site; or by telephoning us. We want to hear from you.

This time around, we also decided to obtain comments from people in a more informal and interactive forum. Groups of 6 to 11 people were invited to attend four workshops to discuss their views about the Draft for Comment. The quality of the discussion in the workshops held thus far has been excellent and will help considerably to improve the quality and value of the assessment guidance. Participants appreciated the opportunity to share and discuss their views and meet other people with an interest in

control. Here's a sample of their observations to improve the Draft for Comment.

- The role of the board of directors in a CoCo assessment may need to be explained either as a new principle or within an existing principle;
- The emphasis on a periodic report, including an opinion about control effectiveness, to the board of directors at the end of the assessment should be balanced with more discussion about ongoing, iterative reporting and communication;
- Principle 2 should allow organizations to use a control model, subject to certain conditions, other than just the CoCo control framework;
- Principle 4 should allow an organization to conduct an assessment from the perspective of various levels of an organization, not just an organization, as a legal entity, as a whole.

Who's saying what about their corporate governance practices

For the second year, the CICA will be reviewing the results of the corporate governance disclosures made by companies participating in this year's

CICA/Financial Post sponsored Annual Report Awards. The results of this review, including examples, will be published in early December – just in time to help with the preparation of 1997 annual reports and other public documents. All organizations, regardless of whether they are required to disclose corporate governance practices, should be interested in learning where practice is heading.

Last year's publication noted that 1996 was an encouraging start but that much remained to be done and that there was a big gap between leading companies and the majority. For example, for those companies reviewed:

- 5% had very good disclosures
- 34% had good disclosures
- 47% had minimum disclosures
- 14% had negligible disclosures

Interestingly, some companies are leading the way by disclosing governance practices with respect to ethics, stakeholder needs and the effectiveness of control. You can obtain last year's edition of Corporate Governance: A Review of Disclosure Practices in Canada by calling the CICA order desk at 1-800-268-3793 or (416) 977-0748. This year's edition will be available in mid-December. CONTACT: Ella Kila by phone at (416) 204-3273 or by e-mail at ella.kila@cica.ca

Why the name c o n n e c t i o n s ?

The CoCo concept of control emphasizes the inter-connectedness of systems and people within those systems. Everything is, depending on your perspective, both a part and a whole. Everything and everyone is connected, one way or another. Here are some classic quotes that express this better than we can.

We cannot live only for ourselves. A thousand fibers connect us with our fellow-men.

Herman Melville

Coming together is a beginning; Keeping together is progress; Working together is success.

Henry Ford

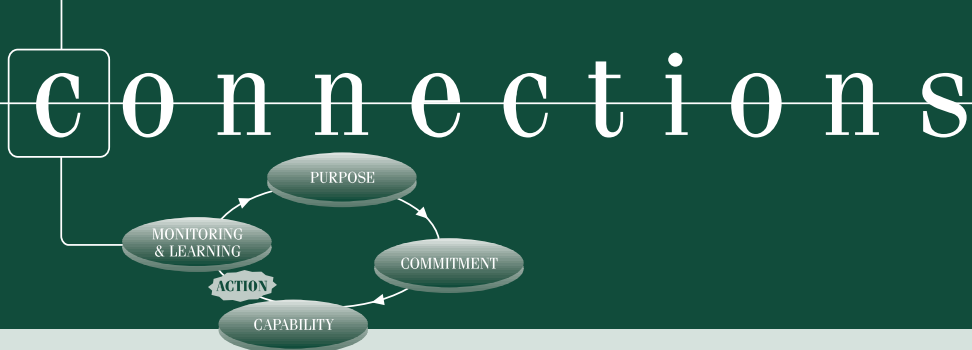
I start where the last man left off.

Thomas A. Edison

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.



Hampel Report – UK governance proposals

In August 1997, the UK Committee on Corporate Governance (known as the Hampel Committee) issued its preliminary report dealing with implementing the Cadbury report which called for more public disclosure of corporate governance practices, and has been adopted in the listing requirements of the London Stock Exchange. These proposals are an interesting indicator of what may lie ahead in Canada.

Hampel wants to “get back to business.” He says: *“The importance of corporate governance lies in its contribution both to business prosperity and to accountability. In the UK the latter has preoccupied much public debate over the past few years to the detriment of the former. We would wish to see the balance corrected.”*

Within this overall context, recommendations about control are especially interesting. Hampel says it is important for directors and management to consider all aspects of control: “We are not concerned only with the financial aspects.”

Hampel also says the directors should make a statement about the company’s system of internal control, but should not be required to report on its effectiveness. This is because readers will think effectiveness means absolute assurance against loss or misstatement, and directors may be legally liable if loss is subsequently discovered. Auditors should not report on the directors’ statement but should report privately to directors so that best practice can continue to evolve.

Single copies of the Preliminary Report may be obtained by writing to **John Healey, Secretary, Committee on Corporate Governance, c/o The London Stock Exchange, London, England EC2N 1HP**, or by telephoning **011-44-171-797-4575**.

About volunteers and staff

Pierre Brochu, member of the CoCo Assessment and Internal Reporting Task Force, has moved from Bell Canada and is President of Télébec ltée in Anjou.

John Davies, Senior Vice President and Chief Auditor, Toronto Dominion Bank, Toronto, joins the CoCo External Reporting Task Force.

Status of CoCo projects

Assessment and reporting to the board of directors

Draft for Comment, Guidance on Assessing Control – The CoCo Principles released in June 1997. Comments are requested by November 14, 1997.

CONTACT: **Vaike Murusalu**
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External reporting on control

Draft for Comment expected in Summer 1998.

CONTACT: **Ella Kila**
(416) 204-3273; ella.kila@cica.ca

Released in the past 6 months

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

From the bookshelf

These are Vaike’s picks of a current and an old favourite. Tell us about the books, magazines and journals that have helped you think and learn about control, risk management and governance.

- **The Living Company**, Arie de Geus, Harvard Business School Press, Boston, 1997. Why do many organizations vanish whereas some exist, as “living companies”, for hundreds of years? For example, the average life expectancy of a multinational corporation is between 40 to 50 years! This book addresses these questions and suggests that much of the conventional wisdom and values about corporations and management do not result in corporate longevity or corporate good health. Good reading if you want your organization to be around well into the next millennium!

- **Zapp! The Lightning of Empowerment**, William C. Byham, Ph.D. with Jeff Cox, Fawcett Columbine, New York, 1988. This little paperback deals with the basic principles of empowering people and helping employees take ownership of their jobs by telling a fable about the troubles and triumphs of workers in a make-believe department.

Off the web

Here are some web sites of interest. If you’ve got some favourites, we’d like to list them too.

- **Control Self-Assessment Resource Centre-CSA:**
<http://www.jhw.com/~jhw/csa/>
- **Fast Company:**
<http://www.fastcompany.com>

Upcoming events featuring CoCo

- Briefing session on the CoCo control framework and the draft CoCo assessment principles, October 7, Manitoba Institute of Chartered Accountants, Winnipeg.
Telephone: (204) 942-8248.
- 5th Annual Canadian Corporate Controllers Summit – Controllership ’97, Institute for International Research.
Telephone: (416) 928-1078.

Comments on the newsletter

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

Yes No

I want to receive this newsletter on a regular basis

Yes No

Here's what was useful

Here's what was not as useful

Here's what I would have liked to read about

One question/comment I have is

NAME

TITLE

COMPANY

ADDRESS

CITY

 PROVINCE

POSTAL CODE

 PHONE ()

FAX ()

 E-MAIL

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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