

# CEAA Technical & Annual General Meeting

## New Management Imperatives & Assurance Requirements

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**British Columbia Transmission  
CORPORATION™**



# Agenda



- **BCTC - Who We Are**
- **New Governance Drivers**
- **Sarbanes-Oxley Act of 2002**
- **Internal Control Frameworks**
  - COCO
  - COSO
- **BCTC's Internal Control Framework**

# BCTC - Who We Are



## BCTC is:

- An independent, 100% government-owned Crown company, regulated by the BC Utilities Commission
- A Company Act company supported by the Transmission Corporation Act

## Our Mandate:

- Full responsibility for operating, maintaining and planning the high-voltage electric transmission system in BC

# BCTC - Who We Are



## Responsible for:

- Transmission system/grid operations
- Administering current Wholesale Transmission Service Tariff
- Designing new Open Access Transmission Tariff
- Asset management and maintenance
- Planning new transmission investments
- Directing investment in transmission projects upon BCUC approval

# New Governance Drivers



- **Sarbanes-Oxley Act of 2002**
- **New Canadian Securities Commissions Guidelines**
- **Proposed changes to Canada Corporation's Act**

# Sarbanes-Oxley Act of 2002



- **Why Sarbanes-Oxley was enacted**

- Enacted on July 30, 2002 in response to a number of corporate and accounting scandals

- **Legislation of Accountability**

- establishes new or enhanced standards for corporate accountability and penalties for corporate wrongdoing
- contains 11 titles, ranging from additional responsibilities for audit committees to tougher criminal penalties

# Sarbanes-Oxley Act of 2002



- Title I - Public Accounting Oversight Board
- Title II - Auditor Independence
- Title III - Corporate Responsibility
- Title IV - Enhanced Financial Disclosures
- Title V - Analyst Conflicts of Interest
- Title VI - Commission Resources and Authority
- Title VII - Studies and Reports
- Title VIII - Corporate and Criminal Fraud Accountability

# Sarbanes-Oxley Act of 2002



- Title IX - White Collar Crime Penalty Enhancements
- Title X - Corporate Tax Returns
- Title XI - Corporate Fraud and Accountability

# Sarbanes-Oxley Act of 2002



## • Corporate Responsibility

- Requires audit committees to be independent and undertake specified oversight responsibilities
- Provides for rules of conduct for companies and officers
- Requires attorneys to report violations of securities laws
- Requires CEO and CFO certification of internal controls
  - responsible for establishing and maintaining **system of internal controls**
  - designing disclosure controls and procedures to ensure that specified information is made available to them
  - evaluation effectiveness of internal controls

# Internal Control Frameworks



- **2 frameworks recognized as best practice**
  - Criteria of Control - “COCO”
  - Committee of Sponsoring Organizations - “COSO”

# “COCO” Framework



- **COCO “Criteria of Control”**
- **Canadian Institute of Chartered Accountants**
- **Principles:**
  - Purpose
    - objective setting, policies, planning, performance measurement
  - Commitment
    - ethical values, integrity, HR policies, authority, responsibility and accountability, mutual trust
  - Capability
    - knowledge, skills and tools, information, coordination, control activities
  - Monitoring and Learning
    - monitoring internal and external environment, assumptions and performance

# “COSO” Framework



- **COSO “Committee of Sponsoring Organizations of the Treadway Commission”**
- **Sponsoring organizations:**
  - Institute of Internal Auditors
  - American Institute of Certified Public Accountants
  - American Accounting Association
  - Institute of Management Accountants
  - Financial Executives Institute
- **Most broadly accepted framework for internal controls**
- **Provides a standard and criteria against which companies can assess or design their internal control systems**

# “COSO” Framework



- **Control Environment**

- foundation - discipline and structure

- **Risk Assessment**

- risk management policies and practices

- **Control Activities**

- policies and procedures to achieve objectives and manage risk

- **Information and Communication**

- timely and appropriate information, communicate control responsibilities

- **Monitoring**

- ongoing evaluation and monitoring of processes

# “COSO “ Framework



## • Control Environment

- Integrity and Ethical Values
  - Code of Conduct
  - “Tone at the Top”
  - Dealings with employees, customers, suppliers, etc.
  - Remedial action
  - Management’s attitude towards overriding controls
  - Pressure to meet unrealistic performance targets
- Board of Directors / Audit Committee
  - Frequency and timeliness of meetings with auditors
  - Sufficiency and timeliness with which board is apprised of sensitive information, investigations, improper acts

# “COSO “ Framework



## • Control Environment (continued)

- Management’s Philosophy and Operating Style
  - Nature of business risks accepted
  - Frequency of interaction between senior and operating management
  - Attitudes and actions towards accounting, data processing, and control/compliance functions
- Human Resources Policies and Practices
  - Remedial action
  - Background checks
  - Relation of retention and promotion criteria to code of conduct or other behavioral guidelines

# “COSO “ Framework



## • Risk Assessment

- Entity-Wide Objectives
  - Appropriate
  - Communicated effectively
  - Reflected in strategies, plans, budgets
- Activity-Level Objectives
  - Appropriate
  - Consistent with Entity-Wide Objectives
  - Involvement of all levels of management in objective setting

# “COSO “ Framework



## • Information and Communication

- Communication
  - Communication of employees' duties and control responsibilities
  - Channels to report wrongdoing
  - Receptivity to employee suggestions
  - Outside parties made aware of entity's ethical standards

## • Monitoring

- Ongoing Monitoring
  - Personnel routinely obtain evidence on the controlling process
  - Management is responsive to audit recommendations
  - Personnel periodically state they comply with code of conduct
  - Personnel periodically state they have performed critical control activities

# BCTC's Internal Control Framework



- **Not required to comply with new governance requirements**
- **As a new company, implementing a control framework critical to achievement of business objectives**
- **COSO framework adopted**
- **Benefits:**
  - leading practice, establishes good corporate governance
  - creates a baseline
  - Provides broad audit coverage
  - Input to audit plans, financial and non-financial
  - Enables Management, Audit Committee and Board to meet governance responsibilities