Guidance for Directors – the Millennium Bug

The Canadian Institute of Chartered Accountants, February 1998

A special bulletin in the Control and Governance series of reports from the Canadian Institute of Chartered Accountants provides guidance to boards and board committees in discharging their responsibility for oversight of management’s handling of the ‘year 2000 issue’, otherwise known as the Millennium Bug in which computer and chip-based operations fail because programs (particularly those written some years ago when computer storage space was expensive) cannot distinguish the 00 abbreviation for the year 2000 from the 00 used for the year 1900.

The report discusses how the dilemma might affect organisations and suggests in some detail what management should now be doing to identify and rectify the problems. The report emphasises the board’s responsibilities in this area:

In this document, the view of board responsibilities is founded on the principle that the directors are stewards of the organization. As stated in CICA’s Guidance for Directors – Governance Processes for Control:

“Directors have a responsibility to oversee the conduct of the business and to monitor management and to endeavour to ensure that all major issues affecting the business and affairs of the organization are given proper consideration.”

The millennium bug is a “major issue” for most organizations. The board’s responsibility is therefore to ensure that management gives proper consideration to it.

Moreover, the board cannot delegate their responsibility to consultants or the company’s auditors:

Directors may seek a third-party review to assure themselves that management is giving proper consideration to the Year 2000 Issue. While such a review can be helpful to both the board and to management, it is unlikely that any third party will be willing to accept liability for the organization’s Year 2000 readiness.

It is also important that directors not place unwarranted reliance with respect to the entity’s Year 2000 readiness on the work performed by external auditors in the organization’s financial statement audit. The auditors’ responsibility relates to the detection of material misstatements in the financial statements being audited, whether caused by the Year 2000 or some other cause. However, the auditors do not have a responsibility to detect the effects of the Year 2000 problem on operational matters that have not affected an entity’s ability to prepare financial statements in accordance with generally accepted accounting principles. Management, not the auditor, is responsible for ensuring that the entity is prepared for the Year 2000 date change.

The report adds an appendix to assist directors by illustrating the kind of questions that a board of directors (or a board committee assigned responsibility for this issue) should be asking management about the millennium bug.

In identifying the responsibilities of boards of directors the report suggests that:
Project team

1. Who is the senior executive with responsibility for managing the Year 2000 Issue?
2. Does that senior executive have the explicit support of and access to the CEO?
3. Is there a multi-disciplinary project team in place to deal with the issue?
4. Is there a written mandate for the group, broad enough to cover the entire organization?

Organization-wide impact assessment

5. Has an assessment been made of the impact of the Year 2000 Issue across the entire organization? Were the following included?
   - financial systems
   - operating systems
   - electronic interfaces with customers, suppliers and others
   - telephone and communications systems
   - automated security and access systems
   - other devices that rely on computer or embedded chip technology.
6. Was the assessment designed to identify all computer hardware and software and devices with embedded chips that contain date-dependent code?
7. Did the assessment address the importance of the systems that employ those resources, in terms of the impact on the organization if they were to fail?
8. Did the assessment address other sources of risk such as dependence on suppliers, interconnectivity and the readiness of foreign trading partners?

Project plan

9. Has a plan been established to ensure that systems throughout the whole organization will be Year 2000 compliant in time to avoid negative consequences? Have sufficient financial resources been provided? Does the entity have enough people with the necessary technical expertise? Are plans in place to retain these people?
10. Are all appropriate personnel aware of the Year 2000 plan? Is there a procedure they can follow if they identify problems that the plan has overlooked?

Progress against plan

11. Is progress against the plan being monitored? Is priority being given to “mission-critical” systems? Is the plan updated for slippages against timetable?
12. Is senior management regularly advised of progress? How will management keep the board informed of progress in dealing with this issue?

Testing

13. Is there time to properly test new or amended systems?
14. How will testing be done? Will facilities exist to allow for integrated testing to ensure that applications will work between organizations?

Contingency planning

15. Does management have contingency plans to deal promptly with unforeseen Year 2000 problems that arise?
16. What plans are in place to deal with failures of critical business or operational systems?
17. What plans are in place to deal with failures of key suppliers, service providers or customers to have compliant and compatible systems in place on a timely basis?

Third party exposures and insurance

18. What information has been obtained from suppliers, customers and others about their being Year 2000 compliant? Is their progress being monitored? Are there regular meetings with key suppliers and customers to review progress in making their systems compliant and compatible?
19. Have commitments been made to suppliers, customers and others about this organization being Year 2000 compliant and compatible? Are they being advised promptly of progress? How is management mitigating the risks of making such commitments?
20. Has legal counsel reviewed the exposure of the organization and its directors and officers for liability toward customers, suppliers and others for Year 2000 problems?
21. Has management reviewed the limits of insurance coverage for Year 2000 problems? Does the organization’s director and officer liability policy cover such problems?

Other

22. Has management considered the possible benefits of having a third party review of Year 2000 readiness?
23 Has management considered the possible need to make timely disclosure of the Year 2000 Issue and related plans? Has consideration been given to guidance from securities commissions and stock exchanges?

24 Has management reviewed with the audit committee the possible effects on the financial statements of the Year 2000 Issue?

25 Is the board receiving regular progress reports on addressing the broad impacts of the Year 2000 Issue on a timely basis?

The full text of this special bulletin (13 pages) can be downloaded from the CICA website (www.cica.ca) at no charge. Printed copies from CICA order department in Canada fax 1 416 204 3416 email orders@cica.ca

"The past ten years has seen a very rapid growth in the number of quangos delivering services locally ... a very substantial part of the public sector is now run by quangos, appointed by or operating under contract with central government. ... While the reforms were being implemented, much less attention was given to how quangos should be accountable and to whom."