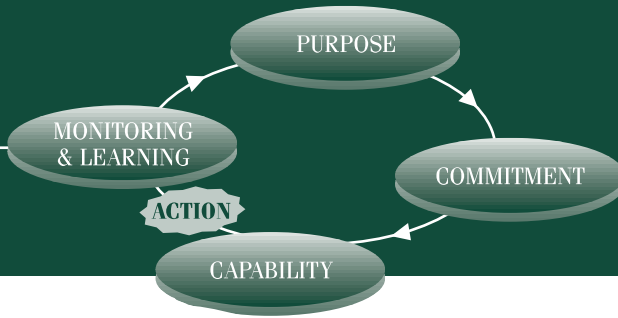


# connections



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

NOVEMBER 1998

## CoCo in Action

At the CoCo conference in May, **Marnie Kinsley**, Executive Vice-President of mbanx Canada, inspired us all with her view of how mbanx achieves its business objectives. "It is only by thoroughly understanding the purpose of your company, the level of commitment of people throughout the company, the capability provided to those people and by ensuring there is a process for monitoring and learning, that you can provide the leadership that your company needs to survive and prosper." Purpose, commitment, capability, and monitoring and learning. If this sounds like the CoCo control framework – it is.

mbanx's purpose is clear. In order to respond to its clients, it has to be able to provide "permanently amazing service". This purpose seems to be well aligned with the objectives of The Bank of Montreal in creating mbanx as its response to what the market was demanding – a virtual, electronic bank.

The commitment is the "wanting to do it" part. Commitment is reflected by turning

the organization structure upside down. The people who talk to clients are called managers and those who most organizations call senior managers are called team leaders and their job is to coach, not oversee.

Being "able to do it" is also important in achieving purpose. This is the "capability" part. mbanx's philosophy is to hire those people whose values are aligned with the five values of mbanx. In simple terms, mbanx hires the values and then teaches the skills.

The final element is monitoring and learning – or "how to do it better next time". mbanx has developed a process that creates a coaching and learning cycle that eliminates the need for bookcases full of policy and procedures binders and creates a healthy environment that fosters creativity and innovation.

"The CoCo control framework can help any organization to meet its objectives", says Marnie. It's a different way of thinking about the world. Try it!

### WHAT'S INSIDE

- Control around the world
- Learning about risk
- Hollywood in control
  - About volunteers and staff
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## Control around the world

As yet more evidence of unabating world-wide interest, several organizations have published material relating to control in the last few months.

### USA

In April, the United States General Accounting Office ("GAO") released testimony made before a House of Representatives Subcommittee titled "Internal Control, Essential for Safeguarding Assets, Compliance With Laws and Regulations, and Reliable Financial Reporting". The testimony discusses three questions: What is internal control; Why is internal control important; What happens when internal controls are not effective?

In response to the first question, the GAO defines internal control as "the plan of organization and methods and procedures adopted by management to ensure resource use is consistent with laws, regulations and policies; that resources are safeguarded against waste, loss, and misuse; that reliable information is obtained, maintained, and fairly disclosed in reports." The testimony states that internal control is synonymous with management control in that the broad objectives of internal control cover all aspects of agency operations.

In response to the last question, the testimony states that weak internal controls contributed significantly to the failure of over 700 savings

and loans companies at a cost of hundreds of billions of dollars. Further, in the health care sector, it is estimated that \$23 billion of \$163 billion in processed fee-for-service payments during fiscal 1996 were improper. The GAO's testimony is dealing with internal "controls" – a narrower concept than CoCo's "control". Nevertheless, it is one more piece of evidence of the need to pay attention to control, governance and risk management. Call (202) 512-6000 or visit [www.gao.gov](http://www.gao.gov) to obtain a copy.

### UK

In March 1998, the UK Auditing Standards Practices Board issued a consultation draft, "Providing Assurance on Internal Control". Intended for external auditors, it outlines the principles that should be applicable in all engagements involving the provision of assurance on internal control, including expressing an opinion on whether a system, or its elements, meets certain criteria or achieves certain control objectives. A brief description of a control framework, which the draft states is broadly consistent with the COSO control model, is also provided.

The impetus for the consultation draft is the increased public and regulatory concern in the UK surrounding the financial aspects of corporate governance. However, the draft also suggests there appears to be an increasing trend, not driven by any regulatory regime, that organizations are looking for assurance on the state of control for activities that they have out-sourced. While this draft is intended to help external auditors provide such

assurance, it may also be interesting to internal auditors who might also be asked to provide such assurance. To obtain a copy, write to: S. Leonard, The Auditing Practices Board, PO Box 433, Moorgate Place, London, England, EC2P 2BJ.

### AUSTRALIA

In March 1998 the Institute of Internal Auditors – Australia issued an exposure draft on Australian Criteria of Control ("ACC"). According to the ACC, "the end result is an emphasis on the competency of management and employees to develop and operate the business to achieve desired results". The ACC has been designed to support and be consistent with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Criteria that are considered important for an effective system of control are discussed and a basis for assessing the system of control is included. Self-committed control is recognized as the most cost-effective control including attitudes, behaviours and competency in system design and operation.

A copy of the ACC draft can be obtained from: Institute of Internal Auditors – Australia, PO Box A2311, Sydney South, NSW 1235.

The CoCo Board responded to the draft, citing several concerns. A copy of the response can be obtained from Janice Turner at [janice.turner@cica.ca](mailto:janice.turner@cica.ca) or by phoning (416) 204-3241.

## Learning about risk

*Learning About Risk: Choices, Connections and Competencies*, the most recent CoCo publication, is doing exactly what we hoped it would – provoke thought and discussion. It is also gaining praise – H. Kloman reports in the August '98 edition of Risk Management Reports that "Learning About Risk ...is a substantial contribution to risk management literature. It features seven models of risk, new techniques of considering risk and making more intelligent choices. They (the authors) provide an intellectual stimulus seldom found".

But reading the publication isn't the only way you can get exposed to its ideas and, perhaps

more importantly, get a chance to discuss it with others.

The Workshop Leader's kit will assist you in developing and leading a workshop to discuss and explore the risk models. The kit contains leader's notes, case studies, participant's handouts and a PowerPoint presentation diskette for you to amend as required.

To obtain copies of these publications contact the CICA order department.

Tel.: (416) 977-0748  
Fax: (416) 204-3416  
Email: [orders@cica.ca](mailto:orders@cica.ca)

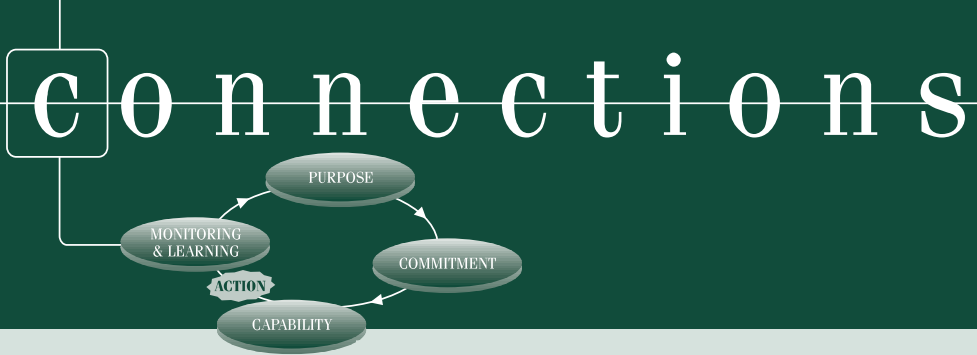
And, if you can't organize your own workshop, or would like to see how we do it first, many of the chartered accountant provincial institutes are also offering a half-day risk workshop, presented by CoCo staff, as part of their professional development programs.

Contact your local Institute to express your interest in upcoming courses.

Location	Contact	Telephone	Date
British Columbia	Moir Bryans	(604) 681-3264	November 27
Alberta	Dianne Lubeck	(403) 424-7391	
Saskatchewan	Gary Erickson	(306) 359-1010	December 4
Manitoba	Bob Delaney	(204) 942-8248	
Ontario	Debra Barr	(416) 962-1841 x 295	November 3
Quebec	Evelyn Paquin	(514) 288-3256	
New Brunswick	Jack Blackier	(506) 634-1588	
Nova Scotia	Michelle Bezanson	(902) 425-3291	
PEI	Edison Shea	(902) 894-4290	
Newfoundland	Nina Adey	(709) 753-7566	

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

[www.cica.ca](http://www.cica.ca)



## Hollywood in control

by Vaïke Murusalu

I went to see the summer action/adventure movie, Armageddon. The movie is about a huge meteor on an imminent collision course with Earth. The scientists, apparently unprepared for this event, frantically devise various strategies about how to avert the total destruction of earth. They have only one viable strategy, which is to land on the meteor, drill a very deep hole and plant a nuclear bomb which will break up the meteor. The scientists engage a wizard oil well driller—our hero—who, together with his team, and at great peril and cost, execute the strategy and save the world. (Oh, and by the way, there is also this romantic sub-plot ...).

To illustrate that control and risk principles are everywhere, even in an escapist, implausible summer blockbuster, here are some examples that I spotted.

- **Leadership** – Our hero and the lead scientist both have moments of vulnerability, self-awareness and humility – they recognize that while they cannot do it alone, their actions and words are very influential. They will accept responsibility for the things that go wrong and share the glory when things go right (I can say no more at the risk of giving away too much of the plot for those who haven't seen the film!).
- **Intuition** – Despite overwhelming evidence to the contrary and the dire consequences of choosing wrongly, our hero relies on his intuition and that of his protégé to keep drilling. This was a decision made in the "heat of battle". Not surprisingly, our hero's choice turns out to be the right one!
- **The power of a team** – Our hero accepts the dangerous mission only if he can use his very motley band of misfits because, contrary to appearances, they comprise a team that has trust, competency, ability to communicate, confidence, and a shared thirst for taking personal risks.

So when you next view a film, perhaps you'll spot some control and risk principles. It's not that hard! I guess that's because the CoCo principles of risk and control are based on a holistic understanding of human systems. More popcorn, anyone?

## About volunteers and staff

### Board changes

Four members of the CoCo Board completed their terms of service in September 1998. Our thanks go to **Paul Makosz** for six years, the past two as Chair; **Hugh Lindsay** for four years; Guy Breton three years and **Carman Lapointe-Young** for three years.

The board size has been expanded by one, so the current board is as follows:

**Jack Rose**, FCA, incoming Chair of CoCo Board, Partner, KPMG

**Chris Bart**, CA, Professor, McMaster University

**Pierre Brochu**, CA, President and CEO, Télébec Itée (new member)

**Michael Gunns**, CA, Senior Vice President of Internal Audit, Zurich Canada (new member)

**David Holt**, CA, President, Modern Enterprises Limited

**Fred Jaakson**, CA, Consulting and Audit Canada

**Sean Latimer**, B. Comm., Chief Audit Executive, General Accident Group (new member)

**Marnie Kinsley**, FCA, Executive Vice-President, mbanx

**Amy Lee**, CA, Manager Financial Review & Audit, BC Hydro (new member)

**Carmelo Leung**, MBA, VP Finance & Admin. & CFO, Hewlett-Packard

**Peter Valentine**, FCA, Auditor General of Alberta (new member)

### CoCo staff changes

**Vaïke Murusalu** is moving on after making significant contributions over the past 4 1/2 years and **Ella Kila** after a temporary sojourn between the demands of accounting

standards responsibilities. Thanks to each and good luck!

Joining the staff team is **Ashley Dafel**, with a background in financial management and internal audit and experience in implementing CoCo in mining, paper and chemical companies.

## Job opportunity

There is an opportunity for one additional person to join the staff team. If you are interested in organizational change and group process, value teamwork in leading-edge exploration of risk and control and can bring relevant skills and experience, contact Peter Jackson at (416) 204-3293.

## From the bookshelf

by Ashley Dafel

*The Economics of Trust*, **John O. Whitney**, McGraw-Hill, 1996. After being a CEO, COO or Chairman and for the past 14 years, Whitney talks from experience in saying that "trust is not only the lubricant that helps get things done, it is also the glue that holds the organization together". A conservative estimate according to Whitney is that about 50% of work going on in business today is wasted on activities such as supervising, completing multiple forms, justifications, re-justifications, multiple sign-offs and alike. The wasted activity is created based on the premise that people are not competent and are dishonest. Equating trust with profit or loss, the book examines things such as the causes and costs of mistrust, rewards and measurements, the psychology of controls and practical tips on how to get from the theory to practice. The book certainly drives the point home that people truly are the most important asset.

# 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

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Here's what was not as useful

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

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One question/comment I have is

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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](mailto:janice.turner@cica.ca); or by calling Janice Turner (416) 204-3241.

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Fax Feedback on the newsletter to (416) 977-8585, attention: Janice Turner.