

# *Intelligent Internal Control and Risk Management*

Designing High-Performance Risk  
Control Systems

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# Introduction

What we have here is an opportunity to create value – actually a wagon-load of opportunities to create value. The rapidly merging fields of internal control and risk management often look established, standardized, and even dull. Experts in these fields cultivate that impression but the truth is that we're still at the Wild West stage. Most people working in this territory are pioneers trying to get by with a handful of crude tools. We're just getting started and many risk and control programmes are hanging on to survival by their fingernails. There are snake-oil salesmen who will sell you a cure for all your ills, and Coso is a barmaid at the Sarbanes-Oxley saloon.<sup>1</sup>

It's no surprise that many people today view internal control and risk management as dreary chores of little real value done only to placate regulators and auditors. Happily, it doesn't have to be that way, which is where the wagon-load of opportunities rumbles in.

The more we open our minds to new control techniques, and the harder we push ourselves to design better controls that give better results more easily, the greater the value will be.

A willingness to try new things is needed. There are many, many opportunities to improve internal control and risk management programmes, systems, tools, frameworks, and anything else that comes along in this area. Rarely have the value of risk management or internal control been measured and we should not, at this early stage, expect all new ideas to be promoted with quantified evidence of effectiveness and value. In time this will happen, but right now we already know a lot about what brings improvements and can quickly innovate our way to better results.

There are standards and widely quoted guides on how to do internal control and manage risk, but there are lots of them, they say different things, they lag behind leading practice, and many contain logical and practical flaws.

For example, even the biggest and most respected guides fail to mention the problem of *designing* controls. Yet this is where most people have the greatest difficulty and the scope is greatest for increasing value.

So, not only must we be willing to try new techniques but sometimes they will be techniques the official guidance hasn't yet recognized.

These are fields where we need to focus on design, innovation, and value, so they are what this book is about.

## Note

1 COSO is the usual name for the Committee of Sponsoring Organizations of the Treadway Commission. COSO has published some of the most influential documents on internal control.