



Why controls?

Controls help an organisation to operate effectively, comply with policies, produce dependable information and conform with regulation. But they can be costly to implement, operate and monitor. They often drive inefficiency through duplication and unnecessary activity.

Since early 2016, we have been approached by several ORX Members with requests to develop research, and potentially a benchmark, in relation to controls. In particular, to support our Members' efforts for a right-sized effective internal control environment. Existing industry research about what works well is limited.

About this study

In the first half of 2017, we conducted a series of interviews and a detailed survey to understand how participants are managing their control frameworks and the nature of the related data they collect.

Throughout the project, we worked closely with the participants from 36 ORX member firms to develop the report. Participants then shared their experiences and learning at roundtable events in London and New York.

The full report, available to participants, presents the results of the interviews and survey. It includes an overview of current industry practices, proposes definitions, identifies common control data attributes and provides an indication of how an institution can assess their stage of development.

Study summary



Controls are a priority

Operational risk is changing. As the discipline moves away from its focus on capital calculation, the need to effectively and efficiently manage operational risk becomes increasingly important. An effective

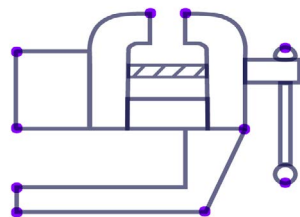
and consistent enterprise-wide control environment is key to a balanced risk management framework.

Financial institutions are investing heavily to improve control management, address specific risk areas like regulatory compliance, and develop related technology.

There is pressure to improve

The pressure to enhance control frameworks continues, driven by supervisory scrutiny and board demand for a robust assessment of the entire system of internal control.

This is exposing the reality that control management as a discipline is not at an advanced stage of development.



Investment to date has had a positive impact on the culture around control and the development of overarching frameworks. However, the absence of sufficient external frameworks and guidance has led to practices and terminology evolving in isolation within institutions and across the industry.

A consequence of this siloed approach is that:

- Some areas, such as financial reporting, are well established
- Dual-speed development means that other areas such as conduct, third party and data management are less complete
- Data and technology is fragmented, leading to insufficient confidence in its use

The variation in definitions and approaches has also led to vast differences in the volume of controls considered key, ranging from 500 to 45,000 within this study. This makes it difficult to focus on the most important controls and stretches resources in both operating and monitoring them.

Understanding control management practices (continued)

In combination, these factors are hampering the ability of board members to make positive statements about the overall effectiveness of their control environment, an increasingly important part of their role.

The industry is moving in the same direction...

Operational risk is increasingly being seen as an umbrella function, promoting the harmonisation of frameworks, methodologies and systems. In the controls discipline, this is leading to:

- An improved understanding of the importance of controls at all levels
- Efforts to identify controls that are truly key
- Improvements in the quality and accessibility of controls data

Control monitoring is a priority for most institutions and is widespread across the lines of defence. Significant time and resource is being invested, with techniques advancing beyond sample testing to enable a more nuanced and efficient risk-based approach.

...but at different speeds

Some institutions have invested more heavily and are, therefore, currently more advanced in control management. Examples include:

- Driving efficiency to improve the cost of control by reducing the volume of key controls, investing in automation and centralising testing resources
- Using a control taxonomy and library
- Harmonising to a single repository of controls data
- Adopting a combined assurance model
- Mapping controls to end-to-end processes
- In a small number of cases, creating a Chief Control Officer role



ORX will continue to focus on controls

Supporting the industry to improve control practices is a priority for ORX. As part of this study we've provided a series of recommendations including:

- Proposed definitions for control; key control; control taxonomy; control library; control instance; control type; and control method
- An approach for using control libraries
- The common attributes of a control

As the work continues, we will explore other areas of interest including further definitions; a benchmark of key controls; a control taxonomy and research on hot topics as they emerge.

Find out more

If you'd like to know more about our controls research contact Nick Benson: nick.benson@orx.org

Managing risk together

ORX believes many heads are better than one. We're here to bring the best minds of the international operational risk community together. By pooling our resources, sharing ideas, information and experiences, we can learn how best to manage, understand and measure operational risk and become less vulnerable to losses.

For more information about ORX, our research and our services, visit www.orx.org

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+44 (0)1225 430 390