



Financial Conduct Authority

Internal Audit report

A review of the design and effectiveness of the FCA's external communications strategy

Findings identified	
Major	0
Moderate	3
Minor	1

October 2014

1 Executive Summary

1.1 Summary and opinion for Audit Committee

Background

The FCA has a statutory duty under the Financial Services and Markets Act 2000 to have regard to “*the principle that the regulators should exercise their functions as transparently as possible*”. In addition, the FSA’s June 2011 ‘The Financial Conduct Authority: Approach to Regulation’ document identified:

- the government’s intention to establish the FCA as an organisation that would be more outward-looking and engaged with consumers, firms and trade associations;
- that openness and transparency could lead to improved consumer outcomes; and
- that it would be essential that the purpose of the FCA was fully understood and supported, from the outset, by the public and Parliament.

The Communications and International Division (C&ID) supports the FCA in building confidence in, and understanding of, the work and remit of the FCA and is responsible for setting the FCA’s external communications strategy, which is the focus of this Internal Audit review.

In May 2014, a new approval process for external publications was introduced for a range of external communications which requires obtaining approval from the accountable director in the business and the director of the C&ID. We included a review of this process in the scope of this review.

Conclusion

There was generally a good level of engagement between the C&ID and business areas. We found that business areas were considering the impact and outcomes of their work on both firms and consumers. However, we identified some areas where the timing and effectiveness of engagement could be improved across the FCA. We also found that while the approval process for external publications ensured an appropriate level of review and approval, evidence of this approval has not always been retained.

We raise findings in the following areas:

- Engagement is generally good with some areas for improvement. Both the C&ID and business stakeholders noted instances where the level of engagement could have been improved and where engagement could have happened earlier in the process.

In our discussion with representatives from business areas, the majority of stakeholders highlighted that their engagement and interaction with the C&ID had been positive, including where:

- the C&ID had provided good support to the business;
- there had been regular contact between the C&ID and the business area; and
- the C&ID had good understanding of the subject matter.

However, we also received some negative feedback from representatives of business areas, including instances of:

- discussions on what the focus of messages should be happening late in the process; and
- a lack of clarity on the responsibilities of business and C&ID stakeholders when making decisions on changes to communications.

- To drive consistent messaging across the FCA, where the C&ID do not have oversight, the FCA voice has been developed. Interviewees and management of the C&ID recognise that the FCA voice is not yet fully part of the FCA culture and that more work is required to embed the FCA voice to reduce reputational risk of inconsistent communication. Reputational risk associated with local areas communicating externally could also be reduced by reminding staff across the FCA of what to do in the event of an external enquiry that may result in reputational risk to the organisation, such as a media enquiry, or speech to an external audience.

- There are a number of processes in the C&ID that are clearly documented. These are supported by informal knowledge transfer between current staff and new joiners on how:
 - judgement is applied in particular circumstances; and
 - direction from the FCA Board or ExCo is disseminated.

While some knowledge transfer of this nature is expected, there is an increased risk of inconsistent understanding in the team in areas without documented guidance. There is a need to ensure this knowledge transfer is effective particularly when there are changes of staff in the C&ID.

- Our interviews with staff in the C&ID and relevant business areas indicated that all communications subject to the approval process for external publications were reviewed and approved at an appropriate level. However, there is no clear guidance as to how this should be evidenced and evidence of this approval has not always been retained.

1.2 Overall management comments

Thank you for the internal audit report on the design and effectiveness of the FCA's external communications strategy.

Having robust systems and controls in place ensures the FCA can prioritise, plan and manage the release of external communications in a way that protects and enhances the organisation's reputation. The importance of managing the organisation's reputation is recognised throughout the organisation and is considered and endorsed by both the Executive and the Board.

We are pleased with the finding in the report that 'there is generally a good level of positive engagement between the Communications and International Division (C&ID) and business areas'. In particular, we are pleased the report acknowledges that, through this engagement, the business now consider the impact and outcomes of their work to both consumers and firms.

We welcome the report's recommendations in regards to how our processes, systems and controls could be enhanced, in particular in adjusting to the new sign-off process and knowledge transfer between staff. In regards to these recommendations, we have committed to actions that we will implement as a matter of priority and, in most of these instances, already taken these forward. While we welcome the report's recommendations in regards to sharing and embedding communications tools, such as the FCA Tone of Voice and elements of the year two communications strategy, C&ID rely on other divisions to embed this work at a local level, and the actions reflect this. In regards to section three of the report, we are dependent on the development and agreement of an organisational risk appetite for reputational issues before we can adjust the judgment we (currently) exercise.

In summary, management agrees with the findings of this report, and several of the remediating actions have already been taken or are well advanced. Where we can undertake any additional actions, we will endeavour to do so in an effective manner within a short timeframe.

Please refer to the detailed actions below for the detail in each area.

1.3 Schedule of findings

Ref	Findings	Rating
1	Improving consistency of engagement between the business and the Communications and International Division	Moderate
2	Embedding the approach to communications across the FCA	Moderate
3	Ensuring consistent application of processes across the Communications and International Division	Moderate
4	Approval of external communications	Minor

2 Detailed findings

1	Improving consistency of engagement between the business and the Communications and International Division (C&ID)	Moderate
<p>Using a sample of recent announcements we found that there was in general good engagement between relevant business areas and the C&ID with some instances where engagement could have been more effective.</p> <p><u>Variations in effectiveness of engagement between the C&ID and business areas</u></p> <p>Across our sample of announcements, there were variations both in the timing of when the C&ID were engaged and in the nature of their involvement.</p> <p>We saw examples of good practice where there had been early, constructive engagement, including:</p> <ul style="list-style-type: none"> • Divisional Supervisory Risk Committee (DSRC) papers presenting the results of thematic work that included a communications plan agreed with the C&ID; and • development of a detailed communications strategy milestone/activity tracker for a major consultation to enable both the C&ID and the business to monitor activity. <p>There were examples where some aspects of the engagement had not been as effective, including:</p> <ul style="list-style-type: none"> • a communication where the business only engaged the C&ID after the business had already determined they would communicate via a Dear CEO letter; and • a thematic review where the papers presented to DSRC for approval did not include explicit consideration of how the results would be communicated externally. There was subsequent disagreement between the business areas involved as to how messages should be presented which ultimately resulted in significant changes being made to the announcement following the final stage review by the CEO. <p>Staff in the C&ID confirmed that early consultation with the business enables them to better provide an appropriate level of support but that the level of early engagement varied across business areas.</p> <p><u>Visibility to governance committees of external messaging</u></p> <p>When governance committees such as DSRC or the Policy Steering Committee (PSC) approve the results of work, there is no requirement for the committee to approve or be made aware of:</p> <ul style="list-style-type: none"> • key messages to be communicated externally and the tone of messages; or • objectives of the communications. <p>The way results are presented for internal committee review and approval may in some cases differ from how they are presented to an external audience. It may not be apparent when external messages become misaligned with committee approval and therefore require notification to or re-approval by the committee.</p>		
Recommended actions		Management actions, owner and date
1.1	Processes are implemented that require business areas to consult with C&ID at the outset of work that is expected to result in significant external communications (e.g. those that are subject to the approval process for external communications). The role of the C&ID in these communications is agreed with the relevant business area at the outset.	1.1a Action: C&ID to work with the Executive Committee secretariat to amend standard templates so as to require all papers with a public outcome or internal communication have an assigned contact in communications. Owner & Dept: Executive Assistant / C&ID Director's Office Date: 7 November 2014

		<p>1.1b</p>	<p>Action: C&ID to communicate the change in 1.1a to all staff during Communications Week (w/c 10 November 2014), along with supporting sessions that explain how and when to engage with Communications.</p> <p>Owner & Dept: Head of Department / External and Internal relations.</p> <p>Date: w/c 10 November 2014</p>
		<p>1.1c</p>	<p>Action: To review our communications approach on an ongoing basis during regular bi-lateral meeting between the Director of C&ID and other ExCo Directors</p> <p>Owner & Dept: Director / Communications and International.</p> <p>Date: Commencing December 2014</p>
<p>1.2</p>	<p>Local governance committees should review and approve key elements of the intended external messaging to confirm they are aligned with the content of the publication and drafted in an appropriate tone.</p>	<p>1.2a</p>	<p>Action: C&ID to work with the Executive Committee secretariat to amend standard templates to ensure that key communications concerns (e.g. key messages, timings and stakeholder management) are considered and approved by governance committees.</p> <p>Owner & Dept: Executive Assistant / C&ID Director's Office</p> <p>Date: 28 November 2014</p>

2	Embedding the approach to communications across the FCA	Moderate
<p>Interviews with staff across the FCA found that, outside of the C&ID, the FCA voice and year two communications strategy is not embedded at a working level. Despite C&ID efforts to publicise the approach through various channels, the organisation has not shifted culturally to speaking with one FCA voice.</p> <p>The C&ID has created a range of tools including guidance and a library of best practice examples and templates, and has undertaken promotional activity including distributing leaflets to every desk. However, the FCA voice is often considered towards the end of a piece of work once the C&ID are engaged.</p> <p>Divisions across the FCA regularly undertake communications with external parties, including communications sent to large numbers of firms and it is neither practical nor desirable for the C&ID to review every communication with external parties. Although the C&ID are responsible for setting the FCA voice they are not responsible for enforcing uniform compliance. When the FCA voice and communications strategy are not properly embedded throughout the organisation, there is an increased risk that local communications may be inconsistent with the FCA's overall communications approach, resulting in confusion for firms and posing a reputational risk to the FCA.</p> <p><u>The year two external communications strategy</u></p> <p>The year two external communications strategy was agreed by the FCA Board on 26 June 2014. Staff we interviewed at a working level displayed a low level of awareness of the year two strategy or 'truth and proof' concept and did not have good visibility of supporting elements such as the pipelines for completed communications which could help individuals across the FCA understand how their work fits into the wider FCA messages and outcomes. Since completing fieldwork for this review the year two external communications strategy was presented to the SLT on 25 September 2014. The C&ID will also hold a Communications and International week in November for all FCA staff.</p> <p><u>Staff policies regarding communications and handling external enquiries</u></p> <p>It is important that staff across the FCA adhere to key policies relating to communicating externally or to handling external enquiries that may result in reputational risk to the organisation, such as a media enquiry, or speech to an external audience. Guidance is provided on myFCAhub regarding staff responsibilities, such as the requirement set out in the staff handbook for all press enquiries to be referred to the press office. However, staff are not provided with periodic reminders of what to do in the event that they receive an external query. Such reminders could reduce the risk of information being inappropriately released to the media.</p>		
Recommended actions		Management actions, owner and date
2.1	Consideration should be given to how the FCA voice is disseminated, understood and embedded into the culture of the organisation.	<p>2.1a</p> <p>Action: C&ID to continue to deliver the ExCo agreed Tone of Voice framework, which includes organisation-wide tools, templates and a bi-monthly Writers' forum. The Change Community super-users should also continue to embed Tone of Voice within their areas – they are regularly briefed by C&ID on the framework and latest developments.</p> <p>C&ID to continue to work with HR to include the Tone of Voice training as part of the FCA Academy suite offered to staff across the FCA.</p> <p>C&ID to identify local business areas, notably parts of PRR, Enforcement, Markets and Supervision to include Tone of Voice training as part of their performance development plans using a Tone of Voice facilitation pack</p>

			<p>and e-learning tool.</p> <p>Directors to embed the Tone of Voice framework within their respective divisions.</p> <p>Proposals scoped, including milestones against delivery, by 1 January 2015</p> <p>Owner & Dept: Head of Department / Consumer Communications and Engagement</p> <p>Date 1 January 2015(ongoing activity over 2014/15)</p>
2.2	Consideration should be given to how staff across the FCA are given sufficient visibility of relevant elements of the communication strategy.	2.2a	<p>Action: C&ID to:</p> <ul style="list-style-type: none"> - include information on the year two communications strategy as part of the Communications Week; - communicate to the Division that all strategies must reference and build on the commitments in the year two communications strategy; - develop a key messages document that reflects the year two communications strategy; - continue to share the communications strategy with key stakeholders, such as the Panels, throughout 2014/15. <p>Owner & Dept: Head of Department and C&ID Director's Office</p> <p>Date; November 10 2014 (ongoing activity over 2014/15)</p>
2.3	All FCA staff are provided with periodic reminders of their responsibilities in relation to key external communication policies, such as the requirement for all speaking opportunities (on behalf of the FCA) and press enquiries to be referred to the press office.	2.3a	<p>Action: C&ID to establish six monthly reminders at SLT to ensure that staff responsibilities in relation to key external communication policies is shared. Include media handling reminder as part of Communications Week (w/c 10 November 2014).</p> <p>Owner & Dept: Head of Department / External and Internal relations</p> <p>Date: 1 December 2014</p>

3	Ensuring consistent application of processes across the Communications and International Division (C&ID)	Moderate
<p>The C&ID has a range of skills and detailed documentation for a number of processes but there is no evidence of documented guiding principles and operational parameters by which they should make judgements.</p> <p><u>Strategic decisions impacting the FCA approach to communications</u></p> <p>We acknowledge that staff in the C&ID are able to articulate the considerations they take into account when planning an announcement or engaging with external parties and these were in line with expected industry practice. However, in the absence of documented guiding principles and an agreed cross-organisational risk appetite on reputational issues, there is a reliance on judgement within the C&ID, supported by local processes and controls, and it is possible that decisions are not aligned or may be inconsistent with the expectations of the FCA Board. It is not clear how direction on risk appetite when engaging with external parties agreed by the Board or ExCo is then communicated to staff in the C&ID. For example, the FCA Board agreed in June 2014 that <i>‘the FCA’s effective use of the media was an essential part of both its communications and deterrence toolkit’</i>¹. However, stakeholders in business areas and in the C&ID indicated that there was a perceived change in risk appetite since April 2014 resulting in a reduction in the level of external engagement in advance of an announcement.</p> <p>Where there is reliance on informal channels to disseminate the steer from ExCo and the Board, there is an increased need for mechanisms to ensure that:</p> <ul style="list-style-type: none"> • the steer is implemented effectively (e.g. staff do not adopt an overly risk averse approach that is out of line with the Board’s view on the importance of the media as a tool); and • any behaviours implemented to operationalise a steer from the Board or Exco are maintained over time. <p><u>Implementing consistent approaches in the C&ID</u></p> <p>A key consideration for staff across the C&ID is the need to handle sensitive information appropriately. At a working level, we note that the C&ID has documentation covering a large number of operational tasks and processes. There is little guidance on areas such as press handling where dependency is on professional judgement and expertise of staff in the C&ID. Consistency of approach in these areas is reliant on oral or informal knowledge transfer between C&ID staff.</p> <p>Staff in the C&ID were clear that business areas are responsible for determining whether information passed to the C&ID is price or market sensitive. Staff in the C&ID must therefore ensure that when they receive information, the business area provides sufficient clarity on the sensitivity of that information and that the C&ID handles the information accordingly. In the absence of this responsibility being documented, reliance is placed on informal briefings to ensure all staff in the C&ID are clear on their responsibilities.</p>		
Recommended actions		Management actions, owner and date
3.1	Direction from the FCA Board or ExCo on the reputational risk appetite to be adopted for external communications is clearly communicated to relevant staff in the C&ID.	3.1a Action; Risk to work alongside C&ID and other Divisions, as appropriate, to establish a suitable organisation-wide risk appetite for reputational issues that can be applied to communications activities. <ul style="list-style-type: none"> - proposals scoped, including milestones for delivery, by November 2014; - draft developed by January 2015; and - final agreed by ExCo April 2015 - final risk appetite to be communicated to relevant staff (including in the C&ID) once agreed.

¹ As recorded in the published minutes of the FCA Board Meeting held on 26 June 2014

			Owner & Dept: Head of Department / PRR Date: April 2015
3.2	There are clear mechanisms for ensuring all staff in the C&ID have a consistent understanding of relevant key processes and controls, and knowledge transfer takes place consistently when staff join or leave the division.	3.2a	Action: C&ID, along with HR, identify the effective processes, controls, and knowledge transfer when staff join or leave the division. Owner & Dept; Executive Assistant / C&ID Director's Office Date: 30 November 2014

4	Approval of external publications	Minor
<p>ExCo agreed a new <i>approval process for external publications</i> in May 2014 building on existing good practice for certain key materials and widening the number of products in scope. However, evidence of this approval is not always retained to demonstrate that this approval process has been followed.</p> <p>The approval process for external publications lists specified types of communication that must follow three key stages:</p> <ul style="list-style-type: none"> • 1st approval – HoD/Director of relevant business area. • Final approval – Accountable Director and Director of the C&ID. • Period before publication – 48 hour period to ensure relevant internal people are sighted of the final document and to provide the CEO the opportunity to see, and if necessary comment on, material ahead of publication. <p>Staff interviewed in the C&ID and in various business areas were able to articulate how the approval process was followed for communications in the scope of the <i>approval process for external publications</i>, including the nature of comments provided by the reviewers. However, there is no guidance in place specifying either:</p> <ul style="list-style-type: none"> • what form of evidence is expected to be retained e.g. an email sent from, or copied to, the approver after their final review • where this evidence should be retained and who is responsible for retaining it. <p>Individuals involved in the announcements, either in the C&ID or in the relevant business area, had to be contacted to obtain evidence of approval. In many cases, evidence was retained in individuals' personal email inboxes and therefore might not be accessible if the individual were to leave the organisation.</p> <p>In two out of 13 cases, we were unable to obtain documented evidence of the final approval by the Director of the C&ID. In one of these cases we understand approval was given orally based on a review of hard copy documents.</p>		
Recommended actions		Management actions, owner and date
<p>4.1</p>	<p>There should be clear guidance setting out how approval for external publications must be evidenced. This should set out how evidence should be retained in a consistent way such that it can be accessed if individuals involved in the announcement are not available.</p>	<p>4.1a</p> <p>Action: C&ID to develop and issue guidance around how approval for external publications needs to be evidenced, retained and stored for others to access.</p> <p>Owner & Dept: Executive Assistant / C&ID Director's Office.</p> <p>Date: 30 November 2014</p>
<p>4.2</p>	<p>Documented evidence should be retained to demonstrate adherence to the approval process for external publications (in accordance with any guidance issued in 4.1).</p>	<p>4.2a</p> <p>Action; C&ID to identify a secure Livelink location to record the approval of external publications</p> <p>Owner & Dept: Executive Assistant / C&ID Director's Office.</p> <p>Date : 30 November 2014</p>

Appendix 1 – findings related to objectives and risks defined during scoping

Objective	Risk	Related findings
<p>The objective of the FCA's external communication strategy and approach is to support the delivery of the FCA's operational objectives, to establish and then build confidence in, and understanding of, the FCA and its work.</p> <p>The communications strategy is delivered in a way to ensure that communications with external stakeholders are clear, consistent, constructive, compelling, and concise.</p>	<p>Internal co-ordination is not working effectively which leads to us working in a reactive way, therefore quality of our communications falls, which has a negative reputational impact</p>	<p>Finding 1 - Improving consistency of engagement between the business and communications</p> <p>Finding 2 - Embedding the approach to communications across the FCA</p>
	<p>Impact of events external to the FCA reduces our ability to influence domestically and internationally, or mean we spend too much time reacting, taking resource away from our strategic priorities.</p>	
	<p><u>Pre-announcement</u>: The reputation and credibility of the organisation may be negatively impacted and/or external communications may not have the desired impact on relevant external stakeholders as a result of inadequate and ineffective FCA systems and controls</p>	<p>Finding 1 - Improving consistency of engagement between the business and communications</p> <p>Finding 2 - Embedding the approach to communications across the FCA</p> <p>Finding 3 - Ensuring consistent application of processes across the Communications and International Division</p> <p>Finding 4 - Approval of external publications</p>
	<p><u>Post-announcement</u>: There is an inherent risk with any external-facing communications activities that once they enter the public domain they could unintentionally have a negative impact on the reputation and credibility of the FCA and/or result in external communications failing to have the desired impact on relevant external stakeholders</p>	<p>Finding 3 - Ensuring consistent application of processes across the Communications and International Division</p>