

Explanation of key issues identified in our work

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| Operation and effectiveness of the Supervisory Oversight Function | | | 24/04/2014 |
| Number of Findings | | | Sponsor: CEO |
| Major | Moderate | Minor | |
| 1 | 3 | 0 | |
| <p>Executive management needs to clarify and promote the purpose and remit of the SOF to enable the department to perform an effective assurance role. We found that the purpose and remit of the SOF, including the SOF’s role and position in the FCA’s three lines of defence model, was not clear to the stakeholders we interviewed. In our view, the lack of clarity over the SOF’s purpose and remit across the organisation and the resulting perception that the SOF’s work is not highly valued by the Executive had adversely impacted on the SOF’s ability to deliver its desired outcomes. We raised a ‘Major’ finding in this regard.</p> <p>We recognised that the SOF’s Interim Head of Department and management team in place at the time of our fieldwork have undertaken a number of changes to improve the way in which the SOF works. However, we raised three ‘Moderate’ findings in relation to:</p> <ul style="list-style-type: none">the need to review the SOF’s review commitments set out in its terms of reference and its planning processes;further improvements required to the methodology the SOF follows for individual reviews; andthe need to address weaknesses in the SOF’s reporting processes. | | | |

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| UK Listing Authority | | | 06/03/14 |
| Number of Findings | | | Sponsor: Director of Markets |
| Major | Moderate | Minor | |
| 1 | 3 | 0 | |
| <p>Since our last review in February 2012, the UKLA had made progress in developing the risk appetites of its teams. The overall controls and processes in place supported the delivery of successful outcomes. However we raised a 'Major' finding regarding the need for the UKLA to improve its Business Continuity Plans (BCPs). We also raised 3 'Moderate' findings on:</p> <ul style="list-style-type: none">the need to strengthen the documentation of case work across the department;the need for the UKLA to develop a strategic approach for handling market-sensitive information (MSI); andthe need for the UKLA to improve the management of business risks within its risk appetite. | | | |

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| <i>Design and implementation of the Wholesale Conduct Strategy</i> | | | <i>18/03/14</i> |
| Number of Findings | | | <i>Sponsors: Directors of Markets and Supervision</i> |
| Major | Moderate | Minor | |
| 0 | 2 | 0 | |
| Management should conclude promptly how it will take forward the approach to wholesale conduct regulation and the framework of activities to deliver this. There is a need to expand and enhance the framework of activities which should then aid management to demonstrate how the FCA is meeting its public commitments in relation to delivering “a more assertive and coordinated approach” to wholesale conduct regulation. We also observed that some aspects set out in the original approach and framework of activities had not yet been fully delivered, including coverage of wholesale risks by the FCA Radar function. | | | |

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| GABRIEL system | | | 12/05/14 |
| Number of Findings | | | Sponsors: CIO/Head of Department, Data and Analysis |
| Major | Moderate | Minor | |
| 0 | 2 | 0 | |
| We identified a number of effective controls with regard to the management of the GABRIEL system in its present form. We raise a 'Moderate' finding on the process for reviewing and conducting a Business Impact Analysis across critical process and systems within the FCA. We also raise a finding around user access controls, with a recommendation to extend the current user recertification process to cover users of systems A, B, C and D. This finding also requires management to assess the need to remediate issues on web-facing systems across the FCA estate. | | | |

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| <i>INTACT programme</i> | | | <i>23/04/2014</i> |
| 5 Recommendations | | | <i>Sponsor: Director of Authorisations</i> |
| <p>Management of the INTACT Programme has established adequate controls in the areas covered by the scope of our audit and we recognise that the implementation of Release 1 has largely been successful. Most notably, we observed close integration with the Consumer Credit Programme and stakeholders we interviewed were positive regarding the set-up and progress of the Programme. However, we observed some weaknesses in general programme management controls in relation to the INTACT Programme. Management of the INTACT Programme recognise these and are taking steps to address</p> | | | |

them. We raised five recommendations in relation to finalising this work, learning lessons and ensuring particular risks are addressed.

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| <i>Oversight of interaction between the FCA and PRA</i> | | | <i>04/03/14</i> |
| Number of Findings | | | <i>Sponsor: Director of Policy, Risk and Research</i> |
| Major | Moderate | Minor | |
| 0 | 0 | 2 | |
| We found the controls over the oversight of interaction between the FCA and PRA were adequate. We raised two ‘Minor’ findings in relation to the reporting of compliance with the Memorandum of Understanding between the FCA and PRA. The two points related to the partial coverage of a clause in the memorandum and the tracking of local actions to remedy issues highlighted in the reporting. | | | |

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| <i>Value for money achieved from internal restructures in the FCA</i> | | | <i>24/03/2014</i> |
| Number of Findings | | | <i>Sponsor: CEO</i> |
| Major | Moderate | Minor | |
| 0 | 1 | 0 | |
| We concluded that the FCA is not yet in a position to evidence that internal restructures are performed in a way that provides value for money. We found evidence of restructures achieving some good outcomes. However, in order to demonstrate value for money management needs to: (1) set out the expected benefits from a restructure in a more specific and measurable way and review the extent to which the restructure achieves these; and (2) demonstrate good financial management by recording the costs associated with restructures, including the time spent by FCA staff on the restructure as well as other costs of the restructure, for example, expenditure on external consultants. | | | |

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| <i>The FCA’s approach to competition</i> | | | <i>28/04/2014</i> |
| Number of Findings | | | <i>Sponsors: Director of Competition/ Director of Policy, Risk and Research</i> |
| Major | Moderate | Minor | |
| 0 | 1 | 0 | |
| Working with the wider FCA, the Competition Department has delivered a large volume of activities in a short period of time thereby putting the FCA in a good position to | | | |

demonstrate the positive action it has taken in its first year to deliver on its competition objective and duty. The focus in the FCA's first year has been to build capability, establish an overall framework and deliver tangible activities before looking to establish a firmer longer-term strategy for competition. We raised one 'Moderate' finding regarding the need, as the organisation moves forward, for management across the FCA to establish the outcomes the organisation wants to achieve in respect of competition, the activities required to achieve the outcomes and how the FCA will measure success in achieving the outcomes.

Risk Responsive Audit Reviews (RRARs)

We have completed one RRAR since we last reported to the Audit Committee in March 2014.

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| Pensions Contributions follow up RRAR | | | 28/03/2014 |
| Number of Findings | | | Sponsor: Director of HR |
| Major | Moderate | Minor | N/A |
| N/A | N/A | N/A | |
| <p>Given the findings from our review of the controls in place over the calculation and processing of November 2013 staff pension contributions, we undertook follow-up work on the January 2014 staff pension contributions. Of the eight recommendations we made following the review of November 2013 pension contributions, HR management had successfully implemented five recommendations and were progressing work on the remaining three recommendations. As part of our follow-up work, we sample tested a number of calculations of individuals' January 2014 staff pension contributions and did not identify any further errors. We did however, raise the following new recommendations:</p> <p>Identifying the cause of an erroneous system audit trail for one of the records sampled; considering the introduction of an additional control to ensure that correct "Assignment" statuses are maintained on the Chrysalis system; and mapping and determining whether existing controls are to be performed in-house or by the outsource provider.</p> <p>We also reiterated the need for management to consider the results of the separate review being undertaken by external consultants and whether the results of this work impacted any pension or flexible benefit calculations outside of the review's scope period.</p> | | | |