

Financial Conduct Authority



Internal Audit Division

at the Financial Conduct Authority

Information Pack

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Purpose

The purpose of this document is to set out the Terms of Reference and operating approach of the Internal Audit Division (Internal Audit).

Internal Audit adapts to the organisation's goals, objectives and approach as they evolve. We keep our approach to auditing under review and have a risk-based approach, taking account of risk impact and probability.

Our overall aim is to provide independent assurance to the FCA Board and management on the effectiveness of risk management and controls over all of the FCA's activities.

Mission

Internal Audit is an independent division within the FCA. Its role is to review the adequacy and effectiveness of the organisation's governance, processes, controls and risk management in implementing agreed strategies across the whole spectrum of the FCA's activities. It provides the Board, the Audit Committee and all levels of management with an objective opinion on the results of its reviews.

Independence

Internal Audit is independent of the activities which it reviews to enable the unbiased judgements essential to its proper conduct and facilitate impartial advice to management.

Authority and Accountability

Internal Audit derives its authority from the FCA Board and FCA Audit Committee. The appointment of the Director of Internal Audit is made by the Board upon the recommendation of the Audit Committee. The Director of Internal Audit reports on a functional basis to the Board and its chairman and to the Audit Committee via its Chair. For administrative purposes, Internal Audit Division is one of the Chief Executive's Direct Reports. The Director of Internal Audit has direct right of access to the FCA's Chairman and regular bilateral meetings with the Chief Executive and the Chair of the Audit Committee. Following each meeting of the Audit Committee, the Director has a private meeting with the Committee.

The Audit Committee approves all of Internal Audit's proposed workload and may review any aspect of its work.

Scope

Assurance

Executive management is responsible for establishing and operating a system of internal control that is appropriate for the FCA's needs. The major part of Internal Audit's role is to provide risk-based, independent and objective assurance: that risk management processes and the systems of internal control are designed and operating effectively; that major business risks are being managed appropriately; and that governance processes are effective. Internal Audit's work covers all FCA's risk areas: financial, operational, legal, people, reputational and strategic. Due to the nature of FCA's activities, Internal Audit's work covers a wide spectrum of work from 'broad assurance' (reviews of aspects of strategy and organisation) to 'specific assurance' (assessing operational processes and controls). In practice most reviews contain elements of both.

Investigations

Internal Audit conducts specific investigations as appropriate.

Advisory

Internal Audit may provide advice to management on governance, risk and controls, either as part of audit reviews or as a separate exercise. This can be orally or in writing and is based on knowledge and experience held by the division or by individual auditors or derived from contacts that Internal Audit has with other organisations, for example its co-source partners. Executive management is responsible for considering the advice received and deciding what action to take. The advice component of Internal Audit's role is expected to form a small part of the division's overall workload. In considering and conducting advisory work Internal Audit will have regard to any potential impact on its independence and objectivity.

In every aspect of its work Internal Audit has free and unfettered access to all activities, property, records and staff throughout the FCA.

Internal Audit will maintain appropriate confidentiality over all information obtained in the course of carrying out audit activities.

Reporting

Internal Audit will report formally to the Audit Committee:

- a) annually with a presentation of the updated Audit Universe from which the Internal Audit plans are derived;
- b) six monthly with a recommendation for the risk-based audit plan for the following three months, for review and approval; and
- c) quarterly to summarise significant issues, risks and themes arising from its work, together with a note of management's progress implementing its recommendations.

Executive Operations Committee and Executive Committee receive quarterly reports in advance of Audit Committee.

Local management receive reports at the conclusion of each review which include the action plans they have agreed.

Approach

In carrying out its role, Internal Audit will seek to:

- a) work in partnership with management and add value through high-quality analysis, innovative and pragmatic recommendations, observations and guidance;
- b) identify areas of good practice and themes where lessons can be learned, and communicate these widely across the FCA;

- c) be risk-based and have regard to value for money considerations, both in the recommendations it makes and in its evaluation of the functions it reviews; and
- d) maintain a professional audit staff (including through use of co-source audit partners, guest auditors and specialists) with sufficient skills, knowledge and experience.

Standards of Audit Practice

Internal Audit supports and, where appropriate, applies the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

Whistleblowing

The Director of Internal Audit has a formal role in the FCA's whistleblowing procedures and carries out investigations of matters drawn to her attention. Regular reports on whistleblowing incidents are provided by Internal Audit to the Audit Committee.

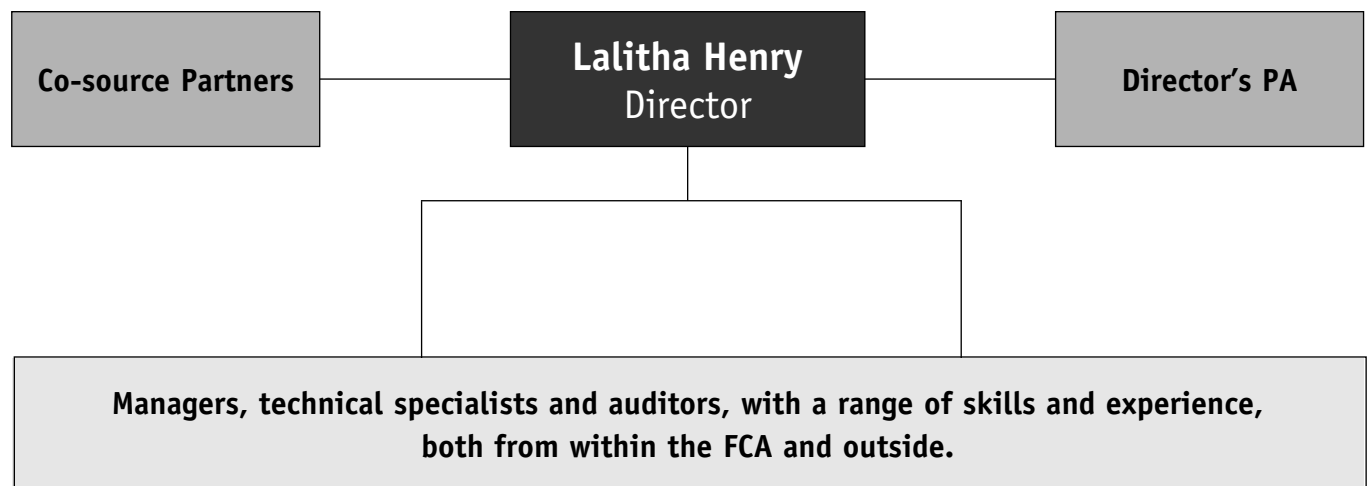
Reviews of FCA's Internal Audit function

The Audit Committee commissions a review of the Internal Audit division annually. Every three years this review is conducted by an independent external party.

The Director of Internal Audit reviews these Terms of Reference annually. These are discussed with senior management and approved by the Audit Committee on behalf of the Board.

Organisation Chart

Internal Audit's complement of staff is 18 people. The team is augmented by resource from our co-source partners supplying specialist audit expertise, mainly in Information Systems (IS). Members of the team have different levels of experience and qualifications but operate in a flat structure to maximise effectiveness.



Skills and Competencies

Selection to the team is based on the ability to bring different skills and experience to Internal Audit. These include:

- experience and knowledge of regulation;
- relationship management skills;
- judgement and influencing skills;
- audit and risk analysis skills;
- IT skills; and
- investigative skills.

An induction and mentoring process is in place for new staff. The Internal Audit team has a good representation of professional accounting and internal auditing professional qualifications. Achieving a turnover of staff through movements within the FCA is an important part of the staffing strategy.

Internal Audit supplements its resource with the use of guest auditors from other parts of the FCA for the period of a review, to lend particular expertise.

Internal secondments from Internal Audit to other divisions of the FCA and from other divisions to Internal Audit take place to broaden the experience of individuals, Internal Audit and other areas of the FCA. Equally, from time to time, Internal Audit takes secondees from external firms to supplement its expertise.

The following set out the skills required by Internal Audit Staff:

Technical knowledge needed to work in Internal Audit
1. Internal Audit Knowledge – outline and apply international internal audit standards and FCA internal audit methodology
2. Operating within the FCA – knowledge of the FCA and effective interaction with the wider organisation
3. Regulatory Framework – outline and apply the FCA's regulatory framework of principles, rules and guidance
4. Risk – Identify, measure, monitor and mitigate risks to the FSA's statutory objectives using a range of tools and processes
FCA core behaviours
Corporate citizenship
Action oriented
Collaboration and teamwork
Personal accountability
Business acumen and awareness

Strategic partners for the provision of specialist audits

Internal Audit has formal contracts with firms to provide specialist internal audit resource in Information Systems (IS) and other areas, as required. The aim is to deliver a number of important benefits:

- provide specialist input to technical audits and IS expertise on general reviews;
- act as a benchmark for review of our service offering and quality;
- provide opportunities for skills transfer between the strategic partners and the FCA; and
- sharing best practice.

External Audit

The external auditors rely on our work where appropriate and review our plans in formulating their own work programmes. We provide information as required and coordinate activity where appropriate.

Internal stakeholders

Key elements of our relationship with internal stakeholders are set out below:

Our commitment to FCA stakeholders	FCA stakeholders commitment to us
<ul style="list-style-type: none"> • Regular input to and discussion of risks. • Audit plans circulated to all Directors. • Internal Audit commit to an effective focus on risk and the impact on FCA objectives and principles. • Maintain up-to-date understanding of the business and risks facing the organisation. • Findings discussed with stakeholders as they arise. • A strong awareness of the FCA operating model and frameworks to ensure effective audit coverage and approach. 	<ul style="list-style-type: none"> • Support delivery of plans to the Audit Committee. • Review audit plans and raise potential issues over timing and scope at an early stage. • Review and approve terms of reference (objectives, risks, approach) for reviews. • Understand and support the “context” of audit opinions. • Provide constructive feedback. • Support the Internal Audit role of independent assurance. • Encourage co-operation.

Internal stakeholders continued

Internal Audit strives to add value to FCA's processes and help improve its operations. To support this, we have appointed relationship managers for each division to achieve the following aims:

- obtain a better understanding of divisions;
- to discuss issues that may affect our current or future reviews;
- to discuss any broader issues arising from our reviews; and

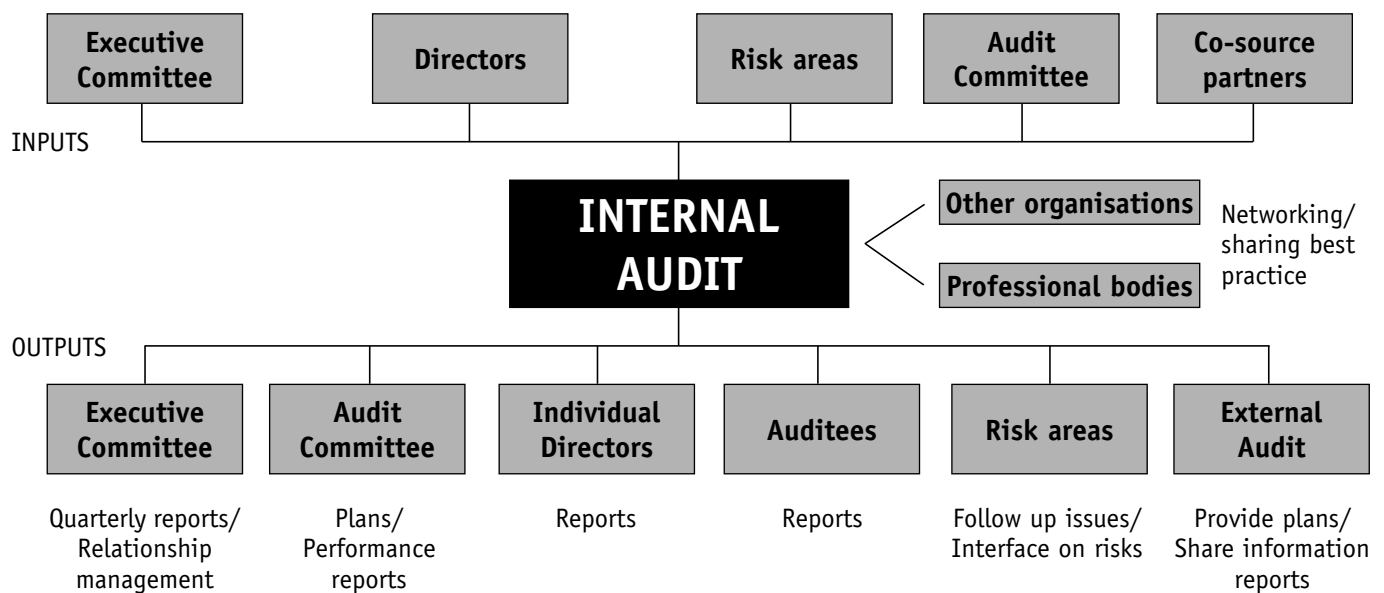
- to help generate a wider appreciation of Internal Audit's operating practices.

Each member of Internal Audit has responsibility for liaison with designated divisions across the FCA.

Responsibilities are amended where the organisational structure changes.

Relationship managers discuss current and planned initiatives, Internal Audit approach to audits, feedback on the relationship, any concerns and forthcoming plans.

Illustration of Relationships



Key elements of our planning approach are as follows:

Audit Universe

- The Audit Universe contains all processes, systems, business projects and IS projects and programmes. Each unit within the universe has been assessed in order to prioritise it in relation to the other units and this priority is revised periodically. Factors considered include the impact of the unit on the FCA's ability to meet its objectives and the unit's control environment.

Periodic planning

- Audit plans are produced six monthly, and the content of each plan is driven by the Audit Universe. The proposed audits for any period are then discussed with business areas and approximate timing is agreed.

Approval of plans

- Plans are presented to the Audit Committee who scrutinise and challenge them. The Audit Committee then formally approves the plan.

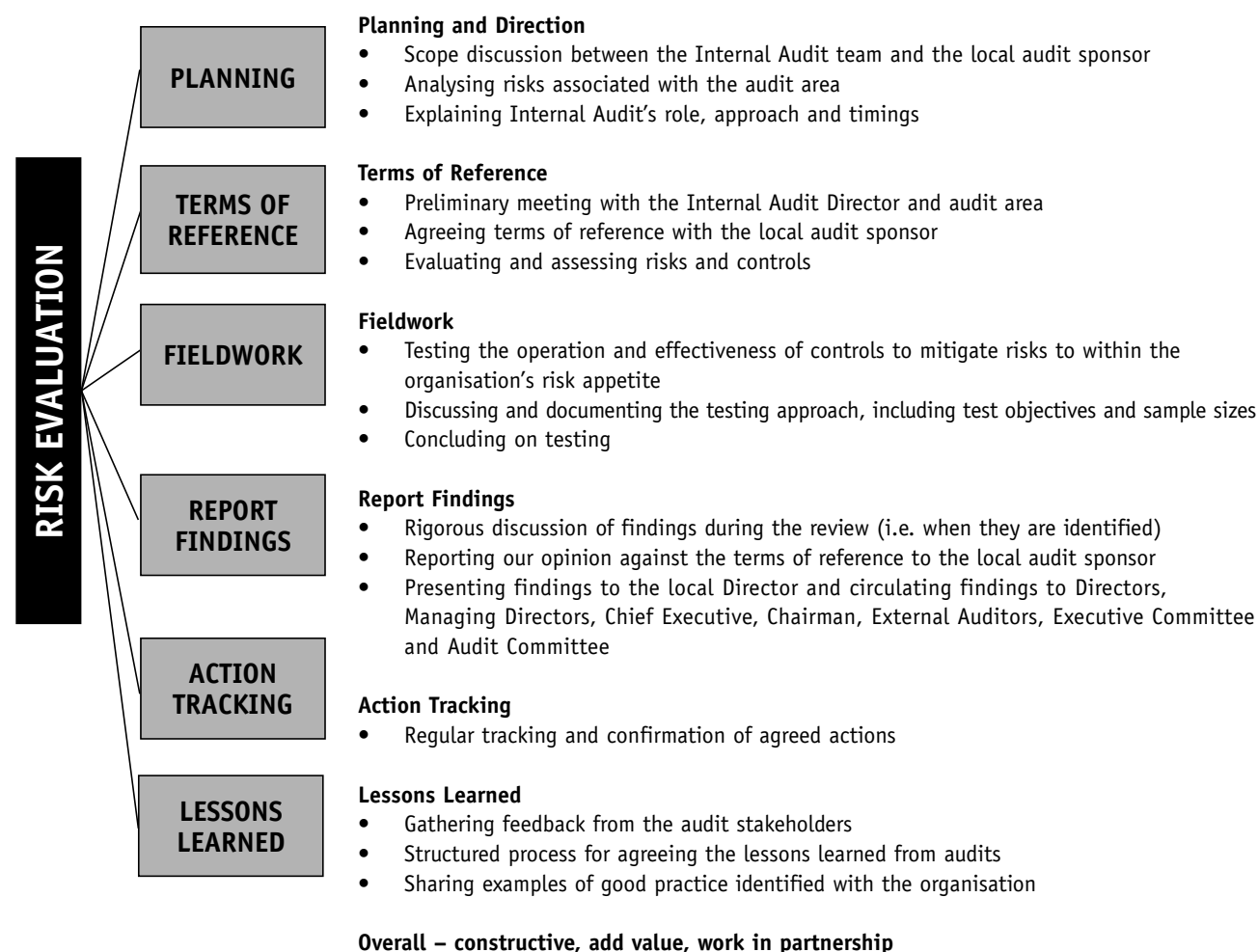
Planning individual audits

- Once the plan has been agreed, each audit is allocated to a manager and a team of auditors who work with the relevant business area(s) to develop a terms of reference for the audit. A risk based approach is used to develop a more detailed scope for each audit.

Internal Audit's methodology

Our processes and audit approach, including our audit methodology, have been benchmarked against industry best practice. Internal Audit uses audit software to enhance efficiency and provide an audit trail.

Key stages of our process for each review



Types of performance measurement

Type of measure	Monitoring and reporting
Feedback from customers to measure satisfaction with service and identify improvement opportunities	Feedback questionnaire sent out after every review, with monitoring to ensure receipt of feedback Regular reporting of results of feedback and identification of improvement opportunities More informal feedback via regular meetings with Directors, Chief Executive, Chairman and Audit Committee
Internal Audit productivity	Timesheets completed weekly and productivity calculated and reported in regular performance reports
Completion of audit plans	Monthly monitoring and review of plans Reporting of progress
Implementation of audit findings	Monitoring of outstanding audit issues and resolution of findings Reporting outstanding issues and trends to the Audit Committee
Completion of review to an appropriate standard and within agreed timescales	Lessons learned exercises to assess individual and team performance and to identify improvement opportunities.

Reporting

- We report regularly to Executive Management and the Audit Committee of the Board on the progress of Internal Audit against its objectives.