

# **Impact of Internal Audit work**

## **Explanation of key issues identified in our work**

### ***Risk management and the implementation of the first and second lines of defence, CEO, 3 Major findings, 07/01/2014***

Although progress had been made in the transition towards a new approach to risk management at the FCA, we found that renewed focus and increased communication was required to finish the implementation and embed the new approach. We identified:

- weaknesses in the clarification and communication of the strategic vision and the overall framework for risk management;
- a need for clarification of roles and responsibilities, and;
- a need for increased change management discipline.

### ***Consumer credit programme – outcome and deliverables, Programme Sponsor, 5 Moderate and 1 Minor findings, 29/11/2013***

Although we anticipated that the Programme would deliver a consumer credit regulatory regime by 1 April 2014, we noted there was a potential misalignment of expectations within the Programme of certain deliverables, including the Programme's contribution to achieving the aims of the regime. In addition, we noted significant risks to delivery and identified common underlying causes that we considered needed to be addressed.

Since carrying out our review, the Programme has taken steps to reduce the potential for misalignment of expectations. For example, it provided its full business case to DSRC, ExCo and the FCA Board, ExCo has agreed the overall work plan for Consumer Credit for the first year, and the Programme has made enhancements to the supervisory model (such as planning to increase supervisory activities for the highest risk sectors at the implementation of the regime). We consider significant delivery risks remain, such as ensuring that there is adequate training for staff involved in the regulation of Consumer Credit. However, we recognise measures are being taken to help mitigate delivery risks, including developing contingency plans and increasing management oversight. Programme management has also informed us that training is in the process of being delivered to existing staff and new joiners are expected to be trained on arrival in April.

### ***Key conduct supervision processes for C1 firms – roll out of the new supervision model, Director Supervision, 2 Moderate findings and 3 Minor findings, 13/02/2014***

We observed positive aspects in relation to the roll-out of the new supervision model for C1 firms. We also identified improvements which we considered could help leverage the model and add more rigour and control to already established processes. This included providing greater clarity over processes to capture and track risks relating to C1 firms and monitoring around these processes. We noted some short term impacts on the delivery of supervision strategies for some C1 firms as a result of resource constraints. Management should consider and outline how C1 firms need to be resourced to deliver supervision strategies and establish mechanisms to escalate significant deviations from the FCA's risk appetite in this area.

### ***Retail-related enforcement cases, Director Enforcement, 2 Moderate and 1 Minor findings, 12/12/2013***

We observed a need to improve the controls to help ensure a joint venture (JV) with Supervision achieved all its aims. We noted an absence of a clear articulation of the agreed expectations between Supervision and Enforcement for forward-looking cases (i.e. cases where there may not be crystallised risk) and insufficient plans to ensure adequate monitoring and reporting of the success of the JV. In addition, we noted there was limited quality assurance or compliance checking of key controls.

### ***External IS security threats: stage 1, CIO, 2 Moderate findings, 16/01/2014***

There were a number of good practices in the FCA's approach to external IS security threats. However, we identified weaknesses in the way the FCA approached the prioritisation and management of external threats and how staff were made aware of potential threats. We identified that there was insufficient interaction between the Technology Security team and the rest of the FCA regarding external IS security threats and that there was scope for a single point of accountability for security overall. Further, we identified that improvements were required in staff security awareness.

## **Risk Responsive Audit Reviews (RRARs)**

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

### ***Pensions Contributions RRAR***

This RRAR reviewed the controls in place over the calculation and processing of November 2013 staff pension contributions. We identified a small number of errors and raised recommendations including:

- improving the senior management oversight of the pension and flexible benefit contribution process;
- implementing additional controls to identify and resolve potential errors; and
- retaining a complete audit trail demonstrating the operation of key controls.

Given the decision to outsource this process to a third party, we also recommended that management should obtain assurance that these issues, and those of a separate review being undertaken are fully resolved before formally transferring responsibility of the process to the outsourced provider. Since our initial review, management have implemented a number of our recommendations and we are currently undertaking follow up work reviewing the controls over the pension contributions made in January 2014. We will report our findings from this follow up review at the May 2014 Audit Committee meeting.