

## Explanation of key issues identified in our work

Software asset management (SAM)			12/08/2014
Number of Findings			CIO
Major	Moderate	Minor	
4	1	0	
<p>The SAM function should ensure the FCA is meeting its licensing obligations and obtaining value for money from its licensing arrangements. It should also ensure the effective management of Fujitsu in Fujitsu's capacity as outsourced SAM provider. However, we identified issues that meant the risks to these objectives could not be adequately mitigated:</p> <ul style="list-style-type: none"><li>the remit of the FCA's SAM function is not defined; it doesn't have clearly defined objectives and its role within the organisation is unclear;</li><li>the FCA's overall its SAM practices are not delivering value for money for the FCA; and</li></ul> <p>We recognise that since our fieldwork, the FCA has recruited a new SAM manager to help address the issues identified above.</p>			

<b>Authorisation processes of dual-regulated firms</b>			<b>14/08/2014</b>
<b>Number of Findings</b>			<b>Director Authorisations</b>
<b>Major</b>	<b>Moderate</b>	<b>Minor</b>	
<b>1</b>	<b>3</b>	<b>0</b>	
<p>We identified weaknesses in key controls throughout the lifecycle of the four authorisation processes which pose risks to achieving the local vision of “good decisions, made efficiently, by professional and motivated staff”. We raised one Major finding relating to the need for greater clarity over the purpose of the SIF interview process, improvements to the training provided to FCA staff conducting SIF interviews and to the minimum standards of documentation required from firms submitting applications for SIF assessments. We also raised three Moderate findings on:</p> <ul style="list-style-type: none"><li>the lack of connectivity between the local Authorisations vision and Divisional purpose and visibility of how the DRD portfolio contributes to the FCA’s operational objectives;</li><li>a need to strengthen and structure the training provided to staff performing the four authorisation processes.</li></ul> <p>Management of the Authorisations Division is aware of some of the concerns highlighted in this Internal Audit report and has indicated that they intend to incorporate our observations in their programme of process improvement and staff training.</p>			

<b>Customer Contact Centre (CCC)</b>			<b>18/08/2014</b>
<b>Number of Findings</b>			<b>Director Authorisations</b>
<b>Major</b>	<b>Moderate</b>	<b>Minor</b>	
<b>1</b>	<b>2</b>	<b>0</b>	
<p>We conclude that the CCC does not have a business recovery plan and that business continuity plans are not up-to-date and have not been tested. While there is an FCA-wide piece of work underway to address this, we conclude that until such time when the work in this space is finalised and can be tested, the risk remains.</p> <p>The CCC provides a service to the Bank of England (the Bank) under the PSA for all dual regulated firms using the GABRIEL ONA and Register systems. The FCA is required to provide monthly reporting to the Bank in relation to the number of calls and the respective call costs for handling these calls. The FCA also invoices the Bank annually for the calls the FCA handles on the Bank’s behalf. However, the FCA had not submitted monthly reports to the Bank for two months and the invoice for last financial year has not been issued by the FCA to the Bank at the time of fieldwork and had not been appropriately recognised in the FCA’s accounts.</p> <p>Quality checks being undertaken are the key method by which the FCA ensures the quality of its staff responding to consumer and firm correspondence. If this is not performed correctly, there is a risk to the reputation of the FCA through the poor responses provided to callers. We conclude that the inconsistencies between the QA handbook and the presentation given at induction, and the fact that we were not able to obtain clear evidence as to why checks weren’t being undertaken for members of the team by team leaders, increase the risk that quality issues are not detected at all or in a timely manner.</p>			

Supervision of C4 firms			04/08/2014
Number of Findings			Director Supervision
Major	Moderate	Minor	
0	1	3	
<p>Our review of the supervision of C4 firms focused on (1) the design and implementation of the Pillar 1 supervision approach for C4 retail intermediaries; and (2) the plans to implement similar Pillar 1 supervision approaches for C4 firms in other sectors.</p> <p>In respect of the design and implementation of the Pillar 1 supervision approach for C4 retail intermediaries, we raised a Moderate finding regarding the absence of a method for measuring the effectiveness of Pillar 1 C4 firm supervision. We also found that the management of the Supervision Division had not calculated the number of full time equivalent staff required to deliver Pillar 1 C4 retail intermediary supervision. Management information was also not adequate to monitor the level of actual or forecast resource used on an ongoing basis for Pillar 1 C4 firm supervision across all the sectors. It was therefore not clear whether more resource was needed to deliver on the FCA’s supervision model.</p> <p>In respect of the plans to implement similar Pillar 1 supervision approaches for C4 firms in other sectors, we raised the need for management of the Supervision Division to review whether the assumption that all C4 firms merit the same level of allocated supervisory resource is appropriate. Work was also needed to complete the detailed designs for the support activities for the Pillar 1 supervision of C4 firms across the other sectors, and also to finalise the approach for the Pillar 1 supervision of C4 firms within the Trading Firms &amp; Market Risk Department.</p>			

<b><i>The FCA’s approach to the supervision of firms’ trading activities and regulated covered bonds</i></b>			<b><i>23/07/2014</i></b>
<b>Number of Findings</b>			<b><i>Director Markets and Director Supervision</i></b>
<b>Major</b>	<b>Moderate</b>	<b>Minor</b>	
<b>0</b>	<b>3</b>	<b>2</b>	
<p>We concluded that the most significant trading risks which pose a risk to the delivery of the FCA’s objectives were being supervised effectively. However, we also noted that some firms did not receive appropriate supervision attention as the responsibility for the supervision of these firms is split between a number of departments across the FCA. We raised amber findings in relation to:</p> <ul style="list-style-type: none"><li>• The need for Supervision and Markets Division’s management to ensure that firms’ trading activities are identified and supervised consistently regardless of sector;</li><li>• The need for suitable arrangements to be put in place to ensure that supervisors of firms with trading activities either have expertise, or have access to expertise in relation to complex trading-related issues;</li><li>• The need for further work to implement outstanding areas of the FCA’s supervision model, such as the basis on which C3 firm assessments are prioritised.</li></ul> <p>Our review also assessed the effectiveness of the supervision of Regulated Covered Bonds (RCBs) and we saw good practises in relation to this activity.</p>			

<b>External IS Security threats: Stage 2</b>			<b>27/06/2014</b>
<b>Number of Findings</b>			<b>CIO</b>
<b>Major</b>	<b>Moderate</b>	<b>Minor</b>	
<b>0</b>	<b>2</b>	<b>2</b>	
<p>Our review of external IS security threats consisted of two stages. The report for the first stage was issued on 17 January 2014 and considered the adequacy of governance arrangements and related processes for the management of external IS security threats. The second review used specialist tool sets to assess the external threats the FCA is currently facing and the ongoing operational effectiveness of the way in which external IS security threats at the FCA are managed. The review also considered the FCA's engagement with regulated firms on external security threats including the Financial Policy Committee directive to better understand the state of cyber security in the Financial Services industry.</p> <p>We identified that improvements were required to the methods by which the FCA identifies and assesses external IS security threats, as they were not in line with good practice. In addition, there was insufficient management of the risks posed, and improvements required to the oversight of third-party suppliers. The FCA also need to ensure that when they communicate with external firms on the subject of external security threats that they maximise the use of internal expertise and ensure there is sufficient clarity over the message they are giving.</p>			

## **1f. Risk Responsive Audit Reviews (RRARs)**

We have not completed any RRAR's since we last reported to the Audit Committee in May 2014.