

Financial Conduct Authority

Internal Audit final report

The UK Listing Authority

Findings identified	
Major	1
Moderate	3
Minor	0

6 March 2014

Report Reference: 2013-01-19

1 Executive Summary

1.1 Summary and opinion for Audit Committee

We assessed the adequacy of the design of the controls across the UK Listing Authority (UKLA) and carried out detailed testing of the effectiveness of a selection of these controls. The Issuer Management team was not in scope since we considered this area lower risk compared to the other teams we assessed.

Our scope did not include a detailed review of the controls over ELMS or ELS (the UKLA's two key IS systems) since at the time of our review, work was underway with IS and PMG to evaluate the options available to replace, update, or bring these systems back in line with the FCA's relevant hardware and software policies. In our view, this work would ensure that management is aware of the risks posed by these systems and able to make decisions required to manage these risks.

Overall, we observed that the UKLA was achieving its outcomes, which was supported by the quality of its staff and their knowledge of the relevant rules and regimes within which the UKLA operated. This included:

- robust challenge being provided and good-quality comments made on prospectuses;
- improvements being driven in the sponsor regime;
- regulatory outcomes being achieved through the Investigations & Enquiries team; and
- issuers being challenged to make timely disclosures.

Since our previous audit report we also note that risk appetites had been developed further and, in particular, the Sponsor Supervision team had clearly articulated its risk appetite and had designed a supervision approach and a set of procedures to manage to this risk appetite.

However, our work identified some opportunities for improvement and we raised 'Very Important' findings in relation to the following:

- The need for the UKLA to improve its Business Continuity Plans (BCPs). In our view, robust BCPs are important in the context of the ATLAS project having not been implemented and the ELMS and ELS systems continuing to run on ageing hardware and software.
- The need to strengthen the documentation of case work across the department.
- A need for the UKLA to develop a strategic approach for handling market-sensitive information (MSI). Whilst we identified that some MSI controls exist, it is not clear which key risks these controls are designed to address, or whether these controls form a coherent control framework across the UKLA.

We noted that overall, the controls and processes in place supported the delivery of successful outcomes by the UKLA, although the above findings limit the assurance we can provide over the adequacy of the control environment.

We would like to acknowledge the cooperation and positive engagement of the UKLA throughout the review.

1.2 Overall management comments

My own view of the impact (internally and externally) of a protracted failure of ELS differs from that of the review team, as I don't think this would be "significant" as the term is understood. However I welcome the different perspective the team provided, and am happy to take forward the relevant remedial actions. I'd like to thank the team for the time and thought they have put into the review.

1.3 Further consideration

We highlight below an additional observation we feel management should consider though it does not relate to a weakness in the control environment:

Consumer Protection

The UKLA could consider how it might support the FCA's objective of securing consumer protection through its work. Whilst the UKLA's processes currently aim to ensure that Disclosure and Transparency, Listing, and Prospectus Rules are met, we feel there is an opportunity to explore future options to ensure that consumers are sufficiently protected when securities are issued.

For example we questioned whether typical equity prospectuses (e.g. the prospectus approved for the Royal Mail IPO) were useful documents for retail investors, and whether these investors properly understood the risks and potential returns associated with investing in premium listed equities. Exploring such issues would help the UKLA to assess whether just ensuring that the various rules are met sufficiently supports delivery of the FCA's objective of securing consumer protection.

1.4 Schedule of findings

Ref	Findings	Rating
1	<p>Business Continuity Planning</p> <p>There is a need for the UKLA to improve its business continuity plans (BCPs). At the time of our work, BCPs did not exist for ELS and it was not clear whether the ELMS BCPs were fit-for-purpose.</p> <p>It is important that the UKLA has a complete and robust set of BCPs and that these are updated and tested on a regular basis to help ensure these plans mitigate the risk of operational disruption in the event of a system failure.</p>	Major
2	<p>Documentation of case work and quality assurance</p>	Moderate
3	<p>Strategy for handling market-sensitive information</p> <p>Whilst we saw that controls for handling market-sensitive information (MSI) existed, it was not clear which key risks these were designed to address or whether these formed a coherent control framework across the UKLA.</p> <p>There is the need for the UKLA to develop a more comprehensive and strategic approach for the handling of MSI.</p>	Moderate
4	<p>Managing business risks within risk appetite</p> <p>Our work highlighted an opportunity for the UKLA to build on its existing risk appetite work by: defining strategic objectives more clearly; developing relevant Key Performance Indicators (KPIs) to monitor performance and support delivery of objectives; and ensuring controls over business processes enable delivery of objectives within risk appetite.</p>	Moderate