# Compliance Audits

Guidance to IFAC Compliance Audits

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## Scope and Purpose

The audit reviews all aspects of the business in order to ascertain the current and ongoing business the firm operates but focuses primarily on:

* Systems and Controls
  + Control of Advisers
  + Control of Admin
  + Control of external resourced staff
* A firm’s advice and internal processes, systems and controls
* Compliance procedures
* T&C regime for advisers and staff
* Risk Appetite
* Business Continuity and Disaster Recovery
* TCF

### What is risk?

Risk is the probability that a hazard will turn into a disaster. Vulnerability and hazards are not dangerous taken separately. But if they come together, they become a risk or, in other words, the probability that a disaster will happen.

### What is mitigation?

Prevention and mitigation are all those actions we can take to make sure that a disaster doesn't happen or, if it does happen, that it doesn't cause as much harm as it could. We can't stop most natural phenomena happening, but we can reduce the damage caused by an earthquake if we build stronger houses and on solid ground.

### Why do we conduct audits?

The FCA has certain requirements for risk management and control.

IFAC Ltd. lay down the key business controls i.e. quality checking & verifying of controls.

The audit process is to provide management with assurance that key business controls over business managed within a firm are operating effectively.

Concurrent with FCA Standards, a firm are required to ensure that business is being written in accordance with a defined strategy and within the agreed risk appetite.

The audit process ensures that:

* Business is written in accordance with a defined strategy
* The risk philosophy has been effectively communicated and is revised regularly
* Any delegated authorities are operating appropriately
* Training needs are identified and managed
  + Training Needs Analysis
  + Personal Development Plans
  + Continuing Professional Development (CPD)
* Business critical issues and potential operational risk issues are flagged and managed
* Customer and stakeholder expectations are managed
* Compliance with regulatory requirements are met
* Suitable records, systems and controls and processes exist in all aspects of the business, with safeguards in the event of the unexpected
* MiFID II requirements are being adhered to

We currently utilise the principles and best practice in order to monitor and report on any exceptions.

The purpose of this process is therefore to allow the firm to monitor adherence to the FCA’s minimum standards, and ensure that requests for local approval for deviation from these standards, as identified by the audits conducted by IFAC Ltd. are escalated to the firm as appropriate.

We will consider issues concerning integrity on both paper and system records.

The purpose of the audit will be explained to the firm, one of the main objectives being to ensure that business is being administered in accordance with standard guidelines.

Where possible we clarify where help, advice and guidance is required from a firm.

The audit personnel will reinforce and foster understanding of each other’s needs and relationship in general through personal contact. We will also monitor adherence to the service standards offered to the customer and review any customer complaints (if applicable).

We will review previous findings and recommendations and monitor progression against any previous action points (if applicable).

The auditor provides a divisional service in respect of independent, objective assurance, designed to add value and improve the company’s controls around technical and regulatory risk matters.

It helps the company accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of controls.

The overall process is designed to provide assurance that:

* The Firm is not exposed to malpractice
* The Firm is conducting the sale and administration of financial products in a professional and proper manner utilising industry standards, guidelines and regulations where applicable
* Business is written in accordance with a defined strategy
* Firms are operating within their contractual authority or Terms of Business Agreements/Contracts
* The controls operated by the firm do not pose any material risk to the achievement of objectives, its reputation or its regulatory obligations
* The controls operated by the firm are in accordance with the criteria set by Management and in line with the Company Corporate Strategy
* That strategy and associated processes meet the requirements of the firm’s Risk Policy and requirements (e.g. minimum standards)
* Business critical issues and potential operational risk issues are flagged and managed
* The firm has fully understood and implemented the Senior Management and Certification Regime (SMCR)

One of the requirements of the Financial Conduct Authority (FCA) is that a company must be able to evidence that they have control over the business that they write, and the processes used to do so. For example, where business is accepted on their behalf. Therefore, it is important that a firm makes periodic checks on each new business case to ascertain that the standards, procedures and criteria used are acceptable and in line with customer requirements.

The key objectives of the audits are:

* To investigate and validate business submitted
* To identify and assist firms failing to meet the required standards in respect of documentation and / or administrative processes, system and controls
* To report findings and make recommendations as to “possible courses of action”
* To ensure that agreed actions are carried out within the agreed timescales

Where appropriate, a follow up visit will be arranged / conducted.

## Grading Mechanism

As part of the audit we will form an opinion of the overall findings and of individual case analysis where applicable, based on the following scoring criteria.

### Inspection Opinion RAG Scoring

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| **Immediate Attention Required** | **Needs Minor Improvement** | **Needs Improvement** | **Effective** |
| The internal control framework is not considered to be appropriate and/or management of risks reviewed fall outside acceptable parameters. The number and severity of issues relative to the size and scope of the operation/entity/process being audited indicate serious weaknesses of a systemic or high impact nature. | Subject to the resolution of reported issues, the internal control framework is “considered to be appropriate” and is maintaining risks within acceptable parameters. The number and severity of issues relative to the size and scope of the operation/entity/process being audited indicates some areas of weakness of a small / minor impact | Subject to the resolution of reported issues, the internal control framework is “considered to be appropriate” and is maintaining risks within acceptable parameters. The number and severity of issues relative to the size and scope of the operation/entity/process being audited indicates some areas of weakness of a medium impact. | Internal control framework is considered to be appropriate and is maintaining risks within acceptable parameters. The number and severity of issues relative to the size and scope of the operation/entity/process audited indicates no areas of significant concern. |

### Advisory Actions / Recommendations

In conjunction with the above, there could also be a series of Advisory Actions / recommendations, in addition to formal actions, which will also be RAG rated in a similar manner, but by their sheer nature, are purely suggestions, not formal actions.

## TCF Requirements

### Desired Consumer Outcomes of TCF

The FCA has outlined six core consumer outcomes that it wishes to see as a result of the TCF initiative. These are:

**Outcome 1**

Consumers can be confident that they are dealing with Firms where the fair treatment of customers is central to the corporate culture

**Outcome 2**

Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and targeted accordingly

**Outcome 3**

Consumers are provided with clear information and kept appropriately informed before, during and after the point of sale

**Outcome 4**

Where consumers receive advice, the advice is suitable and takes account of their circumstances

**Outcome 5**

Consumers are provided with products that perform as Firms have led then to expect, and the associated service is of an acceptable standard and as they have been led to expect

**Outcome 6**

Consumers do not face unreasonable post-sale barriers imposed by Firms to change product, switch provider, submit a claim or make a complaint.

### TCF and the Audit

The primary purpose of this audit is to ensure that all Firms and Registered Individuals are treating all customers fairly.

## Audit Arrangements

### Organisation of the Audit

IFAC Ltd will arrange a suitable date and time for the Audit in good time to allow this to occur annually.

Where Audits are conducted on the firm’s processes, these tend to start mid-morning and complete mid-afternoon. This will however depend on the nature of the firm’s requirements.

### Audit Preparation

Prior to the meeting, the firm will receive an email confirming the date and time of the Audit. The email will also include an Agenda and a list of requirements.

### Agenda

The agenda for the audit / visit will cover six main areas, but with particular focus on any recent changes.

### Requirements

There will be different requirements depending on the firm’s advice propositions.

The following items would be desirable:

**All firms**

* Copy of all fact finds/questionnaires/KYC documentation used (Updates, additional questionnaires etc)
* Advertising / Financial Promotions registers. **(Unless on BAT)**
* Disclosure – Client Agreement / Letter of engagement or Service & Payment Agreement / TOB Email / Mortgage / Insurance / Buy to let / Equity Release. (As appropriate).
* All Registers **(unless on BAT)**, as required or used, such as:
  + Marketing **opt in**
  + Safekeeping (Client Document)
  + Cheque return
  + Third Party Payments
  + Introducer
  + Client Referral
  + TCF
  + Donations and Sponsorship
  + Locum
  + Gifts & Hospitality etc
* Complaints Register **(Unless on BAT)**
* Existing process / check list / standard file documentation.
* CPD records – advisers and where applicable, paraplanners / administration staff. (unless reviewed regularly)
* Any current Manuals.
* GDPR - Policy statement etc
* Privacy statement.
* Vulnerable client policy
* Product Governance

**Investment Advice**

* Copy of Attitude to Risk questionnaire / profiler. (Unless electronic such as Finametrica)
* All Registers **(unless on BAT)**, as required or used, such as:
  + Safekeeping (Drawdown)
  + Pension Opt Out
* Proof of meeting MiFID II requirements
* Target Market
* SM&CR – Certification Register

**Mortgage and Protection or Protection and/or Insurance**

* TCF / client harm