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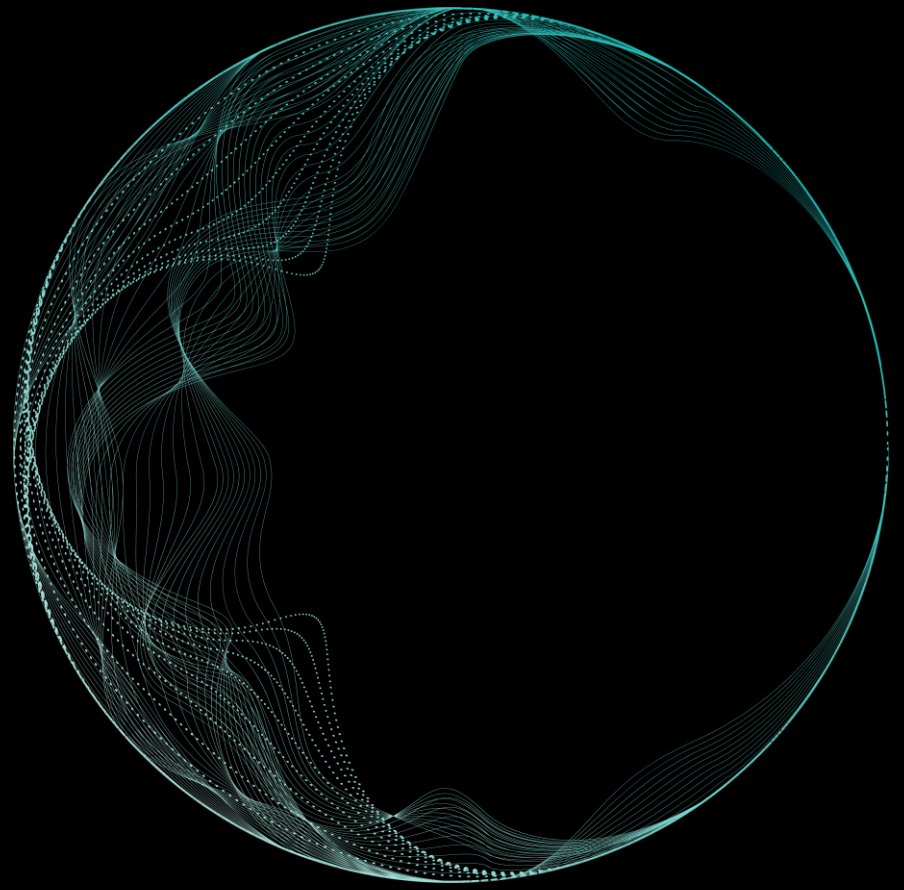

Investment Management

Hot Topics – Internal Audit (Aide Memoire)

August 2023

MAKING AN IMPACT THAT MATTERS since 1845

INTRODUCTION

In its 2023-24 Business Plan, the FCA continues to emphasise its commitment to becoming an assertive, adaptative and innovative regulator. Consumer focus makes it to the top of regulatory agenda with ESG, fair competition and digital initiatives gaining additional focus.

We are delighted to present this year's "Hot Topics – Internal Audit (Aide Memoire)". The document has been put together by our team of internal audit professionals and subject matter experts, aiming to share our viewpoint on key internal audit areas for 2023-24. The areas covered in the next few pages have been informed through the FCA Business Plan for this year and industry trends/concerns identified through continuing engagement with a range of clients in the sector.

We hope this paper offers useful insights and supports your risk assessment and planning process for internal audit for 2023-24. If you have any questions or would like a further discussion on any particular topic, please reach out to any of our team members listed on Page 15 or your usual Deloitte contact.

Investment Management Hot Topics

CONSUMER DUTY – FCA Business Plan

CONSUMER DUTY

- Assess whether the firm is on track to meet FCA's Consumer Duty implementation for closed book products and has already implemented for new/open products by 31 July 2024 . This also includes the Board's assessment of compliance with the Consumer Duty.
- Verify whether clear accountabilities have been defined for the Board, relevant Senior Management Functions and Committees to ensure adherence to the attestation requirements of the Consumer Duty.
- Assess whether the firm has completed gap analysis to identify any disconnects between existing processes and expected operations from July 2023. For pending action items, verify that a defined roadmap is in place to address each item in a reasonable timeframe.
- Review whether KRI monitoring incorporates parameters to evidence compliance with Consumer Duty required outcomes.
- Assess whether the firm has an adequate process to test consumer understanding of how costs/charges are presented in the ex-ante and ex-post documentation.
- Verify that the firm has updated their product governance processes to align with Consumer Duty expectations.
- Assess whether communication with outsourced service providers (where relevant) has been clearly established to define expectations in terms of data inputs, frequency of reporting and quality.
- Review management's approach to assessing system and data availability limitations to ensure readiness for implementation deadlines.
- Verify that the firm has an adequate post implementation plan in place to identify areas for improvement through targeted outcome testing, second line or internal audit review.

Firms are expected to have implemented and evidenced compliance with Consumer Duty rules for new and open products by **July 2023**. For closed books, firms have until **July 2024** to evidence compliance.

CONSUMER DUTY SURVEY

Deloitte conducted an Investment Management and Wealth Sector Survey in June 2022 exploring the key challenges posed by the Consumer Duty. Various types of Firm participated in the Survey, such as asset managers, investment platforms and wealth managers covering various asset classes including alternatives. This section highlights key challenges associated with implementation.

Refer to survey details here.

Foreseeable Harm

33.3% of respondents raised concern with the definition of the foreseeable harm concept.

Burden of Evidence

57% of the respondents expressed their concerns in the survey about evidentiary burden (and data quality required) to produce the annual report to the Board that sets out how the firm has delivered against the Consumer Duty outcomes.

Accountability

14.3% are concerned with increased individual accountability, specifically alignment of senior management's responsibilities with Consumer Duty outcomes.

Investment Management Hot Topics

CONSUMER DUTY – FCA Business Plan

While the below topics are individually extensive in nature, the FCA has urged firms to revisit these areas in the context of Consumer Duty.

SUITABILITY AND VULNERABLE CUSTOMERS

- Review adequacy of the policies and procedures in place to assess client suitability including due diligence to understand clients' circumstances, investment knowledge and experience, attitude to investment risk and capacity for loss. Potential vulnerabilities must also be assessed, specifically in the context of the ongoing cost of living crisis.
- Evaluate whether the firm consistently delivers the on-going levels of service that customers are paying for.
- Review of assessment criteria in place to identify vulnerable customers (e.g., identifying out of character requests) and whether the firm is offering subsequent support and that staff members are adequately trained to steer conversations and assessments.
- Review adequacy of processes to ensure periodic review of client circumstances, thereby addressing any changes in their circumstances and identifying any new potential vulnerabilities.
- Review the controls around identification, mitigation and oversight over risks associated with automated advice.

The FCA has undertaken a thematic review with the objective of assessing the advice consumers are receiving on meeting their income needs in retirement. The results will be published in Q4 2023. The results will also be an important indicator of how firms are implementing the Consumer Duty.

PRODUCT GOVERNANCE

- Assess the design and operating effectiveness of governance and oversight arrangements, specifically the Product Governance Committee.
- Review involvement of second line of defence in product governance, specifically the quality of their challenge and discussion on decisions.
- Review the roles and responsibilities of relevant functions, committees and boards and the articulation of accountability of all stakeholders throughout the product lifecycle.
- Review the firm's approach to factoring in target market and fairness to consumers in pricing.
- Assess the design and operating effectiveness of controls related to the design and management of products and how conflicts of interest are managed.
- Assess the design and operating effectiveness of controls related to distributors of products.
- Evaluate training of staff involved in the product governance process.

In May 2023, the FCA published its findings from their review of fair value assessment frameworks. Some of the key concern areas included data evidencing fair value, oversight of and accountability for remedial actions where fair value is not provided, insufficient analysis of the distribution of outcomes across consumers and lack of robust internal presentation regarding value.

Investment Management Hot Topics

ENVIRONMENT, SOCIAL & GOVERNANCE (ESG) – **FCA Business Plan**

ESG Challenges

With the continued focus from investors and regulators for sustainable investment products, the FCA has continued its scrutiny on ESG and climate risks as part of its strategy for positive change.

As investment management firms continue to enhance their product offerings and internal frameworks, there are some challenges which remain on the agendas of executives and Boards alike.

Data Availability

Due to the nature of the information requirements for ESG reporting, firms are struggling to find reliable, verifiable, timely and accurate sustainability data to use for decision making and report progress against their sustainability strategies.

Social and Governance Aspects

There has been a big focus on the Environment aspect of ESG but regulators and investors are beginning to start prioritising Social and Governance factors.

Integration and Embeddedness

With the constantly changing regulatory and consumer expectation landscape, firms are struggling to integrate and embed the new requirements into their current processes.

ESG Responsible Investing and Reporting

- Assess the organisation's Responsible Investment (RI) strategy through consideration of peer benchmarking, suitability of input and challenge, and alignment with the overall business vision.
- Review and assess the Governance structure and the circulation, discussion, and challenge around Responsible Investment Management information (MI) and evaluate whether key MI is supporting the sustainable investment decision-making process and sustainable investment lifecycle.
- Assess the ability of the firm to demonstrate the effectiveness of data sources and tools measuring ESG-related metrics, to guard against greenwashing. This includes an evaluation of data strategy, design data infrastructure, data governance structure, data capture, data storage, usage, reporting and monitoring.
- Assess whether votes made during shareholder meetings are informed, unbiased and aim to mitigate potential reputational damage from an ESG perspective.
- Evaluate the control framework in place to mitigate greenwashing risks, including whether adequate consideration is given in discussions at key governance meetings and decisions, consistency of firm's policies with fund documents, and ongoing review of portfolio compliance with non-financial metrics.
- Assess whether climate-related and sustainability risks associated with the RI strategy have been identified and integrated as a part of the firm's overall risk management framework, including defined risk appetite that is measured through suitable metrics and reporting.
- Assess the organisation's compliance with the responsible investment policy, through review of the implementation and design of ESG screening criteria and tracking processes in place for a sample of investments.

As investors continue to prioritise sustainability as part of their investment strategy, ESG and climate risks are taking a more prominent place on the industry agenda and have moved towards the top of the regulatory agenda.

Investment Management Hot Topics

ENVIRONMENT, SOCIAL & GOVERNANCE (ESG) – FCA Business Plan

ESG - Labelling and Disclosures

- Review roles and responsibilities in relation to the labelling of sustainable investment products, review governance and disclosure processes and evaluate whether these are well understood across the organisation.
- Review the framework around Sustainable Finance Disclosure Regulations (SFDR) level 1 & level 2 regulatory technical standards and alignment with the Task Force on Climate-Related Financial Disclosures (TCFD) requirements which were brought in at the beginning of 2023 for asset managers and owners.
- Evaluate the completeness and adequacy of disclosure around how ESG factors are integrated into investment decision-making process and investment lifecycle.
- Perform readiness assessments against emerging regulatory requirements such as the incoming UK anti-greenwashing Sustainability Disclosure Requirements (UK SDR).

As per the 2023 Business Plan, the FCA includes ESG as part of its strategy for positive change and included initiatives related to trust and consumer protection from mis-leading marketing and disclosure around ESG related products, high quality and wider climate and sustainability related disclosure requirements and strengthening investor stewardship. The FCA is intending to publish the Policy Statement in 3rd quarter of 2023. Additionally, for SFDR, Level 2 implementation had a deadline of 30 June 2023 .

ESG-Social

- Evaluate how the organisation has responded to the new Policy rules (PS22/3) 'Financial Conduct Authority Diversity and inclusion on company boards and executive management' and assess the horizon scanning framework in place as Social issues continue climbing the industry agenda. Review the organisation's social purpose and challenge how Management measures their related performance with quantitive metrics and targets.
- Assess the methodology behind evaluating the social impact of investing activities, recognising the complexities in competing ESG strategies and non-linearity, particularly across social issues, and varying ratings agencies.
- Assess embeddedness of the organisation's social strategic goals and well-being strategy throughout the organisation.
- Challenge how Social objectives are integrated across the hiring and recruitment process to support the Organisation in obtaining most diverse and inspired employees
- Review the data collection process across Diversity and Inclusion reporting wherein historic processes may be less reliable or sit within non-FS functions potentially subject to less control rigour.
- Challenge how the Organisation ensures appropriate level of accessibility for all stakeholders across different working environments, products and communication channels.

Firms should ensure that their focus is not limited to Environment, and is comprehensive to cover Social and Governance aspects as well. This includes evaluating the impact of firm's actions, products, and services on society. Firms need to have conscious discussions on what "Social" means for them and whether their internal governance and external interactions are aligned to such definitions.

Investment Management Hot Topics

IA Areas of Focus – FCA Business Plan

OPERATIONAL RESILIENCE

- Review key controls in relation to further development and embedding of Operational Resilience (OR) over the transition period, ending 31 March 2025.
- Review process to track progress and completion of the recommendations and improvement actions from the OR pre-implementation period.
- Review the framework and methodology of resource mapping and identification of vulnerabilities, impact tolerances, delivery of important business services and scenario stress testing, as expected by the FCA.
- Review third party involvement in OR outputs .
- Review the link between change management and OR framework.
- Verify that embedding resilience influences discussions on investments, organisational re-structuring, as well as decisions around M&A and the design of new operating models.
- Review the sophistication of scenario testing capabilities and the severity of the operational disruption scenarios used.
- Review management information reported to the Board and relevant sub-committees in ensuring appropriate oversight of OR.
- Review processes in place to maintain the accuracy and completeness of OR outputs (including resource mapping and identification of vulnerabilities, impact tolerances, important business services, scenario testing and underlying data that support these outputs) going forward;
- Review firm's transition plans including annual review, OR approach, reporting metrics and annual board approval of self-assessment.

Operational Resilience continues to remain a focus area for FCA. In-scope firms had until 31 March 2022 to operationalise the new policy framework. These firms will have a further period to evidence they can remain within their impact tolerances ahead of the 31 March 2025 deadline. The FCA is currently scaling up its efforts to deal with firms that fail to comply with the new standards.

FINANCIAL CRIME

- Verify that all relevant financial crime risks the firm is exposed through its investment operations as well as distribution and sales have been identified, documented and assessed in its financial crime enterprise-wide risk assessment.
- Validate if there is a documented financial crime risk appetite statement that describes what level of financial crime risk the firm prepared to take to meet its sales targets and investment objectives.
- Review what management information is available to enable senior management to determine if the firm is operating withing its financial crime risk appetite.
- Review what regulatory and threat horizons scanning processes are in place to enable effective detection of emerging financial crime risks and compliance requirements.
- Assess what changes have been made to financial crime policies and procedures in response to the threats and regulatory developments identified. This includes consideration of fraud prevention and detection measures in support of vulnerable customers.
- Review the governance framework for financial crime; and verify if substantial efforts by senior management to review and challenge the management of financial crime risks can be evidenced.
- Verify that the Money Laundering Reporting Officer (MLRO) has been appointed and that their responsibilities are clearly defined and documented in a Statement of Responsibilities in accordance with SM&CR.
- Verify that the due diligence process prior to onboarding new customers and service providers includes an assessment of all relevant financial crime risks.
- Verify that the due diligence process prior to completion of investment transactions and commencement of third-party relationships includes an assessment of all relevant financial crime risks.

FCA's focus on preventing consumer harm also translates to reducing and preventing financial crime as consumers in vulnerable circumstances tend to be more susceptible to fraud. This message is echoed in FCA's 2023-34 Business Plan. As FCA is gearing up its efforts in identifying frauds through data-led approaches, the regulator expects firms to prioritize controls to reduce financial crime.

Investment Management Hot Topics

IA Areas of Focus – FCA Business Plan

FUND LIQUIDITY

- Assess adequacy of fund Liquidity Risk Management framework, including pre-investment frameworks and forecasting framework covering investors, asset, strategy and funding liquidity.
- Evaluate adequacy of the reporting to the Board of the UCITS manager.
- Review the alignment and associated governance between asset portfolio and redemption terms before the launch of new funds.
- Evaluate whether the stress testing arrangements are proportionate considering the size, investment strategy, nature of the underlying assets and investor profile.
- Assessment of clients' redemption rights and the role of second line in stress scenario building and providing challenge to first line.
- Enquire into the firm's efficiency in terms of using redemption notice periods and controls over the assessment of clients' redemption rights.
- Review the analysis of fund exposure to illiquid assets relative to total exposure, including the approach for reducing significant exposure over time.
- Evaluate the firm's policy and ability for internal fund lending in case of significant redemption requests from clients.

The FCA is looking at ways to improve liquidity management in the asset management sector as part of a post-Brexit review of how it regulates the sector following a blow-up in the pensions market in 2022. In February 2023, the FCA consulted on the current UK regime could be improved. The FCA has indicated that future rules around liquidity management must be looked at in the context of "the good functioning of markets" as well as "protecting consumers" in light of the "growth of the funds industry".

ICARA

- Evaluate the appropriateness of the Risk Management Framework including risk appetite and triggers.
- Review the approach and methodology used to assess the Fixed Overheads Requirements (FOR) and calculation of K-Factor requirement, as applicable.
- Evaluate the extent to which potential harms are considered as a part of risk identification, classification process.
- Assess firms' consideration of how Risk Assessment (ICARA) will be performed and whether the following key components have been considered: strategy and business model, assessment of material harms, own funds (resources and requirements), liquidity (resources and liquid assets), intervention points, stress testing and reverse-stress testing, recovery and wind-down.
- Assess if remuneration requirements of the Investment Firm Prudential Regime (IFPR) require changes to be made to the existing framework and whether the firm has accordingly implemented the new requirements.
- Evaluate the controls in place for ensuring accuracy of returns and calculations in line with the MIFIDPRU rules.
- Assess the roles and responsibilities of the First and Second lines of defence in relation to risk identification, monitoring and reporting.

It has been more than a year following the implementation of the FCA's Investment Firms Prudential Regime (IFPR) and the MIFIDPRU handbook. Although risk classification, identification and assessment are foundational elements of a firm's risk management framework (RMF) arrangements, many firms have had to undertake improvements to these processes to ensure effective consideration of all relevant risk and harms.

Investment Management Hot Topics

IA Areas of Focus – FCA Business Plan

REGULATORY

CYBER SECURITY

- Review the security policies and procedures maintained to manage patching of information assets.
- Assess controls around patch management including processes that ensure that the impact of a patch is assessed/tested before it is deployed in production.
- Assess use of automated patch management and software update tools.
- Assess controls around the use of automated scanning tools that scan the IT estate, assess the current patch levels and update the patch levels where required.
- Assess the controls ensuring that security testing and vulnerability scanning plans have been developed and implemented (periodic, risk-based testing etc.).
- Assess the processes in place to undertake appropriate remediation and re-testing activities when findings are identified to ensure a prioritised risk-based approach.
- Review whether the security of remote access is managed appropriately though suitable controls, such as remote access VPN or remote virtual desktop.
- Assess whether end point protection controls and tooling is in place to detect and protect critical assets from malicious code.
- Ensure a baseline configuration of information technology industrial control systems is created and maintained incorporating security principles.
- Assess controls are in place to protect/ secure data at rest and data in transit (including encryption).
- Assess controls are in place to protect, prevent or detect data leaks.

Cyber security continues to remain a key concern area for the FCA, with threats increasing and diversifying as a result of changes in social norms, working habits, and lack of "cyber-safe" technology environments which are more vulnerable to attacks.

EMERGING TOPIC:

ARTIFICIAL INTELLIGENCE & INTERNAL AUDIT

Organisations' adoption of Artificial Intelligence (AI) is increasing, as they seek to capture the opportunities associated with deploying AI. There has been a notable increase in the adoption of AI technology, as well as an increase in the complexity of algorithmic decision-making by AI systems. Systems like ChatGPT are gaining popularity as well as concern. Internal Audit should work closely with the business to understand the extent of AI use and assess whether risk management processes are fit for purpose.

Specifically, Internal Audit should focus on the following:

- **Training and awareness**: familiarise and train the team on the basics of AI, including how it works, the distinct types of AI, and the potential risks and benefits of using AI.
- **Governance, controls, and accountability**: identify and understand the key risks and relevant governance in place within the organisation, including ownership and accountability. Work with the technology and risk functions to support the use of appropriate controls over the use of AI, and any underlying tools and technologies used to support AI.
- **AI inventory**: understand the range of AI applications and systems being used within the organisation, including how they work and the processes and controls that are in place to ensure their proper functioning.

Investment Management Hot Topics

IA Areas of Focus – Other Standing Topics

MARKETING AND DISTRIBUTION

- Review the due diligence conducted on distributors to ensure they have a good understanding of the investment characteristics of the products.
- Assess the controls in place to identify appropriate target markets through qualitative and quantitative research and retrospective reviews to ensure alignment between intended target market and the customers who bought the product.
- Evaluate controls around production and distribution of marketing materials used in different jurisdictions and platforms in relation to the intended target market and how regulatory requirements are identified and met.
- Assess the consistency between the information provided in marketing materials and the risk management practices covering the firm's products.
- Review the appropriateness of jurisdictional classification of documents identified as marketing material.
- Review the process for defining and monitoring the distribution strategy for certain services, including review of controls in place to help ensure products are sold to the right customers.

In light of consumer-focussed commitments of the FCA for 2023-24, the regulator is dedicated to reducing consumer harm from inappropriate financial promotions. The regulator removed or amended over 8,500 potentially misleading adverts in 2022, 14 times more than 2021.

MARKET ABUSE

- Evaluate the effectiveness of the Market Abuse Risk Assessment framework and adequacy of monitoring controls including verifying that risk assessment covers all orders and trades, including cancelled ones, and considers the different characteristics of different asset classes and instruments.
- Review pre-trade controls in place to reduce the risk of potential insider dealing and market manipulation.
- Review post-trade surveillance controls to detect, investigate and escalate potentially suspicious trades and orders.
- Assess pre and post trade controls in relation to personal account dealing.
- Review adequacy of policies and procedures for the management of market sounding communications and inside information, including timely identification and handling of inside information breaches.
- Verify adequacy and timeliness of Market Abuse risk related training conducted for the firm.
- Assess integrity and timeliness of submitting Suspicious Transaction and Order Reports to the FCA.

ASSESSMENT OF VALUE

- Evaluate adequacy of authorized fund manager's annual assessment on whether value for money has been provided to fund investors at every stage in the lifecycle of the product.
- Review the value assessment framework for products and services in scope of the Consumer Duty regulation.
- Review of the challenge provided by NEDs on the Board prior to approval and publication of the above statements.
- Review the parameters and assumptions used for value assessments to verify alignment with the seven criteria laid out by the FCA.
- Review of the clarity (ease to understand) of the value statements.
- Review alignment with the firm's product governance process including pre-launch reviews and regular post-launch assessments.
- Assessment of the data, tools, instruments and products used by the control and support functions and the applicable risks for those instruments.

Investment Management Hot Topics

IA Areas of Focus – Other Standing Topics

DIVERSITY AND INCLUSION

- Assessment of inclusive culture and diversity at all levels e.g., through review of root causes of resignations and demographic data such as senior leader composition, hiring and bonus & benefits.
- Assessment of internal policies and practices in relation to inclusion and diversity.
- Review of defined key indicators of diversity such as diversity at different grades, pay gap data and progress against the FCA's ethnicity action plan.
- Review KPIs and targets set by the Board around key indicators of diversity and the Board's assessment of culture.
- Perform gap analysis against the Board's expectations and KPIs, and assessment of Management's actionable plans and adherence to the Board's strategy.
- Assess MI reporting and the effectiveness of the Inclusion & Diversity program and strategy including how robustly it considers other demographics such as social background and neurodiversity, and how D&I initiatives support diversity of thought
- Assess listed firms' readiness to comply with FCA targets for diversity parameters and subsequent reporting in its annual financial report.

CULTURE

- Evaluate how the firm relates its desired culture to its business purpose, values, strategy and risk appetite. Also, assess whether the desired culture culture is described, communicated and re-enforced.
- Assess whether the governance processes in place enables the Board to fulfil its duties in respect of culture, as per the Corporate Governance Code.
- Review whether remuneration and incentives policies promote good customer and market outcomes and align with the desired culture of the firm.
- Review management's framework for defining metrics to assess culture and monitoring against such metrics to identify pockets of the desired and undesired culture defined above.
- Review whistleblowing procedures, 'bottom up' reporting and escalations and 'top-down' feedback, actions and the robustness of action plan implementation.
- Incorporate culture assessment as a part of other audits across the audit plan to obtain a view of firm's culture from multiple perspectives.
- Assess the existence and effectiveness of employee engagement and feedback programmes by analysing the frequency of feedback and robustness of analysis and follow up action

THIRD PARTY RISK MANAGEMENT

- Assess the governance framework including policies and procedures for reviewing the firm's approach to TPRM.
- Review whether clear roles and responsibilities have been allocated for key functions across life-cycle of the relationship including contract negotiation, agreement, execution, ongoing monitoring and renewal/termination. Further, assess whether Consumer Duty related responsibilities have been clearly defined.
- Review the controls in place to manage third party risk throughout the third-party management lifecycle, including the methodology for assessing the risk posed by individual third parties.
- Evaluate the appropriateness of metrics used to measure third-party risk exposure, and associated monitoring, assessment, escalation and resolution.
- Review the adequacy and timeliness of MI in place for oversight of third-party relationships. In doing so, evaluate whether management uses real time information to supplement point-in-time data received from third parties.
- Review whether the TPRM framework provides for the assessment and monitoring of financial insolvency, operational resilience, sub-contracting risk and digital risk associated with third party relationships.
- Evaluate whether controls ensure timeliness and operational readiness for contract renewal or termination, including early termination.
- Review whether all applicable TPRM regulatory requirements have been satisfied across all jurisdictions of operations given the convergence in the regulatory requirements across jurisdictions and more prescriptive regulations from the regulators.

Investment Management Hot Topics

IA Areas of Focus – Other Standing Topics

BEST EXECUTION

- Review the governance framework around Best Execution, including the oversight responsibilities of key governance committees and documented policies and procedures.
- Assess whether the Best Execution policy considers all applicable asset classes and is updated every time a new asset class is onboarded.
- Evaluate whether the firm has considered current market conditions when determining the relative importance placed on the different execution factors when meeting obligations, and the venues or brokers relied upon to achieve best execution.
- Review the controls in the first and second lines of defence for monitoring compliance against the Best Execution policy and regulatory expectations.
- Review controls around deal placement and execution.
- Verify the controls around counterparty selection and monitoring.
- Assess the consideration and prioritisation of execution factors.

INVESTMENT GOVERNANCE

- Assess whether roles and responsibilities of the Board, Chief Investment Officer and key governance committees (including the Investment Committee) are clearly defined.
- Evaluate the composition of key governance committees to verify whether there is appropriate participation to enable effective challenge and discussion.
- Assess sufficiency of the Investment Policy.
- Assess the controls for the identification and management of potential and/or existing conflicts of interest.
- Review the adequacy of oversight mechanism in place in relation to investment restrictions set up and breach handling.
- Evaluate whether Management Information is robust and dynamically analyses and presents multi-dimensional scenario/stress testing rather than a purely reactive focus on past events.
- Review whether risk exposures for key financial risks are monitored against the Board approved risk appetite at adequate intervals and any breaches are identified, escalated and resolved on a timely basis.

CONFLICTS OF INTEREST (“COI”)

- Review the governance over CoI framework of the firm, including an assessment of whether responsibilities have been clearly defined and are supported by documented policies and procedures.
- Assess second line of defence controls for the identification, management, monitoring and reporting of actual and potential conflicts. Review the sufficiency of preventive and detective controls in relation to personal conflicts arising from outside business activities.
- Review controls to ensure timely disclosure of personal account dealings by employees and consequent identification of potential/actual conflicts.
- Evaluate whether there are clear guidelines around the permissibility of inducements and controls to ensure disclosure and assessment of any such cases.
- Review Trade Execution and Order Allocation Policies and assess whether they provide controls against the risk of conflicts such as unfair allocation or unauthorised inter-fund transfer of positions.
- Interview Board members and employees to assess awareness of CoI covering understanding of their roles, responsibilities and CoI provisions of the firm.
- Review processes to ensure that the firm and its staff do not receive unsolicited investment research.

Investment Management Hot Topics

IA Areas of Focus – Other Standing Topics

REMUNERATION

- Review the firm's approach to the identification of Material Risk Takers (MRTs) and the list of MRTs determined.
- Assess alignment of remuneration awards with firm strategy, risk appetite, goals and applicable legal requirements
- Assess remuneration policy and related procedural documentation. This included the application of an appropriate pay ratio incentive scheme rules, malus/clawback, rules relating to deferral and payment in instruments, and the approach to "non-standard" variable remuneration (e.g. buy-out awards, guaranteed variable remuneration, retention bonuses and severance payments).
- Review the firm's approach to the assessment of firm, business unit and individual performance (financial and non-financial) for the purposes of determining variable pay outcomes.
- Assess the firm's approach to the application of risk adjustment (i.e., the consideration of all types of current and future risks), as well as its assessment of the soundness of its capital position, prior to determining variable pay.
- Review the approach to the remuneration of control functions, including an assessment of whether control functions have been remunerated sufficiently independently.
- Assess the role of the Remuneration Committee, as well as the adequacy of the MI and documentation provided to support decision-making in relation to variable remuneration and the evidencing of decisions made.
- Review of the MIFIDPRU Remuneration Code rules applicable where a firm receives exceptional government intervention.

CASS

- Review the governance and senior stakeholder involvement in setting the right cultural tone from the top to ensure the protection of client assets is given due importance.
- Validate internal controls to ensure client money and asset protection is achieved and regulatory requirements are met, including assessing the appropriateness of using manual controls.
- Evaluate the appropriateness and adequacy of due diligence over outsourced functions, including site visits. In particular, due -diligence over outsourced providers and understanding of their IT environments.
- Evaluate the controls in place to ensure mandated collections and records are appropriately made and kept.
- Review the change management process and how newly implemented systems and processes are assessed to ensure client money and asset protection is maintained, including where new solutions like distributed ledger technology are implemented.
- Evaluate whether the training provided to relevant individuals is sufficient to mean staff are appropriately aware of relevant client asset issues.
- Review the firm's CASS Resolution Plan and ensure it remains compliant with the CASS 10 requirements.
- Assess whether the breach reporting process is adequate to providing senior management with sufficiently clear information to understand the firm's client asset risk profile.

Investment Management Hot Topics

IA Areas of Focus – Other Standing Topics

General Data Protection Regulation (GDPR)

- Assess the roles and responsibilities for data protection, namely compliance with the GDPR and DPA (2018), have been defined, assigned and communicated to all relevant individuals.
- Evaluate how the compliance activities relating to data protection requirements (e.g., self-assessment, gap analysis, progress of the compliance programme) is reported to those charged with governance to an agreed frequency and standard.
- Verify that adequate mandatory training covering data protection requirements has been developed and delivered for all staff, with additional training for those responsible for processing personal data.
- Ensure that criteria defining when data protection impact assessments (DPIAs) are required have been documented and communicated to relevant staff.
- Verify that the process for conducting and approving DPIAs has been defined and documented, and DPIAs are conducted and approved in accordance with this process.
- Verify that processes for identifying, addressing, and notifying personal data breaches have been documented and communicated to relevant staff.
- Verify that processes are in place to facilitate the communication of breach notification to both the ICO and data subjects via technologically appropriate means.
- Ensure that processes for up-to-date, complete and accurate data processing records (i.e., records of processing activity (ROPA)) are in place, the records are maintained, and aligned to data protection requirements (under Article 30 of the GDPR).
- Verify that adequate processes for collecting consent and governing withdrawal are established, and the records of consent are maintained on a regular basis to ensure accuracy and completion.
- Ensure that international transfers of personal data have been assessed to verify that the transfers are being made to countries deemed as 'adequate', that sufficient safeguards are in place, and/or that data protection requirements for international transfers (namely chapter five) are met.

TRANSACTION REPORTING

- Assess the design, implementation and operation of front office controls including eligibility criteria, validations, exception management, reconciliations, issue management and risk assessment processes.
- Evaluate how second line functions have designed and implemented appropriate assessments of the first line control suite including whether the Compliance Monitoring Plan includes regular transaction reporting testing.
- Evaluate the level of MI, how often it is generated, and whether it meets the demands of the consumers of the MI.
- Verify whether all external data sources are documented and that controls exist to ensure timely resumption of reporting when data issues arise.
- Assess whether individuals are clearly identified as responsible for the maintenance of data, including timely resolution of errors and remediation of identified issues.
- Verify that a process exists for the regular reconciliation between the firm's trading records and reports made to the FCA (via the ARM).
- Examine the most recent reconciliations to understand the operational effectiveness of the process, the remediation of any identified issues, and any communications with the regulator regarding issues arising.

Deloitte UK Investment Management Internal Audit Team

If you have any questions or would like a further discussion on any particular topic, please reach out to any of the following team members or any member of our Investment Management Internal Audit Leadership group:

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