Institute of Internal Auditors, Luxembourg

2019 internal audit planning priorities for Luxembourg investment fund managers

Sponsored by Deloitte.
Dear members and friends of the IIA Luxembourg,

The Board IIA Luxembourg has the great pleasure and privilege to share with you their publication on Internal Audit planning priorities in Luxembourg, focusing this year on asset management.

The asset management industry continues to operate in a complex environment, with internal audit functions under pressure and high expectations from internal and external stakeholders. In today’s world, aside from covering the regulatory baseline, internal audit is also meant to offer insights on the hot topics that stem from regulatory and industry trends. At the same time, the International Professional Practices Framework (IPPF) continues to evolve, putting further emphasis on internal audit’s role as a trusted advisor within organizations beyond the traditional function of assurance provider.

This document is the result of a joint collaboration between the IIA Luxembourg and Deloitte Luxembourg. It provides views of internal audit leaders and experts, encompassing a great wealth of knowledge and experience. The objective of this piece was to offer real value to internal auditors with an aim to improve the efficiency of the 2019 annual planning process and ensure enhanced audit coverage.

We would like to thank all the members of the Deloitte team and the IIA members involved for their contributions and making this happen.

Best regards,

IIA Luxembourg
2019 internal audit planning priorities for Luxembourg investment fund managers

The regulatory environment is in constant evolution, setting new challenges every day for internal control functions including internal audit.

In the context of the recent introduction of CSSF Circular 18/698, Internal audit in IFMs must play a key role in the success of the organization by anticipating and detecting breaches (including regulatory) that could impair the integrity and reputation of the IFM. We have highlighted below key and common regulatory and business topics we believe should be addressed within the internal audit plan of Luxembourg IFMs with an emphasis on subjects/activities that are required to be reviewed on an annual basis by the internal audit function in light of the applicable regulatory requirements and EU guidelines. This list does not intend to be exhaustive but rather to give a sound basis to internal audit practitioners in the preparation of their 2019 internal audit plan.

Subjects/activities to be assessed on a yearly basis by Internal Audit as per applicable regulatory requirements*

Subjects/activities/functions to be assessed at least once in the pluri-annual internal audit plan (risk-based approach)*

* To be taken into consideration according to the license of the IFM/UCI and the relevant business strategy.
Subjects/activities to be assessed on a yearly basis by Internal Audit as per applicable regulatory requirements*

This section addresses the applicable regulatory requirements (e.g. local regulations, Circulars, EU Directives or ESMA guidelines) where Internal Audit should assess a subject/activity on a yearly basis. These references do not constitute an exhaustive list of texts.

* To be taken into consideration according to the license of the IFM/UCI and the relevant business strategy.
AML/CTF (including tax)

Key areas of concern

- Assess the internal governance arrangements covering AML/CTF, including roles and responsibilities of the governing and management bodies of the IFM, the compliance officer, the AML/CFT compliance officer at the management level, the MLRO, internal committees, reporting, AML/CTF policy and procedures
- Assess the due diligence process: risk-based approach (including tax assessment), AML/KYC documentation, blocked account conditions in accordance with its business model/the business strategy adopted by the UCI with particular focus on:
  - Appointed delegates (e.g. central administrators, distributors, portfolio managers) /business partners
  - Appointed depositary bank/depositary network/prime brokers
  - UCIs’ investors/investments
- Assess the monitoring of the business relationship: name screening, transaction monitoring, periodic review of investor/customer accounts
- Assess the ML/TF risk analysis of the organization
- Assess the process related to the cooperation with Luxembourg competent authorities
- Assess the AML/CTF training program

CSSF Regulation 12-02

Section 4 Internal audit control

Article 44 (1) The control of the AML/CFT policy shall be an integral part of the mission of the professional’s internal audit function.

(2) The internal audit shall assess the management and control of the risks on an independent basis and report to the authorized management and board of directors (or specialized committees) by providing them, at least once a year, with a summary report on the compliance with the AML/CFT policy. He shall show due diligence by ensuring that his recommendations or corrective measures are acted upon.

CSSF Circular 17/650

2. Internal organization

This new framework must be implemented by the AML/CFT compliance officer and be controlled by the professional’s internal audit. The professional’s authorized management must closely monitor the implementation of the framework and regularly report thereon to the Board of Directors or to the Supervisory Board.

CSSF Circular 18/698

320. It is reminded that the internal audit function is required to independently assess policies, controls and procedures, including that relating to the functioning of the IFM’s Approval Committee referred to in paragraph 355 in respect of the IFM and the ML/FT risk management models of the IFM, and to report to the senior management and the managing body/governing body of the IFM at least annually on compliance with AML/CFT obligations.
Remuneration Policy

CSSF Circular 10/437

Governance

2.22 Without prejudice to the overall responsibility of the board of directors set out in point 2.17, the implementation of the remuneration policy shall be subject, at least on an annual basis, to central and independent internal review by control functions for compliance with policies and procedures defined by the board of directors. The control functions shall report on the outcome of this review to the board of directors. A copy of said reports shall be put at the disposal of the CSSF.

CSSF Circular 18/698

Section 5.5.9. Remuneration policy

• 389. An IFM subject to Chapter 15 of the 2010 Law is also required to comply with the guidelines of the European Securities and Markets Authority ESMA 2016/57510.

Guidelines of the European Securities and Markets Authority ESMA 2016/575

Guidelines on sound remuneration policies under the UCITS Directive
11 Guidance on governance of remuneration
11.3 Control functions
11.3.1 Roles of control functions
71. The internal audit function should periodically carry out an independent audit of the design, implementation and effects of the management company’s remuneration policies.

• 390. The AIFM must comply with the guidelines of the European Securities and Markets Authority ESMA 2016/57911

Guidelines of the European Securities and Markets Authority ESMA 2016/579

Guidelines on sound remuneration policies under the AIFMD
11 Guidance on governance of remuneration
11.3 Control functions
11.3.1 Roles of control functions
71. The internal audit function should periodically carry out an independent audit of the design, implementation and effects of the management company’s remuneration policies.

Key areas of concern

• Assess the organization, structure, and internal governance of the remuneration policy in light of the applicable regulatory requirements (e.g. establishing the list of identified staff, performance measurement, instruments and deferrals, malus/clawback, proportionality principle, transparency and disclosure)

• Assess the operational effectiveness of the remuneration policy
CSSF Circular 07/307 (*)

3.2 Responsibility of the authorized management

17. The authorised management defines the human and technical resources to be implemented to ensure the correct application of the policies and rules. It ensures that compliance with these policies and relevant procedures is checked by its compliance function and its internal audit function on a regular basis. To this end, it requires that written reports are submitted by the aforementioned functions on a regular basis and at least once a year. In particular, these reports shall describe the deficiencies observed, the corrective measures taken and the follow-up on these measures.

18. On a regular basis, and at least once a year, the authorized management submits reports on the issues covered by the internal audit function, the compliance function and, where required, the risk management function, to the board of directors.

Key areas of concern

- Assess the client classification process (categorization)
- Assess the product governance (product complexity, product approval and target market definition and monitoring)
- Assess the suitability and appropriateness methodology and its implementation
- Assess the adequacy and effectiveness of the IFM’s systems and internal control framework for identifying, preventing, and managing conflicts of interest to ensure fair customer outcomes
- Assess whether the best execution and broker selection process is effectively designed and monitored
- Assess the client-order handling rules process
- Assess the list of inducements and the related governance and monitoring process
- Assess the advisory model and quality of enhancement for non independent advisory (inducement)
- Assess the transaction process (transaction reporting)
- Assess the client information and reporting process (client agreement/contracts, information to clients, marketing documentation, reporting to clients)
- Assess the organization and internal governance (client assets’ safekeeping & intra-group deposits, record keeping, business continuity, compliance policy, conflicts of interest policy, management body organization)

* This Circular and the above-mentioned areas of concerns are applicable to an IFM whenever it provides discretionary management services.
Market Abuse


Article 2 - General requirements - 5. Persons professionally arranging or executing transactions, market operators and investment firms operating a trading venue shall ensure that the arrangements, systems and procedures referred to in paragraphs 1 and 3: (a) are appropriate and proportionate in relation to the scale, size and nature of their business activity; (b) are regularly assessed, at least through an annually conducted audit and internal review, and updated when necessary; (c) are clearly documented in writing, including any changes or updates to them, for the purposes of complying with this Regulation, and that the documented information is maintained for a period of five years.

Key areas of concern

• Assess the organization, structure and internal governance of the market abuse prevention and detection processes in light of the applicable regulatory requirements

• Assess the internal control mechanisms in place for preventing, detecting, and reporting abusive practices or suspicious orders/transactions

• Assess the oversight performed by the IFM whenever investment management activities are delegated to a third party, as applicable
Subjects/activities/functions to be assessed at least once in the pluri-annual internal audit plan (risk-based approach)*

This section lists the main subjects/activities/functions that should be part of the audit universe of the IFM to be assessed at least once in the internal audit plan using a risk-based approach.

* To be taken into consideration according to the license of the IFM/UCI and the relevant business strategy.
Oversight of Delegated Activities

- Assess the organization and governance of the oversight activities on delegates
- Assess the allocation of the responsibilities among the governing and management bodies for each delegated activity
- Assess the adequacy/maintenance of the legal documentation (e.g. SLA, Operating Memorandum) covering the delegated activities
- Assess the initial / ongoing due diligence performed by the IFM over the delegates according to a specific risk-based approach
- Assess the information/documentation received by the IFM (e.g. content, quality) in order to ensure adequate due diligences activities
- Assess that an escalation process towards the governing and managing bodies of the IFM as well as towards the delegates' representatives is designed, implemented and legally agreed between the counterparties
- Assess the internal control framework for internal reporting (e.g. governing and management bodies) and external reporting (e.g. CSSF, BCL)

Finance and Accounting

- Assess the organization and governance of the finance and accounting function
- Assess the identification and recording of all transactions undertaken by the IFM
- Assess the governance arrangements and internal controls of internal/transitory accounts
- Assess the invoice validation process and release of the related payments
- Assess the performance of reconciliation between accounts and accounting entries
- Assess the financial control framework
- Assess the budget preparation and monitoring process
- Assess the internal control framework for internal reporting (e.g. governing and management bodies) and external reporting (e.g. CSSF, BCL)
- Assess the process for preparing financial statements
- Assess the oversight performed by the IFM whenever this function is (or partially) delegated to a third party, as applicable
Compliance function

- Assess the organization, nature and purpose of the compliance function, including the compliance policy and the compliance charter
- Assess the methodology to establish the compliance monitoring plan on a risk-based approach (compliance risk assessment)
- Assess the regulatory oversight (e.g. identification of laws, regulations, circulars, guidelines, standards applicable to the organization) performed by the compliance function and the information circulated within the organization (e.g. education, training)
- Assess the periodic reporting of the compliance function to the governing and management bodies of the IFM, the UCIs representatives and to the CSSF
- Assess the oversight performed by the IFM whenever some compliance tasks are delegated to a third party, as applicable

Human Resources

- Assess the organization and the structure of the human resources
- Assess the internal control framework over key processes (e.g. recruitment, employment contracts, payroll, overtime, vacation, training program and development, performance evaluation, remuneration package)

EMIR (European Market Infrastructure Regulation)

- Assess the procedures and arrangements in place to ensure that the managed UCIs fulfil their obligations under EMIR
- Assess the completeness and adequacy of contracts with all financial and/or non-financial counterparties
- Assess the implementation of the risk mitigation techniques (non-centrally cleared derivatives) to reduce the operational risk and counterparty credit risk of bilateral OTC derivative transactions (including timely confirmation, daily valuation, portfolio reconciliation, dispute resolution, portfolio compression, collateral requirements), as applicable
- Assess the quality and the timeliness of the EMIR reporting monitoring (reporting of OTC and ETD contracts, collateral, and valuation/collateral reporting)
- Assess the implementation of the clearing obligations
- Assess the oversight performed by the IFM whenever EMIR reporting tasks are delegated to a third party (e.g. prime broker), as applicable
New Product and New Business Relationship Approval Process

- Assess the organization and governance of the new product and new business relationship approval process (including involvement consultation of the internal control functions as well as the step by step response measures/escalation process), arrangements and the use of an approval committee.
- Assess the implementation of arrangements and system enabling to identify and assess risks (notably regulatory and operational risks) linked to this new product or new business relationship.

NAV Errors

- Assess the efficiency and effectiveness of the NAV calculation process of the IFM with a focus on the identification of NAV errors.
- Assess the process related to valuation, approval and reporting of NAV errors with a focus on the involvement of the second line of defense, the governing and management bodies of the IFM and the UCIs representatives / stakeholders (e.g. statutory auditors, depositary bank), as applicable.
- Assess the remediation process implemented to reimburse the relevant investors and to avoid that further NAV errors could occur.
- Assess the oversight performed by the IFM whenever fund accounting activities are delegated to a third party, as applicable.

Investment Compliance

- Assess the efficiency and effectiveness of the pre-trade / post-trade assessment implemented by the IFM to identify investment breaches by taking into account the eligibility of the investments and the investment restrictions set in the applicable regulation and legal documentation (e.g. prospectus).
- Assess the process related valuation, approval and reporting process of investment breaches with a focus on the involvement of the second line of defense, the governing and management bodies and the UCIs representatives / stakeholders (e.g. statutory auditors, depositary bank), as applicable.
- Assess the remediation process implemented to reimburse the relevant investors and to avoid that further investment breaches could occur.
- Assess the oversight performed by the IFM whenever investment compliance activities (pre-trade/post-trade assessment) are (or partially) delegated to a third party, as applicable.
Late Trading & Market Timing

- Assess the organization and governance of the measures implemented by the IFM to mitigate late trading and market timing practices
- Assess the adequacy of the relevant legal documentation (e.g. definition of specific cut-off time within the relevant prospectus)

Complaints Handling

- Assess the organization and governance of complaints handling activities (including the out-of-court disputes)
- Assess the adequacy of the complaints handling reporting processes towards the governing and management bodies of the IFM as well as the and eligible UCI stakeholders
- Assess the completeness and adequacy of the disclosure activities implemented by the IFM

Money Market Fund (MMF)

- Assess the procedures and arrangements in place to ensure compliance with the obligations imposed by the MMF Regulation for managed UCIs qualifying as money market funds with particular reference to the risk management processes, valuation, distribution and third party service provider appointment

Discretionary Portfolio Management Activity

- Assess the organization and the internal governance of the discretionary portfolio management process performed by the IFM
- Assess the monitoring procedures relating to compliance with the objectives and investment strategies in accordance with the relevant policies and procedures set by the IFM (e.g. conflicts of interest, best execution policy) and the client’s knowledge (as applicable)
- Assess the process of identification, selection and approval of the investment targets
- Assess the procedures for monitoring the performance of investments in accordance with the relevant investment strategies
- Assess the periodic reporting of the portfolio manager to the governing and management bodies of the IFM and to clients
Depositary Bank

- Assess the oversight of the IFM on the organization and internal governance of the depositary bank (e.g. organization chart, internal governance internal procedures, systems and segregation of duties in accordance with the relevant depositary agreements/contracts and applicable regulations)
- Assess the oversight of the IFM on the depositary bank over the selection and monitoring of sub-custodians including performance standards
- Assess that dedicated reconciliation activities are performed by the IFM between the accounting held by the central administration and the relevant depositary bank

Domiciliation

- Assess the organization of the domiciliation activities in line with the relevant agreements
- Assess that the domiciliary agent has access to all the information/documentation necessary to accomplish its activities by relying on the IFM and on third parties appointed by the latter
- Assess that the IFM oversees the good collaboration between the domiciliary agent and the statutory auditors as to ensure that the latter can effectively and efficiently perform its audit activities in respect of the regulatory deadlines
- Assess the periodic reporting of domiciliation activities to the governing and management bodies of the IFM, to the UCIs representatives and to the relevant stakeholders, as necessary

Asset Valuation

- Assess the organization and the internal governance of the asset valuation process performed by the IFM according to the type of investment funds under management
- Assess the effectiveness of asset valuation systems and procedures in place within the IFM
- Assess that the asset valuation is performed by ensuring no impairment by any conflict of interests and that the stakeholders involved in the asset valuation process have adequate knowledge and competencies on the assets to be valued
- Assess the oversight performed by the IFM whenever the asset valuation activities are (or partially) delegated to a third party, as applicable
**Distribution & Marketing**

- Assess the organization and the internal governance of the distribution and marketing process performed by the IFM according to the type of investment funds under management
- Assess the compliance of the distributors with the Luxembourg regulation in terms of information disclosure (e.g. providing investors with EMT/EPT, KIIDs/KIID)
- Assess whether the IFM monitors on an on-going basis marketing intermediaries taking into consideration the marketing incidents, the distribution countries, the perception of inducements, exchange of information between the IFM and marketing intermediaries on the target market, complaints records or the collection of subscriptions and redemptions
- Assess the periodic reporting of the IFM to the governing and management bodies and the UCIs representatives on marketing & distribution activities
- Assess the oversight performed by the IFM whenever the distribution and marketing activities are delegated to a third party, as applicable

**Collective Investment Management**

- Assess the organization and the internal governance of the collective investment management process performed by the IFM
- Assess the monitoring procedures relating to compliance with the objectives, investment strategies and, where applicable, risk limits of the managed UCIs in accordance with the relevant policies and procedures set by the IFM (e.g. conflicts of interest policy, best execution policy)
- Assess the procedures for monitoring the existence and performance of investments in accordance with the relevant targets / benchmark set by the investment advisor, as applicable
- Assess the periodic reporting of the investment / portfolio manager to the governing and management bodies of the IFM, the UCIs representatives and to the relevant stakeholders
- Assess the oversight performed by the IFM whenever collective investment management activities are delegated to a third party, as applicable
Corporate Secretary

- Assess the organization of the corporate secretary activities in line with the relevant agreements
- Assess that the corporate secretary has access to all the information/documentation necessary to accomplish its activities by relying on the IFM and on third parties appointed by the latter
- Assess that the corporate secretary representatives are involved in the initial due diligence for the on-boarding of new clients and in the new products approval process
- Assess that the corporate secretary has set-up accesses to the relevant public/private office to accomplish its activities (e.g. trade register, financial statement publications)
- Assess the periodic reporting of the corporate secretary to the governing and management bodies of the IFM, to the UCIs representatives and to the relevant stakeholders, as necessary

Business Continuity Plan (BCP) / Disaster Recovery Plan (DRP)

- Assess the organizational processes in place over BCP / DRP in order to avoid, prevent, respond and recover from planned and unplanned outages
- Assess the operational resilience of the IFM (end-to-end technology architecture and its relative importance)
Physical Security

• Assess the implementation and monitoring of physical security processes (e.g., emergency drills, building evacuations, contingency arrangements, internal policy, insurance, training)

• Assess the controls in place to restrict physical access to authorized individuals and detect any unauthorized access

• Assess the protection of and access to sensitive physical information

Internal Governance & Organization

• Assess the internal governance and organization implemented by the governing and management bodies of the IFM in accordance with the risk appetite defined by the IFM

• Assess that guiding principles are defined, approved and implemented by the governing and management bodies of the IFM

• Assess the appointment and revocation procedures for the members of the governing and management bodies of the IFM including the suitability assessment process

• Assess the composition, functioning, and mandates of committees (including agenda, information pack, minutes)

• Assess the IFM’s internal control mechanisms

• Assess the weaknesses identified by internal control functions are followed up by the IFM in an accurate, complete and timely manner

• Assess that internal governance arrangements are periodically reviewed by the governing and management bodies and at least whenever a decision that could impact the business model and the strategy of the IFM is taken

• Assess whether a dedicated escalation process is implemented by the IFM in order to ensure that any identified breach on guiding principles is reported in a timely manner


**Fund Administration**

- Assess the organization and the internal governance of the fund administration activities performed by the IFM

- Assess the internal procedures and the related internal control environment of the fund administration activities (e.g. fund on-boarding and setup, NAV calculation, pricing of underlying investments, reporting to the regulatory authorities, financial reporting preparation, invoice accounting, trade booking according to the cut-off time set in the prospectus, accounting reconciliation with the transfer agent and the depositary bank/prime brokers positions)

- Assess the periodic reporting on the fund administration activities to the governing and management bodies of the IFM, to the UCIs representatives and to the relevant stakeholders

- Assess the oversight performed by the IFM whenever fund administration activities are delegated to a third party, as applicable

**Registrar & Transfer Agent**

- Assess the organization and the internal governance of the registrar and transfer agent activities performed by the IFM

- Assess the internal procedures and the related internal control environment of the registrar and transfer agent activities (e.g. fund on-boarding and setup, shareholder/unitholder register maintenance, transaction processing, confirmations to investors, dividend distribution, reconciliation of the number of units outstanding/value per unit with the accounting function)

- Assess the collaboration/interaction between the registrar and transfer agent function and the person appointed as AML/CTF compliance officer of the IFM

- Assess the periodic reporting on the registrar and transfer agent activities to the governing and management bodies of the IFM, the UCIs representatives and to the relevant stakeholders

- Assess the oversight performed by the IFM whenever the registrar and transfer agent activities are delegated to a third party, as applicable
Risk Management function

• Assess the organization, nature and purpose of the risk management function
• Assess the risk management policy and risk management process in accordance with the UCIs risk profiles set by the IFM
• Assess the effectiveness of the risk arrangements, processes and techniques adopted by the IFM for the UCIs under management
• Assess whether the risk management function monitors and controls the risks to which the IFM is or may be exposed in light of its size and its activities (e.g. operational risk)
• Assess the periodic reporting of the risk management function to the governing and management bodies of the IFM, to the UCIs representatives and to the Luxembourg Competent Authorities
• Assess the oversight performed by the IFM whenever some risk management related activities are delegated to a third party, as applicable

Fees & Commissions

• Assess the fees & commissions calculation and accounting process in line with the relevant legal documentation (e.g. prospectus, agreements)
• Assess the efficiency and effectiveness of the periodical reconciliation activities performed over the fees & commissions by ensuring that any amount is duly reconciled and any pending reconciliation is duly followed-up and escalated by involving the relevant stakeholders/counterparties, as necessary
• Assess the efficiency and effectiveness of fees & commissions reporting process to the governing and management bodies of the IFM, to the UCIs representatives and to investors/stakeholders (e.g. service providers)
Tax Reporting (CRS & FATCA)

- Assess the organization and internal control environment for tax reporting: CRS & FATCA
- Assess the procedure for the identification of CRS & FATCA clients/investors (e.g. list of indicia) and registration to the relevant authority website (i.e. Internal Revenue Services and local tax authorities as applicable)
- Assess the procedure to maintain the CRS & FATCA information and documentation in the clients/investors’ files

Information Technology

- Assess the organization and internal governance of the information technology function (e.g. role and responsibilities, reporting, committee)
- Assess whether the IFM established, implemented and maintained operational systems and procedures to safeguard the security, integrity and confidentiality of information, taking into account the nature of the information concerned
- Assess whether the IFM established procedures and a system enabling it to identify and manage IT risks (e.g. risks related to confidentiality of day, outsourcing, computer fraud, business continuity)
- Assess the internal control framework for information security (e.g. logical access, change management, backup management, job scheduling, patch management)
- Assess the oversight performed by the IFM whenever information technology activities are (or partially) delegated to a third party, as applicable
Data Protection (GDPR)

• Assess the internal framework put in place by the IFM in the light of the EU General Data Protection Regulation (GDPR) on the data privacy of EU citizens in terms of:
  – Strategy: organization has a clearly defined data protection strategy
  – Organization and accountability: effective privacy strategy has been implemented, roles and responsibilities in regards to data protection have been defined (e.g. role of the data protection officer)
  – Policies, processed and data: data is protected, governed, managed and utilized effectively in line with the organization’s strategy through effective implementation of organizational (e.g. policies and procedures) and technical controls (e.g. access segregation controls)
  – Culture, training and awareness: high level organizational awareness around privacy has been created (e.g. awareness trainings)
  – Privacy operations: privacy has been embedded into the organization’s project methodology (e.g. systems should be “privacy” friendly by design and by default)
  – Processing inventory: a personal data processing inventory has been prepared per GDPR requirements

Conflicts of Interest

• Assess the adequacy and effectiveness of the IFM systems and internal control framework for identifying, preventing and managing conflicts of interest
• Assess the implementation and the maintenance of the conflicts of interest policy
• Assess whether the IFM keeps and regularly updates a register recording the types of activities which it carries out itself or which are carried out on its behalf and for which a conflict of interest entailing a material risk of prejudice to the interests of one or more UCIs or investors in these UCIs has occurred or, in the case of a continuous activity, is likely to occur
• Assess the adequacy and completeness of the reporting / disclosure activities towards the governing and management bodies and the UCIs representatives / eligible stakeholders
Branch(es) /Subsidiary(ies) /Representation Office(s)

- Assess the organization, oversight and internal governance of the branch/subsidiary/representation office
- Assess the level of reporting made by the branch/subsidiary/representation office to the IFM according to the relevant reporting lines
- Assess the internal control framework covering the main activities of the branch/subsidiary/representation office, including on-site visit

Packaged Retail and Insurance based Investment Products (PRIIPs)

- Assess the monitoring activities related to the regulatory requirements linked to PRIIPS including Key Information Documents (KIDs) and the European PRIIPS Template (EPT)
- Assess the organization and the internal governance of PRIIPS documentation preparation activities, with particular focus on the gathering/validation of the information
- Assess the process for the disclosure to stakeholders of the PRIIPS documentation
- Assess the oversight performed by the IFM whenever PRIIPS related activities are delegated to a third party, as applicable
MiFID*  

- Assess the product governance set up by the IFM, including the definition of product complexity, product approval and target market

- Assess the oversight process over the distribution network on the target market (including negative target market) and its remuneration (including inducements) by ensuring that the output of this oversight activity is analyzed and acted upon, as necessary

- Assess the set-up / reconciliation process covering the costs and charges requirements (including one-off costs, ongoing costs, transaction costs and incidental costs) in line with the managed investment funds in scope and in accordance with the relevant regulation and legal documentation

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* IFMs are directly/indirectly impacted by the recent regulatory evolution of MiFID. In this section you can find the general points that can be assessed by internal audit.
Hot topics to be addressed by Internal Audit*

Internal audit functions of IFMs are required to adapt to the ever-evolving regulatory framework while at the same time addressing emerging risks, meeting ever-expanding stakeholder expectations, and keeping abreast of technological developments.

* To be taken into consideration according to the license of the IFM/UCI and the relevant business strategy
**Brexit**

- Assess that business / strategic plans have been designed by the governing and management bodies of the IMF based on dedicated analysis (e.g. clients targeting, geographical risks, license authorizations, work permissions)
- Assess that dedicated due diligence activities have been carried out by the IFM on the reliability of the (new) business partners / service providers to be appointed
- Assess the clarity of the strategy between the centralized business and a new standalone entity set up within the EU
- Assess whether there is sufficient project management resources to deliver the Brexit program
- Assess whether appropriate senior management and IT specialists have been used sufficiently to respectively retain a big-picture overview and challenge specific work streams and to assist with the implementation of the Brexit operational model
- Assess the appropriateness of the Brexit project management (including budget management);
- Assess the feasibility of delivering key dependencies required for the new standalone entity set up within the EU to be fully operational by the Brexit deadline

**Cyber Security**

- Assess the organization and internal governance of the cyber security framework
- Assess whether a comprehensive third-party risk assessment has been conducted by the IFM in order to develop a third-party cyber security plan
- Assess whether security standards have been adequately incorporated into third-party contracts and include a “right to audit” clause
- Assess the cyber security monitoring process (particularly vulnerability and patch management activities)
Cloud Computing

- Assess the appropriateness of cloud strategy and the capability of existing risk management functions to address cloud specific risks for IFM with a limited cloud footprint
- Assess the effectiveness of controls to protect services delivered from/assets managed in the cloud and assess the degree to which the stated benefits of cloud migrations have been realized
- Assess whether the IFM evaluated the risks in the following four areas: creating a strategy for cloud adoption, managing people and change, integrating digital and legacy technology, and managing operational risk and compliance

Transfer Pricing

- Assess whether the IFM performed a risk assessment on the transfer pricing activities taking into consideration the business model and the business activities of the IFM
- Assess whether the IFM's profits or losses appear inconsistent with its business activities or with worldwide group results over a cycle
- Assess whether reasonable levels of interest are being charged on intergroup loans and any transactions with related parties in low tax territories
- Assess the adequacy of the transfer pricing policies and controls in place and ensure these have been implemented appropriately
- Assess the dependency on key personnel of the IFM and the appropriateness of continuity plans should these personnel leave
- Assess that (potential) conflicts of interest detected by the IFM are managed as to avoid the impairment of the transfer pricing activities
About IIA Luxembourg
IIA Luxembourg is the local institute of the Institute of Internal Auditors (the IIA), the driving force in internal audit-related research and the promoter of the code of ethics and regulations guiding the profession.
Since its foundation in 1996 as the local chapter of IIA Global, the IIA Luxembourg has grown to become one of the leading professional organisations in Luxembourg, bringing together around 590 members employed by some 100 Luxembourg-based corporations across all economic sectors.

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