

# Independent Expert Interim Report

Commonwealth Financial Planning Limited  
Enforceable Undertaking (EU)

9 July 2018

## LIMITATION

This Interim Report is prepared to provide a summary of our work carried out as the Independent Expert as defined within paragraphs 3.5.5 (i) and 3.5.5 (ii) of the Enforceable Undertaking between Commonwealth Financial Planning Limited and BW Financial Advice Limited and the Australian Securities and Investments Commission (ASIC).

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Our scope and other limitations are stated in our engagement agreement and statement of work dated 11th April 2018.

# 1. Executive Summary

## 1.1 Background

On 9 April 2018 Commonwealth Financial Planning Limited and BW Financial Advice Limited entered into an Enforceable Undertaking (EU) with the Australian Securities and Investments Commission (ASIC). Under the EU, Commonwealth Financial Planning Limited was required to appoint an Independent Expert to provide an independent Final Report to ASIC.

EY was engaged by CFPL on 11 April 2018 as the Independent Expert.

This Report details our findings and recommendations from our procedures performed during April to June 2018.

Further detail has been included in Section 2.

## 1.2 Our scope and approach

Our scope is mandated in paragraphs 3.5.5 (i) and 3.5.5 (ii) of the EU, in particular it requires the independent expert to advise in a written report (Final Report) to be provided to ASIC and CFPL within three months of the Acceptance Date, being 9 April 2018.

As the Independent Expert, we developed a work program setting out the nature, timing, and extent of our activities. Our approach has been created with reference to ASIC's Regulatory Guide 256: Customer review and remediation conducted by advice licensees (RG 256). Our work included:

- ▶ Conducting interviews with Senior Management, business representatives (including senior banking staff), Operations staff, Legal and Compliance Second Line teams
- ▶ Challenging and reviewing completeness testing of OGS customers Annual Review obligations performed by CFPL
- ▶ Reviewing the design of key policy and procedure documentation against regulatory requirements and our understanding of sound risk management practices and regulatory expectations

- ▶ Observing and testing key process and control activities undertaken by the First and Second Line functions including ongoing OGS delivery checks, peer review control evidence, escalation & exceptions process and Second Line monitoring oversight.

Further detail has been included in Section 3.

## 1.3 Overall results

Based on the procedures we have performed at this time we make the following conclusions in response to paragraphs 3.5.5 (i) and 3.5.5 (ii) of the EU:

- ▶ 3.5.5 (i)
  - ▶ **Period 1 and Period 3** - Based on the procedures we performed, our testing found no material exceptions in the controls for CFPL to identify and remediate CFPL OGS Clients in respect of whom CFPL did not discharge its CFPL Annual Review contractual obligations in relation to the periods:
    - ▶ 1 July 2015 to 31 May 2016 (Period 1), and
    - ▶ 5 June 2017 to 31 January 2018 (Period 3).
  - ▶ **Period 2** - During the EU it became clear to CFPL there was a lower level of coverage of OGS client file testing as compared to Periods 1, 3 and Period 4, detailed over page.

Given this, CFPL decided to commence additional work to ensure reasonable steps are taken to identify and remediate clients where CFPL may not have met its contractual obligations for the period.

We currently expect to report on this period in January 2019.

- ▶ 3.5.5 (ii)
  - ▶ **Period 4** - Based on our testing found no material exceptions in the design and operating effectiveness of CFPL's systems, processes, and controls to track CFPL OGS Clients and the discharge of CFPL's contractual obligations to those clients as at 9 July 2018. However, in performing our procedures we noted the highly manual and substantive approach taken by CFPL. Accordingly, we have made a number of findings and recommendations included below and at Section 4 to ensure the controls are further embedded and more readily demonstrable.

## 1.4 Findings and recommendations

Our procedures related to the current control environment identified the following findings and recommendations and we have shared them with CFPL management. Management has commenced a program to address these recommendations to improve the strength and sustainability of the control environment.

Once this work is complete, EY will test and report on both the design and operating effectiveness of the improved control environment, to ensure the recommendations have been appropriately actioned.

### ▶ **Documentation and record keeping**

There are a number of layers in the OGS end-to-end process, with various handoff points and existing process documentation which is, in parts, inadequate. During our walkthrough procedures, we noted that control awareness is low. The lack of appropriate documentation increases the risk of process and control failures, which could lead to customer detriment. Clear, user-friendly process documentation needs to be put in place across the end-to-end OGS process, and circulated appropriately to ensure the required level of knowledge is maintained within the business.

### ▶ **Manual processes and controls**

Within the OGS control environment there was a high prevalence of manual processes and controls. Manual processes and controls have a

higher inherent risk of failure due to human error or through being overridden. Increase use of automated and system controls needs to occur to make the control environment stronger and more sustainable.

### ▶ **Information and database management**

The current systems and processes used for the storing of OGS Admin Team OGS assessment data have multiple free-form text fields. This limits the ability to analyse and report OGS information for tracking and reporting of compliance centrally. The current process to capture and input data related to OGS Annual Review service obligations needs to change to promote uniformity, consistency and completeness of information.

### ▶ **Sustainability of current processes**

The current process of a 100% review of OGS client files by the OGS admin team is manually intensive. In the future consideration may be given to the sustainability of this process. Should this occur careful consideration should also be given to ensure adequate file coverage and leveraging existing control processes, such as Quality Advice Assurance.

We expect to report on these matters in our Final Report.

Further detail has been included in Section 4 and 5.