



Australian Credit Licensee
Compliance & Risk Review



Business Name:	ABC Broking
Responsible Managers:	David Smith
Report Compiled By:	Greg Ashe
Audit Date:	10 May 2011

Compliance Testing – Executive Summary

Compliance Category	Compliance Rating
Responsible Lending	Unsatisfactory
Human Resources	Needs Improvement
Information resources	Unsatisfactory
Financial Resources	Satisfactory
Third Party Risk	Satisfactory
Other Compliance Risks	Satisfactory

Overall Compliance Rating
Needs Improvement

Key Recommendations and Corrective Actions

1. The business must include the details of its EDRS in its initial disclosure documents with the client.
2. Document OH&S plan
3. Record all backups and testing in a log

Compliance Testing – Category Summaries

Responsible Lending

The overall rating applied to the business' credit assessment process is **Unsatisfactory**. Like many of the business' peers at the moment, there was no visible evidence that clients' lifestyle expenditure had been considered over and above the Henderson Poverty Index assumptions contained in lender calculators. This situation needs to change in the near future.

Human Resources

Controls for this category largely centre on the business' existing HR policy and the HR-related portions of the Compliance Programme and Credit Supervision policy. Staffing levels have grown as anticipated in the staffing plan and new hires have been performed in accordance with the recruitment processes. However, the business does not currently have an operable OH&S plan, placing it at some risk of prosecution under State legislation. The business is rated as **Needs Improvement** for this category.

Information Resources

The office infrastructure security needs to be increased as it currently has exploitable weaknesses and the office backup discipline is also insufficient to guarantee data protection and business continuity. The business is not backing up its critical data and faces considerable risk in this regard. The business' use and management of information is rated **Unsatisfactory**.

Financial Resources

This category looks at the level of professional financial advice the business uses and how it is structured in terms of tax efficiency and legal security. The business is utilising professional service providers to provide full taxation reporting. Additionally, we believe the business entity structure is appropriate from a taxation and legal perspective. This category has been rated **Satisfactory**.

Third Party Risk

A significant risk that the business faces is performance of lender processing. Protracted settlement periods can impact client relationships. Although the business is taking performance statistics to measure lender timeframes, the business does not believe there is any effective action it can take at this time. The business is rated as **Satisfactory** in this category.

Other Compliance Risks

This category looks at miscellaneous obligations including the credit activities it engages in, the marketing undertaken and AML/CTF duties. The business has not breached any of its obligations in any of these areas and is rated **Satisfactory** for this category.

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Audit Tests: Responsible Lending



Compliance Testing Worksheet

CATEGORY: RESPONSIBLE LENDING															
Ref No C8	Obligation type Responsible Lending	Obligation Description Licensee must provide certain items and documents to consumers prior to progressing in the credit sales process. These items include: <ul style="list-style-type: none"> • Provision of the Licensee's credit guide • A quote for the cost of any proposed credit assistance • Preliminary assessment of whether or not a loan will be unsuitable • Credit proposal disclosure document - including fees to be paid to broker etc 	Control Description Sales process checklist												
Risk Rating High	Test period June 2011	Test performed by Greg Ashe													
Test steps Sample 10% of credit files from quarter or 10 files, whichever is greater: <ol style="list-style-type: none"> 1. Ensure checklist is in place 2. Test serviceability calculations 3. Review income verification documents 															
Results Files reviewed: <table border="0"> <tr> <td>Pitts, HB</td> <td>Bunyon, G</td> <td>Tanks, MH</td> </tr> <tr> <td>Haigh, KL</td> <td>Dutton, JL</td> <td>Bendotti, L</td> </tr> <tr> <td>Brady, MJ</td> <td>Eldridge, MJ</td> <td>Dave, S</td> </tr> <tr> <td>Amin, M</td> <td></td> <td></td> </tr> </table>				Pitts, HB	Bunyon, G	Tanks, MH	Haigh, KL	Dutton, JL	Bendotti, L	Brady, MJ	Eldridge, MJ	Dave, S	Amin, M		
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Amin, M															

General observations:

While most of the files provided contained the minimum required to satisfy this testing – serviceability and income verification – we believe that the industry as a whole needs to improve its practices in this area. There is far too heavy a reliance placed on lender serviceability calculators, which contain only the notional consideration of Henderson Poverty Index.

Specific observations:

<Note specific file discrepancies here as per information pack>

Ref No C9	Obligation name Credit Guides	Description of obligation Where applicable, Credit Representatives of a Licensee must provide a consumer with the Representative’s credit guide in addition to the Licensee’s credit guide	Control Description Sales process checklist
Risk Rating High		Test period June 2011	Test performed by Greg Ashe
Test steps			
See C8. Does documentation on files sampled contain copies of documents given to clients (eg finance broker agreement) that contains the required information about the business’ EDRS scheme, ie that they are a member of a scheme and the contact details of that scheme (FOS or COSL)?			
Results			
The business is not notifying clients of its EDRS membership. This places it in breach of the NCCP Regulations and the situation must be rectified immediately			
Ref No C28	Obligation name Sales supervision	Description of obligation Ensure appropriate monitoring and testing of credit sales process in order to maintain compliance	Control Description Compliance monitoring of sales activity.
Risk Rating High		Test period June 2011	Test performed by Greg Ashe
Test steps			
See test C8 for evidence of staff errors and/or non-compliance			
Results			
Files audited in this period showed no systemic compliance issues and bore all the hallmarks of prudent deals.			

Control rating

Unsatisfactory

Corrective action plan (where control rating less than satisfactory)

Milestone	Responsible person	Target date
The business must include the details of its EDRS in its initial disclosure documents with the client.	David Smith	Immediately

Sign-off

David Smith

Responsible Manager

Signature

10 May 2011

Date

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