MRO Audit Progress Update

1 Summary of MRO Performance Against Revised QC

The results of the 'core function' QC audits from January 2017 to 30 October 2018 are set out in the table below in percentage form by RAG rating and audit type - 29 existing MROs have yet to be audited.

Audit Report Rating Distribution Summary (based on 95 audit reports)			
MRO Audit Type	**Red (%)**	**Amber (%)**	**Green (%)**
Existing MROs as at January 2017	60	37	3
Re-audits of former HVN MROs & operational Tier 2s	14	72	14
Re-audits of suspended MROs	50	-	50
Re-categorisations (not ex-HVNs) & New Registrations	60	40	-

A low proportion of Green-rated reports is not unusual for the first round of a new regulatory assessment, as firms' understanding of the requirements evolves and it takes time to adjust their systems and processes accordingly. However, the current proportion of Green-rated reports is at the low end of expectations.

MROs receive on average 7 recommendations per report. Their progress in addressing these is indicated in the first table below. The second table illustrates the QC where most improvements have been required.

Recommendation Ratings Status Summary (based on 577 red & amber recommendations)				
RAG Rating	**Closed Recommendations by Reason**		**Status of Open Recommendations**	
	Implemented (%)	**Member Suspended (%)**	**Not Yet Due (%)**	**Past Due (%)**
Red	30	60	8	2
Amber	51	33	13	3
Total	40	48	10	2

Most Recommendations Raised Against the Revised QC and 2016 Guidance (in descending order)		Recommendation RAG Ratings	
		Red (% of all red recommendations)	**Amber (% of all amber recommendations)**
1.13	Quality Assurance	12.3	10.8
1.8	Ethics	11.0	7.4
1.1(iii)	Fully Functional	10.7	11.3
1.16	Medco SLAs (Tier 2)	9.4	8.4
1.13	Validation of experts	9.1	6.4
1.13	Recruitment of experts	8.3	11.3
1.13	Panel suspension/removal of experts	8.0	12.8
1.13	Geographical Coverage	7.5	15.8
1.1(i)	Independence	7.0	2.0
2.2.2	Active Experts	4.5	4.9
2.2.5 / 2.2.3	MedCo & MoJ SLAs (HVN)	4.0	3.4
1.1(ii)	Properly Staffed & Resourced	3.7	3.0
Various	Other	4.5	2.5

2 Trends

2.1 General Approach to Compliance

The following issues were found in a significant number of red-rated audits to varying degrees. The MRO:

- Had not read the QC or the MedCo Guidance on the QC;
- Did not accept that it alone was responsible for complying with the core function QC, delegating it to automated software and/or third parties' actions, contrary to the QC.
- Lacked sufficient, credible evidence to support that it had complied in key areas;
- Provided documented policies and processes that it either had not implemented or complied with;
- Had material data integrity issues with its available case, expert and/or SLA data. Examples include data duplication, data not being recorded at all or only partially, impossible transactions e.g. report issued before instructed, data being aggregated incorrectly and being inconsistent with source data;
- Had not conducted user testing on its systems to prove that they operated as expected and that they understood how to use them to satisfy the QC. For those MROs that have not done this the audits find on a periodic basis MROs with functionality issues, unable to explain or evidence certain key events or assuming the system complies with the QC when it does not; and
- Provided management responses to the recommendations raised that lacked credibility e.g. no details of what action it would take that indicated it had understood the issues and that its proposed actions would address them and no realistic implementation dates.

There was also a minority of audits where the audit process was obstructed through e.g. certain evidence being presented that raised questions as to its authenticity and where the MRO provided materially inconsistent explanations and/or evidence for its actions during the audit.

2.2 Shell Entities

Audits to date have identified a number of "non-obvious" Tier 2-related shell entity groups, most often 3-4 MROs per group, though some comprise 2 MROs and one exceptional group over 20; further shells may be identified as all MROs have yet to be audited. Attempts to register new shells have also been identified.

Shells differ from MROs that are part of a CTPOM. The latter pre-date MedCo, historically have different markets (e.g. one rooted in MedCo work, the other in non-MedCo work), have separate track records as substantive businesses and operate on a decentralised, standalone and fully functional basis per the QC.

2.3 New Registrations

Those applicants that were successful in their audits had read the QC, Guidance and other related documents beforehand and were able to demonstrate that if they were to be switched to operational status that they had everything in place to be able to operate as a MRO on Day 1; whereas those that were unsuccessful often only planned to start doing this once they had been switched to operational status.

2.4 Re-categorisations & Re-audits

The tendency has been for MROs to apply at the earliest possible opportunity permitted, rather than wait until when the MRO can demonstrate substantive compliance on a consistent, sustainable basis across all the applicable QC. As a result, it has been rare for such MROs to attain a Green-rated audit.

2.5 Commissions

MedCo's legal advice is that audit can consider compliance with the agreement and Applicable Law. Where a regulated entity is in breach of the referral fee ban introduced by LASPO, or where a MedCo user is in breach of a requirement to declare financial links MedCo can take action. It does not have any wider powers relating to commissions.