

Navigating SEC regulations – the growing importance of mock audits

In recent years the number of SEC Registered Investment Adviser Firms seeking Mock Audit services from our firm has proliferated.

The reasons for the trend toward mock audits vary, however, some of the common themes behind mock audit engagements are as follows:

– **Investors prefer to see a check and balance**

Often, we see that the driver behind a mock audit request is really a key investor in a fund or the owner of a managed account. Investors often have a strong requirement for a third-party review of an adviser's compliance program. We frequently see these provisions included inside letters and in due diligence inquiries. Frequently, firms find that the practice of conducting a mock audit is a competitive advantage in raising capital.

– **Recent experience of the Mock Audit teams**

In the context of working on the day to day compliance requirements of any firm, it can be easy to lose track of the regulator's latest view on a given issue. Mock Audit teams are typically also working many SEC exams in the background, giving them experience and a lot of recent information in terms of the way that the SEC may currently view and advisers current pattern and practice.

– **Documentation**

Additionally, any compliance program has a lot of moving parts. Without a review, firms often find out during an SEC exam that the documentation of their compliance firm is lacking. Working with mock audit teams prepares firms for document production and sensitizes CCOs to places where their documentation may be sub-par. Compliance with regulation is not sufficient to pass an SEC exam, clear documentation of compliance is required.

– **Regulatory change**

When we are called in to a firm where an SEC exam occurred and we are asked to help remediate findings, increasingly, we find that firms were not aware of key regulatory changes. Often the practices we see may have put a firm in compliance with SEC regulation 2-5 years ago, however, pursuant to the SEC's current guidance many of these firms find themselves failing to comply with new rules or failing to make a new filing that is now required but wasn't even as recently as 6 months ago.

In short, mock audits are a great tool for firms to ensure that they are preserving enough documentation to survive an SEC exam, are in compliance with recent regulatory change and are ready for investor due diligence.

How can Waystone Compliance Solutions help?

Our dedicated team of compliance professionals has extensive experience in navigating the complexities of an SEC exam. If you require more information on this topic or are interested in our Mock Audit services, please reach out to your usual Waystone Compliance Solutions representative or contact us below.

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