

Internal Audit Charter for the FCA and PSR

Purpose

The purpose of Internal Audit is to add value by providing independent assurance of the adequacy and effectiveness of the FCA and PSR's risk management, governance and controls to help the FCA and PSR to achieve their objectives. It also provides the Board, the Audit Committee and all levels of management with an objective opinion on the results of its reviews and internal whistleblowing investigations.

Internal Audit enhances the FCA and PSR's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Vision

Internal Audit's vision is to be a trusted, efficient, value adding business partner, applying best practice and promoting a culture of accountability to provide insight, drive continuous improvement and support colleagues to achieve the FCA and PSR's strategy.

Commitment to Adhering to the Global Internal Audit Standards

Internal Audit conduct its work in accordance with applicable professional standards including those published by the Institute of Internal Auditors. The Chief Internal Auditor reports to the Audit Committee regarding the Internal Audit function's conformance with the Standards, which is assessed through a Quality Assurance and Improvement Program.

Mandate

Internal Audit derives its authority from the Board, its Audit Committee and Executive Management. It reports directly to the Audit Committee. Internal Audit has free and unfettered access to all activities, property, records and staff throughout the FCA and PSR and is accountable for the confidentiality and safeguarding of records and information.

Independence, Objectivity and Organisational Position

Internal Audit is independent of the activities which it reviews to enable unbiased judgements and facilitate impartial advice to management.

The Chief Internal Auditor is positioned at a level in the organisation that enables Internal Audit services to be performed without interference from management, thereby establishing the independence of the Internal Audit function.

The Chief Internal Auditor reports functionally to the Audit Committee and administratively to the Chief Executive Officer. This positioning provides the organisational authority, objectivity and status to bring matters directly to senior management and escalate matters to the Audit Committee, when necessary, including management's responses to risk that Internal Audit determines may be unacceptable or acceptance of a risk that is beyond FCA and PSR's risk appetite.

The Chief Internal Auditor has direct right of access to the FCA's Chair, the PSR's Chair and Managing Director and has regular bilateral meetings with the FCA Chief Executive and the Chair of the FCA & PSR Audit Committee.

Any risks to the independence of Internal Audit will be raised with the Audit Committee Chair. Any perceived or actual conflicts of interest will be declared in line with FCA policies and procedures. Allocation of work within the Internal Audit team carefully considers potential conflicts of interest in accordance with Institute of Internal Auditors (IIA) standards.

Internal Auditors have no direct operational responsibility or authority over any of the activities they review. Internal Auditors will not implement internal controls, develop procedures and systems, or engage in other activities that may impair their judgment, or assess specific operations for which they had responsibility within the previous year.

Audit Committee Oversight

The Audit Committee oversees Internal Audit and ensures the function has sufficient authority to fulfill its duties. The Committee's Terms of Reference sets out the full spectrum of its roles and responsibilities:

<https://www.fca.org.uk/publication/corporate/fca-corporate-governance.pdf>

Responsibilities of Internal Audit

The Chief Internal Auditor and Internal Audit are responsible for:

- Conforming with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care and confidentiality.
- Developing a risk-based audit plan which is approved annually by the Audit Committee. Reviewing and adjusting the plan, as necessary, in response to changes in the FCA and PSR's business, risks, operations, systems and controls as well as any internal resource limitations, communicating with the Audit Committee and senior management if there are significant interim changes.
- Working in partnership with management and adding value through high-quality analysis, innovative, risk-based and pragmatic recommendations, observations and guidance.
- Following up on audit findings and confirm the implementation of recommendations and action plans and report on this regularly.
- Ensuring Internal Audit collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to fulfill its mandate.
- Considering emerging trends and successful practices in Internal Auditing.
- Aligning and liaising closely with, and assessing the effectiveness of, other parts of the FCA and PSR's three lines of defence and coordinating and cooperating with the FCA's external auditors.

Internal Audit reports formally to the Audit Committee:

- Annually with the three-year strategic plan and the annual plan based on a prioritisation of the audit universe using a risk-based methodology. This will include the PSR Audit plan as discussed with the PSR Executive Committee and Board.
- The annual assurance opinion for use by the Audit Committee in their annual assurance and governance statement to the Board.
- Semi-annually with good practice and themes identified from Internal Audit work and a summary of internal whistleblowing issues and communicate these widely across the FCA & PSR.
- Quarterly to summarise progress and risks to the delivery of the audit plan and other agreed work including resourcing, significant

issues, risks and themes arising from its work, together with a note of management's progress implementing its recommendations and a recommendation for the approval of significant changes to the risk-based audit plan, for review and approval.

- Results from the Quality Assurance and Improvement Programme, which include Internal Audit's conformance with the IIA's Global Internal Audit Standards and action plans to address any deficiencies and opportunities for improvement.
- To agree any information that is to be provided to a third party.

The Executive Committee also receives quarterly reports on the significant issues, risks and themes arising from its work.

For individual audit reports, local management will receive reports at the conclusion of each review which include the action plans they have agreed. Internal Audit will recommend which reports should be escalated to ExCo for action or awareness.

Quality Assurance and Improvement Programme

Internal Audit run a Quality Assurance (QA) and Improvement Programme which evaluates Internal Audit activity and compliance with the Internal Audit Methodology, Process Notes and IIA standards.

QA assesses the efficiency and effectiveness of Internal Audit activity and identifies opportunities for improvement with the results considered by the Chief Internal Auditor and a summary reported to the Audit Committee annually.

Scope and Types of Internal Audit Services

The scope of Internal Audit services covers the entire breadth of the organisations, including all FCA and PSR's activities, assets, and personnel.

All types of Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of FCA and PSR's strategic objectives are appropriately identified and managed.
- The actions of FCA and PSR's people, including contractors or other relevant parties, comply with FCA and PSR's policies, procedures, and applicable laws, regulations and governance standards.

- The results of operations and programmes are consistent with established goals and objectives and are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the FCA and PSR.
- The integrity of data and information and the means used to identify, measure, analyse, classify and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

Assurance

Executive management is responsible for establishing and operating a system of internal control that is appropriate for the organisations' needs. First line areas should be ready and available for Internal Audit and to work, with Internal Audit, constructively and openly throughout all stages of the review to an agreed timeline. First line areas take responsibility for setting and delivering actions and achieving recommended outcomes.

The major part of Internal Audit's role is to provide risk-based, independent and objective assurance that: risk management processes and the systems of internal control are designed adequately and operating effectively; major business risks are being managed appropriately; and that governance processes are effective. Internal Audit's work covers all risk areas: financial, operational, legal, people, reputational, regulatory and strategic.

The Bank of England's Internal Audit function may look to place reliance on the work of FCA Internal Audit for shared services. Internal Audit will liaise with the Bank of England's Internal Audit function to avoid, where possible, the duplication of audit work.

Investigations

Internal Audit conducts specific investigations as appropriate. The scope, approach and oversight of an investigation will be agreed by the Audit Committee and senior management. Internal Audit will report the outcome of the investigation, including management actions.

Advisory

Internal Audit may provide advice to management on governance, risk and controls, either as part of a review or as a separate exercise such as attendance at key committees, programme boards or other organisational fora. This can be orally or in writing and is based on knowledge and

experience held by the Division or by individual auditors or derived from contacts that Internal Audit has with other organisations, for example its co-source partners. Executive management is responsible for considering the advice received and deciding what action to take.

In considering and conducting advisory work, Internal Audit will have regard to any potential impact on its independence and objectivity.

Internal Whistleblowing

The Chief Internal Auditor has a formal role in the FCA's and PSR's internal whistleblowing procedures and carries out investigations of matters drawn to their attention. Internal Audit may investigate internal whistleblowing concerns as part of a planned Internal Audit review. Regular reports on internal whistleblowing incidents are provided by Internal Audit to the Audit Committee.

For more information, please see the Internal Whistleblowing Policy in the FCA's Employee Handbook.

Reviews of the FCA's Internal Audit function

Internal Audit provide an annual assessment of our effectiveness to the Audit Committee.

Every three years a review is conducted by an independent external party, unless the Audit Committee requests it sooner.

The Chief Internal Auditor reviews this Charter every year. As part of the review, the Charter will be discussed with ExCo and approved by the Audit Committee on behalf of the Board.

Date of last review

June 2025