

Internal Audit Charter – FCA and PSR

The purpose of this document is to articulate the role of the Internal Audit function.

Internal Audit derives its authority from the FCA and PSR Boards and the FCA & PSR Audit Committee. Internal Audit is an independent, but integral division of the FCA. It 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 is also responsible for the provision of internal audit and internal whistleblowing services to the Payment Systems Regulator.

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.

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.

Independence

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

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.

Authority and Accountability

Internal Audit derives its authority from the Board and its Audit Committee. The appointment of the Chief Internal Auditor is made by the Board upon the recommendation of the Audit Committee. The Chief Internal Auditor reports to the Audit Committee Chair and has an operational reporting line to the FCA Chief Executive. 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. At the start of each meeting of the Audit Committee, the Chief Internal Auditor has a private meeting with the Committee.

The Audit Committee approves all of Internal Audit's proposed workload, including the internal audit plan, and may review any aspect of its work.

Activities

Internal Audit activity is made up of three types of work: assurance, investigations and advisory.

Assurance

Executive management is responsible for establishing and operating a system of internal control that is appropriate for the organisations' needs. 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 audit reviews 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. The advice component of Internal Audit's role will always be a small part of the Division's overall workload. In considering and conducting advisory work, Internal Audit will have regard to any potential impact on its independence and objectivity.

Working with first line areas

It is also important to clarify what Internal Audit does not do. Internal Audit does not:

- design or impose controls or take responsibility for implementing solutions; nor
- take executive decisions or responsibility for managing business areas, other than in respect of the Internal Audit Division.

In every aspect of its work Internal Audit has free and unfettered access to all activities, property, records and staff throughout the FCA and PSR. Internal Audit will maintain appropriate confidentiality over all information obtained in the course of carrying out audit activities.

Reporting

Internal Audit will report formally to the Audit Committee:

- a) Annually with a presentation of 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.
- b) Semi-annually with themes identified from Internal Audit work and a summary of whistleblowing issues.
- c) 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, including the updated plan for the following six months, for review and approval.

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 decision, action or awareness.

The Audit Committee will be required to approve any information that is to be provided to a third party.

Approach

First line areas should be ready and available for Internal Audit when an audit is planned for the area. The first line and Internal Audit should work constructively and openly throughout all stages of the review to an agreed timeline. First line areas should take responsibility for setting, delivering actions and achieving recommended outcomes.

In carrying out its role, Internal Audit will:

- a) Work in partnership with management and add value through high-quality analysis, innovative and pragmatic recommendations, observations and guidance.
- b) Align our activity and approach with the first and second lines of defence. Internal Audit will look to rely where appropriate on effective control functions but will not rely on them exclusively. Internal Audit will engage with the external auditors to prevent duplication of work where appropriate.
- c) Identify areas of good practice and themes where lessons can be learned, and communicate these widely across the FCA, and PSR.

d) Be risk-based and have regard to value for money considerations, both in the recommendations it makes and in its evaluation of the functions it reviews.

e) Maintain a professional audit staff (including through use of co-source audit partners, guest auditors and specialists) with sufficient skills, knowledge and experience.

Standards of Audit Practice

Internal Audit supports and, where appropriate, applies the IIA 'Global Internal Audit Standards' and the 'UK Internal Audit Code of Practice'.

The Quality Assurance (QA) programme evaluates Internal Audit activity and compliance with the Internal Audit Methodology, Process Notes and IIA standards. The QA assesses the efficiency and effectiveness of the Internal Audit activity and identifies opportunities for improvement with the results of QA to be considered with the Chief Internal Auditor and a summary reported to the Audit Committee.

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 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

May 2024.