

## Chapter 6

# Compliance, internal audit and financial crime

## 6.2 Internal audit

### 6.2.1

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A *firm* that is a *management company* or an *operator of an electronic system in relation to lending management company* must, where appropriate and proportionate in view of the nature, scale and complexity of its business and the nature and range of its financial services and activities, undertaken in the course of that business, establish and maintain an internal audit function which is separate and independent from the other functions and activities of the *firm* and which has the following responsibilities:

- (1) to establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the *firm's* systems, internal control mechanisms and arrangements;
- (2) to issue recommendations based on the result of work carried out in accordance with (1);
- (3) to verify compliance with those recommendations;
- (4) to report in relation to internal audit matters in accordance with ■ SYSC 4.3.2 R.

[Note: article 11 of the *UCITS implementing Directive*]

### 6.2.1A

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Other *firms* should take account of the internal audit *rule* (■ SYSC 6.2.1 R) as if it were *guidance* (and as if should appeared in that *rule* instead of must) as explained in ■ SYSC 1 Annex 1 3.3 R(1).

### 6.2.1B

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- (1) This *guidance* is relevant to an *SMCR firm* required to establish and maintain an internal audit function under article 24 of the *MiFID Org Regulation*.
- (2) Taking account of the nature, scale and complexity of its activities, the *firm* should have appropriate procedures to ensure that the removal or any other disciplinary sanctioning of the head of the internal audit function does not undermine the independence of the internal audit function.
- (3) In the *FCA's* view, it will be appropriate, in many cases, for the removal or any other disciplinary sanctioning of the head of the internal audit function to require the approval of a majority of the *management body*, including at least a majority of its members who do not perform any executive function in the *firm*.

## 6.2.2

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- (1) The term 'internal audit function' in ■ SYSC 6.2.1R (and ■ SYSC 4.1.11G), and for a *common platform firm* in article 24 of the *MiFID Org Regulation*, refers to the generally understood concept of internal audit within a *firm*, that is, the function of assessing adherence to and the effectiveness of internal systems and controls, procedures and policies.
- (2) [deleted]
- (3) For an *SMCR firm* that is a *PRA-authorised person*, the internal audit function is a *PRA controlled function* (SMF5). For an *enhanced scope SMCR firm* it is an *FCA controlled function* (SMF5).