



Chartered
Institute of
Internal
Auditors

Internal Control Failure!

An analysis of FCA fines related to internal control failures from 2021–2025 and lessons for internal audit, boards and regulators

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Foreword

Between 2021 and 2025, over half of all the fines issued by the Financial Conduct Authority (FCA) related to internal control failures, weaknesses or absences, to the value of over £1bn. This should concern regulators, boards and senior leaders across the financial services sector, and it should focus minds within internal audit functions in financial services and beyond.

As President of the Chartered IIA, and in my day job as Chief Audit Officer of a large mutual financial services company, I found the results set out in this report to be seriously concerning. Collectively, as a profession, we need to use these findings to drive improvement and be resolute in our determination to do better for the organisations we serve and for wider society.

Although the work of internal audit is not implicated or explicitly criticised in any of the cases we examined, and even though in many cases internal audit was evidently present, the high proportion of fines arising from weak or absent controls provides important insights and lessons for our profession and for boards.

Many cases reveal very serious failures in areas such as anti-money laundering (AML), fraud prevention, corruption and wider financial and economic crime. In some instances, FCA final notices warned that these failings could have enabled the financing of international terrorism or organised crime. It is therefore a serious matter that these control weaknesses were not always identified early enough by assurance providers, or where they were, that stronger action was not taken to ensure their timely remediation.

For many of the firms fined, we know they have well-resourced internal audit functions, with the capacity and capability to provide assurance over these risk areas. Several of the cases also intersect with second-line compliance, legal and risk functions, raising questions about the level of coordination, clarity of roles and joined-up assurance across the second and third lines. Internal audit should periodically review, check and independently assure the work of second-line functions, and escalate concerns where coordination or accountability gaps create control risk.

Boards and Audit Committees also have a vital role to play. If the Three Lines Model is to operate effectively, second and third-line functions must be properly supported and empowered to discharge their duties and responsibilities. This requires not only appropriate resources but also a culture in which significant control issues, when raised, are taken seriously and acted upon swiftly. The findings should also prompt questions about the robustness of the underlying control environment. If control failures or weaknesses are evident across AML, fraud and economic crime, it raises legitimate concerns about whether similar issues may exist elsewhere in the business. This is where thorough root cause analysis has an important role to play.

Internal auditors working within financial services play a critical role in a sector of systemic importance to the UK economy. Regulators, including the FCA and PRA, already recognise this, which is why internal audit is a regulatory requirement. But recognition alone is not enough.

Our research suggests there are areas for reflection on how the FCA and PRA might better promote and embed the importance of internal audit across financial services. They could also be more proactive and explicit in promoting and embedding the Internal Audit Code of Practice, which was first developed following the Global Financial Crisis, and with the input of the regulators.

To be effective and harnessed to its full potential, internal audit must be appropriately positioned and resourced, and operate in line with the Code, the International Professional Practices Framework, the Global Internal Audit Standards and the new topical requirements. Our analysis underscores the need to double down on standards and raise the bar further with appropriate board-level and regulatory support. A strong foundation in areas where there is zero tolerance for failure allows internal audit to be more strategic and forward-looking, without diluting its core assurance role.

There was a cohort of companies that were fined and yet did not have an internal audit function, potentially because they fall outside the current scope of the FCA Handbook or PRA Rulebook requirements. This finding indicates a need for a wider debate on whether regulators should extend the requirement for internal audit to a broader set of financial services firms, such as investment and mortgage brokers.

This year is also the first in which companies applying the UK Corporate Governance Code will report on the effectiveness of their internal controls under Provision 29 and the associated Internal Controls Declaration. Internal audit has an important role to play in supporting this requirement. It should go without saying, but in light of our research findings, financial services firms should give serious consideration to including the effectiveness of their AML controls, along with other material controls designed to detect and prevent financial and economic crime, as part of their declarations. This should be backed by robust evidence and meaningful assurance.

The test in the years ahead will be whether the internal control failures highlighted in this report persist, or whether boards and internal audit functions step up to ensure effective, high-quality controls and reduce the need for regulatory penalties in a sector so vital to the economy. That is the challenge we set for the profession as we publish this report.

Arleen McGichen, President, Chartered Institute of Internal Auditors

Contents

1. Foreword	1
2. Executive Summary	4
3. Report Findings	5
4. Conclusion	10
5. Appendix I: Case spotlights	11
6. Appendix II: All cases referencing internal control weaknesses (2021–2025)	15

Executive Summary

This report analyses FCA enforcement action from 2021 to 2025 and examines cases where weaknesses in internal controls are clearly identifiable. The headline finding is stark: 52 of 97 fines (54%) directly referenced internal control failures or absences, with total financial penalties exceeding £1.025 billion, although the true proportion may be higher.

In terms of these fines, there is also a clear opportunity cost, with the business diverted into firefighting and managing increased public and regulatory scrutiny, alongside reputational harm. This inevitably reduces the time and focus available for strategic execution and forward planning.

Persistent themes within the final notices of the fines include deficiencies in AML frameworks and sanctions screening. These are often symptoms of deeper issues in the internal control environment, including weak governance and oversight and ineffective operation of the Three Lines Model. Further themes included poor data quality, technology control failures and slow or incomplete remediation, which further undermine resilience. We also observed multiple cases where internal audit, compliance, or other assurance providers had previously identified weaknesses, but actions either stalled, were not acted upon, or were closed prematurely.

There are several cases in which internal audit is not mentioned at all in the final notices, but where it can be inferred that internal audit did not review some of the specific issues that contributed to the FCA fines. Given that more than half of FCA fines can be directly attributed to internal control failures, including failures in controls designed to manage and mitigate material risks, one would reasonably have expected assurance providers, including internal audit, to have identified these gaps and vulnerabilities.

In the context of internal audit operating within a wider assurance ecosystem, it is appropriate to examine where assurance activity was focused and why opportunities were missed to highlight these weaknesses. In one example, internal audit had not reviewed the financial crime function for more than eight years, which, given the growing and rapidly evolving threat landscape associated with financial and economic crime, is clearly inadequate.

Many of the cases show that internal audit is effective at identifying issues and alerting senior management or the board, but less effective at ensuring those concerns lead to action. This may suggest that internal audit is not always sufficiently assertive, robust or persistent in escalating its findings or in driving timely and effective remediation. Alternatively, it could be that the Board is not taking sufficient notice of the issues raised.

Key findings at a glance

- 97 FCA fines issued between 2021 and 2025; 52 were reported as directly relating to internal control failures (54%).
- Total value of fines issued over 2021–2025: £1,025,543,747, representing a significant financial impact on the financial services sector.
- Reported internal control-related fines were concentrated in AML, fraud and financial crime, with repeated weaknesses in customer due diligence, transaction monitoring, sanctions screening and governance.
- Several final notices referenced gaps in coordination across the second and third lines, limited assurance over second-line functions, and delayed or insufficient follow-through on high-priority actions.

Report Findings

Scale and pattern of fines reported to be resulting from internal control weaknesses (2021–2025)

Over the five-year period, more than half of all FCA fines referenced internal control failures as a central factor in enforcement action. Financial penalties were front-loaded in 2021, driven by large cases tied to legacy financial crime and control weaknesses, followed by continued enforcement on AML, market abuse surveillance and governance failings through 2022–2025.

Year	Fines linked to internal control failures (£)
2021	567,418,420
2022	204,713,131
2023	49,002,400
2024	82,738,859
2025	121,670,937

Thematic analysis of reported control weaknesses

Financial crime and AML controls:

Repeated gaps in customer due diligence, risk assessment and ongoing monitoring. Transaction monitoring was often poorly tuned, with narrow rule sets, high thresholds and limited behavioural or peer-based analytics. Sanctions screening and Politically Exposed People (PEP) monitoring were inconsistently governed and sometimes delayed.

Governance and Board oversight:

Boards and executive committees did not always receive management information that provided the clarity and depth needed to support effective strategic challenge. Some firms lacked clear ownership of risks and risk appetite, particularly where first-line responsibilities had drifted into the second-line. In several notices, internal audit findings and actions were not addressed sufficiently, followed through adequately, or in a timely manner.

Three Lines Model effectiveness:

In several cases, the Three Lines Model existed on paper but did not operate effectively. Internal audit assurance over second-line functions was sporadic, delayed or lacked robust challenge. Some reports were closed prematurely, or actions stalled.

Data and technology risk:

Weaknesses in data quality, system integration and change management undermined control effectiveness. Failures in trading controls, surveillance coverage and IT migration governance featured prominently in several final notices.

Resourcing and capability:

Compliance and financial crime teams were frequently under-resourced relative to risk exposure and often this was not called out effectively, with training gaps in first-line business units and capability gaps at the governance level.

Remediation execution:

Firms sometimes failed to sustain momentum on remediation programmes, with inadequate programme governance and slippage against milestones, even after issues had been clearly identified by regulators, consultants, compliance or internal audit.

Deep-dive: AML, fraud and financial crime

A key theme emerging from this report is the need for greater internal audit focus on the effectiveness of controls relating to anti-money laundering, fraud and financial crime. A deeper dive into the main findings is set out below.

- Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD) processes were inconsistently applied, with gaps in source-of-funds/wealth, periodic reviews and event-driven reviews, including for high-risk and PEP customers.
- Transaction monitoring scenarios were often narrow and threshold-heavy, lacked behavioural and peer-based analytics, and were not recalibrated to reflect business growth or changing risk profiles. Sanctions screening governance was immature in several firms.
- Correspondent banking risks were not always assessed with sufficient qualitative analysis of respondents' AML frameworks, creating an unacceptable risk of money laundering or sanctions evasion.
- Training and capability gaps were identified in first-line teams and sometimes at governance level. Compliance functions were frequently under-resourced and diverted into first-line activity, weakening the Three Lines Model.
- Internal audit coverage of financial crime frameworks was delayed or absent in some cases, and in others, actions were closed without full evidence of sustainable remediation.

Underlying control environment and root causes

Our findings need to be considered in the wider context of the organisation's overall control environment. If such weaknesses arise in AML and sanctions, it raises important questions about whether similar issues exist elsewhere. A key underlying challenge is the breakdown of operational controls, especially automated technology controls, which may have been developed without a complete understanding of the regulatory requirements financial services firms must meet. Internal audit should apply these insights to drive rigorous root cause analysis and to shape assurance over operational and technology controls, as well as to test the strength of second-line oversight of regulatory compliance.

Implications for internal audit functions

This report identifies several important lessons and implications for internal audit functions. These include strengthening focus on AML, fraud, financial and economic crime, ensuring the effective governance of these risks, and adopting a sufficiently assertive and robust approach to driving swift remediation when issues are identified. Internal audit must also examine the root causes of these failures and test the underlying control environment.

Recommendations

- Prioritise end-to-end assurance over AML and other financial crime controls, including governance, data quality, model risk and sanctions screening. Deploy data analytics to test control operations at scale and in-depth.
- Coordinate with second-line functions on the assurance of the organisation's AML, fraud, financial and economic crime controls. This should include understanding coverage and aligning on the timing of assurance. Deploy assurance mapping where appropriate to support a more joined-up approach.
- Build specialist skills in AML, market abuse surveillance, technology risk and data management within internal audit teams, supplementing with co-sourced expertise where necessary.
- Consider how advanced data analytics and AI could be deployed in relation to AML and other financial crime controls to improve the speed, quality and depth of assurance.
- Carry out root cause analysis to determine whether internal control failures are isolated to a specific risk and control area, such as AML, sanctions or fraud, or whether they indicate a more fundamental weakness in the underlying control environment.
- Strengthen periodic and regular assurance over the effectiveness and operation of second-line functions (compliance, financial crime, risk) and ensure robust follow-through on high-priority audit actions, with clear acceptance criteria and evidence standards before closure. Assessments of second-line functions should include robust and rigorous testing.
- Focus on first-line ownership of risk and control. Where first-line responsibilities have drifted into the second line, escalate and recommend realignment to restore accountability.
- Ensure periodic governance reviews and audits of the Three Lines Model are undertaken to confirm it is working effectively and is fully optimised.
- Scrutinise remediation programmes for resourcing, sequencing and governance. Provide independent visibility to the audit committee on progress, risks and slippage.
- Assess culture and risk appetite in practice, looking for indicators such as exceptions, policy waivers, backlogs, and pressure to accelerate onboarding or growth without commensurate control uplift. More broadly, build the capability to do cultural assurance properly.
- Ensure thorough follow-up and follow-through of internal audit actions, and only close actions once there is robust evidence that issues have been fully addressed. Internal audit

should also analyse repeat findings to understand why previously agreed actions were not sustainable.

- Where appropriate, ensure high-risk issues are escalated or re-escalated to the CEO and audit committee for further action, and then be robust, courageous and persistent in ensuring they address them.
- Ensure high-risk issues and concerns are communicated clearly and assertively to the board, including follow-up communications where there is limited board responsiveness or engagement.
- For group-level internal audit functions, ensure that relevant findings are communicated and shared effectively with subsidiary-level internal audit teams, boards and senior management, particularly where group-level findings present material risks to subsidiaries operating in other jurisdictions.
- Ensure an open, constructive and cooperative relationship with the regulators to support the sharing of information relevant to carrying out their respective responsibilities.

Implications for boards and audit committees

This report identifies several important lessons and implications for boards and audit committees. Chief among these is the need to ensure that internal audit provides robust and independent assurance over the effectiveness of AML, fraud, financial and economic crime controls, including the performance of second line functions. Internal audit should also undertake root cause analysis to gain a deeper understanding of why these control weaknesses exist and the wider implications for the underlying internal control environment. Boards and audit committees should also ensure that internal audit is appropriately positioned, resourced, empowered and taken seriously when issues are raised. Internal audit works at its best when it operates in accordance with the Internal Audit Code of Practice and International Professional Practices Framework.

Recommendations

- Ensure robust independent assurance over high-risk controls. Boards and audit committees should be confident they receive timely, high-quality internal audit assurance over the effectiveness of AML, fraud, sanctions, market abuse, data and technology controls, reflecting the firm's current risk profile.
- Oversee the effective operation of the Three Lines Model. Audit committees should seek assurance that first-line ownership, second-line oversight and third-line challenge are clear and operating effectively in practice, not just on paper.
- Take internal audit findings seriously and hold management to account to drive remediation. Where internal audit identifies significant weaknesses, boards should ensure issues are escalated appropriately, remediation by senior management is timely and sustainable, and actions are not closed without robust evidence.
- Support internal audit's independence, authority and capability. Boards should ensure internal audit has sufficient standing, skills and resources to provide credible challenge, including access to specialist expertise where required.

- Align assurance activity to Provision 29 (Internal Controls Declaration), where applicable and the Economic Crime and Corporate Transparency Act 2023 (ECCTA). For firms subject to the UK Corporate Governance Code, audit committees should ensure that internal audit plays a central role in evidencing the effectiveness of internal controls, including all material controls covered by the declaration.

Implications for regulators and standard setters

The report identifies several key lessons and implications for regulators. In particular, regulators have an important role to play in strengthening expectations for internal audit and reinforcing its contribution to effective governance and oversight of financial crime risks.

Recommendations

- Promote and embed the Internal Audit Code of Practice across financial services and link expectations explicitly into the FCA Handbook and PRA Rulebook requirements for establishing and maintaining an internal audit function. Ensure all Audit Committee Chairs are fully familiar with the role, obligations and professional standards for internal audit.
- Signal supervisory expectations for the positioning, independence and resourcing of internal audit. Challenge firms where internal audit coverage of financial crime and other high-risk areas is delayed, superficial or non-existent.
- Take the opportunity to engage with Chief Audit Executives and Audit Committees and ensure consistent adoption of the Code, International Professional Practices Framework, the Global Internal Audit Standards and topical requirements, including expectations for third-line assurance and effective Three Lines Model operation.
- Use thematic findings to inform Dear CEO letters and multi-firm work on issues including AML, sanctions, market abuse surveillance and data/technology controls, which explicitly highlight the role internal audit can play in providing independent assurance on these topics.
- Examine the root cause analysis performed by internal audit functions to get below the surface of the most immediate regulatory priorities and identify the fundamental internal control weaknesses.

Firms operating without an internal audit function

Our analysis also identified a group of firms that, based on publicly available information, appear to have been operating without an internal audit function. This raises important questions about whether the FCA and the PRA should consider broadening the range of firms required to establish and maintain an internal audit function.

We were able to confirm, using all information available to us, that at least 13 of the 52 firms fined for internal control failures either did not have, or do not currently have, an internal audit function in place. Many of these firms were investment or mortgage brokers. The firms that as far as we could tell did not have internal audit based on research included: Sigma Broking Limited, H2O, FSE, Mako Financial Markets Partnership, Infinox Capital Ltd, Arian Financial LLP, C&I, Inspire Insurance Services Ltd, Inspirational Financial Management Ltd, Bastion London Capital Ltd, Pembrokehire Mortgage Centre Ltd, TJM Partnership, and Sapien Capital Ltd.

Conclusion

The findings in this report are clear. Internal control failures are a central driver of FCA enforcement and this has become a more frequent emerging practice, particularly in financial crime, governance and technology risk. Many of these weaknesses were avoidable and, in several cases, had been identified well in advance by internal audit, compliance or external reviewers. The challenge now is execution, to ensure ownership, resourcing, and rigorous follow-through so that issues are closed as swiftly as practicable, based on robust evidence.

Internal audit has a critical role to play. By sharpening focus on the highest risk control areas, providing robust and independent challenge, and assuring the effectiveness of second-line oversight, internal audit can help reduce harm to customers and markets, lower the risk of regulatory action and rebuild confidence. The profession should embrace this responsibility and raise its own performance standards in line with the updated Internal Audit Code of Practice, the International Professional Practices Framework, the Global Internal Audit Standards and topical requirements.

This report underlines the opportunity for internal audit to harness innovation and technology. Greater use of advanced data analytics and artificial intelligence can strengthen the quality, depth and coverage of assurance, and support a shift towards continuous assurance and whole-population testing. A wide range of Chartered IIA resources is available to help internal auditors build these capabilities.

Success will be measured over the coming years by whether we see a sustained reduction in the kinds of internal control failures highlighted in this report. That will depend on the commitment of boards, executive leaders, internal audit and regulators to align ambition with delivery and to put effective controls at the heart of business models.

Appendix I: Case spotlights

Nationwide (2025): The FCA found deficiencies in AML systems and controls affecting customer due diligence, customer risk assessments and transaction monitoring. When enhanced due diligence measures were introduced, they applied only to new customers or to existing customers applying for new products, representing only a small proportion of Nationwide's customer base. As a result, Nationwide could not be confident that all high-risk customers had been identified, which in turn affected its ability to monitor customer relationships in line with the Board-approved risk appetite.

There was also an issue with personal accounts being used for business purposes, with financial crime prevention controls not calibrated for this type of activity. This exacerbated existing AML control weaknesses and meant that fraudulent business activity could go undetected. Internal audit identified concerns about the business use of personal accounts as early as 2016, including the absence of controls to monitor such usage or enforce account terms and conditions. In 2019, internal audit also highlighted significant data quality and oversight issues, with remediation taking prolonged periods. Notably, it flagged around 45,000 customer accounts that had not been included in the customer risk assessment tool.

As part of its ongoing work on the business use of personal accounts, internal audit uncovered a fraud relating to the Government's Job Retention Scheme (JRS) in 2020, with one personal account receiving 26 substantial JRS payments that were subsequently transferred abroad via a money transfer service.

Monzo Bank (2025): Final notice cited weak controls and lack of adequate assurance across financial crime risk management. This case was widely reported in the media, leading to reputational harm and communications risk.

Macquarie Bank London Branch (2024): Deficiencies in trading oversight and monitoring enabled fictitious trading to go undetected; an internal audit-driven improvement programme faltered due to weak programme governance.

TSB Bank (2024 and 2022): The FCA identified systemic weaknesses in collections and recoveries' controls and governance. In particular, TSB was criticised for failing to carry out any outcomes-focused internal assurance testing on collections and recoveries in a timely manner. When internal audit was eventually engaged in this area, it concluded that significant improvements were required and identified a range of control gaps and weaknesses. However, internal audit's work still did not include outcomes testing.

Starling Bank (2024): Significant gaps were identified in the AML and sanctions frameworks, along with concerns raised about the effectiveness of the Three Lines Model and the escalation of issues within it. A key criticism from the FCA was that the Bank's financial crime and AML controls had not kept pace with its rapid growth.

Internal audit had identified serious weaknesses within the financial crime control framework, but these concerns were not conveyed to the Board in an adequate or sufficiently clear and robust manner. The FCA also highlighted issues with the governance and operation of the Three Lines Model, noting that documents setting out the roles and responsibilities of the first and second lines did not exist. In addition, internal audit did not provide robust challenge to first and second line functions.

The FCA further found shortcomings in the governance of financial sanctions screening.

Assurance work on sanctions screening was not carried out in a timely manner that reflected the level of material risk. At the start of 2023, there had been no second-line assurance reviews of this area, and third-line internal audit assurance had been delayed until the second half of the year.

HSBC/M&S Financial Services (2024): Concerns were raised about the way HSBC UK approached collections, with a risk of customer harm. In particular, the FCA highlighted weaknesses in governance, systems and controls that were meant to ensure customers in financial difficulty were treated fairly and appropriately. Automated systems were issuing default notices and final demands for low arrears balances, leading to disproportionate action.

Citigroup Global Markets (2023): The FCA identified significant weaknesses in trading desk controls. The case involved a trader who intended to sell equities valued at \$58m but mistakenly loaded a basket worth \$444bn, a sum comparable to the annual GDP of economies such as Hong Kong, South Africa and Romania. The FCA final notice reported that several primary controls were either absent or deficient. As a result of these internal control failures, erroneous orders totalling \$196bn were generated and not cancelled in full, ultimately leading to \$1.4bn in sell orders across multiple European stock exchanges.

Equifax (2023): Inadequate systems and controls were identified over the security of UK consumer data that was processed in the US and stored on US servers, creating the potential for a major data breach. Internal audit findings at the group level signalled vulnerabilities that were not fully leveraged by the UK subsidiary board and internal audit. In particular, Equifax's US internal audit team had carried out a patch audit in 2015, which identified major control issues that exposed UK consumer data to the risk of cyber-attack. The audit found 7,500 critical or high vulnerabilities on internal systems, with 93% of internal vulnerabilities more than 90 days old.

This case highlights potential issues with communication from the group-level internal audit function in the US and with the sharing and communication of business-critical information. In particular, it raises questions about whether, or how effectively, the group-level internal audit team communicated its findings to the UK subsidiary board, senior management and the UK internal audit team.

ADM Investor Services International (2023): The investment brokerage, which has extensive market coverage, had significant AML control weaknesses that could have created opportunities for those seeking to launder the proceeds of crime or finance international terrorism. It failed to meet the requirements of the Money Laundering Regulations 2007 to put in place adequate AML systems and controls, leaving it exposed to the risk of being used for money laundering. An internal audit report in February 2014 did flag issues with its regulatory compliance systems and controls, highlighting that key policies and procedures had not been updated since 2008. This should have alerted ADMISI leadership to the need to strengthen its AML systems and controls to ensure compliance with laws and regulations.

Al Rayan Bank (2023): The bank failed to maintain appropriate internal controls to prevent activities related to money laundering and terrorist financing. This included serious AML control weaknesses, such as delayed or absent internal audit coverage of key financial crime functions and repeated failings over many years.

In particular, an internal audit of its Financial Crime Unit (FCU) did not take place for an eight-year period, meaning the bank was unable to ensure that the first and second lines were operating effectively. When internal audits of the FCU and the bank's Knightsbridge branch were eventually conducted, the reports identified major and significant issues. These included an incomplete list of high-risk customers and inadequate management and monitoring of large cash

deposits.

GT Bank (2023): This case revealed persistent, serious and major weaknesses in AML-related internal controls, meaning the bank had not fully played its part in combating financial crime. In particular, GT failed to act on known weaknesses in its AML systems and controls, despite these being highlighted by both internal audit and compliance functions.

The bank served significant numbers of customers from jurisdictions outside the UK that are considered high risk for money laundering, terrorist financing and corruption. Internal audit raised concerns about its transaction monitoring systems and controls. In 2015, internal audit identified that around 8,000 screening records had not been correctly marked as “ongoing active”, meaning they were not being screened daily in line with the bank’s procedures. Internal audit recommended that these records be updated accordingly, but despite this being flagged, adequate steps were not taken to address the issue. Because of the seriousness of these failings, the FCA described the bank’s conduct as “reckless”.

TSB Bank (2022): Significant issues were identified with IT controls, including those relating to a new IT infrastructure project. The final notice referred to the work of internal audit and highlighted concerns that were raised about actions being closed prematurely before they were fully addressed. One of the key issues was that the IT business function did not possess IT architectural infrastructure designs. Internal audit had warned that the firm would not be able to demonstrate that it had adequate systems and controls to identify and manage its exposure to IT risks, which constituted a breach of FCA Principle 3 and could lead to heightened regulatory scrutiny and a fine.

Santander UK (2022): There were significant and persistent gaps in AML controls across business banking to prevent and detect money laundering, despite earlier identification of issues by internal audit and others. Internal audit had flagged these concerns as far back as 2012 when it issued a report on the firm’s AML governance and operating framework, finding that significant improvements were required throughout. However, two years later, in 2014, the business banking annual risk assessment continued to identify ongoing weaknesses.

Gatehouse Bank (2022): There were significant shortcomings in AML internal controls, policies and procedures, including breaches of the Money Laundering Regulations 2007. The compliance function was under-resourced and, although the firm had adopted the Three Lines Model, it was not operating effectively. This resulted in deficiencies, including in the quality of due diligence information collected. The outsourced internal audit function had identified issues with due diligence on wealth management customers as early as 2013. However, three years later in 2016, a further internal audit report continued to find weaknesses in AML processes and controls, which it described as “inadequate”. The 2016 report also found that periodic or event-driven reviews had not been carried out since 2011, despite most customers being high risk.

The final notice also cited significant issues with board-level governance and subsequent changes to the governance structure. Until the end of 2016, the firm had an Audit, Risk and Compliance Committee, which was later split into an Audit Committee and a Business Risk Committee. The second-line compliance function did not feel adequately supported by the board and senior management, and raised concerns that issues were not being properly addressed. After the firm adopted the Three Lines Model, it failed to ensure that it operated effectively, with responsibilities that would normally sit in the first line being carried out by the second line. In this context, it is worth noting that an appropriately positioned and resourced internal audit function could and should have been providing assurance over the effectiveness of the second line and the operation of the Three Lines Model more broadly.

Appendix II: All cases referencing internal control weaknesses (2021–2025)

2025

Nationwide
Monzo Bank
Metro Bank
London Metal Exchange
Mako Financial Markets
Infinox Capital
Arian Financial LLP
Sigma Broking Ltd
MHI
H2O
Barclays Bank plc

2024

Macquarie Bank Limited – London Branch
Metro Bank
TSB Bank plc
Starling Bank
CB Payments Limited (Coinbase UK entity)
HSBC UK plc, HSBC Bank plc, Marks and
Spencer Financial Services
Citigroup Global Markets Ltd
Inspire
C&I
Inspirational Financial Management Ltd

2023

Equifax Limited
ADM Investor Services International
Bastion Capital London Limited
ED&F Man Capital Markets Ltd
Al Rayan Bank PLC
Guaranty Trust (GT) Bank (UK) Limited

2022

TSB Bank plc
Metro Bank plc
Santander UK
BGC Brokers / GFI
Pembrokeshire Mortgage Centre
Gatehouse Bank plc
Sigma Broking Limited
Citigroup Global Markets Limited

TJM Partnership Limited
Ghana International Bank Plc
JLT Specialty Limited
TFS Loans Limited
Barclays Bank plc
Julius Baer International Ltd

2021

HSBC Bank Plc
NatWest Bank Plc
Sunrise Brokers LLP
Credit Suisse
Lloyds Banking Group Insurance entities
Sapien Capital Limited