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Parliamentary briefing:

Internal Control Failure — £1bn in FCA Fines and the Real- World Consequences

Date: May 2026

FCA Fines and Internal Control Failures: What Every Parliamentarian Needs to Know

Millions of people across the UK rely on banks, building societies, insurers and other financial services firms every day to keep their money safe, process their transactions, and treat them fairly. When those firms get the basics wrong, it is ordinary customers who bear the cost — exposed to fraud, with hard-earned savings and investments put at risk, and vulnerable people treated unfairly. Behind these failures lies a common thread: weaknesses in the internal controls meant to keep firms, their customers, and the wider financial system safe.

A new report from the Chartered Institute of Internal Auditors (Chartered IIA), [Internal Control Failure!](#), examines the scale of the problem. Our analysis of every Financial Conduct Authority (FCA) final notice issued between 2021 and 2025 found that more than half of all fines — **totalling over £1bn** — were directly linked to internal control failures. Most of these failures centred on weak, deficient or absent fraud controls. In several cases, the FCA warned that these weaknesses could have enabled money laundering, the financing of international terrorism, or organised crime. Most troubling of all, in many cases, firms had been warned about these weaknesses internally, sometimes years in advance, and failed to act.

Headline figures

Over £1bn Total value of FCA fines linked to internal control failures, 2021–2025	54% Fines directly linked to internal control failures
97 Total FCA fines issued over the five-year period	13+ Fined firms that lacked any internal audit function

The scale and pattern of these failures should concern parliamentarians. The UK economy depends on a strong financial services sector — and so do your constituents. When internal controls fail, the consequences are not merely technical compliance issues that result in regulatory penalties — they put customers and businesses at risk, undermine public confidence, and damage the UK's reputation as a premier destination for investment.

We are calling on parliamentarians to support stronger regulatory expectations on internal controls and internal audit, including extending internal audit requirements to a broader range of financial services firms, to help ensure that the failures set out in this report are not repeated.

Report Findings: A £1bn Wake-Up Call for Financial Services

The most troubling finding in our report is not just that controls failed, but that in many cases the failures had been identified well in advance. Internal audit and compliance teams had raised red flags about control weaknesses, sometimes for years. But corrective action stalled, lacked pace, or was not sustained. Warnings were ignored, issues were left unchecked, and problems were allowed to fester until the regulator stepped in.

The consequences of these delays were felt by ordinary people. Customers' accounts were left exposed to the risk of criminal abuse. Systems failed to identify suspicious transactions. Customer data was exposed to the risk of cyber-attack. Consumers facing financial difficulty were hit with disproportionate and aggressive debt collection action for low-value arrears because systems were not designed correctly. Weak oversight and governance allowed risks to multiply and go unchecked — **affecting millions of customers across some of the UK's most familiar financial services brands, including Nationwide, Barclays, HSBC, Santander, Monzo and Starling.**

The same pattern appears across several of the cases we examined in our report: warnings raised by internal audit and compliance teams years earlier and left unaddressed. At Nationwide, for example, internal audit raised concerns about the use of personal accounts for business purposes as early as 2016. By 2020, that same weakness had enabled a fraud against the Government's Job Retention Scheme, with one personal account receiving 26 substantial furlough payments that were subsequently transferred abroad. The warnings raised by internal audit years earlier had not been acted on in time. A case involving Equifax, shows the same pattern with even higher stakes. The firm's internal audit team identified 7,500 critical or high cyber vulnerabilities on internal systems in 2015 – 93% of which had been left unaddressed for more than 90 days. UK consumer data was exposed to the risk of a cyber-attack because warnings raised by internal audit years earlier had not been acted on.

On several occasions, organisations displayed a failure of follow-through on remediation plans, a lack of board challenge, and did not have a culture needed to take difficult issues seriously when they were raised. The patterns are consistent, and six key themes were identified across the cases we examined:

Persistent Themes from the FCA Fines

1. **Anti-money laundering and financial crime:** Repeated gaps in checking who customers are, monitoring their transactions, and screening for sanctions and high-risk individuals.
2. **Governance and board oversight:** Boards not receiving the information they needed to challenge management effectively, unclear ownership of risk, and internal audit findings not acted on in time.
3. **Governance in practice, not just on paper:** Oversight structures that looked robust in firms' documentation but did not operate effectively day-to-day.
4. **Data and technology:** Weak data quality, poor system integration and IT failures that undermined the effectiveness of controls.
5. **Resourcing and capability:** Compliance and financial crime teams stretched too thin for the risks they faced, with training and skills gaps across the business.
6. **Slow or stalled remediation:** Firms repeatedly failing to fix problems, even after they had been flagged by internal audit, compliance or regulators – sometimes years earlier.

A Missing Layer of Oversight: Firms Operating Without Internal Audit

Our research also identified a more fundamental problem. Based on publicly available information, at least 13 of the 52 firms fined for internal control failures appear to have been operating without an internal audit function at the time, or do not currently have one in place. Many of these firms were investment brokers and mortgage brokers – **firms entrusted with the financial well-being of your constituents, their savings, their investments and the mortgages on their homes.**

Internal audit has a critical role to play in independently assessing whether controls are effective and in holding senior management and boards to account when issues persist. Where internal audit is absent, weaknesses can go undetected and unchallenged, with serious consequences for customers and the wider economy. The FCA has warned that the kinds of control failures identified in our report could enable money laundering, fraud, the financing of international terrorism and organised crime. An independent internal audit function is one of the most important safeguards against these risks.

Internal audit is already a regulatory requirement for banks, building societies, large investment firms and insurers, reflecting the systemic importance of those institutions to the UK economy. But a significant cohort of smaller and mid-sized financial services firms falls outside that requirement. This finding points to the need for the FCA and the Prudential Regulation Authority (PRA) to consider extending the

requirement for an internal audit function to a broader set of firms, including investment brokers and mortgage brokers.

Closing the Gap Between Regulations and Reality

Our findings expose a gap between what firms often say about controls in the boilerplate statements of their annual reports and what is actually happening in practice. With more than half of FCA fines over the past five years rooted in internal control failures, firms can no longer afford to leave that gap open.

This year is 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. The Economic Crime and Corporate Transparency Act 2023 has also introduced new corporate accountability for the prevention of fraud. Together, these developments place renewed focus on whether firms' internal controls are working in practice.

In this context, it is worth noting that following the Independent Review into the Financial Reporting Council and the Independent Review into the Quality and Effectiveness of Audit, it had been proposed that the Government should legislate for stronger internal controls. Instead, the Government opted to strengthen the provisions in the UK Corporate Governance Code on internal controls on a "comply or explain" basis. Arguably, this carries less weight than if it had been a legislative corporate reporting requirement.

Our report sets out a clear path forward. Boards and audit committees should align assurance activity to Provision 29 and the Economic Crime and Corporate Transparency Act 2023, ensuring that internal audit plays a central role in evidencing the effectiveness of internal controls, including all material controls covered by the declaration. Financial services firms should give serious consideration to including the effectiveness of their anti-money laundering controls, along with other material controls designed to detect and prevent financial and economic crime, as part of their declarations, backed by robust evidence and meaningful assurance.

Recommendations for Parliamentarians

Parliamentarians have an important role to play in pressing for the changes needed to strengthen governance, protect consumers and safeguard the integrity of UK financial services. We want to help ensure that the weaknesses exposed by our analysis are addressed, so that constituents, businesses and the wider economy are properly protected.

We encourage all parliamentarians to consider the following actions:

- Raise parliamentary questions calling on the FCA and the PRA to promote and embed the Internal Audit Code of Practice and Global Internal Audit Standards across financial services, and to link expectations explicitly into the FCA Handbook and PRA Rulebook requirements for establishing and maintaining an internal audit function.
- Advocate for the FCA and the Prudential Regulation Authority to extend the requirement for an internal audit function to a broader range of financial services firms, including investment brokers and mortgage brokers.

Contact us

We hope you find this briefing useful in understanding the scale of internal control failures in UK financial services and the role internal audit can play in addressing them. For any enquiries regarding this briefing or if you would like to arrange a meeting to discuss how we can further support your work as a parliamentarian, please contact Gavin Hayes, Head of Policy and Public Affairs, at gavin.hayes@charterediiia.org.