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Andrew Tyrie MP
House of Commons
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3 March 2014

Dear *Andrew*

During the Treasury Select Committee hearing of 4 February I agreed to consider and respond to your request that we share with the Committee our internal audit reports. Having discussed this with our Board and executive team, we have concluded that to share our internal audit reports in this way would compromise our effectiveness and would not ultimately be in the public interest.

As you know, internal audit functions are intended to provide high quality and objective analysis of our operations. It is the FCA's 'third line' of defence. Robust challenge is a vital part of this, and effective challenge requires a protected space for debate. Subjecting the record of our internal audit work to political scrutiny would pose real risks to the process. At present, as you would expect, our staff co-operate fully and openly with internal audit investigations. This happens because the purpose of the function is clear. If that clarity is lost, it is inevitable that staff will become more defensive, reducing the effectiveness of the function and resulting in a much slower process. Another risk is that the record becomes more anodyne. These consequences would be counterproductive.

External scrutiny of these reports may have a more direct impact on consumers and on the integrity of markets. Many reports contain information about our processes and risk appetite. Exposure of such information increases the risk that firms use this knowledge to challenge and so cause delay to enforcement and supervisory actions. In addition, where our information systems are being reviewed, publication might encourage individuals with malicious intent to attempt to exploit perceived weaknesses. This would not be in the public interest.

All that said, I fully appreciate that the FCA is accountable to the Committee, and ultimately to Parliament, and so we would be happy to work with the Committee to find a way of alleviating your concerns while at the same time maintaining the protected space for robust challenge that the internal audit function facilitates. One solution might be for the chair of our Audit Committee, Sir Brian Pomeroy, to meet with you, as chair of your Committee, (with or without me) on an annual basis to discuss the key issues the Committee faces. I also fully accept that,

John Griffith Jones to Andrew Tyrie re Internal audit

were the FCA to make a serious error, any subsequent transparency inquiry would have full access to and the right to comment on, the findings of any relevant internal audit reports.

It is also worth noting that under the new regulatory structure, we are now subject to external audit by the National Audit Office (NAO). I can confirm that the NAO has the right of access to our internal audit reports, and has looked at them as part of their recent visit. There may be more value in complying with and assessing how well the new NAO procedures are working before pursuing a parallel track with Parliament.

I am happy to discuss this proposal with you.

A handwritten signature in black ink, appearing to be 'C. Smith'.A handwritten signature in black ink, appearing to be 'John Griffith-Jones'.

John Griffith-Jones
Chairman