



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# **Common Supervisory Action on Compliance and Internal Audit Functions in the Investment Funds Sector**

## **Central Bank of Ireland Feedback Report**

July 2026

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# Executive Summary

The purpose of this report is to provide an overview of the review carried out by the Central Bank of Ireland (Central Bank) as part of the European Securities and Markets Authority (ESMA) Common Supervisory Action (CSA) on the effectiveness of Compliance and Internal Audit Functions of fund managers.

The Central Bank contributed to the selection of the assessment of Compliance and Internal Audit (IA) Functions as the theme for the 2025 CSA and is supportive of its objectives.

These functions play a significant role in any effective governance and risk management framework. Strong Compliance and IA functions provide assurance that the Firm's operations are aligned with Central Bank's safeguarding outcomes. These include the safety and soundness of Firms, ensuring Firms operate with the protection of consumer and investor interest in mind, and supporting financial stability and integrity of the financial system.

The report considers the importance placed by Fund Management companies' (Firms) on their Compliance and IA functions. This is reflected in their independence and autonomy, the adequacy of resourcing and their influence in identifying and mitigating the risks generated by the Firm's activities, supporting regulatory compliance, as well as the Firm's financial and operational resilience.

Firms may need to implement specific actions to address the CSA findings and expectations set out herein, which will inform future supervisory engagement and risk assessment.

Overall, the findings from the CSA confirm Firms' compliance and internal audit governance structures and operations are broadly in line with regulatory expectations. Firms positively engaged with the Central Bank throughout the review period and were open to sharing information that supported a constructive assessment.

While many Firms have established mature Compliance and IA functions, areas that require review and consideration include:

- A consistent application of documented Compliance policy/procedures

- Strengthening approach to Compliance resourcing and training.
- Compliance monitoring and testing practices.
- Enhancing Board engagement and reporting.
- Strengthening oversight of delegated and group-level Compliance and Internal Audit arrangements.

The Central Bank expects well established Compliance Functions, underpinned by sound governance arrangements, clearly defined policies and procedures, risk-based planning, rigorous testing protocols, and comprehensive oversight mechanisms to ensure ongoing adherence to regulatory requirements. Similarly, IA functions are expected to demonstrate clear governance and independence; documented audit policies and procedures; risk-based planning; rigorous audit testing; and robust oversight of audit findings and remediation.

The Board of the Firm plays a vital role in ensuring these expectations are met via their active oversight, challenge and accountability, maintaining appropriate engagement with both functions to ensure key control frameworks remain effective in identifying and remediating risks in a timely manner.

The outcome of the Central Bank's review incorporates findings from other National Competent Authorities (NCAs), and which were included in the ESMA "2025 CSA on compliance and IA functions of fund managers" published in May 2026<sup>1</sup>.

**Firms should review and consider the contents of this report in conjunction with the contents and observations identified within ESMA's Final Report on Compliance and Internal Audit functions of fund managers noted above. The Central Bank expects that this report will be discussed by the Board & relevant personnel and that the observations and expectations outlined are given due consideration to ensure appropriate measures and controls are in place.**

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<sup>1</sup>[Final Report 2025 CSA on compliance and internal audit functions of fund managers](#)

## Objective of this CSA

As outlined in the ESMA Final Report on Compliance and Internal Audit, the aim of the CSA was to investigate how:

- a) UCITS Management Companies comply with Articles 9 -11 of [Commission Directive \(EU\) 2010/43](#); and
- b) AIFMs comply with Articles 60-62 of the [Commission Delegated Regulation \(EU\) 231/2013](#)

## Methodology

A questionnaire was developed by ESMA in conjunction with the NCAs which consisted of 40 questions (including sub-questions). The questionnaire was issued to the sample of Firms selected by the Central Bank. The questions were qualitative in nature and split into the following sections covering specific areas relating to the theme of the CSA:

### **Compliance Functions of UCITS Management Companies and AIFMs**

- a) Policies, procedures and measures with relevance to the Compliance Function.
- b) Responsibilities assigned to the Compliance Function<sup>2</sup>.
- c) Conditions enabling the Compliance Function to perform its responsibilities properly and independently.
- d) Reporting to senior management.
- e) Compliance monitoring and planning.

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<sup>2</sup> In case the compliance function or compliance tasks are delegated to, or performed by a third party (either externally or within group)

## Internal Audit functions of UCITS Management Companies and AIFMs

- a) Conditions enabling the Internal Audit function to perform its responsibilities properly and independently.
- b) Reporting to senior management.
- c) Internal Audit plans.

The assessment of each of the sections and questions outlined above was conducted by the Central Bank using a combination of desk-based reviews, followed by a number of on-site inspections.

The Central Bank reported its observations and findings, as identified, throughout the course of the assessment to ESMA. Prior to submitting the report to ESMA, the findings were subject to an Internal Central Bank governance process. The final report was submitted to ESMA on 11 December 2025.

## CSA Observations

The Central Bank's review found that Firms have generally established the core governance structures required for effective Compliance and Internal Audit Functions and are broadly operating in line with regulatory expectations. Whilst the review identified several areas for enhancement, including opportunities to strengthen policy review practices, optimise resourcing, integrate fragmented frameworks and enhance Board oversight, these improvements represent constructive opportunities to further strengthen the effectiveness of these critical control functions. By addressing these areas, Firms can enhance their ability to identify, assess and mitigate emerging risks more effectively. The observations section below provides detailed analysis of these findings across eight key areas.

# Compliance

## Policies, procedures and measures with relevance to the Compliance Function

High quality local compliance frameworks strengthen the effectiveness of compliance oversight and risk mitigation. Policies and procedures are a core component of these frameworks.

**Compliance Framework:** Our work observed that the key components of a Compliance Framework such as the compliance manual and the annual compliance monitoring & planning were present in some Firms. Whilst some Firms have established comprehensive Compliance Frameworks with detailed compliance manuals, policies, procedures and robust Board-approved oversight mechanisms, others fell short in this regard.

Our review highlighted that some Firms found it difficult to demonstrate their approach to compliance planning, oversight and reporting as they had not fully considered all of the tasks and risks associated with these tasks in one Board-approved and effective Compliance Framework. A single Compliance Framework that captures all Compliance activities, such as planning, monitoring and assessments, policies and procedures reviews, advisory responsibilities, Board reporting, regulatory handling, training etc., in one document, would avoid a fragmented approach and support the effectiveness of Board oversight.

**Policy and Procedure Monitoring:** Although Firms reported that policies and procedures are reviewed on an ongoing basis and at a minimum annually, the Central Bank observed inconsistencies in practice. Review frequency differed materially across Firms, and not all policies and procedures were subject to Compliance Function review. In instances where policies and procedures were established at group level, it was unclear what role the Compliance Function and local Board played in ensuring that compliance risks relevant to the Firm were appropriately considered and addressed. We observed cases where policies had already been approved at Group level before being presented to the local Board, limiting the Board's ability

to exercise meaningful autonomy and decision-making in terms of ensuring policies and procedures are tailored to the Firm and fit for purpose. Some Firms lacked local policies, instead relying on Group policies without standardised review and Board reporting processes.

**Standard Operating Procedures:** The review found that many Firms have not developed Standard Operating Procedures (SOPs) to document how specific compliance tasks are executed. As set out in more detail below, the CSA found instances where turnover in small teams had negatively impacted the performance of the Compliance Function for the period. The absence of documented SOPs limits how Firms safeguard against risks posed by inconsistent task performance across staff, knowledge gaps during staff turnover, and reduced Board visibility over compliance activities, particularly where tasks are delegated.

## Responsibilities assigned to the Compliance Function

**Risk Identification:** The Central Bank's review identified that whilst some Firms have implemented formal risk identification processes, including documented compliance risk assessments and risk registers, others lack structured approaches to identifying compliance risks. Some Firms rely on informal or ad-hoc risk identification methods rather than systematic processes, and some do not maintain documented compliance risk assessments. In instances where risk registers exist, the Central Bank observed that these were not always regularly reviewed or updated to reflect the evolving regulatory landscape and Firm-specific risk profile. One instance was also noted where an inadequate risk identification process and risk-based approach resulted in a misinformed frequency and depth of the compliance monitoring that should have been undertaken.

**Compliance Monitoring and Testing:** The Central Bank found variation in the maturity of compliance monitoring and testing activities across Firms. Whilst some Firms conduct regular and documented compliance testing with clear evidence of monitoring outcomes, others perform limited or inconsistent testing. The

Central Bank observed instances where testing was not sufficiently risk-based, lacked clear documentation of findings and remediation actions, or was not subject to appropriate Board oversight and reporting. In some cases, Firms did not maintain evidence of compliance testing or failed to demonstrate the effectiveness of their monitoring controls. Inadequate compliance monitoring and testing can result in; failing to identify emerging risks, regulatory enforcement action, reputational and operational damage, and weakened governance and accountability.

**Regulatory Change:** While most Firms have established processes to track regulatory developments and assess their impact on operations, a small number of Firms apply a more passive approach and lack formal mechanisms for monitoring regulatory change. The Central Bank observed instances where regulatory changes were not consistently communicated across relevant functions, and some Firms did not maintain documented evidence of how regulatory requirements have been incorporated into policies, procedures and operations. Some of these findings raise concerns relating to the Firms' ability to adapt and adhere to the changing regulatory landscape. Inadequate methods to proactively track regulatory changes can result in fund level breaches, negatively impact investor protection, and could result in regulatory action.

**Delegate Oversight:** The Central Bank found that Firms that delegated certain compliance activities demonstrate varying levels of oversight. Whilst some Firms maintain robust monitoring arrangements with documented service level agreements and regular performance reviews, others lack formalised oversight mechanisms. The Central Bank observed instances where Firms did not conduct regular assessments of delegate performance, maintain documented evidence of oversight activities, or ensure that delegates' compliance frameworks aligned with the Firm's own regulatory obligations and expectations. Where robust oversight is not present, this can result in; regulatory accountability failures, undetected compliance breaches, misalignment with regulatory expectations, loss of visibility and control and operational and reputational risk.

## Conditions enabling the Compliance Function to perform its responsibilities properly and independently

**Governance Arrangements:** The Central Bank's review identified that Firms have established governance structures to support Compliance Function oversight and accountability. The Compliance Function has sufficient access to the Board, with the nature and frequency of access varying by Firm scale and complexity. Smaller Firms demonstrated more regular informal interaction with Board members, whilst larger Firms utilised more formal periodic meetings. In nearly all cases, Board meetings included a specific compliance reporting section. The Compliance Function in most instances maintains regular engagement with the Organisational Effectiveness Director, which the Central Bank observed as good practice. However, the review identified governance challenges, particularly in Board oversight of compliance activities. In instances where documented compliance frameworks were absent, Board members demonstrated difficulty in demonstrating how they effectively oversee compliance activities. Additionally, Firms were not always able to evidence local oversight of Group support functions or demonstrate how resources are considered as part of growth strategy, limiting the Board's ability to exercise effective oversight of the Compliance Function and compliance risk management.

**Effective Reporting Lines to Demonstrate Independence:** The Central Bank found that Firms have established appropriate reporting lines to support Compliance Function independence, with direct access to Group Functions and the Board, evidenced by organisational charts

**Organisational Structure and Resourcing:** The Central Bank's review found that all Firms have allocated dedicated resources to the Compliance Function and, in almost all instances, have established appropriate reporting lines that enable the Compliance Function to operate independently. In the majority of Firms, the Compliance Function operates separately from the first line of defence, with many Firms having arrangements in place to preserve independence. However, the review found that this independence is more challenging to maintain in practice for smaller Firms with limited

staff, as they must leverage resources across functions, heightening the risk of diminished independence between first and second line functions. Maintaining the independence of the Compliance Function remains a critical supervisory expectation regardless of Firm size. Whilst Firms advised that they have adequate full-time equivalent resources to perform compliance responsibilities properly and independently, Compliance Functions are small, irrespective of the size of the Firm, and any staff turnover can cause a material impact. The review found examples where compliance tasks needed to be deferred due to resourcing constraints and periods of turnover. Firms could not always evidence how staffing levels have increased in line with business growth. Insufficient resources limit the compliance coverage and intrusiveness of compliance monitoring, and there is a risk that independence could be undermined if there is over-reliance on outsourced support or other lines of business.

**Head of Compliance Appointments:** The Central Bank observed that the majority of Firms have appointed a Head of Compliance and/or a Designated person for Regulatory Compliance with extensive expertise and multiple years' experience in compliance roles. However, in some instances, these individuals hold positions of responsibility in other second line Functions of the Firm. Firms advised that succession planning and resourcing of the Compliance Function are assessed on an ongoing basis to mitigate key person risk. Finally, our review of the independence of the compliance function included an assessment of the remuneration policies, the Central Bank found no instances where the method of determining remuneration of relevant Compliance Function personnel was potentially compromising their objectivity.

## Reporting to senior Management

**Reporting Frequency and Content:** All Firms provided compliance reporting to the Board on at least a quarterly basis. Whilst some Firms provided comprehensive reporting with detailed oversight activities, risk ratings and issue tracking, others provided minimal reporting consisting only of lists of regulatory returns. Limited reporting prevents Compliance Functions from displaying autonomy and independence in responding to Board queries. The Central Bank observed instances of passive monthly Excel checklists suggesting

over-reliance on delegate attestations and raising concerns regarding the intrusiveness of monitoring activities.

**Board Minutes:** Whilst some Firms maintained detailed minutes capturing full discussion and challenge on compliance activities, others lacked sufficient detail regarding discussions and decisions. Minutes lacking detailed information can lead to confusion and obscure the context of decision-making processes.

**Reporting Adequacy:** The quality and detail of compliance reports dictated the effectiveness of Board follow-up and challenge. Reports lacking granular detail resulted in minimal Board challenge, whilst detailed quarterly reporting enabled further discussion and easier issue tracking. The Central Bank identified instances where Compliance Monitoring Plans (CMPs) are delivered from Group without Firm-specific detail, lack timelines, and are presented to the Board for notification rather than approval. The absence of timelines and trackers prevents the Board from measuring progress and holding the Compliance Function to account.

## Compliance monitoring and planning

All Firms assessed submitted a Compliance Monitoring Plan (CMP) for 2024. Whilst the Central Bank is satisfied that CMPs met minimum expectations, the quality, depth and level of detail differed, and this often depended on Firm type, nature, scale and complexity. Some Compliance Functions created CMPs based on robust risk assessments, horizon scanning and regulatory communications, whilst others lacked sufficient detail, included no timelines for task completion, and contained no forward-looking element. Several CMPs consisted of lists of every regulatory obligation without details of ownership or completion timelines, and some lacked clarity on the purpose or methodology for including items for review.

The Central Bank identified issues where risk categories were incorrectly classified, resulting in incorrect review frequencies, highlighting the importance of input, review and governance controls applied to CMPs. When assessing CMP governance, a small number of Firms did not receive Board approval or presented the CMP to the Board after its implementation. Varying levels of discussion and challenge were noted across the Firm sample in relation to CMP

approval, while high-level Board minutes made it difficult for Firms to demonstrate how the Board engaged during the CMP process. The standard of minutes also made it difficult to establish how the Compliance Function practiced its independence. Firms who successfully demonstrated that CMP approval reflects genuine Board engagement and that the Compliance Function maintained appropriate independence in its assessment and recommendations had established and maintained clear Board documentation, decision making processes, and Board minutes that clearly reflect the Compliance Function's role in advising on CMP adequacy.

### **Central Bank expectations of a Compliance Function:**

The Central Bank expects comprehensive, entity-specific compliance frameworks that cover all regulatory obligations and are subject to regular Board review. Compliance reports must be sufficiently detailed to enable Board members to make informed assessments of testing planned and performed, including formal review and approval of the annual compliance monitoring plan.

Planning must be proactive and risk-led, with each function independently assessing risks within its defined role rather than relying on regulatory direction or other lines of defence, whilst maintaining appropriate information sharing across the three lines of defence.

Monitoring activities must be supported by defined procedures and approved methodologies to ensure consistent standards across all testing, targeted reviews, and reactive assessments. The depth and intrusiveness of monitoring should be sufficient to achieve meaningful outcomes. Where Firms adopt a risk-based approach to prioritise monitoring areas, this process must be documented and Board-approved. Delegate attestations must contain sufficient detail and raw data to allow active assessment of accuracy rather than passive reliance on confirmations.

Resourcing decisions must be informed by the Firm's activities, risk profile and the level of commensurate resourcing required. Firms must not be constrained by an approach that is framed only in terms of the allocation of a maximum internal headcount across all business lines at the Firm and should instead consider the risk

profile of its activities to determine appropriate coverage. The Board must monitor resources on an ongoing basis to ensure they remain appropriate to support the Firm's evolving risk profile and growth, and to ensure expertise is in place to address new and emerging risks.

Firms must implement proportionate measures to safeguard Compliance Function independence, such as clear segregation of duties, documented functional reporting lines, regular independence assessments, and robust conflict-of-interest protocols, to ensure that the Compliance Function can effectively challenge business decisions and provide objective advice to senior management and the Board.

Where Firms delegate compliance, whether via third-party or intra-group arrangements, the Board and senior management remain ultimately responsible and accountable for effective oversight and management of outsourcing risk. Firms must establish Board-approved outsourcing policies, adopt key performance indicators, maintain ongoing communication with delegates or service providers, and systematically track, record, and report issues.

Firms must ensure staff maintain the expertise required to fulfil compliance and risk roles through regular, up-to-date training that addresses ever evolving risks.

Standard Operating Procedures should be established to support onboarding of new joiners, ensure consistently high standards, and limit the function's exposure to key person risk. The Board must establish a framework to manage succession planning and key person risk and adopt governance arrangements that preserve the independence of second- and third-line functions through appropriately segregated reporting lines and suitable remuneration and conflicts of interest practices.

# Internal Audit

## Conditions enabling the Internal Audit Function to perform its responsibilities properly and independently

**Overall Assessment of Internal Audit Function:** The Central Bank is broadly satisfied that Firms have implemented appropriate conditions for the Internal Audit (IA) Function to fulfil its responsibilities. Resources dedicated to the IA Function varied depending on Firm nature, scale and complexity. The majority of Firms had appropriate reporting lines in place enabling independent operation, with appropriate governance arrangements maintaining independence and segregation from business lines. IA Functions had unrestricted access to information and systems, and many Firms adopted clear IA charters defining the function's role and independence of first and second line. Access to the Board also varied by Firm scale and complexity, with smaller Firms demonstrating less frequent interaction and some receiving annual presentations from Group IA, whilst larger Firms have established periodic meetings including monthly interactions and quarterly updates.

### **Internal Audit Tasks Outsourced to Third Parties or Group**

**Entities:** All Firms outsourced IA activities to Group. The rationale for these arrangements is driven by leveraging expertise and maintaining robust independence. Some Firms had local staff working as part of the wider Group IA Function, providing direct contact for audit planning, whilst others conducted monthly progress meetings with designated Group IA individuals. However, the Central Bank noted varying levels of interaction between Firms and Group IA, with some demonstrating very little interaction.

## Internal Audit - Reporting to senior management

**Board Reporting and Internal Audit Coverage:** Reporting frequency varied from monthly, quarterly, annual or ad-hoc basis, typically including updates on audit status, findings and the overall IA plan. In some Firms, the IA plan is shared with Firms for awareness only and is not subject to senior management or Board approval. Whilst we would not expect the Board to approve IA plans, the Central Bank challenged Firms to demonstrate their influence in ensuring the IA plan allocates sufficient coverage, with Firms demonstrating that whilst items are suggested for inclusion, the decision remains with IA to maintain independence. Firms could not always evidence how the Board discussed or challenged IA reporting, and Firms found it difficult to demonstrate sufficient local coverage as discussions were not sufficiently recorded in Board minutes. These shortcomings lead to concerns relating to the Board's role in ensuring the activities of Firm receive adequate attention from IA. In a small number of cases Group IA reporting has already undergone review and approval via Group governance structures before reaching the Firm Board, which may limit the Board's ability to exercise effective oversight and influence remediation priorities at an early stage.

**Role of the Board and Follow-up of Recommendations:** The Central Bank identified an instance where IA findings did not receive sufficient Board attention. In some cases, the role of the Firm Board was unclear as it related to IA planning, monitoring and reporting, with Firms demonstrating that they had visibility of IA activities but potentially lack sufficient ownership and accountability. Whilst Firms highlighted that Group governance structures support IA independence, the Central Bank noted that Firm Boards do not always receive sufficient and timely information to demonstrate the Firm receives adequate IA attention and has strong internal controls in place to support UCITS and AIFMD activities.

## Internal Audit plans

**Board Oversight and Internal Audit Planning:** Whilst IA functions are typically operated at Group level, our assessment found there is an opportunity for Firms to enhance their approach to entity-specific audit planning. The Central Bank identified instances where some Firms may benefit from more regular Group IA coverage, particularly to strengthen oversight of entity-specific risks. Boards have an opportunity to review how they oversee IA planning. In a small number of cases the role of the Board as it relates to IA planning was not always clear. In one instance Group IA plans which incorporated the Firm were presented to Group Committees before the Firm Board, making it difficult for the Board to demonstrate how its views are considered as part of the planning exercise. The Central Bank identified an example where an IA plan replicated the Firm's compliance monitoring plan, raising questions regarding the adequacy of the selection methodology and independence applied by IA.

**Risk-Based Audit Planning:** Many Firms' Group IA Functions employ a risk-based audit planning methodology optimising resource allocation to areas of highest risk to the Group. Whilst all Group activities (including UCITS/AIFMD activities) may be considered, the risk ratings that determine audit frequency at specific Firm level may be diluted due to the nature of Group IA plans, raising concerns regarding the adequacy of IA coverage allocated to Firms locally.

**Central Bank expectations of Internal Audit Function:**

The Central Bank expects that Firms consider establishing a robust, independent IA Function reporting process directly to the Board on an ongoing basis. The reporting should be sufficiently detailed to support Board oversight and should be relevant to the activities and risk profile of the Firm.

The Board is responsible for ensuring that the IA function is appropriately fulfilling its role, which includes ensuring that IA has developed a comprehensive, risk-based audit plan covering all key areas including compliance, conducts high-quality audits with actionable reports, and provides regular Board reporting on findings and remedial actions.

The Board must also ensure that IA personnel are appropriately trained and resourced to maintain independence, competence, and effective coverage proportionate to the Firm's size and complexity. Additionally, the Board should ensure that IA has established formalised follow-up mechanisms to monitor implementation of recommendations and escalate failures to the Board.

# Conclusion

Our findings confirm the governance structures and operations of Firms are broadly in line with regulatory expectations. Whilst core governance structures for Compliance and Internal Audit Functions are in place across the sector, areas requiring improvement have been identified, particularly around resourcing, consistency of application of local policies, and oversight of delegated and / or outsourced activities.

The diverse range of Firms' business models in terms of size, scale and complexity supports the application of a proportionate approach to meeting these expectations. However, proportionality does not mean that fundamental principles of the expected risk-based approach can be ignored. These include the capacity of these functions to operate independently, with adequate resourcing and robust oversight.

Firms demonstrating stronger control environments combined comprehensive, entity-focused frameworks with clear Board involvement, well-documented risk-based plans, adequate skilled resourcing, formal training programmes, robust succession planning and sound remediation tracking. These practices provide a platform for enhancing resilience and regulatory compliance.

Ensuring Compliance and IA Functions remain fit for purpose in a rapidly changing operating environment supports the Central Bank's mandate, particularly the protection of investors and the maintenance of financial stability.

Given their significance, the Central Bank will continue to focus on the effectiveness of these functions through our ongoing supervisory engagement and targeted intervention, where necessary. However, Firms are expected to review their Compliance and IA arrangements against the observations and expectations set out in this report and, in conjunction with ESMA's Final Report on Compliance and Internal Audit Functions of Fund Managers, to identify areas requiring enhancement within their governance frameworks, control processes and operational arrangements, and to develop time-bound remediation plans to address any deficiencies identified. Furthermore, the expectations and observations contained in both

reports should be discussed thoroughly with the Board and all relevant personnel to facilitate informed decision-making.

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