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Deloitte's Internal Audit Insights

FIRST EDITION

Investment Fund Managers

October 2025

Internal Audit of **tomorrow**

New trends, developments, and upcoming regulations shape the work environments Internal Auditors live and thrive in, especially in the highly regulated UCITS fund and Alternatives industry, particularly with the latter including complex topics such as Real Estate, Private Equity, Debt or Infrastructure.

Due to the constant evolution, building a robust internal control mechanism is critical. Strong Internal Audit Functions ("IAF") are capable to support Investment Fund Managers ("IFM") by delivering the highest level of quality during audits and assist staying (or becoming) compliant. Specific recommendations under consideration of relevant risk factors are necessary to facilitate the IFM's early adoption of new regulations.

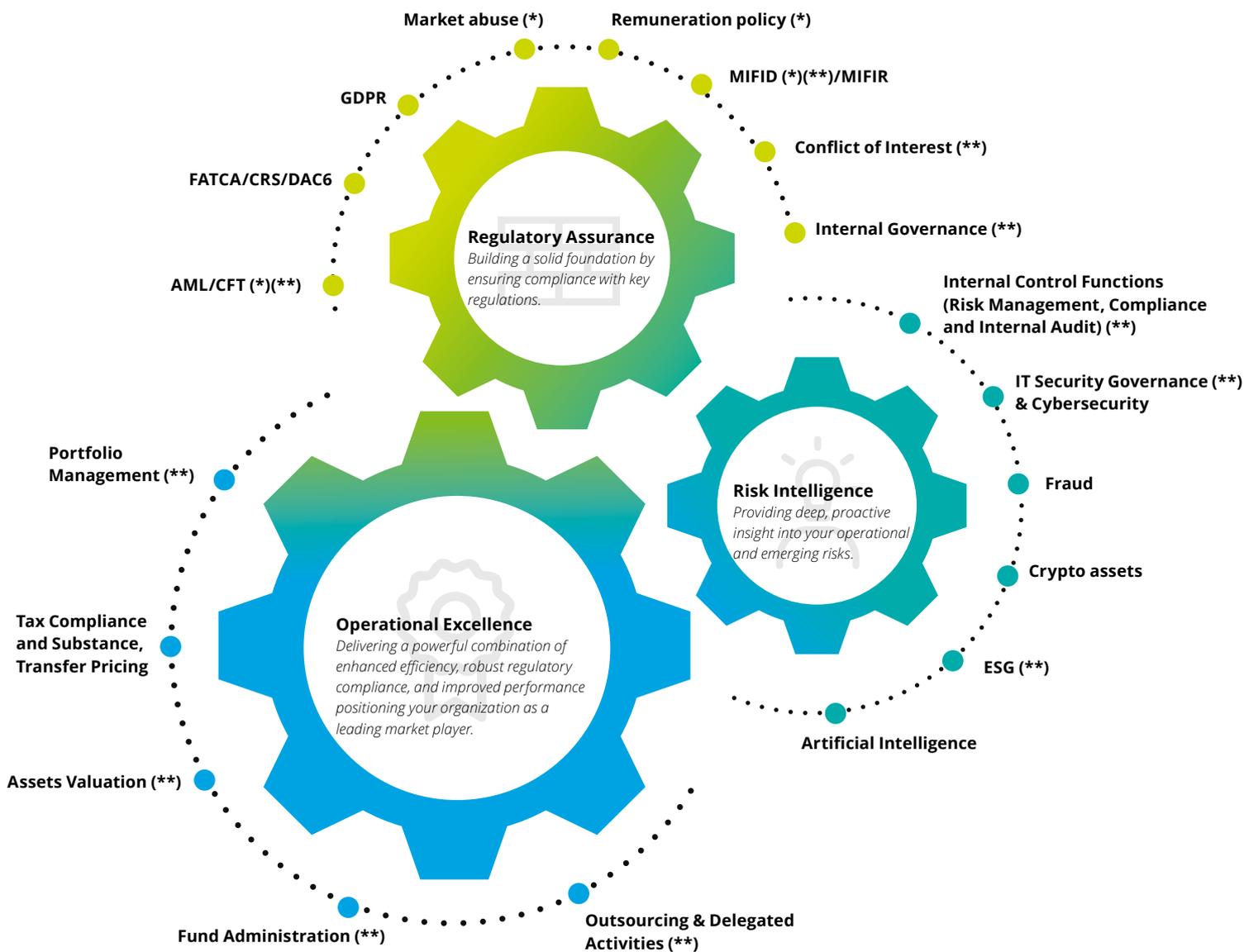
The structure and size of an IFM is another relevant factor to consider when deciding whether the IAF should be delegated, co-sourced, or performed in-house. Additionally, the IAF can offer more than just fulfilling obligations, as it can provide subject matter expertise to help optimise IFM processes.

But helping IFMs become their best possible selves is not the only mission IAFs have been tasked with for the past one and a half years. In 2024, The Institute of Internal Auditors ("The IIA") issued the new Global Internal Audit Standards ("2024 Standards"), which have been in effect since 9 January 2025. IAFs themselves all over the world had to adjust to the new requirements.



As Investment Fund Manager, is your current internal audit program truly capable of uncovering your most critical vulnerabilities?

Navigating the regulatory landscape converting risk into opportunity with Deloitte Internal Audit Services



ON-SITE INSPECTIONS AND THEMATIC REVIEWS CONDUCTED BY THE CSSF

Recent CSSF observations following on-site inspections at IFMs revealed shortcomings, among others, in internal controls (25%), valuation (25%), and delegate supervision (18%). Valuation issues included deficiencies in the valuation models (50%), inadequate source data reviews (36%), and ineffective valuation committees (14%), with recommendations for stronger processes and oversight. ESG gaps arose from insufficient delegate supervision and controls and incomplete risk management process leading to new thematic inspections in late 2024. IFMs must ensure investment decisions are based on reliable research, even when portfolio management is delegated. Sanctions (2020-2024) mainly addressed failures in delegate oversight, governance, portfolio management and AML/CFT. CSSF continues to push for stronger governance and enhanced supervision at IFMs.

Source: CSSF Annual Report 2024

(*) Requires mandatory annual reviews (**) As per CSSF Annual Report 2024, these topics were subject to on-site inspections and thematic reviews by the CSSF

Focus points are best established by Internal Audit Functions based on the IFM's strategy and risk profile. Nevertheless, there are certain key areas which are a must to be considered, as summarised below.

INVESTMENT FUND MANAGERS

Current Regulatory Hot Topics

AIFMD II and UCITS VI Directive

intended to harmonise, clarify, and improve AIFMs and UCITS ManCos' delegation arrangements, liquidity risk management, supervisory reporting, the provision of depositary and custody services, and loan origination by alternative investment funds.

AML Package

introduces, for instance, stricter due diligence obligations, stricter requirements for crypto transfers, and a new European supervisory body – the Anti-Money Laundering Authority ("AMLA").

Digital Operational Resilience Act (DORA) consists of five pillars:

1. ICT risk management
2. ICT-related incident reporting
3. Digital operational resilience testing
4. ICT third-party risk management
5. Information sharing

MiFID III & MiFIR II

(for IFMs with a MiFID Top-up Licence)

changes include the removal of double volume cap, order routing for best execution, data reporting, and many more.

Attention Point *to be reviewed on an annual basis*

Anti-Money Laundering and Countering the Financing of Terrorism (as per Article 44 of the CSSF Regulation 12-02, as amended)

Remuneration Policy (as per Point 2.22 of the CSSF Circular 10/437)

Market Abuse for certain IFMs (as per Market Abuse Regulation (EU) No 596/2014)

MiFID/MiFIR for IFMs with a MiFID Top-up Licence

Annual Activity Reports of the Compliance Function, the Risk Management Function, and the Internal Audit Function as well as the Report on AML are to be submitted to the CSSF

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The Internal Audit and Controls Assurance Team provides a wide range of services, particularly Internal Audits, but also Assurance Engagements such as ISAE reports, internal control framework assessments and Agreed upon Procedures.

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