

# Audit, Risk and Compliance Committee – Terms of Reference

## 1. Constitution

1.1. The Audit, Risk and Compliance Committee is constituted as a committee of the Board of the Financial Ombudsman Service Limited.

1.2. The committee's terms of reference (ToR) may be amended at any time by the Board.

## 2. Authority

The committee is authorised by the Board to:

2.1. Undertake business within its ToR.

2.2. Seek any information it requires from any employee (all employees are directed to cooperate with any request made by the committee).

2.3. Obtain external legal or other professional advice.

2.4. Secure the attendance of anyone it considers has relevant experience, expertise or knowledge.

2.5. Publish in the directors' annual report details of any issues that cannot be resolved between the committee and the Board.

## 3. Membership

3.1. The committee shall be appointed by the nomination committee from amongst the Board membership and shall consist of not less than three members.

3.2. The chairman of the committee shall be appointed by the nomination committee.

3.3. In the absence of the committee chairman, the remaining members present shall elect one of their number to chair the meeting.

3.4. At least one member shall have recent and relevant financial experience.

3.5. Appointments to the committee shall be for the duration of a member's Board term, subject to periodic review, for example, when vacancies on the committee arise.

3.6. The chairman of the Board shall not be a member of the committee.

3.7. The Board secretary will provide secretariat support to the committee.

## 4. Meetings

4.1. Meetings shall be held at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.

4.2. The quorum necessary for the transaction of the business of the committee shall be at least two committee members.

4.3. Only members of the committee have the right to attend committee meetings.

Other individuals, including other Board, executive and staff members, may be invited to attend all or part of any meeting as and when appropriate.

4.4. At the request of the committee, a representative of the external and internal auditors shall attend meetings.

4.5. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed and the supporting papers, shall be forwarded to each member of the committee and any other person required to attend, no later than five working days before the date of the meeting.

## 5. Minutes of meetings

5.1. The Board secretary shall minute the proceedings and decisions of all committee meetings, including the names of those present.

5.2. Where possible, the minutes shall be prepared for the Chair's review within five working days of the meeting.

5.3. The chair will provide an oral update on committee business at the next Board meeting and minutes will be shared, once approved.

## 6. Responsibilities

### 6.1. Budget scrutiny and financial reporting

The committee shall:

- a) Provide initial scrutiny of the annual plans and budget.
- b) Review the consistency of, and any changes to, accounting policies on a year by year basis.
- c) Review the methods used to account for significant or unusual transactions where different approaches are possible.
- d) Consider whether the service has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor.
- e) Review and agree the clarity of disclosure in the service's financial reports and the context in which statements are made.
- f) Review and agree all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (including the position on compliance with the corporate governance code).

### 6.2. Internal controls and risk management systems

The committee shall:

- a) Review the adequacy and effectiveness of the service's internal control and risk management systems, conducting regular "deep dive" exercises on key areas of strategic importance, internal control or risk, including by:
  - Annually reviewing the risk management framework and assessing its effectiveness and alignment with the Service's purpose, values, strategy and culture.
  - Considering the Service's appetite for risk and its adherence to it, and making recommendations to the Board on potential changes to risk appetite or the framework that supports it.

- Considering viability scenarios under both normal and stressed conditions and the adequacy of the Service's resilience and business continuity plans.
  - Providing consolidated oversight of risks, including those within the remit of other committees.
  - Challenging management's understanding of the Service's principal emerging risks and assessment of principal risks relating to key change projects.
  - Periodically reviewing the effectiveness of the risk function.
  - Liaising and coordinating with other committees in relation to risks under their remit.
- b) Make recommendations to the Board on the policies and frameworks requiring Board approval.

### 6.3. Internal audit

The committee shall:

- a) Approve the appointment and removal of the internal audit provider.
- b) Monitor and review the effectiveness and independence of the service's internal audit provider in relation to (i) the agreed contract and associated KPIs; and (ii) how internal audit contributes to the development of the frameworks for risk, assurance and governance.
- c) Obtain suitable assurance from the internal audit provider that internal audit standards are met and appropriate quality assurance checks are in place.
- d) Review and agree the annual internal audit plan.
- e) Review internal audit reports.
- f) Review and monitor the management response and agreed actions to the findings and recommendations of the internal audit reports.
- g) Meet the internal audit provider at least once a year, without the executive being present, to discuss the remit and any issues arising from the internal audits carried out. The internal audit provider shall be given the right of direct access to the chairman of the Board and to the committee.
- h) Annually review the overall performance of the internal audit provider.
- i) Review and approve the Head of Internal Audit Opinion to be included in the directors' annual report about internal controls and risk management.

### 6.4. External audit

The Comptroller and Auditor General has been appointed as auditor to the service under the Financial Services and Markets Act 2000, as amended by the Financial Services Act 2012. The Companies Act provisions for the appointment and removal of auditors are therefore dis-applied.

The committee shall:

- a) Oversee the relationship with the external auditor.
- b) Agree its fees.
- c) Approve their terms of engagement, including any engagement letter issued at the start of each audit, and the scope of the audit, including the materiality threshold for reporting.

- d) Meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage.
- e) Meet the external auditor at least once a year, without management being present, to discuss its remit and any issues arising from the audit.
- f) Review the audit plan and ensure that it is consistent with the scope of the audit engagement.
- g) Review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
  - any major issues which arose during the audit
  - any accounting and audit judgments
  - levels of errors identified during the audit.
- h) Review the effectiveness of the audit including:
  - any representation letters requested by the external auditor before they are signed by management
  - the management letter and management's response to the external auditor's findings and recommendations
  - any other relevant reports by the external auditor.

#### 6.5. Compliance, whistleblowing and fraud

The committee shall, at least annually:

- a) Review the adequacy and security of the service's arrangements for its employees and its contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
- b) Review the service's systems and controls for preventing and detecting fraud and bribery and receive reports on non-compliance.
- c) Make recommendations to the Board on policies and frameworks requiring Board approval.

#### 6.6. Financial and other policies

The committee shall:

- a) Review the service's financial policies.
- b) Review the financial delegations and the associated limits.
- c) Review any other policy for which it has delegated responsibility under the schedule of matters reserved for the Board.
- d) Make recommendations to the Board on policies requiring Board approval.

## **7. Approval and reporting procedures**

The committee shall:

- 7.1. Make recommendations to the Board on matters requiring Board approval.
- 7.2. Make recommendations to the Board on any area within its remit where action or improvement is needed.
- 7.3. Produce an annual report on its activities for submission to the Board and for inclusion in the Directors' annual report.

## **8. Other matters**

The committee shall:

- 8.1. Have access to sufficient resources to carry out its duties, including access to the company and Board secretariat for assistance, as required.
- 8.2. Receive appropriate and timely training, both in the form of an induction programme for new members, and on an ongoing basis for all members.
- 8.3. Oversee any investigation of activities which are within its ToR.
- 8.4. Review its performance, constitution and ToR periodically (at least annually), and put forward any changes to its ToR to the Board for approval.