Financial Ombudsman Service

Audit committee

Terms of reference

1. Constitution

1.1. The audit committee is constituted as a committee of the board of the Financial Ombudsman Service Limited.
1.2. The committee's terms of reference may be amended at any time by the board.
1.3. The committee may from time to time investigate, discuss or review matters outside its terms of reference if required to do so by the board.

2. Authority

The committee is authorised

2.1. to seek any information it requires from any employees of the company in order to perform its duties
2.2. to obtain, at the company's expense, outside legal or other professional advice on any matter within its terms of reference
2.3. to call any employee to be questioned at a meeting of the committee as and when required
2.4. to have the right to 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 board from amongst its members and shall consist of not less than three members.
3.2. The chairman of the committee shall be appointed by the board.
3.3. Members of the committee shall be non-executive directors at least one of whom shall have recent and relevant financial experience.
3.4. The chairman of the board shall not be a member of the committee.
3.5. Appointments to the committee shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the director still meets the criteria for membership of the committee.
3.6. The company secretary is secretary to the committee and also a member of the committee.

4. Attendance at Meetings

4.1. The quorum necessary for the transaction of the business of the committee shall be at least two committee members (including the chairman).
4.2. Only members of the committee have the right to attend committee meetings. However, other individuals such as the chairman of the board, CEO, finance director, other directors (non-executive and executive) and members of staff may be invited to attend all or part of any meeting as and when appropriate.
4.3. At the request of the committee a representative of the external and internal auditors shall attend meetings.

5. Frequency of meetings

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

6. Notice of meetings

6.1 Meetings of the committee shall be called by the secretary of the committee at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.

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

7. Minutes of meetings

7.1 The secretary shall minute the proceedings and decisions of all meetings of the committee, including recording the names of those present and in attendance.

7.2 The minutes of committee meetings shall normally be considered at the board meeting following the committee meeting.

8. Duties

8.1 *Financial reporting*

The committee shall review and challenge where necessary

a) the consistency of, and any changes to, accounting policies on a year by year basis
b) the methods used to account for significant or unusual transactions where different approaches are possible
c) whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor
d) the clarity of disclosure in the company's financial reports and the context in which statements are made; and
e) all material information presented with the financial statements, such as the business review/operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

8.2 *Internal controls and risk management systems*

The committee shall

a) keep under review the adequacy and effectiveness of the company's internal financial controls and internal control & risk management systems; and
b) review and approve the statements to be included in the directors' annual report about internal controls and risk management.

8.3 *Compliance, whistleblowing and fraud*

The committee shall

a) review the adequacy and security of the company'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 company's procedures for detecting fraud
c) review the company's systems and controls for the prevention of bribery and receive reports on non-compliance

8.4 *Internal audit*

The committee shall

a) monitor and review the effectiveness of the company's internal audit function in the context of its overall risk management system
b) approve the appointment and removal of the internal auditor
c) review and assess the annual internal audit plan
d) review reports from the internal auditor to the committee
e) review and monitor the executive's reaction to the findings and recommendations of the internal auditor
f) meet the internal audit partner 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 audit partner shall be given the right of direct access to the chairman of the board and to the committee.

8.5 *External audit*

The committee shall

a) consider and make recommendations to the board in relation to the appointment, re-appointment and removal of the company's external auditor. The committee shall oversee the selection process for a new auditor and, if an auditor resigns the committee shall investigate the issues leading to his and decide whether any action is required.
b) review and monitor the external auditor's independence, objectivity and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures
c) oversee the relationship with the external auditor including (but not limited to)
    i. recommendations on their remuneration whether fees for audit or non-audit services, and that the level of fees is appropriate to enable an adequate audit to be conducted
    ii. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit
    iii. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company (other than in the ordinary course of business)
    iv. monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements
    v. seeking to ensure co-ordination with activities of the internal auditor

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. The committee shall meet the external auditor at least once a year, without the executive being present, to discuss the auditor's remit and any issues arising from the audit
e) review and approve the annual audit and ensure that it is consistent with the scope of the audit engagement
f) review the findings of the audit with the external auditor. This shall include
   i. a discussion of nay major issues which arose during the audit
   ii. any accounting and audit judgements
   iii. levels of errors identified during the audit
   iv. the effectiveness of the audit

The committee shall also

g) review the management letter and management's response to the auditor's findings and recommendations
h) develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

9. Reporting Procedures

9.1 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

9.2 The committee shall produce a report on its activities for inclusion in the directors' annual report.

10. Other matters

The committee shall

10.1 have access to sufficient resources to carry out its duties, including access to the company secretariat for assistance as required

10.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members

10.3 be responsible for co-ordination of the internal and external auditors

10.4 oversee any investigation of activities which are within its terms of reference

10.5 arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

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