

## **Audit and Risk Committee**

### **Terms of Reference**

#### **Purpose**

The purpose of the Audit and Risk Committee ('the Committee') is to support and advise the Accounting Officer (The Chief Executive) and the Board by providing oversight of the company's financial reporting process and use of public funds, corporate governance, the audit process, the system of internal controls including business continuity and information technology, the identification and management of significant risks and its compliance with laws and regulations.

The Committee provides assurance to the Board and, when it is not satisfied with any aspect of the FRC's internal controls or reporting, it shall report its views to the Board and the Accounting Officer.

The Audit and Risk committee should provide the Board with advice on the continued appropriateness of the risk strategy and risk appetite in light of the organisation's purpose, values, corporate strategy and strategic objectives.

#### **1 Membership**

- 1.1 The Committee is a Governance Committee of the Board.
- 1.2 Membership shall comprise a minimum of three independent non-executive directors, appointed by the Board, following recommendations of the People Committee.
- 1.3 To ensure the independence of the Committee, the membership of the Committee shall not include the Chair of the Board, or any executive directors.
- 1.4 Additional non-executive members may be co-opted to the Committee on approval of the Board, following recommendation from the People Committee.
- 1.5 At least one member of the Committee shall have recent and relevant financial experience. All members must have and maintain a good understanding of financial matters and accepted good practice in the areas of risk and controls. The Committee, collectively, shall have good range of skills and competence relevant to accounting, audit, risk management, financial governance and technical issues as relevant to the organisation.
- 1.6 Appointments to the Audit & Risk Committee shall be for a period of up to three years, which may be extended for additional terms by approval of the Board. Termination of a non-executive Board director's term on the Board will also result in the termination of their membership of the Audit and Risk Committee.

#### **2 Quorum**

- 2.1 A meeting shall be quorate when at least two members of the Committee are in attendance. Attendance is defined as the ability able to hear, speak and vote at the same time as other members.
- 2.2 Only members of the Committee shall have the right to vote.

- 2.3 Decisions of the Committee will be taken by majority. In the case of equal votes, the Chair of the Committee will have a casting vote or can refer the matter up to the full Board for further consideration.

## **2 Authority**

- 2.1 The Committee is authorised by the Board:
- (a) to investigate any matter within its terms of reference;
  - (b) to obtain, at the FRC's expense, outside legal or other independent professional advice (within budgetary constraints imposed by the Board) on any matter within its terms of reference;
  - (c) to secure the attendance of outsiders with relevant experience and expertise at meetings if it considers this necessary;
  - (d) to seek any information it requires from any employee of the FRC in order to fulfil its role; and
  - (e) publish within the Annual Report and Accounts details of any issues that cannot be resolved between the Audit and Risk Committee and the Board.

## **3 Secretary**

- 3.1 The Company Secretary or his/her nominee shall act as Secretary of the Committee (the Secretary).

## **4 Frequency of Meetings**

- 4.1 The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle, and otherwise as required. The Committee may consider and decide urgent matters through correspondence. Written Resolutions of the Committee shall be recorded by the Secretary.

## **5 Attendance at Meetings**

- 5.1 Only members of the Committee have the right to attend Committee meetings. However, relevant executive directors or their nominees will normally be invited by the Chair of the Committee to attend meetings. The Accounting Officer, Executive Director of Corporate Services & General Counsel, the Finance Director, Risk Manager, Lead external audit partner and the Head of Internal Audit or, if outsourced, the party carrying out the internal audit function, will be invited to attend meetings of the Committee on a regular basis.
- 5.2 Other post-holders, Senior Advisors, members of the Advisory Panel and external advisors may be invited by the Chair to attend all or part of any meeting, as and when appropriate.
- 5.3 At least once a year the Committee will meet with the external auditors and the Head of Internal Audit or if outsourced, the party carrying out the internal audit function without management being present.
- 5.4 The Committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters.
- 5.5 Observers may be invited to meetings.

## **6 Notice of Meetings**

- 6.1 Meetings of the Committee shall be convened by the Secretary at the request of any of its members or at the request of the 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, no later than 5 working days before the date of the meeting.

## **7 Minutes of Meetings**

- 7.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.
- 7.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

## **8 Authority**

- 8.1 The Committee is authorised by the Board:
- a. to investigate any matter within its terms of reference;
  - b. to obtain, at the FRC's expense, outside legal or other independent professional advice (within budgetary constraints imposed by the Board) on any matter within its terms of reference;
  - c. to secure the attendance of outsiders with relevant experience and expertise at meetings if it considers this necessary;
  - d. to seek any information it requires from any employee of the FRC in order to fulfil its role; and
  - e. publish within the Annual Report and Accounts details of any issues that cannot be resolved between the Audit and Risk Committee and the Board.

## **9 Responsibilities**

### *9.1 Financial reporting*

- a. Receive routine reports on financial performance, including progress against agreed budget and any reforecasting exercises.
- b. Review and monitor financial performance and the integrity of the FRC's financial statements, including its annual report and any other formal announcement relating to its financial performance.
- c. Report to the Board on significant financial reporting issues and judgments which they contain having regard to the matters communicated to it by the auditors. In addition, the Committee will review key matters on their own initiative.
- d. Review and advise the Board and the Accounting Officer on standards and propriety in the organisation and achievement of value for money, in line with the principles of Managing Public Money.
- e. Review and challenge where necessary:
  - (i) Assurances about the financial systems which provide the figures for the accounts and the quality of controls over the preparation of accounts.
  - (ii) The consistency of, and any changes to, accounting policies both on a year on year basis and across the FRC;
  - (iii) The methods used to account for significant or unusual transactions where different approaches are possible;
  - (iv) Whether the FRC has adopted appropriate accounting policies and made appropriate estimates and judgments, taking into account the views of the external auditor;

- (v) The clarity, consistency and transparency of disclosures in the FRC's financial report and governance statement (insofar as it relates to audit and risk management);
  - (vi) All material information presented with the financial statements, such as the strategic report; and
  - (vii) The appropriateness of the going concern basis of accounting and the disclosure of any related uncertainties.
- f. The Committee shall approve unbudgeted capital or operating expenditures in excess of £200,000.

## 9.2 *Narrative reporting*

The Committee shall review the content of the annual report and accounts and advise the Board on whether in the Committee's opinion, taken as a whole, it is fair, balanced and understandable and provides the information necessary for the members of the FRC and the FRC's stakeholders to assess its performance, business model and strategy.

## 9.3 *Internal audit*

- a. consider and challenge the effectiveness of internal audit;
- b. make recommendations to the Board in relation to the appointment, reappointment and removal of the Head of Internal Audit if the function is in-house or, if outsourced, the entity carrying out the Internal Audit function;
- c. if the Internal Audit function is in-house, consider and approve the remit of the internal audit function;
- d. ensure the Internal Audit Function (whether in house or outsourced) has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards;
- e. consider promptly all reports from the Internal Auditor;
- f. annually approve the internal audit programme and consider the major findings of internal audit reviews and review and monitor the adequacy of management's response to the findings and where they are accepted by management, ensure recommendations are implemented;
- g. periodically monitor and review the effectiveness of the FRC's Internal Audit function in the context of the FRC's overall risk management system;
- h. review annually the independence and effectiveness of the Internal Audit function and ensure that the flow of information is appropriate and timely;
- i. meet with the Head of Internal Audit at least once in each year, without executive members or staff being present, to discuss the internal audit remit and any issues arising from the internal audits carried out.
- j. ensure the internal auditors have a right of direct and confidential access to the Chairman of the Board, the Accounting Officer and the Chairman of the Audit Committee.

## 9.4 *Internal controls, risk management systems and governance*

- a. Receive an annual report from the internal auditors, including their opinion of the organisation's risk management and internal control framework, summarising the work performed, key issues emerging, management responses to audit recommendations and any resourcing issues affecting the delivery of the objectives of the internal audit.
- b. Keep under review the effectiveness of the FRC's internal control and risk management systems, including the financial controls, and report to the Board at least on an annual basis;

- c. In relation to risk management:
  - a. review at least twice a year the FRC's Risk Register and specifically, the current risks to the FRC; the risks to its strategy and objectives; and the management and mitigation of those risks;
  - b. review the FRC's capability to identify and manage new risks;
  - c. review reports on any material breaches of risk limits and the adequacy of proposed action; and
- d. Review and recommend to the Board the disclosures included in the annual report in relation to internal control and risk management.
- e. The Committee should provide the Board with advice on the continued appropriateness of the risk strategy and risk appetite in light of the organisation's purpose, values, corporate strategy and strategic objectives.
- f. Review bi-annual updates on complaints received and managed by the FRC.
- g. Consider whether the FRC's corporate governance arrangements comply with relevant legal requirements, public body requirements and the UK Corporate Governance Code.
- h. Evaluate the FRC's cyber resilience by seeking assurance there is an appropriate framework in place to properly manage the cyber risk and that continuous monitoring and improvement initiatives are adopted and sustained. The Committee shall pay particular attention to the cyber security governance arrangements, controls framework, structures and resources, incidence response arrangements and people training and awareness.
- i. Monitor and periodically advise the Board on the overall effectiveness of the organisation's risk arrangements includes quality and appropriateness of the organisation's risk information and reporting and that risk culture expectations are appropriately embedded in the organisation's strategy and appetite.
- j. Annually review and recommend for Board consideration and approval, proposed material changes to the organisation's risk management framework.
- k. Notify the Board and Accounting Officer promptly of actual or likely material breaches of risk appetite.
- l. Challenge whether executive management has a sound understanding of the organisation's principal and emerging risks.
- m. Consider whether executive management's attitude towards and treatment of the Head of Risk, and their approach to internal control function and external audit recommendations, is supportive of a healthy risk culture.
- n. Review the Internal controls framework and hold individuals to account with appropriate support from the risk management team.

#### 9.5 *Whistleblowing and fraud*

- a. Review the FRC's arrangements for its employees to raise concerns, in confidence, about possible improprieties 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. Receive a report on any whistleblowing events raised by employees, who they were raised with and how they were dealt with and confirm that any individuals raising genuine concerns were not penalised or adversely affected;
- c. Review the FRC's procedures for detecting, responding and preventing fraud;
- d. Review the FRC's systems and controls for the prevention of bribery and receive reports on non-compliance.

#### 9.6 *External Audit*

- a. consider and challenge the effectiveness of external audit;

- b. Consider and make recommendations to the Board, to be put to the members of the FRC for approval at the AGM, in relation to the appointment, re-appointment and removal of the FRC's external auditor;
- c. Oversee the selection process for new auditors; and
- d. If an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- e. Oversee the relationship with the external auditor including (but not limited to):
  - recommending their remuneration for audit services and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;
  - approval of the external auditors' terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole;
  - satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the FRC (other than in the ordinary course of business);
  - agreeing with the board a policy on the employment of former employees of the FRC's auditor, then monitoring the implementation of this policy;
  - monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners;
  - assessing annually their qualifications, expertise and resources and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
  - seeking to ensure co-ordination with the activities of the internal audit function;
- f. Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- g. Review the findings of the audit with the independent external auditor. This shall include but not be limited to, the following:
  - a discussion of any major issues which arose during the audit
  - any accounting and audit judgments
  - levels of errors identified during the audit
  - the effectiveness of the audit;
- h. Review, and recommend to the Board, any representation letter(s) requested by the external auditor before they are signed;
- i. Review the management letter and management's response to the auditor's findings and recommendations;
- j. Ensure that the external auditor is not engaged to provide any non-audit services and that any audit related services are provided in a manner consistent with the FRC's own guidance and applicable standards;
- k. Ensure that auditor rotation and/or retendering is undertaken in a manner consistent with the FRC's own guidance and applicable standards;
- l. The Committee shall meet the external auditor at least once a year, without executive members or staff present, to discuss their remit and any issues arising from the audit.

## 9.7 Other

- a. Assess the FRC's procedures for business continuity planning and disaster recovery;
- b. Advise the FRC Board on the FRC's oversight of the UK Endorsement Board;

- c. Consider other topics, and oversee other activities, as directed by the Board or suggested by the Accounting Officer. Oversee the coordination of the internal and external auditors.
- d. The Committee shall oversee the effectiveness of the IT function, including its strategy, effectiveness and security measures and report accordingly to the Accounting Officer and Board.

## **10. Reporting Responsibilities**

- 10.1 The Chair of the Committee will provide an update (written or oral) to the Board and Accounting Officer after each meeting.
- 10.2 The Committee Chair shall make a statement in the FRC Annual Report about its activities including the frequency of, and attendance by members at, Committee meetings.
- 10.3 The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and all other information requirements set out in the FRC's Corporate Governance Code.
- 10.4 The Committee shall have the right to report on any unresolved issue between the Board and/or the Accounting Officer and the Committee in the FRC Annual Report.

## **11. Other**

- 11.1 The Committee shall review its own performance and terms of reference and report to the Board and shall implement and/or recommend any necessary changes.

**Approved by the Board with effect from 1 April 2022.**