

**FINANCIAL SERVICES COMPENSATION SCHEME  
TERMS OF REFERENCE  
AUDIT and RISK COMMITTEE**

**Membership and attendance**

1. The Audit and Risk Committee (“ARC”) shall consist of three independent non-executive directors, one of whom shall act as Chair and one of whom shall act as Vice Chair. The Board shall appoint members of the Committee, the Committee Chair and the Committee Vice Chair, on the recommendation of the Nomination and Governance Committee. At least one member shall be a person with recent and relevant financial experience and at least one member shall be a person with recent relevant risk experience. The FSCS Chair shall not be an ARC member.
2. The Committee may invite other individuals to attend meetings as appropriate and necessary, and the Chief Executive, Chief Financial Officer and the Head of Risk and Compliance are expected to attend all meetings at the Committee’s invitation.

**Role and Duties**

3. The ARC’s role is to assist the Board in fulfilling its oversight responsibilities. As a Committee of the Board, the ARC reports to the Board. Any disputes between the Board and the Committee must be resolved at Board level. The ARC will review the financial reporting process, the system of internal control, the audit process, the risk appetite/tolerance statement, FSCS’s risk management approach and the company’s process for monitoring compliance with laws, regulations and other obligations, and from time to time items allocated to it by the Board. In performing this role, the Committee shall determine the format and overall content of the risk reporting suite provided to the ARC, which it may vary from time to time.
4. The Committee will carry out these review functions in the following areas:
  - (a) the preparation of the Annual Report and Accounts for approval of the Board, including the consistency of the accounting policies and practice, compliance with laws and accounting standards, internal control statements and major matters of judgement, and any assurance statements made to HM Treasury as may be required from time to time; also, advising the Board on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides sufficient information to enable the company’s performance, business model and strategy to be assessed;
  - (b) internal audit:
    - approve the internal audit plan;

- approve any internal audit policy, charter or equivalent;
  - review the activities and organisational structure of the internal audit function, and make recommendations to the Board on the appointment or dismissal of any external organisation to provide internal audit services; where there is no internal audit function, there should be an explanation for the absence, how internal assurance is achieved and how this affects the work of external audit;
  - review whether or not the internal auditor's activities have been restricted or limited in any way;
  - review the independence and effectiveness of the internal audit function;
  - review the findings of the internal auditor and management's response to points raised (meeting privately with the internal auditor where appropriate);
- (c) review the quality, reliability and effectiveness of the external audit function;
- (d) review the internal control system, together with statements from management and the external auditor on internal controls and on compliance of the Scheme's corporate governance with best practice in the corporate sector, so far as appropriate, and report to the Board accordingly;
- (e) review the adequacy and integrity of financial records and management accounts;
- (f) review an annual report on the expenses incurred by the Chair and Board members collectively, showing separately travel, entertainment and any other significant item of expense; and
- (g) review the procedures for handling allegations from whistleblowers, approve the whistleblowing policy and carry out an annual review of the application of the whistleblowing policy.
5. In relation to the external audit function at paragraph (c) above, the Committee will, in particular:
- (a) advise and make recommendations to the Board on the appointment, re-appointment, resignation and dismissal of the external auditor - under the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012), the Comptroller and Auditor General has been appointed as external auditor of FSCS and the Companies Act provisions relating to the appointment and removal of auditors are disapplied;
  - (b) approve the external auditor's remuneration;

- (c) review with the external auditor the scope and nature of the audit and access of the auditors to all information they may need, advising the Board as necessary;
- (d) advise the Board on the results of the audit of the annual financial statements proposed for submission to the Board including significant adjustments resulting from the audit and any other matter affecting the audit of the accounts which may be of relevance to the Board;
- (e) review any management letter written by the external auditor and management's response, advising the Board as necessary;
- (f) discuss problems and reservations arising from the audit and any other issues that the external auditor may wish to raise (in the absence of management where appropriate);
- (g) carry out an annual review of the effectiveness of the external audit function; and
- (h) review the independence of the external auditor and approve any policy for the provision of non-audit services by the external auditor.

6. In relation to risk matters, the Committee will:

- (a) advise the Board on the Scheme's tolerance of risk and risk appetite, recognising that, as a Scheme of last resort, FSCS is bound to respond to financial failures giving rise to eligible claims for compensation;
- (b) oversee and advise the Board on current risk exposures and their relationship to agreed tolerances;
- (c) consider the Scheme's preparedness to respond to future contingencies, including major failures, and whether the level of preparedness is appropriate to the likelihood and impact of the various eventualities;
- (d) consider and advise on arrangements for testing the organisation's contingencies arrangements and plans, including relations with the Financial Conduct Authority, Bank of England / Prudential Regulation Authority and HM Treasury and the scope for practising implementation of the plans alongside FSCS's principal partners;
- (e) review the Scheme's arrangements for disaster recovery and whether those arrangements are proportionate to potential threats to the continuous delivery of the Scheme's aims;
- (f) review the risks to the Scheme's adherence to its obligations under relevant laws, regulations and other obligations;

- (g) keep under review the Scheme's overall approach to identifying and managing risks, including its capability to identify and manage new risks, and approve any risk policy;
- (h) consider and approve the remit of the Scheme's risk management and compliance function and ensure that it is able to operate effectively and independently, with adequate resources and access to information to meet relevant professional standards;
- (i) review reports on any material breaches of the Scheme's risk tolerances and the adequacy of the actions proposed to re-establish compliance with those tolerances;
- (j) receive and review reports from the Head of Risk and Compliance who shall have a right of direct access to the Chair of the Committee;
- (k) review and approve statements to be included in the Annual Report or provided to partner bodies about risk management in the Scheme;
- (l) take responsibility for risk disclosure in the FSCS Annual Report and Accounts;
- (m) support the Chief Executive and Head of Risk and Compliance in improving the standards and maturity of risk management, including by setting a timetable for improvement;

and advise the Board as appropriate.

### **Authority**

7. The Committee is authorised by the Board to:
- (a) carry out its review and decision-making functions within its terms of reference;
  - (b) seek any information it requires from any employee or Board member of the company in order to perform its duties; and
  - (c) obtain, at the company's expense, outside legal or other professional advice on any matter within its terms of reference.

### **Meetings**

8. The Committee shall meet at least four times a year, on a date before Board meetings, so as to be able to effectively give recommendations to the Board, the dates of meetings being notified by the Company Secretary with 6 to 12 months' notice.

9. The Company Secretary, or their nominee, shall act as the secretary of the Committee, and shall minute the proceedings and resolutions of all Committee meetings. Minutes of Committee meetings shall be circulated to Committee members for approval, and presented to the Board at the next Board meeting.
10. The quorum necessary for the transaction of business shall be three members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
11. The internal auditor will similarly normally attend at least one meeting a year and may attend other meetings.
12. The external and internal auditors have the right to raise any issue with the Chair of the Committee, or to request a meeting with the Committee, at any time.
13. The Committee shall have meetings or discussions, at least once a year, with each of the following:
  - the external auditor (without the Executive being present)
  - the internal auditor (without the Executive being present)

### **Reporting Responsibilities**

14. The Committee Chair or their nominee shall report formally to the Board on the Committee's proceedings after each meeting on all matters within its duties and responsibilities. Minutes of Committee meetings shall be circulated to all members of the Board, unless a conflict of interest exists, where that conflict may be redacted.
15. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action is needed.
16. A report on the Committee's activities shall be produced for inclusion in FSCS's Annual Report.

### **Other**

17. The Committee or the Board (as agreed from time to time) should evaluate the performance of the Committee on an annual basis.
18. The Committee should review and update its terms of reference at least once annually and receive approval of changes from the Board.

***(Approved 15 April 2025)***