

FINANCIAL SERVICES COMPENSATION SCHEME

TERMS OF REFERENCE

AUDIT COMMITTEE

Membership

1. The Audit Committee shall consist of at least three independent non-executive directors, one of whom shall act as Chairman. The Board shall appoint members of the Committee and the Committee Chairman. At least one member shall be a person with recent and relevant financial experience. One member (but not the Committee Chairman) shall be the Chairman of the Risk Committee. The FSCS Chairman shall not be an Audit Committee member.

Role and Duties

2. The Audit Committee's role is to assist the Board in fulfilling its oversight responsibilities. As a Committee of the Board, the Audit Committee reports to the Board. Any disputes between the Board and the Committee must be resolved at Board level. The Audit Committee will review the financial reporting process, the system of internal control, the audit process and the company's process for monitoring compliance with laws and regulations.
3. 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 by FSCS's Accounting Officer 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;

- 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 Chairman and Board members collectively, showing separately travel, entertainment and any other significant item of expense;
- (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; and
- (h) review the arrangements for monitoring and reporting health and safety at work – this will be a standing item on each Committee meeting agenda and will be the subject of a report to the Board at least annually.
4. 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.

Authority

- 5. 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 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

- 6. The Committee shall meet at least three times a year (ideally four), dates of meetings being notified by the Company Secretary as and when arranged.
- 7. Two members must be present for the Committee to be quorate.
- 8. The Committee may investigate any activity, seek information and obtain

for itself outside legal or independent professional advice.

9. Any non-executive director has the right to attend, and the Chief Executive will normally attend, any meeting of the Audit Committee; the Scheme's external auditor will normally attend at least one meeting of the Committee each year, but may attend additional meetings either by invitation or at their own request. The internal auditor will similarly normally attend at least one meeting a year and may attend other meetings.
10. The external and internal auditors have the right to raise any issue with the Chairman of the Committee, or to request a meeting with the Committee, at any time.
11. 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

12. The Committee Chairman 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.
13. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action is needed.
14. A report on the Committee's activities shall be produced for inclusion in FSCS's Annual Report.

Other

15. The Committee should evaluate its own performance on an annual basis.
16. The Committee should review and update its terms of reference from time to time and receive approval of changes from the Board.

(18 February 2020)