

Terms of Reference for the FSA Audit and Risk Committee - Board Operating Framework

The FSA Audit and Risk Committee (ARAC) advises the FSA Board on governance, risk management, and control environment, endorsing the Annual Reports and Accounts and overseeing the integrity of financial statements without executive authority.

Purpose: The Audit and Risk Assurance Committee (ARAC) is an advisory Committee of the FSA Board with no executive powers. It is responsible for reviewing, in a nonexecutive capacity, the comprehensiveness and reliability of assurances on governance, risk management and the control environment. The ARAC will approve the Annual Reports and Accounts (ARAs) on behalf of the FSA Board, with the recommendation that the Accounting Officer sign the accounts on approval. It shall additionally have responsibility for reviewing the integrity of financial statements.

Membership: A minimum of four Members of the FSA Board appointed by the FSA Chair under delegated powers following consultation with the Committee Chair. At least one of those appointed will be a Board Member for Wales or Northern Ireland.

The term of appointment will normally be coterminous with an individual's term of appointment to the FSA Board and will automatically cease if an individual ceases to be a Board Member.

At least one of the Committee members should have recent and relevant financial experience.

All new members will be provided with induction training and the FSA will provide for any additional development which is deemed necessary for the member to fulfil their role on the Committee. The Chair of the ARAC will hold an annual review with each member and any training or development needs will be taken forward with the agreement of the Chair and Accounting Officer.

Committee Chair: Appointed from the membership of the Committee by the Chair of the FSA under delegated powers. The term of appointment will normally be coterminous with an individual's term of appointment to the FSA Board.

Co-option: The Committee may co-opt additional members (whether members of the FSA Board or not) for a period of up to one year to provide specialist skills, knowledge or experience. Co-opted members will have a right to speak, but not vote. Co-opted members will not be included in any calculation of the quorum.

Quorum: Three Non-Executive Board Members.

Attendance: The Chief Executive, as Accounting Officer, the Director of People and Resources, the Deputy Director of Finance and Planning, the Head of Planning and Performance, the Head of Internal Audit, the Head of Delivery Assurance and a representative of the external auditors would normally be invited to attend. Directors and other officials will be invited to attend as required.

Reporting: The ARAC Chair will provide the Chair of the FSA and the Board with a written update on the key elements of Committee meetings. The ARAC will report formally in writing to the Board, annually, to support the finalisation of the accounts and the Governance Statement and to update the Board on the work of the Committee, internal and external audit and any areas

requiring specific attention.

Meetings: The ARAC will meet at least four times a year. The Chair of the Committee will convene additional meetings as necessary. The Committee has the right to sit privately without any non-members present for all or part of a meeting. Additionally, the members of the Committee will meet with the Head of Internal Audit and, separately, the External Auditors, annually, in closed meetings when the efficacy of the processes, trust, co-operation and any other issues can be discussed, and future action agreed. The FSA Chair, the Board or the Accounting Officer may ask the ARAC to convene further meetings to discuss specific issues on which they want the Committee's advice.

Responsibilities:

The ARAC will advise the FSA Board and Chief Executive on:

1. The strategic processes for risk management, the high-level control and governance framework and the effectiveness of its operation in practice
2. The contents of the Governance Statement
3. The accounting policies, the accounts, and the annual report of the FSA, including the judgements used in producing the accounts, the adequacy of disclosures, the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors
4. The effectiveness of the design and operation of financial systems and controls
5. The planned activity and results of internal, regulatory and external audit and the results of other, external assurance reports
6. The resourcing and effectiveness of the internal audit function
7. Provide independent scrutiny of the audit process of the regulatory audit system
8. The adequacy of the management response to issues identified by audit activity, including external audit management letters
9. Assurances relating to the corporate governance requirements for the organisation
10. Proposals for tendering for either internal or external audit services or for the purchase of non-audit services from contractors who provide audit services
11. Counter-fraud and internal whistle-blowing policies and processes, and arrangements for special investigations; and
12. The Committee's effectiveness having reviewed its own performance, constitution and terms of reference and recommending any changes it considers necessary

Information Requirements:

The ARAC will be provided with, where appropriate:

1. Any changes to the organisation's Corporate Risk Register that are relevant to the responsibilities of the Committee
2. The risk management strategy
3. Management assurance reports, and reports on the management of major incidents (which are relevant to governance, risk management and internal control) 'near misses' and lessons learned including those from serious case reviews
4. A bi-annual overview of external complaints and related data
5. An annual report of FSA's Senior Civil Servant's declarations of interest
6. An annual report on and the performance of the FSA's arrangements for counter fraud, bribery and corruption
7. Information Security annual report and periodic updates
8. Environmental, climate change and net zero annual update
9. Progress reports from both the Head of Internal Audit and Head of Delivery Assurance summarising:

10. - work performed (and a comparison with work planned)
 - key issues emerging from their respective audit work
 - management action in response to issues identified and agreed
 - changes to their respective audit plans
 - any resourcing issues affecting the delivery of their objectives

11. Progress reports from the External Audit representatives summarising work done and emerging findings
12. External assurance and compliance reports in relation to the FSA's activities
13. Internal audit and regulatory audit strategies and annual plans
14. The Head of Internal Audit's Annual Opinion and Report
15. An annual report summarising the results of regulatory audits including an overall assessment / opinion on the effectiveness of official controls
16. Quality Assurance reports on the internal audit and regulatory audit functions
17. The draft accounts of the organisation
18. The draft Governance Statement
19. Any changes to accounting policies
20. Proposals to tender for audit functions
21. Summary of findings of every internal audit and regulatory audit report
22. External Audit's management letter; and
23. A report on cooperation between the FSA auditors and external auditors

The ARAC will work with the FSA's Executive Management Team to ensure that the Board can be confident that risk management processes, content, mitigating and recovery actions are appropriate and correctly resourced.

Notes

1. The Chair of the ARAC will have free and confidential access to the Chair and Chief Executive of the FSA whenever appropriate
2. The Head of Internal Audit and the representatives of External Audit will have free and confidential access to the Chair of the Committee
3. The Committee may procure specialist ad-hoc advice at the expense of the FSA, subject to the cost being agreed by the Chief Executive as Accounting Officer

(Agreed by the Board December 2023).