



Financial Reporting Council

Audit and Risk Committee

Terms of Reference

1st June 2023

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, audit process, system of internal controls (including business continuity and information technology), identification and management of significant risks, and compliance with laws and regulations.

1 Membership

- 1.1 The Committee is a Governance Committee of the FRC Board ('the Board').
- 1.2 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 a good range of skills and competence relevant to accounting, audit, risk management, financial governance and technical issues, as relevant to the FRC.
- 1.3 In addition to these Terms of Reference, members of the Committee must adhere to the General Committee Terms contained in the FRC Governance Handbook.

2 Frequency of Meetings

- 2.1 The Committee shall meet at least four times a year.

3 Responsibilities

The Committee has the following responsibilities:

Financial reporting

- 3.1 Review and monitor financial performance and receive routine reports on financial performance, including progress against agreed budget and any reforecasting exercises.
- 3.2 Review the integrity of the FRC's financial statements, including its annual report and any other formal announcement relating to its financial performance.
- 3.3 Report to the Board on significant financial reporting issues and judgments, having regard to the matters communicated to it by the auditors. In addition, the Committee will review key matters on their own initiative.
- 3.4 Review and advise the Board and the Chief Executive, as Accounting Officer, on standards and propriety in the organisation and achievement of value for money, in line with the principles of Managing Public Money.
- 3.5 Approve any significant changes in accounting policies or practices.
- 3.6 Review and challenge where necessary:

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- a. Assurances about the financial systems which provide the figures for the accounts and the quality of controls over the preparation of accounts;
 - b. The consistency of, and any changes to, accounting policies both on a year-on-year basis and across the FRC;
 - c. The methods used to account for significant or unusual transactions where different approaches are possible;
 - d. Whether the FRC has adopted appropriate accounting policies and made appropriate estimates and judgments, taking into account the views of the external auditor;
 - e. 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);
 - f. All material information presented with the financial statements, such as the strategic report; and
 - g. The appropriateness of the going concern basis of accounting and the disclosure of any related uncertainties.
- 3.7 The Committee shall approve unbudgeted capital or operating expenditures in excess of 0.5% of turnover.

Narrative reporting

- 3.8 The Committee shall review the content of the annual report and accounts and advise the Board in respect of whether the Committee considers that, 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.

Internal audit

- 3.9 Approve the appointment, re-appointment 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 (the 'internal auditor').
- 3.10 Ensure the internal auditor has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.
- 3.11 Annually approve the internal audit programme, consider the major findings of internal audit reviews, review and monitor the adequacy of management's response to the findings, and, where accepted by management, ensure recommendations are implemented.
- 3.12 Periodically monitor and review the independence and effectiveness of the FRC's internal audit function.
- 3.13 Meet with the Head of Internal Audit at least once in each year, without executive members or staff present, to discuss the internal audit remit and any issues arising from the internal audits carried out.

3.14 Ensure the internal auditor has a right of direct and confidential access to the Chair of the Board, Chief Executive and Chair of the Committee.

3.15 Approve the MoU & Audit Charter of the FRC's Internal Audit function.

Internal controls, risk management systems and governance

3.16 Receive an annual report from the Internal Auditor, 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.

3.17 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.

3.18 In relation to risk management, review:

- a. the FRC's Risk Register and, specifically, the current risks to the FRC, the risks to its strategy and objectives (including climate related emergency risks), management and mitigation of those risks;
- b. the FRC's capability to identify and manage new risks; and
- c. reports on any material breaches of risk limits and the adequacy of proposed action.

3.19 Provide assurance to the Board on the disclosures included in the annual report in relation to internal control and risk management.

3.20 Provide the Board with advice on the continued appropriateness of the risk management approach and risk appetite in light of the FRC's purpose, values, corporate strategy and strategic objectives.

3.21 Annually review and recommend proposed material changes to the organisation's risk management framework for the Board's consideration and approval.

3.22 Promptly notify the Board and Chief Executive of actual or likely material breaches of risk appetite.

3.23 Challenge whether executive management has a sound understanding of the FRC's principal and emerging risks.

External Audit

3.24 Make recommendations to the members of the FRC in relation to the appointment, and removal of the FRC's external auditor.

3.25 If an auditor resigns, investigate the issues leading to this and decide whether any action is required.

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- 3.26 Oversee the relationship with the external auditor, on behalf of the Board, including (but not limited to):
- a. approval of their remuneration for audit services and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;
 - b. 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;
 - c. assessing annually the independence and objectivity of the external auditor, taking into account relevant professional and regulatory requirements and the relationship with the external auditor as a whole;
 - d. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the FRC or its staff (other than in the ordinary course of business);
 - e. agreeing with the Board a policy for employing former staff of the FRC's external auditor and monitoring the implementation of this policy;
 - f. monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners;
 - g. assessing annually the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures; and
 - h. seeking to ensure co-ordination with the activities of the internal audit function.
- 3.27 Review and approve the annual external audit plan and ensure that it is consistent with the scope of the audit engagement.
- 3.28 Review the findings of the audit with the independent external auditor, including but not be limited to:
- a. a discussion of any major issues which arose during the audit;
 - b. any accounting and audit judgments;
 - c. levels of errors identified during the audit; and
 - d. the effectiveness of the audit.
- 3.29 Review the management letter and management's response to the external auditor's findings and recommendations.
- 3.30 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.
- 3.31 Ensure that external auditor rotation and/or retendering is undertaken in a manner consistent with the FRC's own guidance and applicable standards.
- 3.32 Meet the external auditor at least once a year, without executive members or staff present, to discuss the external auditor's remit and any issues arising from the audit.
- 3.33 Oversee the coordination of the internal and external auditors.

Corporate Services

- 3.34 Assess the FRC's procedures for business continuity planning and disaster recovery.
- 3.35 Review the FRC's arrangements for its staff to raise concerns, in confidence, about possible improprieties in financial reporting or other matters.
- 3.36 Receive a report on any whistleblowing events raised by staff.
- 3.37 Review the FRC's procedures for detecting, responding and preventing fraud.
- 3.38 Review the FRC's systems and controls for the prevention of bribery and receive reports on non-compliance.
- 3.39 Oversee the FRC's compliance with information law requirements, including the Freedom of Information Act 2000, the UK General Data Protection Regulation (UK GDPR), the Data Protection Act 2018 and the Environmental Information Regulations 2004.
- 3.40 Oversee the effectiveness of the IT function, including its strategy, and security measures and report accordingly to the Chief Executive, as Accounting Officer and the Board.
- 3.41 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.

UKEB responsibilities

- 3.42 Advise the Board on the FRC's oversight of the UK Endorsement Board.

4 Reporting Responsibilities

- 4.1 The Audit Committee section of the Annual report should include:
 - a. An explanation of how the Committee has addressed the effectiveness of the external audit process; and
 - b. 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.
- 4.2 The Committee shall have the right to report on any unresolved issues between the Board and/or the Chief Executive, as Accounting Officer and the Committee in the FRC Annual Report.

Approved by the Board with effect from 1 June 2023



Financial Reporting Council

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