

AUDIT COMMITTEE
TERMS OF REFERENCE

1. Constitution

- 1.1. The Audit Committee is constituted as a Committee of the Board of the Financial Ombudsman Service Limited.
- 1.2. The Committee's terms of reference may be amended at any time by the Board.
- 1.3. The Committee may from time to time investigate, discuss or review matters outside its terms of reference if required to do so by the Board.

2. Authority

- 2.1. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- 2.2. The Committee is authorised by the Board to obtain external legal or other professional advice and to secure the attendance of anyone it considers has relevant experience, expertise or knowledge.

3. Membership

- 3.1. The Committee shall be appointed by the Board from amongst its members and shall consist of not less than three members.
- 3.2. The Chairman of the Committee shall be appointed by the Board.
- 3.3. The Company Secretary is Secretary to the Committee and a member of the Committee.

4. Attendance at Meetings

- 4.1. The quorum necessary for the transaction of the business of the Committee shall be at least two Committee members.
- 4.2. Other Board members shall have the right of attendance at meetings of the Committee.
- 4.3. At least once a year the Committee shall meet with the external and internal auditors without the Chief Ombudsman or any other employee being present.
- 4.4. At the request of the Committee a representative of the external or internal auditors shall attend meetings.
- 4.5. At the request of the Committee any members of the senior management shall attend meetings.

5. Frequency of meetings

- 5.1. Meetings shall be held at least three times a year.
- 5.2. Meetings may be called by the Board, or the Chairman of the Board acting for the Board, by the Chairman of the Committee or by the external auditors.

6. Duties

- 6.1. To make recommendations to the Board concerning the appointment, re-appointment or dismissal of the external auditors.
- 6.2. To consider any questions regarding the fees, terms of appointment or resignation of the external auditors.
- 6.3. To review and monitor the external auditor's independence, objectivity and the effectiveness of the audit process.
- 6.4. To develop and implement a policy on the engagement of the external auditor to supply non-audit services – and to report to the board, identifying matters in respect of which the committee considers that action or improvement is needed, together with recommendations as to the steps to be taken.
- 6.5. To discuss with the external auditors before any audit commences the nature and scope of the audit.
- 6.6. Keep under review the company's internal control procedures and risk management systems.
- 6.7. To review the draft Report and Accounts before submission to the Board.
- 6.8. To discuss problems and reservations arising from the external audits and any matters the external auditors may wish to discuss (in the absence of management where necessary).
- 6.9. To review the external auditor's management letter and management's response.
- 6.10. To review any annual returns required by the Financial Services Authority or by any other Agency or Government body empowered to require such returns.
- 6.11. To monitor arrangements for, and the achievement of, compliance with statutory and other requirements governing financial reporting.
- 6.12. To monitor and review significant accounting policies and judgements.
- 6.13. To monitor and review the effectiveness of the internal audit function and the management responses to the recommendations.

7. Reporting Procedures

- 7.1. The minutes of the Committee shall normally be considered at the Board meeting following the Committee meeting.
- 7.2. Where the Chairman of the Board considers this to be impractical the minutes shall be circulated to all members of the Board as soon as possible.