

Deloitte Public Interest Oversight Committee

Background

In 2010, the Audit Firm Governance Code was published by The Institute of Chartered Accountants in England and Wales for The Financial Reporting Council. Pursuant to this, Deloitte decided to appoint three Independent Non Executives to its main Board in the UK (beyond the requirements of the Code) and the firm also established a Public Interest Oversight Committee of the Board. This paper outlines the Terms of Reference, Membership, Principal areas of interest and Duties and responsibilities of that Committee.

Terms of Reference

The Public Interest Oversight Committee (the Committee) is a subcommittee of the firm's Board, and has been established to oversee public interest matters as they affect our firm. The regulatory context to the Committee is set out in appendix 1. The Committee's terms of reference will be reviewed annually.

Membership and attendees

The Committee's members are appointed by the Board and currently comprise the firm's Independent Non Executives (INEs). Appointments to the Committee are made every three years, and meetings are planned to take place approximately four times a year and one of these meetings will take place without the presence of any partner in the firm. The Committee appoints one of its members as Chairman of the Committee and the Secretary to the Board acts as Secretary to the Committee. The Committee will report regularly to the firm's Board.

The Committee's meetings are attended by the firm's Chairman, its Managing Partner, Public Policy, Quality and Risk and the Chairman of the Audit Committee. Additionally, an Advisory Partner, who will not normally be a member of either the firm's Executive or Board, attends Committee meetings to support and inform the INEs and to provide them with any information they request about the firm's business. The Committee may request attendance by others, as and when required. At the close of each meeting, the INEs will normally meet in 'executive session', without others present, to discuss matters relating to their remit.

As at 1st October 2011, the members of the Committee were:

Gerry Grimstone, (INE) **Dr DeAnne Julius**, CBE, (INE) **Sir Michael Peat**, GCVO (INE) (Chairman of the Committee), and the non voting attendees were

David Cruickshank, Chairman of the Board

David Barnes, Board member and Chairman of the Audit Committee

Margaret Ewing, Board member and Managing Partner, Public Policy, Quality and Risk

Stuart Diack, Advisory Partner

Caryl Longley, Secretary to the Board and the Committee.

Two INEs will constitute a quorum.

Principal areas of interest

In serving the public interest, the Committee has particular regard to the oversight of the firm's activities in the following areas:

Ethics: ensuring ethical conduct in relation to the firm's clients, people and stakeholders;

Public policy: contributing constructively and responsibly to key debates;

Audit quality: delivering high quality and robust audits;

People Management: ensuring that appropriate training is provided on the firm's ethical standards and that the remuneration policies for partners and staff do not incentivise inappropriate behaviour;

Unregulated businesses: safeguarding quality in less heavily regulated areas of the firm's business and avoiding conflicts of interest;

International: having regard to the wider reputational risk beyond the UK firm of Deloitte (by being kept informed of risk issues within the Deloitte network globally that may affect the UK); and

Corporate Responsibility: engaging in the firm's responsible business agendas.

Duties and responsibilities

The duties of the Committee are to safeguard the public interest by:

- i) Enhancing stakeholder confidence in the public interest aspects of the firm's decision making;
- ii) Initiating and encouraging dialogue and prompting candid feedback from the firm's wider stakeholders, including capital markets, investors, regulators, Government and the public and society at large; and
- iii) Advising in the management of reputational risks.

These duties extend to a full understanding of the firm's wider responsible business agenda and activities.

The Committee's members have close regard to the requirements of the Code, and have a right of access to all relevant information and people, and have the right to report a fundamental disagreement regarding the firm to its owners (via the Board or directly) and, where ultimately this cannot be resolved, to resign and report the resignation publicly. Specifically, the Committee has a right to communicate directly with the firm's regulators, where appropriate.

The Committee has an interest in the firm's approach to public policy, quality, risk management and regulation, and its people management policies and procedures, as required by the Code. The Committee also has an interest in the firm's confidential whistleblowing policies and procedures.

A report from the Committee will be included in the firm's annual Transparency Report.

Reports

The Committee will receive regular reports from the Chairman of the Audit Committee, and the Managing Partner, Public Policy, Quality and Risk (the latter to include the activities of the firm's Risk Committee and any issues raised under the firm's whistleblowing policies and procedures). The Committee will receive regular reports on client acceptances and resignations relating to the audit of listed companies and major private companies and on significant issues raised in communications with the firm's regulators and auditors.

In order to discharge its duties and responsibilities, the Committee may require additional reports from time to time, such as in the areas of people management and corporate responsibility.

The format and content of reports will be determined by the Committee, and will focus on priorities, actions and progress in areas relevant to the Committee's remit. To support its work, the Committee will have access to independent professional advice at the firm's expense where it is judged necessary to discharge its duties.

Appendix 1: Regulatory Context

The Audit Firm Governance Code, issued by the Institute of Chartered Accountants in England and Wales, applies to the eight largest firms for financial years from 1 June 2010.

The Code requires firms to appoint Independent Non Executives (INEs) and envisages those INEs helping to address reputational and regulatory risks across firms as a whole, enhancing confidence in firms' decision making and ensuring that stakeholder concerns are properly communicated at the highest level.

Link: <http://www.icaew.com/en/products/audit-and-assurance-publications/the-audit-firm-governance-code>

Relevant extracts from the Code are as follows:

C.1 Involvement of independent non executives principle

A firm should appoint independent non executives who through their involvement collectively enhance shareholder confidence in the public interest aspects of the firm's decision making, stakeholder dialogue and management of reputational risks including those to the firm's businesses that are not otherwise effectively addressed by regulation.

- C.1.1 Independent non executives should: have the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the firm. They should also meet as a separate group to discuss matters relating to their remit.
- C.1.2 The firm should disclose on its website information about the appointment, retirement and resignation of independent non-executives, their duties and the arrangements by which they discharge those duties and the obligations of the firm to support them. The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes independent non executives.'

C.2 Characteristics of independent non executives principle

The independent non executives' duty of care is to the firm. They should command the respect of the firm's owners and collectively enhance shareholder confidence by virtue of their independence, number, stature, experience and expertise.

C.3 Rights of independent non executives principle

Independent non executives of a firm should have rights consistent with their role including a right of access to relevant information and people to the extent permitted by law or regulation, and a right to report a fundamental disagreement regarding the firm to its owners and, where ultimately this cannot be resolved and the independent non executive resigns, to report this resignation publicly.

D.3 People management principle

- D.3.2 Independent non executives should be involved in reviewing people management policies and procedures.

D.4 Whistleblowing principle

A firm should establish and apply confidential whistle-blowing policies and procedures across the firm, which enable people to report, without fear, concerns about the firm's commitment to quality work and professional judgement and values in a way that properly takes the public interest into consideration.

- D.4.1 The firm should report to independent non executives on issues raised under its whistle-blowing policies and procedures and disclose those policies and procedures on its website.