

Terms of Reference for the Audit Governance Board

1. Constitution

- 1.1. The Audit Governance Board (AGB) is constituted in accordance with the Deloitte LLP Partnership Agreement.
- 1.2. The AGB is an advisory board; its duties and responsibilities are set out in section 8 and do not extend to making management or operational decisions, which are the responsibility of management. The AGB does not form part of the system of quality management over individual audits, nor is it involved in regulatory enforcement matters with respect to individual audits.
- 1.3. The expressions used but not defined in these terms of reference shall have the meanings given to them in Schedule 8 (*Definitions*) to the Deloitte LLP Partnership Agreement.

2. Membership

- 2.1. The members of the AGB shall comprise:
 - a) the Audit Non-Executives (ANEs), each appointed by the Firm, in consultation with the AGB, one of whom shall be appointed by the Firm as the Chair of the AGB;
 - b) one UK Partner, appointed by the Firm, in consultation with the AGB, who is also an NSE Board Member (i.e. an elected member of the NSE Board);
 - c) the UK Managing Partner; and
 - d) the UK Managing Partner Audit & Assurance.
- 2.2. ANEs shall be a majority of the members of the AGB.
- 2.3. The Chair of the AGB shall not chair any other governance body of the Firm or the Deloitte network.
- 2.4. One ANE member of the AGB shall be 'doubly independent' and shall not be a member of any other governance body of the Firm or the Deloitte network.
- 2.5. At least one ANE shall have experience of audit at an appropriate level of seniority, either as a former auditor or consumer of audit services.

3. Audit Non-Executives

- 3.1. Each ANE shall, subject to the terms of his or her appointment, hold office for a period of three (3) years commencing on such date as is determined by the Firm, in consultation with the AGB. At the end of any period of office an ANE may be reappointed by the Firm, in consultation with the AGB, and shall hold office for such further period or periods as the Firm may determine.
- 3.2. If an ANE becomes a UK Partner or employee of the Firm during his or her period of office as an ANE, such ANE shall retire as a member of the AGB from such date as the Firm shall determine.

3.3. If any situation arises in respect of any ANE which amounts to a professional conflict of interest or a breach of the independence requirements of the Firm from time to time, such ANE shall cease to be a member of the AGB with effect from such date as the Firm shall determine.

4. Secretary

4.1. The members of the AGB shall appoint a secretary. The secretary shall be a member of the Firm's staff and shall not also be a member of the AGB. Whilst holding the office of secretary, the secretary shall be entitled to attend meetings of the AGB but shall not be entitled to vote.

5. Quorum, voting rights on advice and recommendations, and procedure

5.1. The quorum for any meeting of the AGB shall be:

- a) at least three of the ANEs, including the Chair and the doubly independent ANE (as defined in paragraph 2.4), and sufficient in number for the ANEs to constitute a majority of those present in person or by proxy;
- b) the UK Managing Partner Audit & Assurance;
- c) the UK Partner who is also an NSE Board Member (i.e. an elected member of the NSE Board);

present in person or by proxy.

5.2. All decisions of the AGB, in respect of its duties and responsibilities as an advisory board (as set out in section 8), shall be reached by a simple majority of the votes of those present (in person or by proxy) who are entitled to vote. In the event of a tie of the votes of those AGB members present who are entitled to vote, the Chair of the AGB shall have the casting vote.

5.3. Each member of the AGB shall have one equal vote.

5.4. Each AGB member who attends a meeting of the AGB by telephone or by any other communication equipment which allows those present to hear and speak to each other shall be deemed to be present in person at such meeting for all purposes and shall be counted in the quorum accordingly.

5.5. Each member of the AGB shall be entitled to appoint in writing, in a form approved by the AGB, another member of the AGB as his or her proxy to represent him or her, and/or to vote on his or her behalf at any meeting of the AGB at which he or she is not present. Where the doubly independent ANE (as defined in paragraph 2.4) appoints a proxy, such proxy shall act as though they are themselves doubly independent.

5.6. If a member of the AGB has a conflict of interest in respect of a particular subject matter, they shall disclose this to the Chair of the AGB and, where appropriate, recuse themselves from any deliberations or votes of the AGB concerning the relevant matter.

5.7. Save as set out herein, the AGB shall determine its own procedures.

6. Attendance at Meetings

6.1. Subject to paragraph 4.1 above and paragraph 6.2 below, only members of the AGB shall have the right to attend meetings of the AGB. Other members of the NSE and UK Executives, other members of the NSE Board, members of the Colleague Advisory Forum and other relevant or expert person(s) may attend meetings at the invitation of the AGB.

6.2. The UK Head of Audit Quality & Risk Management shall be a permanent attendee at the meetings of the AGB.

6.3. The UK and NSE CEOs and NSE Chair shall have a standing invitation to attend the meetings of the AGB.

7. Frequency of Meetings

7.1. Meetings are held not less than five times a year and more frequently as circumstances require.

8. Duties and Responsibilities

The AGB shall provide independent governance over how the objectives and desired outcomes of operational separation are being delivered.

It shall be responsible for providing independent advice and recommendations for management's consideration regarding the UK Audit Practice, and for considering management's responses to such advice and recommendations, with a focus on improving audit quality by ensuring that people in the audit practice are focused above all on the delivery of high-quality audits in the public interest. The specific duties and responsibilities of the AGB seek to prioritise audit quality and protect auditors from inappropriate influences from the rest of the firm that could divert their focus away from audit quality. The AGB has certain rights, as outlined in paragraph 9.1 below, to assist it in undertaking its duties and responsibilities effectively.

They shall also seek to meet the relevant requirements of the Audit Firm Governance Code, where appropriate for the UK Audit Practice, with respect to its purpose of:

- Promoting audit quality;
- Helping the firm secure its reputation more broadly; and
- Reducing the risk of firm failure.

In discharging its duties and responsibilities, the AGB shall take account of the interests of the Firm as a whole, where consistent with the AGB's objectives and desired outcomes of operational separation.

In conjunction with those of the UK Oversight Board, the duties and responsibilities of the AGB shall allow the UK Practice to comply with its relevant legal and regulatory governance responsibilities and assist the ANEs in discharging their responsibilities under the Audit Firm Governance Code.

The AGB shall provide independent governance relevant to its remit, including engaging with the UK Oversight Board, Colleague Advisory Forum and Non-Executive Committee to obtain their input for consideration.

Where appropriate, the AGB shall leverage work performed by other governance bodies in the UK and across NSE to avoid unnecessary duplication - specifically, but not limited to, oversight of contingency planning and UK practice financial resilience; ethical matters and trends; whistleblowing; independence and conflicts of interest matters that require external reporting; and compliance with DTTL policies and procedures. The AGB shall be able to escalate matters and share information with such bodies as determined appropriate by the AGB.

In relation to all its duties and responsibilities, the AGB shall establish and promote a culture supportive of the public interest through demonstrating the right tone from the top.

8.1. Audit strategy

- 8.1.1. Receive reports from the UK Managing Partner Audit & Assurance on the Audit strategy and its consistency with the pursuit of the objectives and outcomes of operational separation, with reference to management's procedures for ensuring:
 - 8.1.1.1. The total amount of profits distributed to the Partners in the Audit Practice does not persistently exceed the contribution to profits of the Audit Practice.
 - 8.1.1.2. Audit Practice financial reporting is transparent to the regulator and public, allowing effective monitoring of Audit Practice operational and financial performance.
 - 8.1.1.3. The culture of the Audit Practice supports Audit quality and the public interest by encouraging ethical behaviour, openness, teamwork, challenge and professional scepticism/judgement.
 - 8.1.1.4. Auditors act in the public interest and work for the benefit of shareholders of audited entities and wider society; they are not accountable to audited entities' executive management and are not (nor viewed as or considered to be) consultants.
- 8.1.2. Provide advice and recommendations on the Audit strategy for management's consideration where the AGB considers that the strategy is not consistent with the objectives and desired outcomes of operational separation.
- 8.1.3. Any subsequent changes to the Audit strategy, including following any review by the UK and NSE Executives and the NSE Board, shall be reported to the AGB for its consideration in accordance with paragraph 8.1.2.

8.2. Audit quality

- 8.2.1. Provide advice and recommendations for management's consideration regarding the UK Audit Practice's processes for ensuring and promoting the delivery of high quality and robust audits.
- 8.2.2. Provide advice and recommendations for management's consideration with respect to its responses to, regulatory audit inspections (FRC, ICAEW, PCAOB).

- 8.2.3. For the avoidance of doubt, the AGB has no supervisory or direct management responsibility over individual audit engagements, including at all successively senior levels through the UK Managing Partner Audit & Assurance, and the AGB shall not provide quality control or other oversight over any individual audit engagement.

8.3. Partner Matters and People Management

- 8.3.1. Meet with the candidate(s) proposed for appointment as the UK Managing Partner Audit & Assurance and provide advice and recommendations regarding the appointment, including regarding any objections, to the UK CEO for his/her consideration.
- 8.3.2. The AGB may provide advice and recommendations to the UK CEO for his/her consideration regarding the removal of the UK Managing Partner Audit & Assurance.
- 8.3.3. Establish a subcommittee of the AGB¹ comprising only ANEs to:
- 8.3.3.1. Review and provide advice and recommendations to management (subject to the provisions of paragraph 8.3.3.3) and report on in the Transparency Report whether the Audit practice's overall Partner remuneration policy and process are appropriately focused on Audit Quality and related Leadership and Audit Transformation (where relevant) measures, and that the reputation of the UK Practice has been properly taken into account.
 - 8.3.3.2. Based on its observations, review and provide advice and recommendations to management (subject to the provisions of paragraph 8.3.3.3) and report on in the Transparency Report whether Audit Quality and related Leadership and Audit Transformation (where relevant) measures, and the reputation of the UK Practice, appear to have been appropriately incorporated into the remuneration process and Audit Partner reward outcomes as a whole. For the avoidance of doubt, this includes the remuneration process for the Managing Partner Audit & Assurance.
 - 8.3.3.3. The ANEs review and advise on the audit partner remuneration policy and process only, to test its robustness and its linkage to audit quality. This does not involve the ANEs having any input into the compensation or evaluation of any individual partners.
 - 8.3.3.4. This work is undertaken in conjunction with the NSE Compensation and Partner Units Committee, which makes the final recommendations on compensation in line with NSE's policies. In addition to the right to escalate any concerns directly to the NSE Board, the AGB also has the right to escalate any concerns to the Chair of the NSE Compensation and Partner Units Committee.
- 8.3.4. Establish a subcommittee¹ of the AGB comprised only of ANEs to review and provide advice and recommendations for management's consideration on the Audit Partner promotion/admission process.

¹ The subcommittee comprises ANEs only and its meetings are facilitated through the Non-Executive Committee. Its roles and responsibilities are set out in this terms of reference.

8.4. Reputation and stakeholder engagement

- 8.4.1. Engage with audit regulators, investors, listed companies and their audit committees, on matters covered by the Audit Firm Governance Code, to enhance stakeholder confidence in public interest aspects of the UK Audit Practice.
- 8.4.2. Participate in Audit AGMs that may be scheduled by the Firm.
- 8.4.3. Prepare and approve a report on the activities of the AGB for the period under review for inclusion in the UK Audit Transparency Report; and review and provide input into the remainder of the annual UK Audit Transparency Report.

8.5. Internal audit and reporting

- 8.5.1. Receive a report from the UK Head of Internal Audit on any internal audit reviews of relevance to its remit.

9. Rights

- 9.1. The AGB has the following rights to enable it to carry out its duties:
 - The AGB shall have the authority to commission reviews from the Internal Audit function to support its oversight role.
 - The AGB has the right to report and escalate certain concerns to the NSE Board, after due consultation with, and notification to, the UK Executive and the UK CEO.
 - The ANEs have a right to report any fundamental disagreement regarding the UK Practice (via the AGB or directly) to the UK Executive and, if that does not bring resolution, to report to and request a meeting with the NSE CEO and NSE Chair.
 - The ANEs have the opportunity to discuss and report any matter with the Financial Reporting Council as part of their normal regular engagement.
 - The AGB, and the ANEs, are allocated a Chief of Staff to support them in meeting their duties and responsibilities.
 - Access to all relevant information and people, including the UK Executive.
 - Access to sufficient resources in order to carry out its duties, including access to the Office of the General Counsel for assistance as required.
 - Access to other independent professional advice, and relevant internal resources, where it is judged necessary to discharge its duties.
 - To report matters within the remit of AGB to the UK Partnership Council, as appropriate.
 - One of the ANEs shall have a standing invitation to attend the meetings of the Partnership Council.
 - The 'doubly independent' ANE member of the AGB shall have a standing invitation to attend relevant and appropriate parts of the meetings of the UK Oversight Board as an observer, where such attendance does not compromise their 'double independence'.

10. Other matters

- 10.1.** Appointments of individuals to the AGB shall be subject to a formal, rigorous and transparent procedure, and will involve advice and recommendations from the ANEs.
- 10.2.** Appointments and removals of ANEs by the Firm to/from the AGB are subject to the terms of their individual service contracts.
- 10.3.** The AGB can recommend to the UK CEO and UK Managing Partner Audit & Assurance any changes to the AGB's terms of reference and they shall be subject to review and approval by the Firm, in consultation with the AGB, at least every 12 months.
- 10.4.** The performance of the AGB shall be measured through a series of specified KPIs that shall be reported against in the UK Transparency Report.
- 10.5.** The effectiveness of the AGB shall be subject to periodic review by the Firm, in consultation with the AGB.