

Deloitte Non-Executive Committee (formerly INE Oversight Committee)

Background

Deloitte LLP first appointed Independent Non-Executives (INEs) to its main Board in the UK in 2011 and, subsequently, to the UK Oversight Board (UKOB) when it was established in 2017. It appointed Audit Non-Executives (ANEs) to the Audit Governance Board (AGB) when it was established in 2021. Collectively, the INEs and ANEs are referred to as Non-Executives. In accordance with the requirements of the Audit Firm Governance Code (the Code), the Non-Executives must also meet as a separate group to discuss matters relevant to their remit.

This paper outlines the Terms of Reference, including membership, principal areas of interest and duties and responsibilities, of the Non-Executive Committee.

Terms of Reference

1. Constitution

- 1.1. The Non-Executive Committee (the Committee) is constituted outside of the scope of the Deloitte LLP Partnership Agreement and, as such, can be altered or disbanded through agreement between the Committee, the AGB and the UKOB.

2. Membership and attendees

- 2.1. The Committee's members comprise the Deloitte LLP Non-Executives.
- 2.2. Appointments to the Committee are made every three years.
- 2.3. The Committee appoints one of its members as Chair of the Committee.
- 2.4. The Committee will appoint a secretary.
- 2.5. The Committee provides a forum for the Non-Executives to meet privately, without the presence of any Deloitte partner, to discuss matters relating to their remit.

3. Attendance at meetings

- 3.1. The quorum for any meeting of the Committee is three Non-Executives.
- 3.2. Only members of the Committee have the right to attend meetings of the Committee.
- 3.3. The 'Doubly Independent ANE', who is also a member of the Committee, may recuse themselves from certain discussions of the Committee, as appropriate, to maintain their audit focus.
- 3.4. Partners and staff of Deloitte LLP, including members of the UK Executive, AGB and UKOB, other relevant or expert individuals, and representatives of the UK Practice's Internal Audit and Quality, Risk and Security functions shall attend meetings of the Committee at the invitation of the Committee.

4. Frequency of meetings

- 4.1. Meetings of the Committee take place not less than six times a year and may occur more frequently as circumstances require.

5. Proxies

- 5.1. Each member of the Committee is entitled to appoint, in writing in a form approved by the Committee, another member of the Committee as his or her proxy to represent his or her views at any meeting of the Committee at which he or she is not present.

6. Duties and responsibilities

- 6.1. The specific duties and responsibilities of the Committee have been drafted to allow the Committee to meet best practice and to assist the Non-Executives in fully discharging their regulatory responsibilities. At the same time, the Non-Executives will leverage the work of the AGB and UKOB (of which they are also members), where appropriate, to avoid unnecessary duplication.
- 6.2. The Committee's members have close regard to the requirements of the Code and, in particular, its purpose:
 - To promote audit quality
 - To help the firm secure its reputation more broadly, including its non-audit businesses
 - To reduce the risk of firm failure, which in relation to the largest firms would be of systemic significance
- 6.3. While the AGB and UKOB provide the Non-Executives with a broad oversight of operations, the Committee provides a forum for 'deeper dives' into specific areas.
- 6.4. In serving the public interest, the Committee has particular regard to advising the AGB, UKOB and the Executive in the following areas:
 - 6.4.1. **Audit quality:** delivering high quality and robust audits in the public interest;
 - 6.4.2. **Reputation:** having regard to reputational risks, including those beyond the UK Practice of Deloitte (i.e. across the Deloitte network and the profession);
 - 6.4.3. **Resilience:** reducing the risk of the failure of the UK Practice;
 - 6.4.4. **Ethics:** ensuring ethical conduct in relation to the UK Practice's clients, people and stakeholders, and that sufficient arrangements are in place for people to feel able to speak up;
 - 6.4.5. **Risk management and internal control:** ensuring that risks are being effectively managed (including risks related to independence, conflicts of interest, GDPR and cyber security);
 - 6.4.6. **People and purpose:** promoting an appropriate culture, ensuring appropriate training is provided on ethical standards and ensuring that the remuneration policies for partners and staff do not incentivise inappropriate behaviour;
 - 6.4.7. **Public policy:** contributing constructively and responsibly to key debates, including responding to consultations; and
 - 6.4.8. **Unregulated businesses:** safeguarding quality in less heavily regulated areas of the UK Practice and avoiding conflicts of interest.
- 6.5. In addition, the duties of the Committee are to safeguard the public interest by:
 - 6.5.1. Enhancing stakeholder confidence in the public interest aspects of the UK Practice's decision making; and
 - 6.5.2. Initiating and encouraging dialogue and prompting candid feedback from the UK Practice's wider stakeholders, including capital markets, investors, regulators, Government and the general public.

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

7. Rights

7.1. The Committee has a right of access to all relevant information and people to enable it to discharge its duties.

The Committee's members have the right to report a fundamental disagreement regarding the UK Practice (via the AGB, UKOB or directly) to the UK Executive and, if that does not bring resolution, to request a meeting with the NSE CEO and NSE Chair.

7.2. The Non-Executives have the opportunity to report and discuss any matter with the Financial Reporting Council as part of their normal regular engagement.

7.3. To support its work, the Committee has a right of access to independent professional advice at the UK Practice's expense where it is judged necessary to discharge its duties.

8. Reporting

8.1. The Committee will receive various reports from management on matters relating to its remit, where appropriate.

8.2. The UK Ethics Partner has a direct reporting line to the Committee.

8.3. A report from the Committee will be included in the UK Practice's annual Transparency Report. This will include, but not be limited to:

8.3.1. A report on the work of the Non-Executives.

8.3.2. An explanation of how the Committee has overseen the UK Audit & Assurance practice in particular, as well as the wider UK business more generally.

8.3.3. What the Non-Executives have done to satisfy themselves that the appropriate culture exists throughout the UK Practice.

8.3.4. A statement of how the Non-Executives have worked during the year to fulfil the Code's purpose.

8.4. The Committee will report to the AGB and/or the UKOB, as appropriate.

9. Other matters

9.1. The regulatory context to the Committee is set out in the appendix.

9.2. The Committee's terms of reference will be reviewed from time to time, as necessary.

Appendix: Regulatory Context

The Audit Firm Governance Code, issued by the Financial Reporting Council and revised in July 2016, applies to firms auditing 20 or more listed entities (currently eight firms, including Deloitte LLP).

The Code provides a benchmark of good governance practice against which firms which audit listed companies can report. Its principal objectives are:

- To promote audit quality.
- To help the firm secure its reputation more broadly, including its non-audit businesses.
- To reduce the risk of firm failure, which in relation to the largest firms would be of systemic significance.

Link: <https://www.frc.org.uk/auditors/audit-assurance/audit-firm-governance-code>

Relevant extracts from the Code are as follows:

B Values

B.1 Professionalism principle

B.1.3 The firm should have a code of conduct which it discloses on its website and requires everyone in the firm to apply. The Board and independent non-executives should oversee compliance with it.

C Independent Non-Executives

C.1 Involvement of independent non-executives principle

A firm should appoint independent non-executives to the governance structure who through their involvement collectively enhance the firm's performance in meeting the purpose of the Code.

C.1.1 Independent non-executives should number at least three and be in 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. They should have full visibility of the entirety of the business but should pay particular attention to and report on risks to audit quality and how they are addressed. If a firm considers that having three INEs is inappropriate given its size or number of public company clients, it should explain this in its transparency report and ensure a minimum of two at all times. Where the firm adopts an international approach to its management it should have at least three INEs with specific responsibility and relevant experience to focus on the UK business and to take part in governance arrangements for this market; or explain why it regards a smaller number to be more appropriate, in which event there should be a minimum of two.

C.1.2 The firm should disclose on its website and in its transparency report information about the appointment, retirement and resignation of independent non-executives; their remuneration; their duties and the arrangements by which they discharge those duties; and the obligations of the firm to support them. The firm should report on why it has chosen to position its independent non-executives in the way it has (for example, as members of the main Board or on a public interest committee). 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.1.3 The independent non-executives should report in the firm's transparency report on how they have worked to meet the purpose of the Code defined as:

- Promoting audit quality.
- Helping the firm secure its reputation more broadly, including in its non-audit businesses.
- Reducing the risk of firm failure.

C.1.4 Independent non-executives should have regular contact with the Ethics Partner, who should under the ethical standards have a reporting line to them.

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. They should have a balance of relevant skills and experience including of audit and a regulated sector. At least one independent non-executive should have competence in accounting and/or auditing, gained for example from a role on an audit committee, in a company's finance function, as an investor or at an audit firm.

C.2.1 The firm should state in its transparency report its criteria for assessing the impact of independent non-executives on the firm's independence as auditors and their independence from the firm and its owners.

C.3 Rights and responsibilities 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.

C.3.1 Each independent non-executive should have a contract for services setting out their rights and duties.

C.3.2 Independent non-executives should be appointed for specific terms and any term beyond nine years should be subject to particularly rigorous review and explanation.

C.3.3 The responsibilities of an independent non-executive should include, but not be limited to, oversight of the firm's policies and processes for:

- Promoting audit quality.
- Helping the firm secure its reputation more broadly, including in its non-audit businesses.
- Reducing the risk of firm failure.

C.3.4 The firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any independent non-executive in respect of their work in that role.

C.3.5 The firm should provide each independent non-executive with sufficient resources to undertake their duties including having access to independent professional advice at the firm's expense where an independent non-executive judges such advice necessary to discharge their duties.

C.3.6 The firm should establish, and disclose on its website, procedures for dealing with any fundamental disagreement that cannot otherwise be resolved between the independent non-executives and members of the firm's management team and/or governance structures.

D Operations

D.1 Compliance principle

A firm should comply with professional standards and applicable legal and regulatory requirements. Operations should be conducted in a way that promotes audit quality and the reputation of the firm. The independent non-executives should be involved in the oversight of operations.

D.2 Risk management principle

A firm should maintain a sound system of internal control and risk management over the operations of the firm as a whole to safeguard the firm and reassure stakeholders.

D.2.1 The firm should, at least annually, conduct a review of the effectiveness of the firm's system of internal control. Independent non-executives should be involved in the review which should cover all material controls, including financial, operational and compliance controls and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm.

D.3 People management principle

D.3.2 Independent non-executives should be involved in reviewing people management policies and procedures, including remuneration and incentive structures, to ensure that the public interest is protected.

D.4 Whistleblowing principle

A firm should establish and apply confidential whistleblowing 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. The independent non-executives should be satisfied that there is an effective whistleblowing process in place.

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

E Reporting

E.1 Internal reporting principle

The management of a firm should ensure that members of its governance structures, including owners and independent non-executives, are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.