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Audit Governance Board Terms of Reference

1. Background

1.1. The Audit Governance Board (the "AGB") is constituted in accordance with the Deloitte LLP Partnership Agreement, as amended from time to time (the "Partnership Agreement"), and shall exercise its duties, powers and responsibilities as described in these Terms of Reference.

1.2. These Terms of Reference should be read in conjunction with the Partnership Agreement. Expressions used but not defined in these Terms of Reference shall have the meanings given to them in the Partnership Agreement unless otherwise stated. In the event of any inconsistency or contradiction, the Partnership Agreement shall prevail.

1.3. The AGB is an advisory board. Its duties and responsibilities, as set out in these Terms of Reference, do not extend to making management or operational decisions, which are the responsibility of the Firm's 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.

2. Purpose

2.1. 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.

2.2. The AGB's duties and responsibilities 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.

2.3. The AGB 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:

2.3.1. promoting audit quality;

2.3.2. ensuring firms take account of the public interest in their decision-making, particularly in audit; and

2.3.3. safeguarding the sustainability and resilience of audit practices and of firms as a whole.

2.4. 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 the desired outcomes of operational separation.

2.5. In conjunction with those of the UK Board, the duties and responsibilities of the AGB shall facilitate the compliance by UK Practice with its relevant legal and regulatory governance responsibilities and assist the Audit Non-Executives in discharging their responsibilities under the Audit Firm Governance Code.

2.6. The AGB shall provide independent governance relevant to its remit, including engaging with the UK Board, Colleague Engagement Sessions and Public Interest Committee to obtain their input for consideration.

2.7. Where appropriate, the AGB shall leverage work performed by other governance bodies in the UK 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.

2.8. 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.

3. Composition and Membership

3.1. The Members of the AGB shall comprise:

3.1.1. the Audit Non-Executives ("ANEs") including at least one ANE who is not an Independent Non-Executive (‘doubly independent’), each appointed by the Board in consultation with the AGB, one of whom shall be appointed by the Chair of the Board as the Chair of the AGB;

3.1.2. one UK Partner, appointed by the Chair of the Board in consultation with the AGB;

3.1.3. the UK CEO; and

3.1.4. the UK Managing Partner Audit & Assurance.

3.2. ANEs shall be a majority of the Members of the AGB.

3.3. The Chair of the AGB shall not chair any other governance body of the Firm or the Deloitte network.

3.4. 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.

3.5. 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 Board in consultation with the AGB. At the end of any period of office, an ANE may be reappointed by the Board in consultation with the AGB, and shall hold office for such further period or periods as the Board may determine.

3.6. 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 Board shall determine.

3.7. 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 Board shall determine.

3.8. Appointments of individuals to the AGB shall be subject to a formal, rigorous and transparent procedure overseen by the Nomination Committee, and shall involve advice and recommendations from the ANEs.

3.9. Appointments and removals of ANEs by the Board to or from the AGB are subject to the terms of their individual service contracts.

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

3.10.1.1. at least two of the ANEs, including the Chair and the doubly independent ANE (as defined in paragraph 3.1), and sufficient in number for the ANEs to constitute a majority of those present in person or by proxy; and

3.10.1.2. either:

3.10.1.2.1. the UK Managing Partner Audit & Assurance; or

3.10.1.2.2. the appointed UK Partner,

present in person or by proxy.

3.11. A duly convened meeting of the AGB at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the AGB.

4. Powers and responsibilities

The AGB shall provide independent governance relevant to its remit as described in section 2 above. In connection with the specific areas described below, the AGB shall provide independent advice and recommendations for management's consideration and consider management's responses to such advice and recommendations.

4.1. Audit Strategy:

4.1.1. 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:

4.1.1.1. the total amount of profits distributed to the Partners in the Audit and Assurance business (the "Audit Practice") does not persistently exceed the contribution to profits of the Audit Practice;

4.1.1.2. Audit Practice financial reporting is transparent to the regulator and public, allowing effective monitoring of Audit Practice operational and financial performance;

4.1.1.3. the culture of the Audit Practice supports audit quality and the public interest by encouraging ethical behaviour, openness, teamwork, challenge and professional scepticism and judgement; and

4.1.1.4. 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.

4.1.2. 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.

4.1.3. Any subsequent changes to the Audit strategy, including following any review by the UK Executive Committee and/or the UK Board, shall be reported to the AGB for its consideration in accordance with paragraph 4.1.2.

4.2. Audit Quality:

4.2.1. 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.

4.2.2. Provide advice and recommendations for management's consideration with respect to its responses to regulatory audit inspections (FRC, ICAEW, PCAOB).

4.2.3. 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.

4.3. Appointments

4.2.4. 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 or her consideration.

4.2.5. The AGB may provide advice and recommendations to the UK CEO for his or her consideration regarding the removal of the UK Managing Partner Audit & Assurance.

4.2.6. Establish a sub-committee of the AGB comprising only ANEs to:

4.2.6.1. review and provide advice and recommendations to management and report on in the Transparency Report whether the Audit Practice's overall Partner remuneration policy and process are designed to reward primarily high-quality work and positive leadership behaviours, and that the reputation of the UK Practice has been properly taken into account;

4.2.6.2. based on its observations, review and provide advice and recommendations to management 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;

4.2.6.3. 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; and

4.2.6.4. this work is undertaken in conjunction with the Firm's Remuneration Committee, which makes the final recommendations on compensation in line with Firm policies. In addition to the right to escalate any concerns directly to the UK Board, the AGB also has the right to escalate any concerns to the Chair of the Remuneration Committee.

4.2.7. Establish a sub-committee of the AGB comprising only ANEs to review and provide advice and recommendations for management's consideration on the Audit Partner promotion and admission process.

4.3. Reputation and stakeholder engagement

4.3.1. Engage with audit regulators on matters covered by the Audit Firm Governance Code, to enhance stakeholder confidence in public interest aspects of the UK Audit Practice.
4.3.2. Participate in Audit AGMs that may be scheduled by the Firm.
4.3.3. 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.

4.4. Internal audit and reporting

4.4.1. Receive a report from the UK Head of Internal Audit on any internal audit reviews of relevance to the AGB's remit.

5. Decisions

5.1. All decisions of the AGB, in respect of its duties and responsibilities as an advisory board, 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, the Chair of the AGB shall have the casting vote.

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

5.3. 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.

6. AGB Procedures

6.1. Meetings of the AGB shall be held not less than five (5) times a year and more frequently as circumstances may require.

6.2. Each member of the AGB 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.

6.3. 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 3.1) appoints a proxy, such proxy shall act as though they are themselves doubly independent.

6.4. There shall be regular interaction between the Chair of the AGB and the Chair of the Board, and reports shall be provided by the AGB to the Board with such frequency and in such manner as the Board shall require.

6.5. Save as set out in these Terms of Reference, the AGB shall determine its own procedures.

7. General Matters

7.1. 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. The Secretary shall minute the proceedings and decisions of all AGB meetings, including recording the names of those present and in attendance, and any conflicts of interest.

7.2. Subject to paragraph 7.1 above and paragraph 7.3 below, only Members of the AGB shall have the right to attend meetings of the AGB. Other Members of the UK Executive Committee, other members of the UK Board, Members of the Colleague Engagement Sessions and other relevant or expert persons may attend meetings at the invitation of the AGB.

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

7.4. The UK Chair shall have a standing invitation to attend the meetings of the AGB.

7.5. The AGB shall have the following rights to enable it to carry out its duties:

7.5.1. the authority to commission reviews from the Internal Audit function to support its oversight role;

7.5.2. the right to report and escalate certain concerns to the UK Board, after due consultation with, and notification to, the UK Executive Committee and the UK CEO;

7.5.3. the right to have a Chief of Staff to support them in meeting their duties and responsibilities;
7.5.4. access to all relevant information and people, including the UK Executive Committee;
7.5.5. access to sufficient resources in order to carry out its duties, including access to the Office of the General Counsel for assistance as required;
7.5.6. access to other independent professional advice, and relevant internal resources, where it is judged necessary to discharge its duties; and
7.5.7. the right to report matters within the remit of the AGB to the UK Partnership Council, as appropriate..

8. Review and Evaluation

8.1. These Terms of Reference shall be subject to review and approval by the Firm, in consultation with the AGB, at least every 12 months and may be amended from time to time by the Board on the recommendation of the AGB.
8.2. The effectiveness of the AGB shall be subject to periodic review by the Firm, in consultation with the AGB.