

EY UK – Terms of Reference for the Accountable Executive Committee

June 2024



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1. Constitution

- 1.1 The Accountable Executive Committee has been established as a committee of the EY UK LLP Board (the '**LLP Board**') in accordance with the EY UK LLP Partners' Agreement. The Accountable Executive Committee has the delegated authority of the LLP Board in respect of the functions and powers set out in these terms of reference.

2. Background

- 2.1 The Accountable Executive Committee was formed in response to the publication of the FRC's Principles for Operational Separation of Audit Practices on 23 February 2021 (the 'Principles') to be responsible for ensuring the Principles and the FRC's desired outcomes for Operational Separation (the 'Outcomes') are delivered, embedded and monitored. The Outcomes are listed below:

- 2.1.1 Audit practice governance prioritises audit quality and protects auditors from influences from the rest of the firm that could divert their focus away from audit quality;
- 2.1.2 The total amount of profits distributed to the partners in the audit practice should not materially and persistently exceed the contribution to profits of the audit practice;
- 2.1.3 Individual audit partner remuneration is determined above all by contribution to audit quality, taking account of the degree of difficulty and risk of the audits;
- 2.1.4 Audit practice financial reporting is transparent to the regulator and public, allowing effective monitoring of Audit Practice performance and financial resilience;

- 2.1.5 The culture of the audit practice supports audit quality and the public interest by encouraging ethical behaviour, openness, teamwork, challenge and professional scepticism/judgement; and

- 2.1.6 Auditors should 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.

- 2.2 Principle 21 requires that firms appoint one individual (or a small number of individuals with clearly defined and non-overlapping responsibilities) from the Senior Management team to be responsible and accountable for ensuring the Outcomes and Principles for Operational Separation are delivered, embedded and monitored. To accord with this Principle, with effect from 28 June 2024, individual members of the Accountable Executive Committee are nominally responsible and accountable for certain Principles, as specified in Appendix 1.

- 2.3 In discharging their duties, the members of the Accountable Executive Committee shall have regard to the resilience of the EY UK Audit Practice¹ (the '**Audit Practice**').

- 2.4 An Operational Separation Service Line Lead for each EY Service Line will provide updates and may escalate to the Accountable Executive Committee in line with Section 5.5 of these terms of reference.

¹ The EY UK Audit Practice is defined in the EY Audit Perimeter Policy

3. Purpose

Subject to individual members of the Accountable Executive Committee being nominally responsible and accountable for certain Principles, as specified in Appendix 1, the Accountable Executive Committee shall be responsible for the matters set out in paragraph 5 ('Duties').

4. Membership

4.1 The Accountable Executive Committee shall comprise the LLP Board chair, the UK&I Regional Managing Partner, the UK Financial Services Managing Partner and the Chief Financial Officer, UK.

4.2 The chair of the Accountable Executive Committee will be the UK&I Regional Managing Partner.

5. Duties

Subject to individual members of the Accountable Executive Committee being nominally responsible and accountable for certain Principles, as specified in Appendix 1, the Accountable Executive Committee shall:

5.1 Transitional duties

5.1.1 Oversee EY's implementation of the Principles between 1 July 2021 and 30 June 2024.

5.1.2 5.1.2 Oversee the approach to ongoing engagement and communications with the Financial Reporting Council (FRC) in relation to Operational Separation.

5.2 Scope of the separated Audit Practice

5.2.1 Review and approve changes to the scope of the separated Audit Practice, where required.

5.3 Transfer pricing / financial

5.3.1 Review and approve changes to the scope of transfer pricing agreements between the separated Audit Practice and those specialists supporting audit (and other permitted services provided by the Audit Practice who are

located outside of the scope of the separated Audit Practice, where required).

5.3.2 Oversee whether the overall distribution of profits to the partners in the separated Audit Practice and to those in the rest of the Firm is consistent with their respective contributions to Firm profits, with no material, structural cross subsidy persisting in either direction. **<Principle 17>**

5.3.3 Oversee the approach to absorption of Firm wide overheads for the separated Audit Practice. **<Principle 16>**

5.4 Reporting

5.4.1 Review and approve the publicly reported profit and loss account for the separated Audit Practice. **<Principle 16>**

5.4.2 Review the relevant sections of the annual Transparency Report and recommend changes where the content is not in line with the Outcomes. **<Principles 19 and 20>**

5.4.3 Oversee the Firm's approach to annually assessing that the Outcomes are being delivered in preparation for the FRC's related annual assessment.

5.5 Updates from Operational Separation Service Line Leads

5.5.1 Receive updates or escalations from Operational Separation Service Line Leads and resolve issues arising within the remit of the Accountable Executive Committee in relation to the following areas:

- i Compliance with the scope of the separated Audit Practice.

- ii Compliance with transfer pricing agreements.
- 5.5.2 Receive updates or escalations, specifically from the UK&I Audit Chief Operating Officer and the UKFS Audit Chief Operating Officer where there are risks perceived to the achievement of the following Principles:
 - i Principle 13: 'Partners and staff in the Audit Practice should spend the majority of their time on work in the Audit Practice. Noting that this does not preclude the secondment of staff to other areas of the business (in either direction) or the appointment of audit partners to firmwide leadership roles.'
 - ii Principle 14: 'Revenues from audit work should make up at least 75% of the revenue of the Audit Practice.'

6. Secretary

The Firm's Company Secretary shall be appointed as the secretary to the Accountable Executive Committee.

7. Quorum

- 7.1 The quorum necessary for the transaction of business shall be two individual members present, inclusive of representation from UKI and UK Financial Services, save that no decision on a matter may be taken unless the member who is nominally responsible and accountable for the relevant Principle (as specified in Appendix 1) is present. Any Accountable Executive Committee member deemed (in accordance with paragraph 10) to have a conflict of interest with respect to a particular matter shall not be counted for the

purposes of this paragraph 7.1 for the relevant part of the meeting.

- 7.2 Members attending a meeting in person will count towards the quorum, as will members attending a meeting by telephone, videoconference or other electronic means (provided that they can participate in the meeting).
- 7.3 A duly convened meeting of the Accountable Executive Committee 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 Accountable Executive Committee.

8. Notice of meetings

- 8.1 Meetings of the Accountable Executive Committee shall be called by the secretary of the Accountable Executive Committee at the request of the Accountable Executive Committee chair and may be called at any time. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be sent to each member of the Accountable Executive Committee at least five calendar days before the date of the meeting or on such shorter notice as may be deemed necessary by the Accountable Executive Committee chair. Supporting papers shall be sent to Accountable Executive Committee members at the same time but may be forwarded at shorter notice with the approval of the Accountable Executive Committee chair.
- 8.2 The Accountable Executive Committee chair in consultation with the other members of the Accountable Executive Committee may also act on matters arising or escalations from the Operational Separation Service Line Leads between meetings. Any such action will be reported at the next meeting and recorded in the minutes of that meeting.

9. Attendance at meetings

- 9.1 The Accountable Executive Committee shall meet at least two times a year.
- 9.2 Accountable Executive Committee members have the right to attend all Accountable Executive Committee meetings. Other attendees may be invited to attend all or part of any meeting, as and when appropriate and necessary, but shall have no voting rights.
- 9.3 In the absence of the Accountable Executive Committee chair and/or an appointed deputy at an Accountable Executive Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.

10. Conflicts of interest

If a proposal considered by the Accountable Executive Committee is one where an Accountable Executive Committee member, either directly or indirectly has a conflict of interest, that member shall not be permitted to take part in any discussion, or decision-making, on any such proposal. The decision of the Accountable Executive Committee chair as regards whether a member has a conflict of interest is determinative. If the question of conflict relates to the Accountable Executive Committee chair, the decision of the other members (acting by a simple majority) is determinative.

11. Meeting minutes

The Accountable Executive Committee secretary (or their nominee) shall minute the proceedings of all Accountable Executive Committee meetings, including the names of those present and in attendance and the nature and extent of any conflicts of interest declared by Accountable Executive Committee members, and shall promptly circulate draft minutes to all Accountable Executive Committee members following the meeting.

12. Reporting responsibilities

- 12.1 The Accountable Executive Committee chair shall report to the LLP Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 12.2 Finalised minutes of all Accountable Executive Committee meetings shall be provided by the secretary to the Accountable Executive Committee to

the members of the Accountable Executive Committee, the Audit Board and the LLP Board following their finalisation after each meeting.

13. General matters

The Accountable Executive Committee shall:

- 13.1 Have access to all relevant people and information to allow it to discharge its duties.
- 13.2 Have access to sufficient resources to carry out its duties, including access to the Firm's Company Secretary and the UK General Counsel, and may seek any information it requires from employees of the Firm in order to perform its duties.
- 13.3 With the approval of the LLP Board, engage independent professional advice where it is judged necessary to discharge its duties.
- 13.4 Give due regard to any relevant legal or regulatory requirements, as well as any guidance or best practice issued by relevant regulatory bodies.
- 13.5 In the event of a disagreement between Accountable Executive Committee members, the member who is nominally responsible and accountable for the relevant Principle (as specified in Appendix 1) shall notify the LLP Board of the matters in dispute.

14. Review and evaluation

- 14.1 The Accountable Executive Committee shall annually review these terms of reference and may suggest to the LLP Board any amendments following its review. These terms of reference may only be amended, varied or revoked by the LLP Board.
- 14.2 The Accountable Executive Committee, led by the Accountable Executive Committee chair, will carry out periodic reviews of its own performance, and will agree and implement a plan to take forward any actions resulting from the evaluations.

15. Appendix 1: 5.2 Ongoing Accountability

Principles	LLP Board Chair	UKI regional MP	UKFS regional MP	UK CFO
Governance				
P1 - Audit Board focused on high quality audits. LLP Board members focused on resilience		UKI	UKFS	
P2 - Audit Board/Management promote culture supportive of the Public interest				
P6 - Audit Board overseeing firm's strategy in line with Op Sep objectives				
P8 - ANEs oversee process for Rem. and partner promotions. Partnership responsibility for partner admissions				
P10 - Audit Board has authority to commission IA reviews				
P3 - Audit Board chaired by an ANE and majority of ANEs	Firm-wide			
P4 - 1 x doubly independent ANE. Chair of Audit Board not to Chair another EY governance body				
P5 - Min, 1 ANE with prior audit experience				
P7 - Consult with Audit Board on changes to the Head of Audit. Get feedback				
P9 - Appointments to the Audit Board subject to a formal, rigorous & transparent process				
Scope of the separate practice				
P11 - Scope of services of Audit practice		UKI	UKFS	
P12 - Location of specialists and arms length transactions				
P13 - Majority of time on audit work. Not to preclude secondments/leadership roles				
P14 - 75% revenues in the audit practice from audit work				
Financials				
P15 - Arms-length transactions across the perimeter		UKI	UKFS	
P16 - Separate Audit P&L, including equitable IDCs				Firm-wide
P17 - Material alignment of distributions to audit partner profits		UKI	UKFS	
Remuneration				
P18 - Rem policies and practices consistent with Op Sep principles			UKI	UKFS
Transparency				
P19 - Disclosures on governance and TP arrangements in the Transparency Report	Firm-wide			
P20 - Publish P&L/submit budget within 4 months of year-end				Firm-wide
Accountability				
P21 - Accountability for Op Sep being delivered, embedded and monitored	Firm-wide			

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