

EY UK – Terms of Reference for the Audit Board

December 2024



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1. Constitution and Background

1.1 Constitution

The Audit Board has been established by the EY UK LLP Board ('LLP Board') in accordance with the EY LLP Partners Agreement. The Audit Board has the delegated authority of the LLP Board in respect of the functions and powers set out in these terms of reference.

1.2 Background

The Audit Board has been formed in response to the publication of the FRC's Principles for Operational Separation of Audit Practices on 23 February 2021 ('Principles'). The FRC's desired outcomes from these Principles are set out as:

- 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;
- 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;
- 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;
- Audit practice financial reporting is transparent to the regulator and public, allowing effective monitoring of audit practice performance and financial resilience;
- 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

- 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. Purpose

The role of the Audit Board is to provide independent oversight of the Firm's pursuit of audit quality improvement by ensuring that people in the EY UK Audit Practice ¹ ('Audit Practice') are focused above all on delivery of high-quality audits in the public interest, having regard to the need to ensure that audit remains an attractive and reputable profession and to increase deserved confidence in audit.

3. Membership

3.1 Members

The Audit Board shall comprise at least five members (including the chair).

A majority of members of the Audit Board shall be Audit Non-Executives ('ANE') (Required by Principle 3) at least one of whom should have experience of audit at an appropriate level of seniority, either as a former auditor or consumer of audit services (Required by Principle 5). In addition, at least one ANE should not be a Firm Independent Non-Executive ('INE') (Required by Principle 4).

The non-ANE members of the Audit Board shall comprise the Head(s) of Audit and Audit Compliance Principal ('**Non-ANE Members**').

Appointments to the Audit Board are made by the LLP Board (on the recommendation of the LLP Board Nomination Committee) following a formal, rigorous and transparent procedure (Required by Principle 9).

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

Appointments to the Audit Board (other than the Non-ANE Members) shall be for a period of up to three years, which may be extended by the LLP Board for a maximum of two further periods of up to three years each. Members of the Audit Board may be removed by the LLP Board at any time before the expiry of their term.

3.2 Chair

The chair of the Audit Board should be an ANE, and may also be a Firm INE, but should not chair any other governance body in the Firm (Required by Principle 4).

In the absence of the Audit Board chair and/or an appointed deputy at an Audit Board meeting, the remaining independent members present shall elect one of themselves to chair the meeting.

3.3 Attendees

Audit Board members have the right to attend all Audit Board 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.

3.4 Secretary

The Firm's Company Secretary or their nominee shall be appointed as the secretary to the Audit Board ('Secretary').

4. Meetings

4.1 Quorum

The quorum necessary for the transaction of business shall be three members, at least two of whom shall be ANEs. Any Audit Board member deemed to have a conflict of interest with respect to a particular matter shall not be counted for the purposes of achieving a quorum for the relevant part of the meeting.

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).

A duly convened meeting of the Audit Board 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 Audit Board.

4.2 Decisions

A decision of the Audit Board on which a vote is called by a member of the Audit Board shall require a simple majority of the votes of all the members of the Audit Board present. Subject to any conflicts of interest, where the majority of members voting are ANEs, each member shall have one vote. In all other cases, subject to any conflicts of interest, each member who is not an ANE shall have one vote, and each member who is an ANE shall have the number of votes as is calculated by dividing the sum of one and the number of non-ANE members voting by the number of ANE members voting. Votes may be taken in any manner approved by the Audit Board chair.

Except where they have a conflict of interest, the Audit Board chair shall have a casting vote where the votes for and against any proposal are equal.

4.3 Conflicts of Interest

If a proposal considered by the Audit Board is one where an Audit Board 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 Audit Board chair as regards whether a member has a conflict of interest is determinative. If the question of conflict relates to the Audit Board chair, the decision of the other members (acting by a simple majority) is determinative.

4.4 Frequency

The Audit Board shall meet at least four times a year.

4.5 Notice

Meetings of the Audit Board shall be called by the Secretary at the request of the Audit Board chair. 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 Audit Board and any other person required to attend at least five calendar days before the date of the meeting, or on such shorter notice as may be deemed necessary by the Audit Board chair.

4.6 Papers

Supporting papers shall be sent to Audit Board members and, as appropriate, attendees in a timely manner to enable full and proper consideration to be given to issues.

4.7 Minutes

The Secretary shall minute the proceedings of all Audit Board meetings.

5. Reporting Responsibilities

5.1 LLP Board

The Audit Board chair shall report to the LLP Board on its proceedings after each meeting on all matters within its duties and responsibilities.

Finalised minutes of all Audit Board meetings shall be made available upon request by the Secretary to the LLP Board.

5.2 Public Interest Board

The Audit Board chair shall report to the Public Interest Board on matters relevant to the Public Interest Board.

6. Duties

6.1 Audit Quality

Provide independent oversight of the Audit Quality Executive Committee and its sub-committees (the 'AQE') (Required by Principle 1).

Receive updates from the AQE in relation to audit quality indicators used to measure audit quality performance.

Receive regular updates from the AQE on audit quality matters, including:

- Ambitions for audit quality;
- The Audit Quality Strategy;
- Monitoring of key audit quality metrics and related actions; and
- Reporting on audit quality including to the FRC.

Review and make recommendations to the LLP Board with respect to the outcomes of regulatory reviews (by the FRC, ICAEW, ICAS, PCAOB or any other regulatory body) that relate to audit quality. Monitor trends and lessons learned arising from the outcomes of such regulatory reviews and challenge the Audit Practice in its response to them.

Review the Audit Quality Report and the audit quality section of the annual Transparency Report and suggest any changes it considers appropriate to the LLP Board for consideration.

Review and make recommendations to the LLP Board with respect to resourcing within the Audit Practice, to ensure that the Audit Practice has sufficient skills and capacity to deliver high quality audit outcomes.

Review and make recommendations to the LLP Board with respect to the AQE's approach to assessing the ongoing quality of audit work delivered by specialists outside the Audit Practice.

Review outcomes from the Firm's root cause analysis ('RCA') process.

6.2 Public Interest (Required by Principle 2)

Review the impact that the Audit Practice's activities have on the Audit Practice's public interest responsibilities and refer any public interest concerns to the LLP Board for consideration.

Receive regular updates from the AQE in relation to promoting a culture in the Audit Practice that is supportive of the public interest.

Consider other matters relevant to the public interest for the Audit Practice and suggest changes to the Firm's policies and procedures to the LLP Board for consideration.

Consider matters of reputational concern to the Audit Practice and monitor and refer to the LLP Board, any material strategic and regulatory matters impacting the Audit Practice.

6.3 Audit Strategy

Review the EY UK audit strategy, having regard to the resilience of the Audit Practice, and make recommendations to the LLP Board where the strategy is inconsistent with the objectives and outcomes of the Principles (Required by Principle 6).

Review the AQE's execution of the Audit Quality Strategy.

6.4 Audit Leadership

Be consulted by the Country Managing Partner with regard to the appointment of the UK Head of Audit (Required by Principle 7).

Where appropriate, take part in interviews of candidates for the UK Head of Audit, raise objection to the appointment or seek removal of the UK Head of Audit by escalating concerns to the LLP Board for consideration (Required by Principle 7).

6.5 Audit Partner ² Remuneration and Promotion

Provide oversight of the Audit Board's Remuneration Committee ('**Remuneration Committee**') (Required by Principle 8).

On the recommendation of the Remuneration Committee, the Audit Board may:

- Review and make recommendations to the LLP Board with respect to the results of the annual partner performance assessment process for Audit Partners with reference to the policies, processes and outcomes related to audit quality.
- Review and make recommendations to the LLP Board with respect to the Firm's policies related to Audit Partner remuneration, so as to ensure that incentives are aligned to appropriate risk and quality outcomes.
- Review and make recommendations to the LLP Board with respect of the process for consideration of audit quality in the context of the selection of candidates for Non-Equity Partner and the selection of candidates to be admitted to the partnership to practice as Audit Partners ('Audit Partner Promotion').
- Review and make recommendations to the LLP Board where the outcomes of the annual Audit Partner Promotion process, including how audit quality has been considered as part of this, are found to be inconsistent with the agreed process.

The Audit Board will not take part in decision making related to the appointment and promotion of Partners and Non-Equity Partners to the Audit Practice. The Principles state this will be retained as a partnership responsibility.

² An audit partner is defined as a Responsible individual (RI) who signs audit opinions within the Audit Practice

7. Other

7.1 Access

The Audit Board shall have access to all relevant people and information to allow it to discharge its duties. In particular, the Audit Board is authorised to commission reviews from the Firm's internal audit function (Required by Principle 10) to support their oversight role.

7.2 Resources

The Audit Board shall 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 Audit Practice in order to perform its duties.

7.3 Independent Advice

With the approval of the LLP Board, the Audit Board shall engage independent professional advice where it is judged necessary to discharge its duties.

7.4 Regulatory Requirements

The Audit Board shall give due regard to any relevant legal or regulatory requirements, as well as any guidance or best practice issued by relevant regulatory bodies.

7.5 Delegation

The Audit Board may establish committees with the approval of LLP Board (whether temporary or permanent) from time to time, and the Audit Board may delegate any of its functions to such committees.

7.6 Disagreements

In the event of a disagreement between Audit Board members with regard to recommendations made (or to be made) to the LLP Board, the Audit Board chair, at their own volition or at the request of any member of the Audit Board, shall notify the LLP Board chair in writing and a meeting to discuss the matter and, where relevant, agree a way forward shall

be convened between the Audit Board chair, the LLP Board chair and the members of the Accountable Executive Committee.

7.7 Review

The Audit Board 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.

In accordance with the requirements of the Audit Firm Governance Code, the performance of the Audit Board shall be subject to formal annual evaluation.

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UKC-038697 (UK) 04/25. Creative UK.

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