

# Terms of Reference for the Public Interest Committee of RSM UK Audit LLP

This document sets out the rights and duties of the Public Interest Committee (PIC) of RSM UK Audit LLP (the firm) and the Independent Non-Executives (INEs).

## Objectives

- To enhance the firm's performance in meeting the purpose of the Audit Firm Governance Code (AFGC) defined as:
  - Promoting audit quality.
  - Helping the firm secure its reputation more broadly, including in its non-audit business.
  - Reducing the risk of firm failure. (AFGC - C.1)
- To oversee the firm's policies and procedures for meeting the purpose of the Audit Firm Governance Code as detailed above (AFGC - C.3.3).
- To recognise and ensure the firm's adherence to its public interest responsibilities.

## Duties

### Promoting audit quality

- Observe and question policies, procedures and actions for maintaining, improving and addressing issues on the firm's audit quality, including issues raised by the regulator or the Quality Assurance Department.
- Observe and question steps taken by the management of the firm to monitor and improve the performance of auditors including appropriate mentoring and training.
- Assess the presence and effectiveness of an ethical 'tone at the top' of the firm.
- Ensure that the firm has policies and procedures that reflect the terms of the Ethical Standards for Auditors and that audit teams are following these in practice.
- Providing feedback and comments on the information they receive on the firm's safeguards against conflicts of interest, independence challenges, how the firm trains partners and staff in fulfilling ethical norms, and issues arising and how they have been addressed.
- Regularly attend the firm's Ethics Panel meetings.

### Reducing the risk of firm failure

- Challenge the firm's approach to management and governance.
- Review the annual audited financial statements, including the firm's assessment of the principal risks that would threaten its business model, future performance, solvency or liquidity (AFGC - D.2.3).
- Have regular contact and raise issues with RSM UK Holdings Limited's Chief Financial Officer.
- Be involved in the review of the effectiveness of the firm's system of internal control (AFGC - D.2.1).

### Securing the firm's reputation

- Engage meaningfully with external stakeholders.
- Form a relationship with the regulator while paying due attention to the interests of the firm.
- Promote the firm and comment on matters relevant to the firm externally.
- Be prepared to discuss the firm and its governance with significant entities who are considering a proposal by the firm for statutory audit.
- Be satisfied that principals and employees (who have fulfilled the procedures required under RSM UK Audit LLP's general and staff manual, and under employment law) have a discreet avenue of recourse to the appointees for dispute resolution or counsel.

- Report in the firm's Transparency Report on:
  - the firm's fulfilment of the Ethical Standards for auditors and other applicable ethical codes; and
  - how they have worked to meet the purpose of the Audit Firm Governance Code (AFGC - C.1.3).

## Communications

- The PIC shall attend meetings of the firm's Management Board, submit items for the agenda and actively participate in the discussions.
  - The Management Board agenda should cover firm strategy.
- The PIC shall report as frequently as it thinks necessary to, or at the invitation of, the firm's Management Board and provide a copy of any such report to the RSM UK Holdings Limited Board.
- The PIC shall meet separately from the firms' Management Board at least three times per year, in between firm Management Board meetings (AFGC - C.1.1).
  - The Ethics Partner shall be present at meetings (AFGC - C.1.4).
  - At the discretion of the PIC, the Audit Operations Manager shall be present at all meetings.
  - At the discretion of the PIC, the Head of Audit will attend at least part of every meeting to ensure that the PIC, audit management and the Management Board are communicating effectively.
  - The Head of Quality Assurance will be invited to attend as appropriate.
- The Head of Audit or another nominated member of the Management Board will be responsible for bringing all public interest matters to the attention of the PIC.
- Both the RSM UK Audit LLP Management Board LLP and the PIC shall send timeously to the other the agendas and minutes of their respective meetings.
- The PIC will meet the CEO and the Chairman of RSM UK Holdings Limited at least annually.
  - The agenda will cover a discussion about the strategy of the firm.
- The PIC will ensure that it has a profile with RIs of the RSM UK Audit LLP.
- The PIC will ensure that its role and any key activities are promoted to all staff.

## Composition and commitment

- All the firm's INEs should sit on the PIC.
  - The firm should have a minimum of two INEs (AFGC - C.1.1).
  - One of the INEs shall 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 (AFGC - C.2).
  - One of the INEs shall have a background in a regulated sector (AFGC - C.2).
- The PIC members will devote approximately 12 days per annum to fulfilling the above purposes and objectives.
- The INE members shall serve for a period of three years, renewable annually for further periods of up to three years, by joint agreement, of the INE and RSM UK Audit LLP. Any term beyond nine years should be subject to particularly rigorous review and explanation (AFGC - C.3.2).
- The INE's 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 (AFGC - C.2).
- One member of the PIC will also be an INE on the Holdings Board.

## **Rights**

- The firm shall make available to the PIC such administrative and other resource as the Committee shall reasonably deem necessary to support it.
- There shall be a procedure for dealing with any fundamental disagreement that cannot otherwise be resolved between an INE and members of the firm's Management Board. The procedure is attached as an Annex hereto (AFGC - C.3.6).
- The firm shall ensure that appropriate indemnity insurance is in place in respect of legal action against any INEs in respect of their work in that role (AFGC - C.3.4).
- The firm shall provide each member of the PIC with sufficient resources to undertake their duties including having access to independent professional advice at the firm's expense where an INE judges such advice necessary to discharge their duties (AFGC - C.3.5).
- The PIC should have full visibility of the entirety of the business (AFGC - C.1.1) and be provided with access to relevant information and people to the extent permitted by law or regulation (AFGC - C.3).

## **Responsibilities**

- INEs must complete the firm's annual independence declarations to confirm that they are independent from entities audited by the firm and update the declaration as necessary if circumstance change (AFGC - C.2.1 – Appendix 1).
- INEs should comply with relevant requirements such as insider dealing legislation in relation to information that they might become aware of through their involvement with the firm (AFGC - C.2.1 – Appendix 1).
- INEs should be fully conversant with INE policy at the highest level eg attending meeting of the major audit firm INEs held by the audit regulator.

## ANNEX

### **Procedure for Dealing with Fundamental Disagreement between the Independent Non-Executives, and the RSM UK Audit LLP Management Board LLP or other person:**

1. The Independent Non-Executives must first agree that there is a fundamental disagreement.
2. The Independent Non-Executives shall raise the fundamental disagreement with the person or entity with whom they fundamentally disagree.
3. The Independent Non-Executives and the person or entity with whom they disagree shall meet as soon as reasonably practical and in any event within 10 Working Days of a written request from the Independent Non-Executives and shall discuss the disagreement and seek to resolve it.
4. If the fundamental disagreement is not resolved as a result of such meeting, the Independent Non-Executives and the RSM UK Audit LLP Board shall, within five working days following such meeting, require the Head of Audit to convene a meeting of the said Board at which the Board shall try to resolve the fundamental disagreement, confirming the outcome of the meeting to the INEs.
5. The Head of Audit shall have the delegated authority of the Board to act in order to resolve the fundamental disagreement in accordance with the outcome of the meeting.
6. If the fundamental disagreement is still not resolved as a result of such meeting of the Board, the Non-Executives may, within 15 working days following such meeting, propose to the Head of Audit in writing that the matter be referred to non-binding mediation and the mediator (if not appointed by agreement between the parties) shall be nominated by the Centre for Effective Dispute Resolution. The fees and expenses of the mediator shall be borne by RSM UK Audit LLP.
7. If the fundamental disagreement is not resolved as a result of such mediation, the Independent Non-Executives may, within five working days, report the same to the Members of RSM UK Audit LLP, together with such recommendations or advice as they reasonably consider appropriate.
8. In the event that the Head of Audit or CEO does not within 20 working days after the report be referred to in paragraph 7 take action which is reasonably likely to resolve the fundamental disagreement, or the fundamental disagreement is not otherwise resolved within such period, the relevant Independent Non-Executives may resign and may report their resignation publicly in such form as such Independent Non-Executives and RSM UK Audit LLP may agree or, in default of agreement within a reasonable time after the expiry of such period of 20 working days, not exceeding five working days, in such form as such Independent Non-Executives reasonably consider appropriate. Once the Independent Non-Executives have agreed that there is a fundamental disagreement, RSM UK Audit LLP shall not remove any Independent Non-Executive pursuant to the agreement between them and RSM UK Audit LLP before the end of their term of office (save for gross misconduct or other grounds for summary dismissal); and where the term of office of an Independent Non-Executive expires by the time (and the Independent Non-Executive is not re-appointed as such), the fundamental disagreement process shall nevertheless continue.