

## Terms of reference – Board

### Extracts from the Board Governance Principles

#### Section 2: Role of the Board

##### 2.1 The Board's Role

The Board is collectively responsible for promoting the long-term sustainability of the Firm, pursuing the PKF LJN Goals and is accountable to Members for all the actions of PKF LJN.

The Board's role is to govern PKF LJN by discharging its unique responsibilities, which include those set out in paragraphs 2.2 to 2.4 below.

In carrying out its responsibilities the Board will:

- A. focus primarily on strategic issues;
- B. have regard to economic, political, regulatory and social issues and any other relevant external matters which may influence or affect the development of PKF LJN's business;
- C. recognise that PKF LJN has a public interest role through the services it delivers in the niche markets it operates within; and
- D. seek to exemplify, through these Board Principles (including the Reserved Matters Schedule), its expectations for the conduct of the PKF LJN business and its employees.

##### 2.2 Strategy

The Board will review the long-term strategy (the Strategy) and the annual budget and plan (the Plan) for PKF LJN based on proposals made by the MP and the Leadership Team (LT) for achieving the PKF LJN Goals and promoting the long-term sustainability of the Firm.

##### 2.3 Information

The Board will ensure that the Members of the Firm, the Board itself, and the INEs are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.

##### 2.4 Monitoring

The Board will monitor the decisions and actions of the MP and the LT. The Board will also monitor the performance of the MP, LT and PKF LJN including:

- A. the implementation of, and performance against, the long term Strategy, the annual Plan and budget;
- B. the achievement of the compliance with all relevant regulatory and legal requirements, including the Audit Firm Governance Code (AFGC) and ISQM 1;

- C. any communication with regulators ensuring it is in an open, co-operative and transparent manner and that information is shared openly;
- D. any areas of concern identified by the regulators and the steps being taken to address these concerns
- E. in delivering high-quality audits; and
- F. the exercise of authority delegated to the MP.

The Board, including the INEs, will satisfy itself that:

- A. the material risks, including any reputational and going concern risks, to PKF LJN are identified and understood, including an annual review of the risk register;
- B. systems of internal control, risk management and compliance are in place to mitigate such risks;
- C. its expectations for the conduct of PKF LJN's business and its employees are reflected in a set of values established and upheld by the MP and the LT; and
- D. all Members and staff comply with the PKF LJN Code of Conduct.
- E. Members of the Firm's governance structures including the INEs are supplied with information in a timely manner.

The Board, through its sub-committee (the Audit & Risk Committee), will conduct, at least annually, a review of the effectiveness of PKF LJN's system of internal control. The review, which will involve the Independent Non-Executive Directors (INEs) of the Board, will be undertaken using an appropriate framework, to be determined and agreed by the Board.

The Board, through its sub-committee the Public Interest Committee, will directly oversee and support the promotion of audit quality, the public interest, and the resilience of the audit practice of PKF LJN.

The Board, including the INEs, will also undertake an annual review of the effectiveness of its risk management system and risk policy including

- risk appetite
- Engagement with and of Risk Owners
- Progress towards or completion of risk mitigation

## 2.5 Succession

The Board will ensure that systems and processes are in place for the succession and evaluation of the MP, members of the Leadership Team, Board members (including independent non-executives) and other key positions.

## **Section 3: The Board and its processes**

### 3.1 Members

The Board is committed to promoting the success of PKF LJN. It represents the interests of all Members and seeks to act fairly between them acting as the conscience of the Members. The Board will engage in an appropriate dialogue with Members and seek to obtain the view of the Members as a whole and come to a consensus as to the strategic direction and the annual Plan of PKF LJN. MP holds quarterly updates for all Members at which the Members have the opportunity to raise any issues they have with the MP or other Members of the Board.

### 3.2 Board Meetings

The Board will determine the key items for its consideration for the coming financial year. The agenda will be set by the Chairman in consultation with the MP and with the support of the INEs. A similar process will be used for meetings of Board Committees.

Discussion at Board meetings will be open and constructive. All discussions of the Board and their record will be maintained in confidence unless there is a specific decision or legal requirement to make disclosure.

### 3.3 INEs

The INEs will also meet, regularly, as a separate group to discuss matters relating to their remit and will have full visibility of the entire business, and where appropriate the activities of the wider PKF network both in the UK and overseas, although they will primarily consider and report on the risks to audit quality and how they are addressed; they will also consider the public interest in the Firm's activities and how it is taken into account and risks to the operational and financial resilience of the Firm. The INEs will have an open dialogue with the regulator.

The INEs will be involved in reviewing people management policies and processes, including remuneration and incentive structures, recruitment and promotion processes, training and development activities, and diversity and inclusion. The INEs will monitor the firm's success at attracting and managing talent, particularly in the audit practice. One INE will have primary responsibility for engaging with the Firm's people.

The INEs should be satisfied that there is an effective whistleblowing policy and procedure in place and should monitor issues raised under that process.

The INEs should have dialogue with audit committees and investors to build their understanding of the user experience of audit and to develop a collective view of the way in which their firm operates in practice.

### 3.4 Independent Advice

Any Board member is entitled to obtain independent professional advice relating to such Board member's own responsibilities and the affairs of PKF LJN.

Where advice is to be sought, the Board member will first discuss it with the Chairman and, having done so, shall be free to proceed.

The Independent Non-Executives (INEs) will have regular access to the Ethics Partner and the Professional Standards Committee. The INEs will also formally meet with the Ethics Partner at least once a year.

### 3.5 Board **Composition** and Compensation

#### **3.5.1 Composition, Size, Independence and Tenure**

The Board will be appointed in accordance with Clause 22.1 of the Partnership Deed dated 8 August 2017.

The Board should be of a size which enables the full engagement of all the Board members and ensures compliance with the minimum requirements set out in the AFGC. The Board will consist of both Executives and Independent Non-Executives (INEs). There will be at least 2 INEs appointed to the Board at all times. A

third appointment will be considered at a point in time where PKF LJN is appointed as statutory auditor for an appropriate number and size of public company clients.

The INEs will maintain objectivity and independence throughout the time on the Board, will have a combination of relevant skills, knowledge and experience and at least one of the appointed INEs will have the required competence in accounting and/or auditing.

The INEs will at all times be independent from the Firm and its Members and any of the Firm's audited entities. The INEs will not be connected to any of the Firm's audit clients and any existing relationship with the Firm, or the Firm's Members, must be compliant with the fundamental principles established by the ethical framework applied by the Firm. The INEs will have no conflict of interest between their appointment as an INE of the Firm and posts held elsewhere. The INEs shall not accept any engagements or instructions from any other person, firm or company which would result in a conflict of interest with any duties already agreed with the Firm or which may otherwise interfere with the performance of your role as an INE. The INEs will have no connection or interests in any of the Firm's clients, the INEs will have the time to commit to their role and will have no financial interest in the Firm, beyond the remuneration they receive for fulfilling their role. The INEs will comply with the Firm's policies and procedures as published on its intranet. The INEs will complete an annual fit and proper form.

The number of Board members will be a minimum of 6 including INEs. At least half of the Board members will be selected from among partners who do not have significant responsibilities within the Firm. In considering any new Board appointments the Board will consider what other significant management duties they have within the Firm and therefore their ability to fulfil their role as a member of the Board. In considering the appointment or reappointment of any INEs the Board will establish a nomination committee with participation of at least one INE. In assessing the appointment of a new INE the Board in consultation with the nomination committee will ensure that collectively they have the relevant skills, knowledge and experience, including of audit and a regulated sector.

Generally, Board members will be expected to have:

- a. experience in dealing with strategic issues, governance matters and long-term perspectives;
- b. leadership experience, a superior knowledge of business principles and capacity for independent thought;
- c. an understanding of the UK audit regulated sector and recognition of PKF LJN's public interest role in this regard;
- d. an ability to participate constructively in deliberations; and
- e. a willingness to exercise authority in a collective manner.

The Board will maintain plans for the succession of the Executive and Non-Executive Board members.

Executive Board members shall consist of the following:

- A Chairman elected by the Partners, under the Partnership Deed, to serve for a period of two years and further terms if re-elected.
- The Managing Partner, who is elected by the Partners under the Partnership Deed, and serves for a period of three years and further periods of three years if re-elected. There is no limit to the number of terms that can be served.
- Other Partners, nominated by the Managing Partner, who serve for a period of two years.

Independent Non-Executive Board members are initially appointed to serve a term of three years and may serve for up to two further consecutive terms if re-appointed.

### **3.5.2 Elections**

The Board shall be responsible for the conduct of the election of the MP and the Chairman as set out in the Deed.

### **3.5.3 Terms of Engagement and Compensation**

At all times, the INEs will be independent from the Firm and its Members and must comply with the policies and procedures of PKF LJN. The appointment terms, duties and rights of INEs will be set out in a formal contract for services approved by the Board.

Non-Executive Board members (INEs) will be paid a fee determined by the Board from time to time. Executive Board members will not receive a fee for their service as Board members of PKF LJN.

### **3.5.4 Board and Board Member Evaluation**

The Board will evaluate its own processes and performance including the work of its committees, to ensure its on-going effectiveness as a high performing Board.

The Board will review annually its own processes.

The performance and contribution of individual Board members, as members of the Board, will be reviewed annually by the Board through a combination of.

- Questionnaires tailored specifically for the purposes of board evaluation.
- A review and discussion amongst the Board collectively on the performance and contribution of each Board member based on the results of the questionnaires. All discussions will be minuted including any actions/changes as being required in each case.

The Board will consider the need for an external board evaluation at least every three years.

### **3.5.5 Disagreements**

In the event of a fundamental disagreement between an INE and a member of Board or the Leadership Team, the matter will be overseen by the Chairman, who will seek resolution between the parties involved. If that disagreement exists with the Chairman, the Managing Partner will oversee and seek resolution accordingly.

Where a resolution is not possible, and the INE resigns from their position, this matter will be disclosed in PKF LJN's transparency report.

## **3.6 The Chairman**

### **3.6.1 Role of the Chairman**

The Chairman will provide leadership of the Board and will act as facilitator for meetings.

The Chairman will ensure that systems are in place to provide Board members with accurate, timely and clear information to enable the Board to consider properly all matters before it. The Chairman is responsible for ensuring the integrity and effectiveness of the Board Principles.

The Chairman should not also chair parts of the management structure or be the Managing Partner.

### 3.7 Board Committees

The Board may at any time establish Committees of the Board to assist it in carrying out its responsibilities. Any Committee will be subject to the Board Principles and will speak or act for the Board only when and to the extent so authorised.

The permanent Committees of the Board shall include an Audit & Risk Committee and a Public Interest Committee.

Each permanent Committee will be comprised of those members the Board considers best suited to serve on that Committee. In considering this the Board will consider the experience, knowledge, influence and authority and the time available to those proposed for such roles. The Board will seek to ensure at least one INE is a member of the Audit & Risk Committee and that the INEs form a majority on the Public Interest Committee.

Any Committee may establish more detailed processes and procedures for carrying out its responsibilities which are consistent with the Board Principles and recognised best practice guidance.

### 3.8 Partner remuneration

The Partners have established a Remuneration Committee consisting of the Chairman, Managing Partner and two other members elected by the Partners. The Remuneration Committee shall report to the Board, through the Public Interest Committee, with their recommendations in respect of Partner remuneration including an explanation on how their proposals meet the Firm's remuneration and incentive policies and procedures. If the Board believes that the proposals are in breach of those policies and procedures, the Board retains the right to report their concerns to the Partners.

### 3.9 Board Committee Evaluations

- The Audit and Risk Committee (ARC) will be reviewed annually by the Board, The ARC will provide a summary report of the year under review setting out the number of meetings held in the year, the key matters discussed, any key decisions and any other matters that the ARC feel it is appropriate to bring to the Board's attention. The Board will review the report and confirm if they are satisfied or if further actions are required.
- Public Interest Committee (PIC) will be reviewed annually by the Board. The PIC will provide a summary report of the year under review setting out the number of meetings held in the year, the key matters discussed, any key decisions and any other matters that the PIC feel it is appropriate to bring to the Board's attention. The Board will review the report and confirm if they are satisfied or if further actions are required.
- The Remuneration Committee (RC) will be reviewed annually by an INE, who will be asked to provide a report to the Board regarding the operations of the RC and whether the INE is satisfied or not with the processes and workings of the RC. Any report to the Board will set out the evaluation criteria used by the INE in their assessment these may include the number of meetings held in the year, number of separate communications regarding the RC's findings, an

assessment of the financial and non-financial factors taken into account by the RC in arriving at their conclusions and details of any challenges to the RC's findings and the RC's response thereto.

### 3.10 Other Evaluations

- The Professional Standards Committee will be reviewed by the Board with input from the INEs. The INEs already meet quarterly with members of the PSC, to discuss and challenge the quarterly reports. The INEs will confirm annually to the Board if they are satisfied with the operation of the PSC or whether any actions are needed. At each Board Meeting the ARC will update the Board on any relevant matters arising in respect of the PSC.
- The individual members of the Leadership team are evaluated by the MP and through their own collective reviews. The Board will not be involved in these reviews but will monitor the performance of the LT.

### 3.11 Timing of Evaluations

The Board will aim to complete all evaluations by target date of 30 September each year.

## Section 4: The Board's relationship with Executive Management

### 4.1 Delegation to the MP

The Board is responsible for reviewing the strategy agreed by the Partners and for monitoring of risk and performance. It delegates to the MP authority for the executive management of PKF LJN consistent with the PKF LJN Goals and the Reserved Matters Schedule. The MP is authorised to establish management groups, including the Leadership Team, and other executive appointments to assist in the management of PKF LJN including the establishment of the Strategy, the PKF LJN Goals and the Plan. The Board will hold the MP accountable for the discharge of this authority.

The MP and LT will propose for Board consideration, the Strategy for achieving the PKF LJN Goals. Annually the MP and LT will propose the Plan, together with specific results to be achieved during the financial year, in pursuit of the PKF LJN Goals.

Through the Reserved Matters Schedule, the Board will place limits on the practices, methods, conduct and other means by which the MP and LT may carry out this delegated authority for the executive management of PKF LJN. The Board will monitor the MP's and LT's observance of the Reserved Matters Schedule.

The MP is authorised to establish any policy, make any decision, enter into any obligation, take any action and develop any activity that will achieve the PKF LJN Goals and which is within a reasonable interpretation of the Reserved Matters Schedule.

The Board may at any time change the authority of the MP and LT and in particular, may change the PKF LJN Goals and the Reserved Matters Schedule other than those items reserved for Partners within the Partnership Deed. However, so long as any particular delegation of authority is in place, the Board will respect and support the MP's and LT's decisions and judgement within the proper exercise of such authority.

Decisions or instructions of individual Board members or Committees of the Board do not carry the authority of the Board, except in those instances where specific authorisation is given by the Board.

## 4.2 The Reserved Matters Schedule

### 4.2.1 Limits on Executive Action

All MP and LT actions and decisions will be carried out in accordance with commonly accepted business practice and professional ethics and within the Reserved Matters Schedule set out in Appendix 1.

### 4.2.3 Risk and Internal Control

The MP and LT will not cause or permit PKF LJN to operate without a comprehensive system of internal controls to identify and manage the principal risks to PKF LJN, to protect PKF LJN's assets and reputation and those of its Members and to monitor the application of PKF LJN's resources in a manner which meets the standards expected of a professional service public interest firm.

### 4.2.4 Financial Limitations

The MP and LT will not cause or permit PKF LJN to operate in a manner which would or would be likely, to result in PKF LJN becoming financially distressed and in particular, the MP and LT will not cause or permit any of the following:

- a) PKF LJN to operate outside the financial limits, authorities or ratios determined by the Board or Members in meetings from time to time;
- b) the allocation of capital and resources of PKF LJN unless for the purpose of meeting the PKF LJN Goals; or
- c) the assets of PKF LJN to be inadequately maintained, unnecessarily risked or unprotected.

## 4.3 Accountability and Monitoring

The Board will carry out its many monitoring responsibilities through whatever means it considers appropriate, using such internal or external sources as it deems relevant. As part of this monitoring the Board will consider what key performance indicators (KPIs) are reported to it at each Board Meeting. The Board will keep under review the appropriateness of the KPIs selected and whether any additional KPIs should be considered.

The MP will report to the Board at each meeting and advise the Board (or the relevant Board Committee) in a timely manner of all material matters currently or prospectively affecting PKF LJN and its performance including, among others:

- a) any potential strategically or politically significant development prospects;
- b) progress on the development and implementation of the Strategy, the Plan and PKF LJN's key performance indicators;
- c) PKF LJN's business and financial performance including any materially under-performing business activities and proposals to remedy the situation;
- d) any action or project that represents a material deviation from the Strategy or the Plan;
- e) any action or project (otherwise than permitted by the Strategy or the Plan) that takes PKF LJN into an area of business either by location or activity;
- f) any action or project (otherwise than permitted by the Plan) that will involve capital investment or revenue commitments exceeding the amounts determined by the Board from time to time;

- g) any failure to observe the Reserved Matters Schedule;
- h) the identification of the material risks to PKF LJN and an assessment of the effectiveness of the internal controls in place to assess and manage such risks;
- i) any material political, economic, regulatory or other developments in the markets where PKF LJN operates;
- j) any material developments or issues concerning the skills, capability and quality of the work of the PKF LJN business;
- k) any material developments or issues concerning the compliance of the PKF LJN Code of Conduct;
- l) all material matters currently or prospectively affecting the Members and the markets in which the Members' interests are traded;
- m) anything which may have a material adverse impact on PKF LJN's reputation; and
- n) the outcome of any agreed actions or significant developments relating to any material agenda items considered at previous Board meetings.

Between Board meetings, the MP will engage with the Chairman as the representative of the Board as and when required in respect of those matters referred to above.