



Public Interest Committee – Terms of Reference

1. Background and Purpose

- 1.1 The Revised 2016 Audit Firm Governance Code (“the AFGC”) provides a benchmark of good governance practice against which firms which audit listed companies can report and sets out responsibilities for Independent Non-Executives.
- 1.2 The Financial Reporting Council’s 2020 Principles for Operational Separation of the Audit Business in large audit firms, such as KPMG LLP, set out arrangements to be implemented by such firms in pursuit of two public interest objectives, namely the improvement of audit quality and audit market resilience.
- 1.3 The Public Interest Committee (“PIC”) aims to provide an effective and efficient mechanism for the discharge of some of the responsibilities of the Independent Non-Executives set out in the AFGC and a forum for oversight of the firm’s appropriate implementation of the Principles for Operational Separation in the public interest.
- 1.4 Through the involvement of Independent Non-Executives, the PIC has an oversight role in respect of the firm’s policies and processes for:
 - Fulfilling the multi-disciplinary firm’s public interest responsibilities;
 - Promoting audit quality (in liaison with the Audit Board)¹;
 - Helping the firm secure its reputation more broadly, including in its non-audit businesses;
 - Reducing the risk of firm failure.

2. Authority

- 2.1 The PIC is a Committee established by KPMG LLP.
- 2.2 The PIC has delegated authority from the LLP in respect of the functions and powers set out in these Terms of Reference.
- 2.3 The Terms of Reference are approved by the Board of KPMG LLP.
- 2.4 The PIC has authority to investigate any matter within its Terms of Reference and to obtain such information as it may require from any Partner, officer or employee.

3. Constitution

3.1 Chairperson

¹ Until such time as any future revisions to the AFGC are published by the FRC, in the context of its Principles for Operational Separation, the PIC will continue to have an oversight role in respect of the firm’s policies and processes for promoting audit quality; the PIC will undertake this role in close liaison with the Audit Board.

- 3.1.1 The Chair of the PIC will be an Independent Non-Executive appointed by the Chair and approved by the Board.
- 3.1.2 In the absence of the Chair of the PIC, the remaining Independent Non-Executive members present shall elect one of themselves to chair the meeting.
- 3.1.3 In the event that the chair of the Committee declares a conflict of interest, or the Committee decides that such individual has a conflict of interest, then the remaining members of the Committee shall appoint an individual from amongst themselves to chair the meeting or the relevant section of the meeting.

3.2 Membership

- 3.2.1 The PIC comprises at least three Independent Non-Executives ("INEs").
- 3.2.2 Any or all members of the PIC may be removed at any time by the vote of at least seventy five percent of the Board. The relevant member will be entitled to make representations in writing in connection with the voting on such resolution.

3.3 Duration of appointments

- 3.3.1 The Independent Non-Executives of the PIC shall be appointed for a term of up to three years, with the option for this to be renewed by the Board for an additional two terms of three years each, subject to a maximum of nine years in aggregate.

3.4 Secretary

- 3.4.1 The Board Secretary or their nominee shall act as Secretary to the PIC and attend all meetings.
- 3.4.2 The Secretary shall record the proceedings and decisions of PIC meetings and the minutes shall be circulated to all members and attendees, as appropriate, taking into account any conflicts of interest that may exist.

4. Proceedings of Meetings

4.1 Frequency of Meetings

- 4.1.1 The PIC shall meet at least four times a year and otherwise as required.
- 4.1.2 Meetings of the PIC may be called by the Chair of the PIC at any time to consider any matters falling within these Terms of Reference.

4.2 Quorum

- 4.2.1 Any two Independent Non-Executive members of the PIC may form a quorum.
- 4.2.2 A duly convened meeting of the PIC 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 PIC.
- 4.2.3 The members of the PIC may participate in a meeting of the PIC from separate locations by means of conference telephone or other communication equipment which allows those participating to hear each other and be heard, and shall be entitled to vote or be counted in the quorum accordingly.

4.3 Attendees

- 4.3.1 Only PIC members have the right to attend PIC meetings.
- 4.3.2 The following are anticipated to attend PIC meetings on a regular basis:
- a) Chair of the Board
 - b) Chief Risk Officer
 - c) Head of Regulatory Affairs
 - d) Chair of Audit Board
 - e) Ethics Partner
 - f) General Counsel
 - g) Board Secretary or nominee.
- 4.3.3 The following attend the PIC on a periodic basis in liaison with the Chair of the PIC:
- a) Chair
 - b) Chief Executive
 - c) Chief Operating Officer
 - d) Chief Financial Officer
 - e) Chief People Officer
 - f) Head of Audit
- 4.3.4 Any Partner, officer or employee of the LLP may attend at the invitation of the Chair of the PIC and they may collectively or individually be requested to withdraw from meetings of the PIC if required to do so by the Chair of the PIC.

4.4 Conflicts of interest of individual PIC members

If a member of the PIC finds themselves with a conflict of interest, they shall immediately disclose this to the Chair of the PIC and the Chair.

5 Resolutions

- 5.1 The PIC shall reach decisions by a simple majority of those voting on the issue in question. If the numbers of votes for and against a certain proposal are equal, the PIC Chair shall have a casting vote.
- 5.2 Any resolution evidenced in writing or by electronic or voice recognition means, by such member or members of the PIC as would have been necessary to pass such resolution had all members of the PIC been present at a meeting to consider such resolution, shall be valid and effective as if it had been passed at a meeting of the PIC duly convened and held, provided that notice and details of the proposed resolution have been given in advance to each member of the PIC.

6 Oversight Responsibilities

- 6.1 The PIC is responsible for ensuring that the INEs deliver the requirements stated of their

role in the Audit Firm Governance Code.²

6.2 The PIC will review the impact of the firm's activities on its public interest responsibilities through consideration of:

- The firm's strategy;
- The firm's risk management and internal controls frameworks and compliance with regulations;
- The firm's capital and insurance arrangements;
- The firm's firmwide and cross-business operations insofar as they impact compliance with the FRC Principles for Operational Separation; The firm's people policies and the impact of initiatives and procedures for training, remuneration, and ensuring appropriate ethical standards and behaviour;
- The firm's culture – overseeing initiatives taken by the firm and progress against key performance indicators to ensure that the appropriate culture exists throughout the organisation;
- Compliance with the firm's Code of Conduct;
- Any other matters relevant to public interest with respect to the multi-disciplinary services provided by the firm, as well as the impact of wider network issues beyond the UK firm.

6.3 In relation to each of the matters set out in paragraph 6.2, insofar as they relate to the Audit Practice, the PIC will liaise with the Audit Board which has primary responsibility in the firm (and on which the PIC may reasonably rely) for the oversight of the Audit Practice and its satisfaction of regulatory objectives related to Audit Quality and the auditing profession. In this context, the Chair of the PIC will liaise with the Chair of the Audit Board regarding relevant and appropriate exchanges regarding the Audit Practice, Audit Quality, reputational risks in Audit, the impact of the non-Audit businesses of the firm upon Audit Quality, and the resilience of the Audit Practice.

6.4 The PIC will independently and in conjunction with the firm's leadership and the independent Audit Non-Executives (members of the Audit Board) engage with regulators, investors and other stakeholders to enhance stakeholder confidence in the public interest aspect of the firm.³ In this context, the INEs will meet at least once a year with representatives of the FRC.

6.5 The PIC will agree a statement of how the Board, the Audit Board and INEs have worked during the year detailing specific PIC activities and stakeholder engagement to fulfil the AFGC's purpose, for inclusion in the Transparency Report.

7 Reporting

² See Appendix 1 – relevant sections from Audit Firm Governance Code.

³ NOTE: ICAEW Code of Ethics 100.1 says: "Acting in the public interest involves having regard to the legitimate interests of clients, government, financial institutions, employers, employees, investors, the business and financial community and others who rely upon the objectivity and integrity of the accounting profession to support the propriety and orderly functioning of commerce."

- 7.1 The INEs' principal points of contacts are the Chair, Chief Executive and Chief Risk Officer.
- 7.2 The INEs shall also have regular contact with the Ethics Partner.
- 7.3 The Chair of the PIC will provide a report to the Board on the PIC's activities after each quarterly meeting.
- 7.4 The Chair of the PIC shall compile a report of the work of the PIC in discharging its responsibilities for inclusion in the Transparency Report, including a description of significant issues dealt with by the PIC.
- 7.5 The PIC shall work and liaise as necessary with the Audit Board and other committees of the Board to which the INEs shall have a standing invitation.

8 Governance and Resources

- 8.1 The firm shall, through the Secretary to the PIC, make available to new members of the PIC a suitable induction process and, for existing members, ongoing training as discussed and agreed by the PIC.
- 8.2 The PIC shall conduct an annual self-assessment of its activities under these Terms of Reference and report any conclusions and recommendations to the Board and, as part of this assessment, shall consider whether or not it receives adequate and appropriate support in fulfilment of its role and whether or not its annual plan of work is manageable.
- 8.3 The PIC shall in its decision making, give due regard to any relevant legal or regulatory requirements, and associated best practice guidance, as well as to the risk and reputation implications of its decisions (liaising where relevant with other committees).
- 8.4 The firm shall provide access to sufficient resources to the PIC and INEs in order for them to carry out their duties and they shall have the power to engage independent counsel and other professional advisers and to invite them to attend meetings.
- 8.5 The PIC shall be consulted with regard to any dispute between the Audit Board and the LLP Board concerning a decision to include any report in the firm's Transparency Report relating to a disagreement between the Audit Board and the LLP Board. Any INE who sits on the Audit Board may recuse themselves from such consultation (but shall not be obliged so to do). This mechanism shall not limit the ability of the INEs or the Audit Non-Executives to disclose such disagreements to the FRC or, in the event of resignation by an INE, to disclose such disagreements in a public statement as contemplated by the AFGC.

9 Terms of Reference

- 9.1 The PIC shall annually review its Terms of Reference and may recommend to the Board any amendments to its Terms of Reference.

Appendix 1

INE/PIC Role – Extracts from 2016 Audit Firm Governance Code

Responsibility	
B.1.3 The firm should have a code of conduct which it discloses on its website and requires everyone in the firm to apply. The Board and independent non-executives should oversee compliance with it.	
C Independent Non-Executives	
C.1 Involvement of independent non-executives principle	
A firm should appoint independent non-executives to the governance structure who through their involvement collectively enhance the firm's performance in meeting the purpose of the Code.	
Provisions	
C.1.1	Independent non-executives should number at least three and be in the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the firm. They should also meet as a separate group to discuss matters relating to their remit. They should have full visibility of the entirety of the business but should pay particular attention to and report on risks to audit quality and how they are addressed. If a firm considers that having three INEs is inappropriate given its size or number of public company clients, it should explain this in its transparency report and ensure a minimum of two at all times. Where the firm adopts an international approach to its management it should have at least three INEs with specific responsibility and relevant experience to focus on the UK business and to take part in governance arrangements for this market; or explain why it regards a smaller number to be more appropriate, in which event there should be a minimum of two.
C.1.2	The firm should disclose on its website and in its transparency report information about the appointment, retirement and resignation of independent non-executives; their remuneration; their duties and the arrangements by which they discharge those duties; and the obligations of the firm to support them. The firm should report on why it has chosen to position its independent non-executives in the way it has (for example, as members of the main Board or on a public interest committee). The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes independent non-executives.
C.1.3	The independent non-executives should report in the firm's transparency report on how they have worked to meet the purpose of the Code defined as: <ul style="list-style-type: none"> • Promoting audit quality. • Helping the firm secure its reputation more broadly, including in its non-audit businesses.

Responsibility	
	<ul style="list-style-type: none"> Reducing the risk of firm failure
C.1.4	Independent non-executives should have regular contact with the Ethics Partner, who should under the ethical standards have a reporting line to them.
C.2 Characteristics of independent non-executives principle	
<p>The independent non-executives' 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. They should have a balance of relevant skills and experience including of audit and a regulated sector. At least one independent non-executive should 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.</p>	
Provision	
C.2.1	The firm should state in its transparency report its criteria for assessing the impact of independent non-executives on the firm's independence as auditors and their independence from the firm and its owners.
C.3 Rights and responsibilities of independent non-executives principle	
<p>Independent non-executives of a firm should have rights consistent with their role including a right of access to relevant information and people to the extent permitted by law or regulation, and a right to report a fundamental disagreement regarding the firm to its owners and, where ultimately this cannot be resolved and the independent non-executive resigns, to report this resignation publicly.</p>	
Provisions	
C.3.1	Each independent non-executive should have a contract for services setting out their rights and duties.
C.3.2	Independent non-executives should be appointed for specific terms and any term beyond nine years should be subject to particularly rigorous review and explanation.
C.3.3	<p>The responsibilities of an independent non-executive should include, but not be limited to, oversight of the firm's policies and processes for:</p> <ul style="list-style-type: none"> Promoting audit quality. Helping the firm secure its reputation more broadly, including in its non-audit businesses. Reducing the risk of firm failure.
C.3.4	The firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any independent non-executive in respect of their work in that role.

Responsibility	
C.3.5	The firm should provide each independent non-executive with sufficient resources to undertake their duties including having access to independent professional advice at the firm's expense where an independent non-executive judges such advice necessary to discharge their duties.
C.3.6	The firm should establish, and disclose on its website, procedures for dealing with any fundamental disagreement that cannot otherwise be resolved between the independent non-executives and members of the firm's management team and/or governance structures.
D.1 A firm should comply with professional standards and applicable legal and regulatory requirements. Operations should be conducted in a way that promotes audit quality and the reputation of the firm. The independent non-executives should be involved in the oversight of operations.	
D.2.1 The firm should, at least annually, conduct a review of the effectiveness of the firm's system of internal control. Independent non-executives should be involved in the review which should cover all material controls, including financial, operational and compliance controls and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm.	
D.3.2 Independent non-executives should be involved in reviewing people management policies and procedures, including remuneration and incentive structures, to ensure that the public interest is protected.	
D.4 A firm should establish and apply confidential whistleblowing policies and procedures across the firm which enable people to report, without fear, concerns about the firm's commitment to quality work and professional judgement and values in a way that properly takes the public interest into consideration. The independent non-executives should be satisfied that there is an effective whistleblowing process in place.	
D.4.1 The firm should report to independent non-executives on issues raised under its whistleblowing policies and procedures and disclose those policies and procedures on its website.	
F.1.1 The firm should disclose on its website its policies and procedures, including contact details, for dialogue about matters covered by the AFGC with listed company shareholders and listed companies. It should also report on the dialogue it has had during the year. These disclosures should cover the nature and extent of the involvement of independent non-executives in such dialogue.	