



Audit Committee – Terms of Reference

1 Purpose

The purpose of the Audit Committee ("the Committee") is to:

- 1.1 Assist the Board of KPMG LLP ("the Board") in its oversight of the integrity of the LLP's financial reporting, including supporting the Board in meeting its responsibilities regarding financial statements and the financial reporting systems and internal controls;
- 1.2 Monitor, on behalf of the Board, the effectiveness and objectivity of internal and external auditors;
- 1.3 Assess, on behalf of the Board, the effectiveness of the firm's key controls framework across the following areas:
 - Conflicts, ethics and independence
 - Financial and financial crime prevention
 - Operational risk
 - Compliance
 - Quality

2 Authority

- 2.1 The Committee is a committee of the Board from which it derives its authority and to which it regularly reports.
- 2.2 The Committee has delegated authority from the Board in respect of the functions and powers set out in these Terms of Reference.
- 2.3 The Committee 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.
- 2.4 In addition, the Committee may, from time to time, be delegated authority from the Board for oversight of specified strategic, cultural or transformational projects led by the Executive Committee.

3 Constitution

3.1 Chairperson

- 3.1.1 The Chair of the Committee will be either an Elected or Nominated Board member appointed by the Chair and ratified by the Board.
- 3.1.2 In the absence of the Chair of the Committee or an appointed deputy, the remaining 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 Committee shall appoint an alternative member of the Committee to chair the relevant meeting or the relevant part of the meeting.

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3.2 Membership

3.2.1 In addition to the Chair of the Committee the membership comprises:

- Two Elected or Nominated Board members including at least one member with recent and relevant audit financial experience.

3.2.2 Additional members of the Committee shall be appointed by the Board on the recommendation of the Chair in consultation with the Senior Elected Board Member.

3.2.3 Members can be co-opted onto the Committee as the need arises to help fulfil the duties and obligations of the Committee. These appointments shall be made by the Board on the recommendation of the Chair of the Committee.

3.2.4 Elected or Nominated Board Members shall comprise a majority of the Committee at all times.

3.2.5 Any or all members may be removed from the Committee at any time before the end of their term by the Board.

3.3 Duration of appointments

3.3.1 Unless otherwise determined by the Board, the duration of appointments of Elected and Nominated members of the Committee and of co-opted members shall be for a period of up to three years which may be extended by the Board for an additional period of two years.

3.4 Secretary

3.4.1 The Board Secretary or their nominee shall act as Secretary to the Committee and attend all meetings.

3.4.2 The Secretary shall record the proceedings and decisions of the Committee 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 Committee shall meet at least four times a year and otherwise as required.

4.1.2 Meetings of the Committee may be called by the Chair of the Committee at any time to consider any matters falling within these Terms of Reference.

4.2 Quorum

4.2.1 Any two members of the Committee may form a quorum.

4.2.2 A duly convened meeting of the 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 Committee.

4.2.3 In the event of difficulty in forming a quorum, Elected or Nominated Board members who are not members of the Committee may be co-opted as

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members for individual meetings.

- 4.2.4 The members of the Committee may participate in a meeting of the Committee from separate locations by means of conference technology or other communication equipment which allows those participating to hear each other and be heard and shall be entitled to vote and/or be counted in the quorum accordingly.

4.3 Attendees

- 4.3.1 Only the members of the Committee, other Elected or Nominated members of the Board and Independent Non-Executives have the right to attend Committee meetings.
- 4.3.2 In addition the following will be expected to attend Committee meetings on a regular basis:
- a) Chief Financial Officer
 - b) Chief Risk Officer
 - c) Chief Operating Officer
 - d) General Counsel (or delegate)
 - e) Head of Internal Audit
 - f) External Audit representative
 - g) Board Secretary (or delegate)
- 4.3.3 Any Partner, officer or employee of the LLP may attend at the invitation of the Chair of the Committee and they may collectively or individually be requested to withdraw from meetings of the Committee if required to do so by the Chair of the Committee.
- 4.3.4 The Committee will meet with the external auditor and internal auditor at least once a year without management present.

5. Conflicts of Interest

If a member of the Committee has a conflict of interest, they shall immediately disclose this to the Chair of the Committee and where appropriate recuse themselves from any deliberations or votes of the Committee concerning the relevant subject-matter.

6. Resolutions

- 6.1. The Committee 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 Committee Chair shall have a casting vote.
- 6.2. Any resolution evidenced in writing or by electronic or voice recognition means, by such member or members of the Committee as would have been necessary to pass such resolution had all members of the Committee 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 Committee duly convened and held, provided that notice and details of the proposed resolution have been given in advance to each member of the Committee.

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6 Responsibilities

6.1 Financial Reporting

The Committee shall monitor the integrity of the financial statements of the LLP, including its annual report relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor. In particular, the Committee shall review and challenge where necessary:

- 6.1.1 The application of significant accounting policies and any changes to them;
- 6.1.2 The methods used to account for significant or unusual transactions where different approaches are possible;
- 6.1.3 Whether the firm has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements;
- 6.1.4 Whether the firm has respected applicable regulatory requirements with respect to the financial reporting related to the Audit Practice; and

6.2 All material information presented with the financial statements, including the Transparency Report and any additional information or report on the firm's activities and performance with regard to Environment, Social and Governance ("ESG") matters.

6.3 Capital Adequacy and Treasury Matters

6.3.1 Prior to consideration and approval by the Board, review significant changes to general banking and treasury operations (in excess of the Executive Committee's delegated limits) of the LLP, or any of its subsidiaries, such as:

- Proposals to raise finance;
- Arrangements and agreements to meet funding requirements;
- Entering into any type of document or arrangement to create security of any nature or collateral arrangement for borrowing or treasury management arrangements (including being held on trust for any lender or other finance provider);
- Borrowing money or issuing any type of debt instrument;
- Entering into any interest rate hedging or foreign exchange hedging transaction including, without limitation any rate/exchange cap transaction or swap transaction or other hedging or derivative transaction; and
- Any parent company guarantee.

6.4 External Audit

The Committee shall:

- 6.4.1 Consider the appointment, re-appointment or removal of the external auditor and oversee the selection process for a new auditor where required.
- 6.4.2 If an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 6.4.3 Assess annually the external auditor's independence and objectivity taking into

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account relevant UK law, regulation, the Ethical Standard and other professional requirements and the firm's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of non-audit services;

- 6.4.4 Satisfy itself that there are no relationships between the auditor and the firm (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- 6.4.5 Agree a policy on the employment of former employees of the auditor, taking into account the Ethical Standard, including the guidance on the rotation of the audit partner and staff;
- 6.4.6 Monitor the level of fees paid to the auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard;
- 6.4.7 Annually challenge and assess the performance, independence and objectivity of the external auditor, discussing issues they raise in the audit and monitoring the effectiveness of the audit process and reviewing their quality control procedures and steps taken to respond to regulatory, professional and other changes;
- 6.4.8 Approve the terms of engagement in respect of the statutory audit, developing and implementing policy on engaging the external auditor for non-audit services and approving in advance the fees for both audit (ensuring that the level of fees is appropriate to enable an effective and high-quality audit to be conducted) and non-audit services;
- 6.4.9 Approve the nature, scope and plan of the audit with the external auditor, including the factors that could affect audit quality, before the audit commences;
- 6.4.10 Review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - a discussion of any major issues which arose during the audit;
 - the auditor's explanation of how the risks to audit quality were addressed;
 - key accounting and audit judgements;
 - the auditor's view of their interactions with senior management; and
 - levels of errors identified during the audit;
- 6.4.11 Review management representation letters in relation to financial reporting requested by the external auditor prior to signature by the Executives;
- 6.4.12 Monitor the effectiveness of the relationship between the external and internal auditors;
- 6.4.13 Review management's response to findings of the audit and resolving disagreements between management and the external auditor regarding financial reporting; and
- 6.4.14 Meet regularly with the external auditor (including at least once a year without management being present), to discuss the auditor's remit and any issues arising from the audit.

6.5 Internal Controls

The Committee shall:

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- 6.5.1 Keep under review the firm's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems (seeking assurance from relevant Board Committees as appropriate); and
- 6.5.2 Review and recommend for Board approval the statements to be included in the annual report concerning internal control, risk management¹ and the going concern statement.
- 6.5.3 Consider the major findings of any relevant internal investigations into control weaknesses, fraud or misconduct and management's response (in the absence of management where necessary);
- 6.5.4 Review the firm's control framework across key control areas including:
- Conflicts, ethics and independence
 - Financial and financial crime prevention
 - Operational risk
 - Compliance
 - Quality
- and its linkage to the Enterprise-wide Risk Management Framework and assurance planning.

6.6 Internal Audit

The Head of Internal Audit and the firm's Internal Audit function shall report to the Committee. The Committee shall:

- 6.6.1 Approve the remuneration, appointment or termination of the appointment of the Head of Internal Audit;
- 6.6.2 Review and approve the role and mandate of Internal Audit, monitor and review the effectiveness of its work, and annually approve the Internal Audit Charter ensuring that it is appropriate for the current needs of the organisation;
- 6.6.3 Review and approve the annual internal audit plan to ensure that it is aligned to the key risks of the business and receive regular reports on work carried out;
- 6.6.4 Ensure Internal Audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the Internal Audit function evaluates the effectiveness of these functions as part of its internal audit plan and ensure that the Internal Audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 6.6.5 Ensure the Head of Internal Audit has direct access to the Chair and to the Chair of the Committee, providing independence from the executive and accountability to the Committee;
- 6.6.6 Carry out an annual assessment of the effectiveness of the internal audit function and as part of this assessment:
- Meet with the Head of Internal Audit without the presence of management to discuss the effectiveness of the function;
 - Review and assess the internal audit work plan;
 - Receive a report on the results of Internal Audit's work;
 - Determine whether it is satisfied that the quality, experience and expertise

¹ Subject to confirmation of the Risk Committee

of Internal Audit is appropriate for the business; and

- Review the actions taken by management to implement the recommendations of Internal Audit and to support the effective working of the function.

6.6.7 Monitor and assess the role of the Internal Audit function in the overall context of the firm's system of controls and the work of compliance, finance and the external auditor.

7 Reporting

7.1 Minutes of each Committee meeting will be disclosed at the next meeting of the Board.

7.2 The Chair of the Committee shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

7.3 The Committee shall compile a report of the work of the Committee in discharging its responsibilities for inclusion in the Transparency Report, including an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor.

7.4 The Chair of the Committee shall report to the Risk Committee, People Committee and the Audit Board after each meeting on relevant matters within its duties and responsibilities.

7.5 The Committee shall work and liaise as necessary with other Committees of the Board and with the Audit Board.

8 Governance and Resources

8.1 The Committee shall, via the Secretary to the Committee, make available to new members of the Committee a suitable induction process and, for existing members, ongoing training as discussed and agreed by the Committee.

8.2 The Committee 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 Committee 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 Committee shall have access to sufficient resources in order to carry out its duties and have the power to engage independent counsel and other professional advisers and to invite them to attend meetings.

9 Terms of Reference

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

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