



## **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, the financial reporting systems, internal controls and treasury matters;
- 1.2 assist the Board in fulfilling its responsibilities relating to all relevant matters pertaining to the system of quality management and engagement quality (including their contribution to the Firm’s role in serving the public interest), as more particularly set out in Appendix I of these Terms of Reference;
- 1.3 monitor, on behalf of the Board, the effectiveness and objectivity of internal and external auditors; and
- 1.4 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
  - System of Quality Management

### **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.

### **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 significant recent and relevant audit financial experience and knowledge of applicable audit quality standards.
- 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**

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 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 Operating and Financial Officer
  - b) Chief Risk Officer
  - c) General Counsel (or delegate)
  - d) Head of Internal Audit
  - e) External Audit representative
  - f) 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.

#### **4.4 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.

#### **4.5 Resolutions**

- 4.5.1 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.
- 4.5.2 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.

## **5 Responsibilities**

### **5.1. Financial and non-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:

- 5.1.1. the application of significant accounting policies and any changes to them;
- 5.1.2. the methods used to account for significant or unusual transactions where different approaches are possible;
- 5.1.3. 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;
- 5.1.4. whether the firm has respected applicable regulatory requirements with respect to corporate reporting, including the financial reporting related to the Audit Practice; and
- 5.1.5. 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.

### **5.2. Capital Adequacy and Treasury Matters**

- 5.2.1. 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.

### **5.3. External Audit and Assurance**

The Committee shall:

- 5.3.1. Consider the appointment, re-appointment or removal of the external auditor and assurance provider (with respect to the Firm's ESG reporting) and oversee the selection process for a new auditor and/or ESG assurance provider where required.<sup>1</sup>
- 5.3.2. If an external auditor resigns, investigate the issues leading to this and decide whether any action is required;

---

<sup>1</sup> References to the external auditor in these Terms of Reference shall be deemed to apply to an assurance provider *mutatis mutandis*, in circumstances where the auditor is not the ESG assurance provider.

- 5.3.3. Assess annually the external auditor's independence and objectivity taking into 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;
- 5.3.4. 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;
- 5.3.5. 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; 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;
- 5.3.6. 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 and assurance process and reviewing their quality control procedures and steps taken to respond to regulatory, professional and other changes;
- 5.3.7. 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;
- 5.3.8. Approve the nature, scope and plan of the audit and assurance review with the external auditor, including the factors that could affect audit or assurance quality, before the audit or assurance process commences;
- 5.3.9. Review the findings of the audit and assurance review 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 or assurance review;
  - the auditor's explanation of how the risks to audit or assurance quality were addressed;
  - key accounting and audit or assurance judgements;
  - the auditor's view of their interactions with senior management; and
  - levels of errors identified during the audit or assurance review;
- 5.3.10. Review management representation letters in relation to financial reporting requested by the external auditor prior to signature by the Executives;
- 5.3.11. Review any external assurance report on Environment, Social and Governance (ESG) information for publication as part of the Annual Report;
- 5.3.12. Monitor the effectiveness of the relationship between the external and internal auditors;
- 5.3.13. Review management's response to findings of the audit and resolving disagreements between management and the external auditor regarding financial reporting; and
- 5.4. 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. Internal Controls**

The Committee shall:

- 5.4.1. 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).

- 5.4.2. Oversee the effectiveness of the Firm's Systems of Quality Management ("SoQM") and processes relevant to engagement quality and the SoQM framework, through fulfilling the responsibilities set out in the Appendix to these Terms of Reference.
- 5.4.3. Make policy recommendations to the Board with respect to all matters relevant to engagement quality, the SoQM and their contribution to the Firm's role in serving the public interest.
- 5.4.4. The Committee should carry out its activities with a view to ensuring that the Firm is fully aligned and compliant with applicable law and regulation and KPMG International's requirements as regards to engagement quality, the SoQM, and their contribution to the Firm's role in serving the public interest.
- 5.4.5. Review and recommend for Board approval the statements to be included in the annual report concerning internal control, risk management<sup>1</sup> and the going concern statement.
- 5.4.6. 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);
- 5.4.7. Review the firm's control framework across key control areas including:
  - Conflicts, ethics and independence
  - Financial and financial crime prevention
  - Operational risk
  - Compliance
  - System of Quality Management
 and its linkage to the Enterprise-wide Risk Management Framework and assurance planning.

## 5.5. Internal Audit

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

- 5.5.1. Approve the remuneration, appointment or termination of the appointment of the Head of

---

<sup>1</sup> Subject to confirmation of the Risk Committee

Internal Audit;

- 5.5.2. 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;
- 5.5.3. 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;

- 5.5.4. 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;
- 5.5.5. 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;
- 5.5.6. 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 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.
- 5.5.7. 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.

## **6 Reporting**

- 6.1 Minutes of each Committee meeting will be disclosed at the next meeting of the Board.
- 6.2 The Chair of the Committee shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 6.3 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.
- 6.4 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.
- 6.5 The Committee shall work and liaise as necessary with other Committees of the Board and with the Audit Board.

## **7 Governance and Resources**

- 7.1 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.

- 7.2 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.
- 7.3 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).
- 7.4 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.

## **8 Terms of Reference**

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



## Appendix

### **Responsibilities with respect to the oversight of engagement quality and the system of quality management**

#### **1. Governance and leadership**

- 1.1. Consider whether the Firm's culture promotes a commitment to quality, including recognising and reinforcing the importance of professional ethics, values and attitudes throughout the Firm and emphasising the responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management ("SoQM").
- 1.2. Consider whether the Firm's strategic priorities (including financial and operational priorities) and strategic investments (undertaken and to be undertaken) demonstrate a commitment to quality and the Firm's role in serving the public interest by consistently performing quality engagements.
- 1.3. Consider whether the Firm's governance and leadership quality objectives, include:
  - 1.3.1. Establishing policies or procedures for periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability and, if appropriate, the individual(s) assigned operational responsibility, for the Firm's SoQM; and
  - 1.3.2. Establishing policies or procedures for dealing with complaints and allegations about the commitment to quality of the firm or its personnel, including clearly defining channels within the Firm that enable reporting by personnel or external parties to appropriate individual(s) without fear of reprisal and enabling the investigation and resolution of the complaints and allegations.
- 1.4. Consider, as appropriate:
  - 1.4.1. How the Firm fulfills its responsibilities to comply with the laws, regulations and professional standards that relate to the governance and leadership of the Firm;
  - 1.4.2. How the Firm leadership is responsible and accountable for the SoQM and engagement quality;
  - 1.4.3. How the Firm has adopted and implemented KPMG International policies relevant to the SoQM and engagement quality.
- 1.5. Consider how the Firm has established structures, reporting lines, and appropriate authorities and responsibilities, including assigning executive and operational responsibilities for the SoQM.
- 1.6. Consider whether the individual(s) assigned executive and operational responsibility for the SoQM have:
  - 1.6.1. the appropriate experience and knowledge and sufficient time to fulfill their assigned responsibility;
  - 1.6.2. an understanding of their assigned responsibilities and accountability for such responsibilities;
  - 1.6.3. a direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the SoQM; and
  - 1.6.4. demonstrated a commitment to quality through their actions and behaviours.

1.7. In relation to performance management, consider, as appropriate (and in liaison with other Board Committees and the Audit Board):

- 1.7.1. the performance of the Firm and in particular the Audit Practice in terms of engagement quality goals, financial performance, capacity and resource utilisation, partner and colleague satisfaction and adequacy of training and development;
- 1.7.2. policies related to remuneration of members of the Audit Executive, Audit partners and directors to acknowledge wider contributions to quality;
- 1.7.3. the annual performance evaluation of the members of the Audit Executive, Audit partners and directors relating to engagement quality and the SoQM;
- 1.7.4. policies related to acknowledgement of wider contributions to quality compensation of professionals in the Audit Practice; and
- 1.7.5. the Firm's Audit Practice's succession planning process.

## **2. Risk assessment process**

2.1. Consider, as appropriate (and in liaison with the Risk Committee and the Audit Board):

- 2.1.1. whether the Firm has an adequate process of identifying risks arising from the activities of the Audit Practice;
- 2.1.2. whether the Firm has appropriate plans in place to mitigate the identified risks and in particular reviewing the criteria for categorisation of risk levels to individual engagements; and
- 2.1.3. whether the Firm has controls and processes in place in respect of engagement quality, including audit risk management, and specifically (but not exclusively) in respect of engagements that are subject to external/regulatory annual inspection processes.

## **3. Relevant ethical requirements**

3.1. Consider whether the Firm has established quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including applicable principles of professional ethics.

## **4. Acceptance and continuance of client relationships and specific engagements**

- 4.1. Consider (in liaison with the Risk Committee and, as regards audit engagements, the Audit Board) the Firm's appetite for accepting and retaining higher risk engagements.
- 4.2. Consider (in liaison with the Risk Committee) how the Firm's process for client acceptance and continuance supports the Firm's engagement quality objectives.
- 4.3. Discuss (under legal privilege where relevant and subject to any applicable legal or confidentiality constraints, and jointly as appropriate with the Risk Committee and/or Audit Board) with the General Counsel, the Chief Risk Officer and where appropriate the Ethics Partner and/or Head of Professional Conduct, the status of the following matters where they have a significance to the Committee's responsibilities in these Terms of Reference:
  - 4.3.1. engagements or engagement clients that are under case examination, review or investigation by a relevant global or statutory regulator that relate to engagement quality;
  - 4.3.2. engagements or engagement clients that are in litigation or in an investigation that relates to engagement quality; and
  - 4.3.3. whistle-blower matters in relation to engagement quality, the system of quality management and associated matters within the scope of the Terms of Reference.

## **5. Engagement performance**

- 5.1. Consider (in liaison as appropriate with other Board Committees and the Audit Board) how the Firm and, in particular, the Audit Practice apply the Global definition of “Audit Quality”, including identification of the drivers that contribute to engagement quality, and how this is measured by the Firm and by external stakeholders.

## **6. Resources**

- 6.1. Consider (in liaison with the People Committee and, as regards the Audit Practice, the Audit Board) whether the Firm has in place professional development and human resource processes that support engagement quality objectives in accordance with the professional standards and the Firm’s SoQM.
- 6.2. Consider (in liaison with the People Committee and, as regards the Audit Practice, the Audit Board) whether the Firm has the ability to hire, develop and retain a diverse group of personnel, including partners, who have the competence and capabilities to consistently perform quality engagements or carry out responsibilities in relation to the operation of the Firm’s SoQM.
- 6.3. Consider (in liaison with the Audit Board and People Committee) whether the Firm has the capacity to manage the portfolio of audited entities and maintain engagement quality, including the required capacity and resource from non-Audit Capabilities, as appropriate.

## **7. Information and communication**

- 7.1. Consider (in liaison with the Risk Committee, the Public Interest Committee and the Audit Board) the Firm’s relationship with prudential and securities regulators, including the regulators’ existing and potential future trends and issues of concern.
- 7.2. Maintain availability (in coordination with the Chair, the Chief Executive and independent Non-Executives) to meet external stakeholders such as, the Firm’s regulators and provide a link to those responsible for oversight of engagement quality and the SoQM.
- 7.3. Consider, as appropriate, material communications (including the Firm’s annual Transparency Report) made or to be made relating to the SoQM and engagement quality, in particular the process the relevant members of the Executive Committee undertook to understand the completeness, accuracy and consideration of findings to be included in the communication.

## **8. Monitoring and remediation process**

- 8.1. Consider (in liaison with the Audit Board) the annual planning for internal engagement quality performance reviews and inspections by external regulators within the Audit Practice.
- 8.2. Consider (in liaison with the Audit Board) how the Firm holds the Audit Executive accountable for the monitoring and oversight of root cause analysis processes and the implementation and execution of continuous improvement plans related to the SoQM and engagement quality.
- 8.3. Consider (in liaison with the Audit Board) reports that  
outline:
  - 8.3.1. the performance of the Firm’s Audit Practice;
  - 8.3.2. the activities of the Head of Audit and the Head of Audit Quality; and
  - 8.3.3. the monitoring of key audit quality indicators including the targets set for the audit quality indicators and the performance against the targets (including, at minimum, those outlined in the Global Quality & Risk Management Manual policy 13.5.1).
- 8.4. Consider the overall results of the Firm’s monitoring of the SoQM and engagement quality, and the implementation of effective remedial action based on findings from internal and external reviews of the SoQM and engagement quality.