



Statement by the Independent Non-Executives and Audit Non-Executives

For the year ended 30 September 2024

In a challenging economic year, where the firm has made some significant strategic decisions, our roles as Independent Non-Executives (INEs) and Audit Non-Executives (ANEs) remain important and relevant. We constructively challenge the business – at a firm-wide and audit level – bringing to bear our range of backgrounds to ensure that the public interest and audit quality are considered throughout the firm’s decision making and considered within the actions it takes.

Improving audit quality

We have provided oversight of the firm’s audit quality transformation for a number of years, which this year culminated in improved audit quality results from the Financial Reporting Council (FRC) within their most recent Public Report. After significant investment and clear commitment from the firm’s leadership, its partners, and employees, we welcome the improved results. We will continue to encourage the firm to maintain this commitment to audit quality and continual improvement, through its use of the Single Quality Plan to drive measurable improvement in critical areas and deliver sustainable audit quality. In particular, the firm should strive to improve its external Quality Assurance Department (QAD) scores from the Institute of Chartered Accountants England and Wales (ICAEW). In addition, the Audit Board has provided significant challenge and support to the audit business to develop an effective root cause analysis process.

Merger with KPMG Switzerland

Ahead of the partner vote on the merger between KPMG UK and KPMG Switzerland, we challenged the UK firm leadership on the governance proposals for the combined firm. This challenge focused on how the new structure would support the UK firm in relation to the principles of the Audit Firm Governance Code (AFGC), in particular how the merger would support the resilience of the firm and ensure that there continues to be an unwavering commitment to audit quality.

An important part of this has been understanding how the firm’s governance arrangements will change as part of the merger, and how these arrangements will enable the INEs and ANEs, as well as the firm, to meet its obligations under the AFGC, including in the longer term. We independently sought the FRC’s views on this matter.

The impact of the merger will be a core area of focus for the INEs and ANEs in the coming year and beyond.

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Complexity of the regulatory environment

Throughout the year we have sought to understand the evolving regulatory environment for the UK firm, as well as changes impacting entities the firm audits, such as the revisions to the UK Corporate Governance Code. It is clear to us that changes to regulation to improve audit quality will only be completely effective when the entire corporate reporting ecosystem is part of the change; we were therefore pleased to see the draft Audit Bill included within the King's Speech under the new Labour government during the year.

We take a keen interest in the regulatory developments in the UK, but also overseas where there is a direct impact on the UK firm (notably this year, there have been a number of regulatory developments from the Public Company Accounting Oversight Body (PCAOB) in the US). The regulatory environment in which global audit firms operate is becoming increasingly complex, and we have therefore sought reassurance from leadership on how they continue to monitor and implement their changing regulatory obligations and expectations.

This year, there have been a number of UK and international regulatory enforcement actions and political developments across the industry (both audit and non-audit services). At KPMG, regulatory findings in relation to training and answer sharing have led to tough consequences for individuals involved. These findings were disappointing; but we have been encouraged by the robust response of the firm's leadership and their commitment to high ethical standards. We have sought to understand the root cause and asked for evidence of the preventative and detective controls in place to avoid future occurrences.

During the year, the firm paid a significant fine in relation to the audit of Carillion plc and the final settlement decision notices were published. Both the PIC and the Audit Board have been kept abreast of ongoing developments and have continued to challenge on how the lessons learned have been embedded within actions taken.

Financial and operational resilience

In a challenging economic cycle, we have received updates on the performance of the business, and individual service lines (including Audit). This has also included understanding actions the firm has taken, looking further ahead as part of the budget cycle and discussions on the firm's capital and liquidity positions.

Artificial intelligence could have a significant impact on the business's operations in the future. The speed at which the technology is changing requires the firm to be agile. During the year, we have had updates on how the firm is considering the risks and opportunities, what tools are already in use on audit and non-audit engagements and what the impact could be on the firm's future workforce. This will remain an important area of focus for both the PIC and Audit Board agendas.

People and Culture

We continue to believe that without the right culture embedded in the business and the right people, delivering high-quality audits (and high-quality services overall) would be very difficult. We therefore dedicate a significant part of the Audit Board's and the PIC's agendas to understanding the firm's culture programmes. Additionally, we have spent significant time on the firm's new partner balanced scorecard, which is used in assessing performance and informing remuneration decisions. For audit partners, we ensured that there were clear "gating" criteria for their remuneration which primarily focused on audit quality.

We met with the FRC to understand the results of their audit firm culture survey, and how KPMG compared to other firms. We were pleased with the results, and subsequently discussed the implications with the Audit Executive to understand what actions they would take following the survey.

Throughout the year we have continued a programme of engagement internally and externally. These activities are carried out by both individual INEs and ANEs and collectively. Engagement with partners and employees within the UK firm allows us to "test the temperature," focused on the culture of the firm and day-to-day challenges faced by teams on the ground. Our engagement externally gives us insight into industry developments, allows us to benchmark how the firm is perceived by external stakeholders, and helps us consider how we perform our own role and where we could enhance it further.

Engagement activities with the UK firm have included:

- An extensive bilateral programme with Board members, Executives and Audit Executives with over 130 meetings. This includes the CEO and Chair of KPMG.
- Roundtable events with over 75 KPMG Partners and Associate Partners in the following groups: Consulting partners, Newly appointed audit partners, Risk & Legal leaders, the Next Wave¹ audit partners, Local Authority audit partners and Connected Technology partners.
- A site visit to KPMG's Watford office to meet over 50 employees and partners including KPMG Business Services leadership, ethics champions, IDE champions, community champions and non-client facing employees across different grades, from those who had recently joined the firm, to senior managers with over 20 years of experience.
- Partner and Director calls to hear messaging directly from the leadership of the firm.

Engagement activities with KPMG's global network and externally have included:

- Attending FRC hosted events on workforce engagement and dialogue.
- Meetings with the FRC for bi-annual supervisory meetings, as well as ad hoc to discuss the FRC's culture survey of the firm, the governance arrangements under the UK and Swiss firm merger, and feedback on KPMG's Chair and CEO.
- Attending numerous events with investors and audit committee chairs hosted by KPMG, including:
 - Corporate Reporting: An Annual Review with investors
 - Artificial Intelligence
 - The Future of Audit
 - Updating the covenant between investors and audit committees
- The Global Executive team members (including the Global Chairman and CEO, Global Head of Audit, and Global Head of Quality, Risk and Regulatory) have attended the Audit Board and/or the Public Interest Committee to share international developments relevant to the UK firm.
- The PIC Chair and Audit Board Chair met with the independent non-executives of KPMG Australia to share local developments and best practice in delivering their role.
- The PIC Chair met the Swiss Executive team to understand their business ahead of KPMG UK's and KPMG Switzerland's merger on 1 October 2024.

Governance

The key committees of which we are members are the Public Interest Committee (PIC) and the Audit Board, which have distinct but complementary agendas.

- The 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 AFGC, particularly how the firm takes public interest into account when making decisions and how it manages its operational and financial resilience. See the [PIC report](#), including membership.
- The Audit Board takes a direct role in overseeing the Audit practice, and in particular measures to raise and continuously improve audit quality. See the [Audit Board report](#), including membership.

We have also attended Board, Risk Committee, Audit Committee, People Committee, Culture Steerco and Nominations Committee meetings throughout the year. Attendance can be seen at page 20 of [Meeting Our Reporting Requirements](#). While we do not carry votes on the Board or its other Committees, we have had access and opportunity to question and challenge KPMG leadership in the UK at these meetings.

**Conclusion**

The AFGC requires the INEs and ANEs to form their own view of where the public interest lies. Through our engagement with the firm, and understanding of its operations and activities, we are satisfied with the firm's commitment to the public interest and to the delivery of consistent high-quality audits. The firm's leadership has embraced the input and challenge from the INEs and ANEs during the year.

If you would like to get in touch with questions or concerns, please contact: ukfmpmgnonexe@kpmg.co.uk

¹ Next Wave is a multi-year programme developing the skills and capabilities of the next wave of Lead Audit Partners (those closest to the market, leading our biggest tenders or rotating onto the leadership of our largest audits) to improve the skills they need to excel in the market including building strong relationships, great delivery, powerful narratives, deep insights and impactful interactions. In year 5, we have 36 partners receiving year-round coaching, peer support and attending external speaker meetings.

Appointment and Independence of the INEs and ANEs

As at 30 September 2024, KPMG has five independent non-executives (30 September 2023: six). Three are INEs and three are ANEs; one of the independent Non-Executives is both an INE and ANE. During the year, Oonagh Harpur retired from her role as INE. We would like to thank Oonagh for her significant commitment and contribution to our work as independent non-executives, and the valuable insight on people and culture she has provided over the years.

Our INEs and ANEs are chosen to provide specific insights considered to be relevant to the activities of the Public Interest Committee (PIC) and/or the Audit Board and the development of the firm, including expertise in financial and corporate matters, governance, culture, and investor needs. They remain in a position of independence from the leadership decision-making of the firm and outside its chain of command.

KPMG has considered the Audit Firm Governance Code and the FRC's Ethical Standard in drawing up criteria for appointment of the members of the PIC and ANEs. Whilst our INEs and ANEs are not considered to be part of the chain of command for the purposes of auditor independence requirements, they are required to comply with certain criteria which have been developed to reflect the need for INEs and ANEs to maintain appropriate independence from the firm and its partners and to be free from actual or perceived conflicts of interest. These criteria include considering the impact of any financial, business, employment, or family relationships they have with the firm's audited entities or KPMG itself:

- None of the INEs or ANEs are permitted to hold a director or key management position role at any entity where KPMG UK (or any KPMG network firm) is the statutory auditor.
- They are not permitted to be the beneficial owner of a financial interest in an entity where KPMG is the auditor if they have significant influence over that entity.
- They are required to notify the firm if (i) a member of their immediate or close family is a director, holds a key management position, or is in a financial reporting oversight role at an entity where KPMG is the auditor, (ii) if they intend to enter into any business relationship (including providing services) with an entity where KPMG is the auditor, or (iii) if they hold any financial interests in any entity that is material to them. This notification is required to enable the firm to consider if any of these relationships could give rise to an actual or perceived conflict of interest that requires safeguarding.
- With respect to relationships with KPMG itself, if an immediate or close family member of an INE or ANE became a partner (or equivalent) of KPMG UK, they would no longer be eligible to hold their role.
- The INEs and ANEs are also required to notify KPMG if an immediate or close family member becomes an employee of the firm. Again, this is to enable the firm to consider the scope for conflicts with their role.

All INEs and ANEs are checked prior to their appointment to ensure they meet these criteria. As a condition of their appointment, they are under a continuing obligation to disclose to KPMG any matters which may constitute a change to their roles or relationships as soon as they become aware of them. They are also required to make an annual declaration of their compliance with the independence criteria.

The Chair, upon recommendation of the Nominations Committee and approval by the Board, appoints the INEs and ANEs. Their appointments are for a fixed term of either two or three years. This may be renewed up to a maximum of three terms, or nine years.

Support

To support the INEs and ANEs in discharging their role, the firm provides them with:

- An Executive Lead to help them in navigating the business and discharging their duties under the Code.
- Secretarial support.
- Any information they require about the firm's business to discharge their duties.
- Access to independent professional advice at the firm's expense where judged necessary to discharge their duties.

Remuneration

The annual remuneration of each Non-Executive is £110,000, plus an annual fee of £10,000 per Board Committee they attend as a designated Non-Executive. The Chair of the PIC and the Chair of the Audit Board receive an additional amount of £40,000 in respect of chairing duties.