



## KPMG HOLDING LLP

### Audit and Risk Committee – Terms of Reference

*These Terms of Reference of a committee of the Board are those referred to in the Limited Liability Partnership Agreement of KPMG Holding LLP (“the LLPA”). In these Terms of Reference, capitalised words and expressions shall, unless the context otherwise requires, have the meanings assigned to them in the LLPA, the Operating Provisions and the Terms of Reference of the Board.*

*In these Terms of Reference, the “Group” shall have the same meaning assigned to it as outlined in the LLPA as follows: “Group” means Holding LLP and its subsidiaries from time to time.*

#### 1 Purpose

The role of the Audit and Risk Committee (“**the Committee**”) is to assist the Board in:

- 1.1 Overseeing the integrity of the Partnership’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 Overseeing the implementation and maintenance by subsidiaries of the LLP of high-quality systems of quality management and engagement quality, in accordance with applicable regulations and the relevant policies of KPMG International;
- 1.3 Monitoring the effectiveness and objectivity of internal and external auditors;
- 1.4 Assessing the effectiveness of each subsidiary of the LLP’s key controls framework across the following areas:
  - Conflicts of interest, ethics and independence
  - Financial and financial crime prevention
  - Operational risk
  - Legal and regulatory compliance
- 1.5 Overseeing risk appetite and risk tolerance appropriate to each business area, as well as their performance with respect to such appetite and tolerance levels and the soundness of risk governance operated by them;
- 1.6 Considering the risk policy and strategy and making recommendations to the Board with respect to them;
- 1.7 Overseeing the effectiveness of the enterprise-wide risk management framework and its alignment to the Firm’s strategy, including systems and processes for identifying and reporting risks and deficiencies and emerging risks, including those emerging from the KPMG Network;

## **2 Authority**

- 2.1. The Audit and Risk Committee is a committee of the Board from which it derives its authority and to which it 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 these Terms of Reference and to obtain such information as it may require from any Partner, officer or employee.
- 2.4. The Committee has no authority to perform any act which would cause any subsidiary of the LLP or any of their respective controlled entities or any of the persons entrusted with the management of any of the aforementioned to be in breach of, or otherwise be incapable of complying with, any applicable laws or regulatory requirements, including, in particular, the UK Audit Firm Governance Code and article 716a of the Swiss Code of Obligations and the inalienable duties of a board of directors set forth therein and the provisions of the Swiss Federal Auditor Oversight Act

## **3 Constitution**

### **1.1. Chairperson**

- 1.1.1. The chair of the Committee (“**the Committee Chair**”) will be a Non-Executive Member of the Board, appointed by the Board Chair and ratified by the Board.
- 1.1.2. In the absence of the Committee Chair, the remaining members present shall elect one of themselves to chair the meeting.
- 1.1.3. In the event that the Committee Chair 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 meeting or the relevant section of the meeting.

### **1.2. Membership**

- 1.2.1. In addition to the Committee Chair, the members of the Committee comprise of:
  - 1.2.1.1. two additional Non-Executive Members of the Board, provided that the Committee includes at least one Swiss Non-Executive Member of the Board;
  - 1.2.1.2. one member of the UK Oversight Board; and
  - 1.2.1.3. One Independent Non-Executive non voting-member.
- 1.2.2. Members of the Committee shall be appointed by the Board on the recommendation of the Board Chair in consultation with the Committee Chair.
- 1.2.3. Members can be co-opted onto the Committee for defined periods as the need arises to help fulfil the duties and obligations of the Committee. Depending on the reason for their being co-opted, such co-opted members may or may not be granted the right to vote on the Committee, as shall be deemed appropriate and specified in their respective appointments. These appointments shall be made

by the Board on the recommendation of the Committee Chair.

1.2.4. Non-Executive Members shall comprise a majority of the Committee at all times.

1.2.5. Working groups of the Committee may be established by the Committee for specific tasks and activities, including for analysis, consultations and escalations as appropriate; such groups may be comprised of representatives of the Committee and other individuals with relevant expertise.

1.2.6. Members may be removed from the Committee at any time by the Board.

### **1.3. Duration of appointments**

1.3.1. Unless otherwise determined by the Board, the duration of appointments of members of the Committee shall be for a period of up to three years which may be extended by the Board for an additional period of two years.

### **1.4. Secretariat**

1.4.1. The Head of Governance (or, with the concurrence of the Committee Chair, their nominee) shall act as Committee Secretary to the Committee and attend all meetings.

1.4.2. The Committee 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.

### **4.2 Notice of Meetings**

4.2.1 Meetings of the Committee shall be called by the Committee Secretary at the request of the Committee Chair.

4.2.2 The Committee meeting agenda and papers in relation to the meeting shall, ideally, be circulated to all members at least five working days prior to the meeting.

### **4.3 Quorum**

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

4.3.2 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.

4.3.3 In the event of difficulty in forming a quorum, Non-Executive Members of the Board who are not members of the Committee may be co-opted as members for individual meetings.

4.3.4 The members of the Committee may participate in a meeting of the Committee 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 and/or be counted in the quorum

accordingly.

#### **4.4 Attendees**

4.4.1 Only the members of the Committee and other members of the Board have the right to attend Committee meetings.

4.4.2 The following will be expected to attend Committee meetings on a regular basis (by invitation):

- a) Chief Risk Officer;
- b) Group Managing Partner;
- c) General Counsel of the LLP;
- d) Head of Internal Audit;
- e) Head of Governance (or their delegate).

4.4.3 The Board Chair, Senior Elected and CEO will attend meetings on an as needed basis.

4.4.4 Any Audit Non-Executive, Partner, officer or employee of the Partnership may attend at the invitation of the Committee Chair and they may collectively or individually be requested to withdraw from meetings of the Committee if required to do so by the Committee Chair.

#### **4.5 Conflicts of Interest**

If a member of the Committee has a conflict of interest, they shall immediately disclose this to the Committee Chair and where appropriate recuse themselves from any deliberations or votes of the Committee concerning the relevant subject-matter. In such circumstance (including as contemplated in paragraph 3.1.3), the Committee, without the presence and vote of such conflicted member, shall determine the appropriate measures to ensure the integrity of the decisions made at such meeting.

#### **4.6 Confidentiality**

The meetings of the Committee shall have confidential status. The Committee shall reach agreement at meetings concerning key points and communication arrangements.

#### **4.7 Resolutions**

4.7.1 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.

4.7.2 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 for risk and reporting**

The Committee shall, on behalf of the Board or, where appropriate, in support of the Board in fulfilling its responsibilities:

- 5.1 Advise the Board in relation to the determination of overall risk appetite, tolerance and strategy, taking account of (a) the Partnership's values and purpose, as well as the current and prospective regulatory, macroeconomic, geopolitical, technological, environmental and social developments and trends that may be relevant for the Partnership's risk policies; (b) the public interest and regulatory responsibilities of subsidiaries of the LLP; and (c) relevant policies, guidance and determinations of KPMG International and its global risk management steering group.
- 5.2 Oversee and advise the Board on the current risk exposures of the Partnership, appropriate determination of risk appetite and future risk strategy, including as regards the following categories of risk: strategic, operational, financial and compliance, conduct and reputation;
- 5.3 Provide advice and assurance to the Board by adopting a holistic and enterprise-wide view of the Firm and the key risks (including regulatory enforcement and other litigation) that the Group is exposed to, assessing the adequacy and effectiveness of the Firm's enterprise-wide risk management framework, as adopted from time to time;
- 5.4 Undertake horizon-scanning of the risk landscape, including material risks, reputational and franchise impacts arising from the Global network and undertake deep-dive reviews into significant risks at the request of the Board or where, in the Committee's view, further scrutiny is required;
- 5.5 Using internal and external sources of assurance to monitor the robustness of the LLP's subsidiaries' finance and risk management policies and processes, and their fitness for purpose in the context of the Group's enterprise-wide risk management framework and when tested against the Board-approved risk appetite and the Firm's strategy;
- 5.6 Consider and review the prevailing risk culture in the Group (values, beliefs, knowledge, attitudes and understanding about risk) and maintain oversight of relevant work streams and projects to achieve the desired risk culture;
- 5.7 In relation to risk assessment:
  - 5.7.1 Assess the Group's principal risks including those that would threaten its business model, future performance, solvency or liquidity;
  - 5.7.2 Keep under review the Group's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used;
  - 5.7.3 Review regularly and approve the parameters used in these measures and the methodology adopted; and
  - 5.7.4 Set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.

- 5.8 Review the capability of each subsidiary of the LLP to identify and manage new and developing risk types;
- 5.9 Before a decision to proceed is taken by the Board, advise the Board on proposed strategic transactions including acquisitions or disposals ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on risk aspects and implications for the risk appetite and tolerance of the Partnership, and taking independent external advice where appropriate and available;
- 5.10 Review reports on any material breaches of risk limits and the adequacy of proposed action;
- 5.11 Consider and approve the remit of all risk and assurance functions operating within the Group and ensure they have adequate resources and appropriate access to information to enable them to perform their respective functions in first, second and third lines of defence effectively and in accordance with the relevant professional standards. The Committee shall also ensure these functions have adequate independence, as applicable, and are free from inappropriate management and other restrictions;
- 5.12 Review promptly all reports relating to the risk management of the Group from the Chief Risk Officer;
- 5.13 Review and monitor the responsiveness of relevant management within the Group to the findings and recommendations of the Chief Risk Officer;
- 5.14 Consider the material findings of relevant Internal Audit reviews and investigations which are related to enterprise-wide risks and any other Internal Audit investigations deemed appropriate by the Committee Chair in consultation with the Leader of Internal Audit;
- 5.15 Consider to the extent appropriate (and in liaison with their relevant leaders and governance bodies) the LLP's subsidiaries' systems of quality management and processes and controls relevant to engagement quality; and assist the Board in fulfilling its responsibilities in relation to the same; and
- 5.16 Ensure the Chief Risk Officer shall be given the right of unfettered direct access to the Board Chair and to the Committee Chair.

## **6 Fraud, Compliance and Whistleblowing**

The Committee shall:

- 6.1 Review procedures for detecting fraud within the Group;
- 6.2 Review the systems and controls within the Group for the prevention of bribery and receive reports on non-compliance;
- 6.3 Monitor significant whistleblowing reports within the Group and consider any recommendations of the Chief Risk Officer with respect to them; and
- 6.4 Review the adequacy and effectiveness of the anti-money laundering systems and controls within the Group.

## **7 Insurance Arrangements**

The Committee shall:

- 7.1 Annually assess the adequacy of the Group's insurance arrangements, having regard to the nature of the Group's businesses and insurable risks; and
- 7.2 Make recommendations to the Board of any changes to the insurance programme as a result of its annual review.

## **8 Financial Reporting**

- 8.1 The Committee shall monitor the integrity of the financial statements of the Partnership, 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:
  - the application of significant accounting policies and any changes to them;
  - the methods used to account for significant or unusual transactions where different approaches are possible;
  - whether appropriate accounting policies have been adopted and appropriate estimates and judgements have been made, taking into account the external auditor's views on the financial statements;
  - whether any applicable regulatory requirements with respect to financial reporting have been respected; and
  - all material information presented with the financial statements, including any relevant transparency report issued by the LLP or any of its subsidiaries and any additional information or report on the Group's activities and performance with regard to environment, social and governance matters.

## **9 Capital Adequacy and Treasury Matters**

- 9.1 Prior to consideration and approval by the Board, the Committee shall review significant changes to general banking and treasury operations (in excess of the Executive Committee's delegated limits) of the LLP and 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.

## **10 External Audit at Group Level**

The Committee shall, on a Group level:

- 10.1 Consider the appointment, re-appointment or removal of the external auditor and oversee the selection process for a new auditor where required;
- 10.2 If an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 10.3 Assess annually the external auditor's independence and objectivity taking into account relevant laws, regulations, ethical standards (including the ethical standard published by the UK's Financial Reporting Council ("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;
- 10.4 Satisfy itself that there are no relationships between the auditor and the Group (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- 10.5 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;
- 10.6 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;
- 10.7 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;
- 10.8 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;
- 10.9 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;
- 10.10 Review, in liaison with relevant governance bodies of subsidiaries of the LLP, 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;

- 10.11 Review management representation letters in relation to financial reporting requested by the external auditor prior to signature by the executives;
- 10.12 Review any external assurance report on planet-related and community-related data for publication as part of the annual report;
- 10.13 Monitor the quality of the relationship between the external and internal auditors;
- 10.14 Review management's response to findings of the audit and resolving disagreements between management and the external auditor regarding financial reporting; and
- 10.15 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.

## **11 Internal Controls**

The Committee shall:

- 11.1 Make policy recommendations to the Board with respect to all matters relevant to engagement quality within the subsidiaries of the LLP and their systems of quality management, including in the context of their public interest responsibilities, where relevant;
- 11.2 Carry out its activities with a view to ensuring that the subsidiaries of the LLP are fully aligned and compliant with applicable law and regulation and KPMG International's requirements as regards to engagement quality, systems of quality management, and their contribution to each relevant subsidiary's role in serving the public interest;
- 11.3 Review and recommend for Board approval the statements to be included in the annual report concerning internal control, risk management and the going concern statement; and
- 11.4 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).

## **12 Internal Audit**

The Leader of Internal Audit and the internal audit function ("Internal Audit") shall report to the Committee and the Committee shall (in liaison with relevant governance bodies of any subsidiaries of the LLP to whom the Group Head of Internal Audit and Internal Audit also reports, as the case may be):

- 12.1 Approve the remuneration, appointment or termination of the appointment of the Leader of Internal Audit;

- 12.2 Review and approve the role and mandate of Internal Audit, monitor and review the effectiveness of its work, and annually approve Internal Audit's charter ensuring that it is appropriate for the current needs of the Group;
- 12.3 Review and approve the annual internal audit plan to ensure that it is aligned to the key risks of the Group's businesses and receive regular reports on work carried out;
- 12.4 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 Internal Audit evaluates the effectiveness of these functions as part of its internal audit plan and ensure that Internal Audit is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 12.5 Ensure the Leader of Internal Audit has direct access to the Board Chair and to the Committee Chair, providing independence from the CEO and Executive Committee and accountability to the Committee;
- 12.6 Carry out an annual assessment of the effectiveness of Internal Audit and as part of this assessment:
  - meet with the Leader 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.
- 12.7 Monitor and assess the role of Internal Audit in the overall context of the Group's systems of controls.

### **13 Reporting**

- 13.1 The Committee Chair shall report to the Board after each meeting on matters within its duties and responsibilities.
- 13.2 The Committee shall work and liaise as necessary with other committees of the Board and relevant governance bodies of subsidiaries of the LLP.

### **14 Governance and Resources**

- 14.1 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.
- 14.2 The Committee shall, in its decision making, give due regard to any relevant legal or regulatory requirements of the LLP and its subsidiaries, and associated best practice guidance, as well as to the risk and reputation implications of its decisions for the LLP and its subsidiaries (liaising where relevant with other committees).

14.3 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.

**15 Terms of Reference**

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