



# Audit & Risk Committee

## Terms of reference

For the year ended  
30 September 2025



**KPMG. Make the Difference.**

**These Terms of Reference of this committee of the UK Board are those referred to in the Limited Liability Partnership Agreement of KPMG 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 UK 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 & Risk Committee ("the Committee") is to assist the UK board ("the UK Board") of KPMG LLP ("the UK Firm" or "the LLP") to:

- 1.1 Oversee the integrity of the Partnership's financial reporting, including supporting the Board in meeting its responsibilities regarding financial statements, the financial reporting systems and internal controls;
- 1.2 Oversee all relevant matters pertaining to the system of quality management and engagement quality as set out in the Appendix to these Terms of Reference;
- 1.3 Monitor the effectiveness and objectivity of internal and external auditors;
- 1.4 Assess the effectiveness of each member of the Group's key controls framework across the following areas:
  - Conflicts, ethics and independence
  - Financial and financial crime prevention
  - Operational risk
  - Compliance
  - System of Quality Management
- 1.5 Oversee, in liaison with the Group Audit & Risk Committee, risk appetite and risk tolerance appropriate to each business area;
- 1.6 In the context of the Group's risk policy and strategy, consider the risk policy and strategy adopted in the UK and make recommendations to the UK Board with respect to them;
- 1.7 Monitor, in liaison with the Group Audit & Risk Committee, the effectiveness of the Enterprise-Wide Risk Management Framework, as applied in the UK;

- 1.8 Oversee, in liaison with the Group Audit & Risk Committee, compliance in the UK with the approved risk appetite and policies and procedures related to risk management governance and the risk controls framework;
- 1.9 Have an overview of the key risk issues identified across the organisation, the Group and the wider network.

### **2 Authority**

- 2.1 The Audit & Risk Committee is a committee of the UK Board from which it derives its authority and to which it regularly reports.
- 2.2 The Committee has delegated authority from the UK 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.

### **3 Constitution**

- 3.1 Chair
  - 3.1.1 The chair of the Committee ("the Committee Chair") will be a Non-Executive Member of the Board, appointed by the Chair of the UK Board and ratified by the UK Board.
  - 3.1.2 In the absence of the Committee Chair 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 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.

### 3.2 Membership

- 3.2.1 In addition to the Committee Chair, the membership comprises two additional Non-Executive Members.
- 3.2.2 Additional members of the Committee shall be appointed by the UK Board on the recommendation of the Chair of the UK Board.
- 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 UK Board on the recommendation of the Committee Chair.
- 3.2.4 Members may be removed from the Committee at any time by the UK Board.

### 3.3 Duration of appointments

- 3.3.1 Unless otherwise determined by the UK Board, the duration of appointments of 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 UK Board for an additional period of two years.

### 3.4 Secretariat

- 3.4.1 The Head of Governance or their nominee shall act as Committee Secretary to the Committee and attend all meetings.
- 3.4.2 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 a minimum of 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 Secretary of the Committee 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 UK 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 UK Board have the right to attend Committee meetings.
- 4.4.2 The following will be expected to attend Committee meetings on a regular basis:
  - a) UK Chief Risk Officer;
  - b) Group and UK Managing Partner;
  - c) UK General Counsel;
  - d) UK Head of Internal Audit;
  - e) Head of Governance (or their delegate).
- 4.4.3 The Chair of the UK Board and UK CEO will attend meetings on an as needed basis.
- 4.4.4 Any Partner, officer or employee of the Partnership or another member of the Group 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.

### 4.6 Resolutions

- 4.6.1 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.
- 4.6.2 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.

## 5 Responsibilities for risk and reporting

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

- 5.1 Advise the UK Board in relation to the determination of the UK Firm's overall risk appetite and tolerance within the context of the Group's risk appetite and tolerance, taking account of (a) the UK Firm's public interest purpose, as well as the current and prospective regulatory trends that may be relevant for the Partnership's risk policies; and (b) relevant policies, guidance and determinations of the Group and of KPMG International and their respective risk management governance bodies;
- 5.2 Oversee and advise the UK Board on the current risk exposures of the UK Firm, including as regards the following families of risk: strategic, operational, financial and compliance, conduct and reputation;
- 5.3 Monitor, in liaison with the Group Audit & Risk Committee, the adequacy and effectiveness of the UK Firm's adoption of the Enterprise-Wide Risk Management Framework as applied in the UK, including systems and processes for identifying and reporting risks and deficiencies and emerging risks;

- 5.4 Undertake horizon-scanning of the risk landscape, including material risks, reputational and franchise impacts arising from the Group and the Global network and undertake deep-dive reviews into significant risks at the request of the UK Board or where, in the Committee's view, further scrutiny is required;
- 5.5 In relation to risk assessment:
  - 5.5.1 Assess the UK Firm's principal risks including those that would threaten its business model, future performance, solvency or liquidity;
  - 5.5.2 Set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.
- 5.6 Review reports on any material breaches of risk limits and the adequacy of proposed action;
- 5.7 Review promptly all reports relating to the risk management of the UK Firm from the UK Chief Risk Officer and/or the Group Chief Risk Officer;
- 5.8 Review and monitor the responsiveness of relevant management within the UK Firm to the findings and recommendations of the UK Chief Risk Officer;
- 5.9 Consider the material findings of relevant Internal Audit reviews and investigations;
- 5.10 Liaise with the Group Audit & Risk Committee with regard to the UK Firm's systems of quality management and processes relevant to engagement quality; and
- 5.11 Ensure the UK Chief Risk Officer shall be given the right of unfettered direct access to the Chair of the UK Board and to the Chair of the Committee.

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

The Committee shall:

- 6.1 Review procedures for detecting fraud within the UK Firm;
- 6.2 Review the systems and controls within the UK Firm for the prevention of bribery and receive reports on non-compliance;
- 6.3 Monitor significant whistleblowing reports within the UK Firm and consider any recommendations of the UK 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 UK Firm.

## **7 Insurance Arrangements**

The Committee shall, in liaison with the Group Audit & Risk Committee:

- 7.1 Annually assess the adequacy of the UK Firm's insurance arrangements having regard to the nature of the UK Firm's businesses and insurable risks; and
- 7.2 Make recommendations to the UK Board or Management Committee, as appropriate, 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 UK Firm, including its annual report relating to its financial performance, and review and report to the UK 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 any member of the Group and any additional information or report on the Group's activities and performance with regard to Environment, Social and Governance ("ESG") matters.

## **9 Capital Adequacy**

- 9.1 Prior to consideration and approval by the Board, the Committee shall review significant changes to the UK Firm's financing arrangements that might impact its capital and financial stability.

## **10 External Audit**

The Committee shall:

- 10.1 Consider the appointment, re-appointment or removal of the external auditor and liaise with the Group Audit & Risk Committee regarding the selection process for a new auditor where required;
- 10.2 If an external auditor resigns, coordinate with the Group Audit & Risk Committee with respect to understanding 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 and other professional requirements and the UK 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 UK Firm or other members of 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 UK 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, in liaison with the Group Audit & Risk Committee, 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, in liaison with the Group Audit & Risk Committee, 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 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 the planet and community data for publication as part of the Annual Report;
- 10.13 Monitor the effectiveness 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 Oversee the effectiveness of the systems of quality management ("SoQM") of the UK Firm and their processes relevant to engagement quality and the SoQM framework, through fulfilling the responsibilities set out in the Appendix 1 to these Terms of Reference;
- 11.2 Make policy recommendations to the UK Board with respect to all matters relevant to engagement quality and the SoQM, in the context of the UK Firm's role in serving the public interest;
- 11.3 Seek to ensure that the UK Firm is fully aligned and compliant with applicable law and regulation as well as the Group's and KPMG International's requirements as regards to engagement quality, the SoQM and the role of the UK Firm in serving the public interest;
- 11.4 Review and recommend for UK Board approval the statements to be included in the annual report concerning internal control, risk management and the going concern statement; and
- 11.5 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 UK Head of Internal Audit, in such capacity, shall report to the Committee, in addition to the Group Head of Internal Audit (if a different individual) and the Committee shall:

- 12.1 Approve, in liaison with the Group Head of Internal Audit (if a different individual) and, as appropriate with the Group Audit & Risk Committee, the remuneration, appointment or termination of the appointment of the UK Head 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 the Internal Audit Charter ensuring that it is appropriate for the current needs of the Group;
- 12.3 Review and approve the annual internal audit plan, in liaison with the Group Audit & Risk Committee, to ensure that it is aligned to the key risks of the UK Firm'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 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;
- 12.5 Ensure the UK Head of Internal Audit has direct access to the Chair of the UK Board and to the Committee Chair, providing independence from the Executive and accountability to the Committee;
- 12.6 Coordinate with the Group Audit & Risk Committee with regards to carrying out an annual assessment of the effectiveness of the Internal Audit Function and as part of this assessment:
- meet with the UK 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.
- 12.7 Monitor and assess the role of the Internal Audit function 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 UK Board and Group Board.

## **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 UK 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, and associated best practice guidance, as well as to the risk and reputation implications of its decisions (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 UK Board any amendments to its Terms of Reference.

**16 Purpose**

The role of the Audit & Risk Committee ("the Committee") is to assist the UK board ("the UK Board") of KPMG LLP ("the UK Firm" or "the LLP") to:

- 16.1 Oversee the integrity of the Partnership's financial reporting, including supporting the Board in meeting its responsibilities regarding financial statements, the financial reporting systems and internal controls;
- 16.2 Oversee all relevant matters pertaining to the system of quality management and engagement quality as set out in Appendix 1 of these Terms of Reference;
- 16.3 Monitor the effectiveness and objectivity of internal and external auditors;
- 16.4 Assess the effectiveness of each member of the Group's key controls framework across the following areas:
- Conflicts, ethics and independence
  - Financial and financial crime prevention
  - Operational risk
  - Compliance
  - System of Quality Management
- 16.5 Oversee, in liaison with the Group Audit & Risk Committee, risk appetite and risk tolerance appropriate to each business area;
- 16.6 In the context of the Group's risk policy and strategy, consider the risk policy and strategy adopted in the UK and make recommendations to the UK Board with respect to them;
- 16.7 Monitor, in liaison with the Group Audit & Risk Committee, the effectiveness of the Enterprise-Wide Risk Management Framework, as applied in the UK;
- 16.8 Oversee, in liaison with the Group Audit & Risk Committee, compliance in the UK with the approved risk appetite and policies and procedures related to risk management governance and the risk controls framework;
- 16.9 Have an overview of the key risk issues identified across the organisation, the Group and the wider network.

**17 Authority**

- 17.1 The Audit & Risk Committee is a committee of the UK Board from which it derives its authority and to which it regularly reports.
- 17.2 The Committee has delegated authority from the UK Board in respect of the functions and powers set out in these Terms of Reference.
- 17.3 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.

**18 Constitution****18.1 Chair**

- 18.1.1 The chair of the Committee ("the Committee Chair") will be a Non-Executive Member of the Board, appointed by the Chair of the UK Board and ratified by the UK Board.

- 18.1.2 In the absence of the Committee Chair or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

- 18.1.3 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.

**18.2 Membership**

- 18.2.1 In addition to the Committee Chair, the membership comprises two additional Non-Executive Members.
- 18.2.2 Additional members of the Committee shall be appointed by the UK Board on the recommendation of the Chair of the UK Board.
- 18.2.3 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 UK Board on the recommendation of the Committee Chair.
- 18.2.4 Members may be removed from the Committee at any time by the UK Board.

**18.3 Duration of appointments**

- 18.3.1 Unless otherwise determined by the UK Board, the duration of appointments of 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 UK Board for an additional period of two years.

**18.4 Secretariat**

- 18.4.3 The Head of Governance or their nominee shall act as Committee Secretary to the Committee and attend all meetings.
- 18.4.4 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.

**19 Proceedings of Meetings****19.1 Frequency of Meetings**

- 19.1.1 The Committee shall meet a minimum of four times a year and otherwise as required.

**19.2 Notice of Meetings**

- 19.2.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Committee Chair.
- 19.2.2 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.

**19.3 Quorum**

- 19.3.1 Any two members of the Committee may form a quorum.
- 19.3.2 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.
- 19.3.3 In the event of difficulty in forming a quorum, Non-Executive Members of the UK Board who are not members of the Committee may be co-opted as members for individual meetings.



- 19.3.4 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.

#### 19.4 Attendees

- 19.4.1 Only the members of the Committee and other members of the UK Board have the right to attend Committee meetings.
- 19.4.2 The following will be expected to attend Committee meetings on a regular basis:
- UK Chief Risk Officer;
  - Group and UK Managing Partner;
  - UK General Counsel;
  - UK Head of Internal Audit;
  - Head of Governance (or their delegate).
- 19.4.3 The Chair of the UK Board and UK CEO will attend meetings on an as needed basis.
- 19.4.4 Any Partner, officer or employee of the Partnership or another member of the Group 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.

#### 19.5 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.

#### 19.6 Resolutions

- 19.6.1 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.
- 19.6.2 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.

### 20 Responsibilities for risk and reporting

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

- 20.1 Advise the UK Board in relation to the determination of the UK Firm's overall risk appetite and tolerance within the context of the Group's risk appetite and tolerance, taking account of (a) the UK Firm's public interest purpose, as well as the current and prospective regulatory trends that may be relevant for the Partnership's risk policies; and (b) relevant policies, guidance and determinations of the Group and of KPMG International and their respective risk management governance bodies;

- 20.2 Oversee and advise the UK Board on the current risk exposures of the UK Firm, including as regards the following families of risk: strategic, operational, financial and compliance, conduct and reputation;
- 20.3 Monitor, in liaison with the Group Audit & Risk Committee, the adequacy and effectiveness of the UK Firm's adoption of the Enterprise-Wide Risk Management Framework as applied in the UK, including systems and processes for identifying and reporting risks and deficiencies and emerging risks;
- 20.4 Undertake horizon-scanning of the risk landscape, including material risks, reputational and franchise impacts arising from the Group and the Global network and undertake deep-dive reviews into significant risks at the request of the UK Board or where, in the Committee's view, further scrutiny is required;
- 20.5 In relation to risk assessment:
- Assess the UK Firm's principal risks including those that would threaten its business model, future performance, solvency or liquidity;
  - Set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.
- 20.6 Review reports on any material breaches of risk limits and the adequacy of proposed action;
- 20.7 Review promptly all reports relating to the risk management of the UK Firm from the UK Chief Risk Officer and/or the Group Chief Risk Officer;
- 20.8 Review and monitor the responsiveness of relevant management within the UK Firm to the findings and recommendations of the UK Chief Risk Officer;
- 20.9 Consider the material findings of relevant Internal Audit reviews and investigations;
- 20.10 Liaise with the Group Audit & Risk Committee with regard to the UK Firm's systems of quality management and processes relevant to engagement quality; and
- 20.11 Ensure the UK Chief Risk Officer shall be given the right of unfettered direct access to the Chair of the UK Board and to the Chair of the Committee.

### 21 Fraud, Compliance and Whistleblowing

The Committee shall:

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

### 22 Insurance Arrangements

The Committee shall, in liaison with the Group Audit & Risk Committee:

- Annually assess the adequacy of the UK Firm's insurance arrangements having regard to the nature of the UK Firm's businesses and insurable risks; and
- Make recommendations to the UK Board or Management Committee, as appropriate, of any changes to the insurance programme as a result of its annual review.

## **23 Financial Reporting**

- 23.1 The Committee shall monitor the integrity of the financial statements of the UK Firm, including its annual report relating to its financial performance, and review and report to the UK 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 any member of the Group and any additional information or report on the Group's activities and performance with regard to Environment, Social and Governance ("ESG") matters.

## **24 Capital Adequacy**

- 24.1 Prior to consideration and approval by the Board, the Committee shall review significant changes to the UK Firm's financing arrangements that might impact its capital and financial stability.

## **25 External Audit**

The Committee shall:

- 25.1 Consider the appointment, re-appointment or removal of the external auditor and liaise with the Group Audit & Risk Committee regarding the selection process for a new auditor where required;
- 25.2 If an external auditor resigns, coordinate with the Group Audit & Risk Committee with respect to understanding the issues leading to this and decide whether any action is required;
- 25.3 Assess annually the external auditor's independence and objectivity taking into account relevant laws, regulations, Ethical Standards and other professional requirements and the UK 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;
- 25.4 Satisfy itself that there are no relationships between the auditor and the UK Firm or other members of the Group (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- 25.5 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;
- 25.6 Monitor the level of fees paid to the auditor compared to the overall fee income of the UK Firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard;
- 25.7 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;

- 25.8 Approve, in liaison with the Group Audit & Risk Committee, 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;
- 25.9 Approve, in liaison with the Group Audit & Risk Committee, the nature, scope and plan of the audit with the external auditor, including the factors that could affect audit quality, before the audit commences;
- 25.10 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.
- 25.11 Review management representation letters in relation to financial reporting requested by the external auditor prior to signature by the Executives;
- 25.12 Review any external assurance report on the planet and community data for publication as part of the Annual Report;
- 25.13 Monitor the effectiveness of the relationship between the external and internal auditors;
- 25.14 Review management's response to findings of the audit and resolving disagreements between management and the external auditor regarding financial reporting; and
- 25.15 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.

## **26 Internal Controls**

The Committee shall:

- 26.1 Oversee the effectiveness of the systems of quality management ("SoQM") of the UK Firm and their processes relevant to engagement quality and the SoQM framework, through fulfilling the responsibilities set out in the Appendix 1 to these Terms of Reference;
- 26.2 Make policy recommendations to the UK Board with respect to all matters relevant to engagement quality and the SoQM, in the context of the UK Firm's role in serving the public interest;
- 26.3 Seek to ensure that the UK Firm is fully aligned and compliant with applicable law and regulation as well as the Group's and KPMG International's requirements as regards to engagement quality, the SoQM and the role of the UK Firm in serving the public interest;
- 26.4 Review and recommend for UK Board approval the statements to be included in the annual report concerning internal control, risk management and the going concern statement; and
- 26.5 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).

## **27 Internal Audit**

- The UK Head of Internal Audit, in such capacity, shall report to the Committee, in addition to the Group Head of Internal Audit (if a different individual) and the Committee shall:
- 27.1 Approve, in liaison with the Group Head of Internal Audit (if a different individual) and, as appropriate with the Group Audit & Risk Committee, the remuneration, appointment or termination of the appointment of the UK Head of Internal Audit;
  - 27.2 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 Group;
  - 27.3 Review and approve the annual internal audit plan, in liaison with the Group Audit & Risk Committee, to ensure that it is aligned to the key risks of the UK Firm's businesses and receive regular reports on work carried out;
  - 2.74 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;
  - 27.5 Ensure the UK Head of Internal Audit has direct access to the Chair of the UK Board and to the Committee Chair, providing independence from the Executive and accountability to the Committee;
  - 27.6 Coordinate with the Group Audit & Risk Committee with regards to carrying out an annual assessment of the effectiveness of the Internal Audit Function and as part of this assessment:
    - meet with the UK 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.
  - 27.7 Monitor and assess the role of the Internal Audit function in the overall context of the Group's systems of controls.

## **28 Reporting**

- 28.1 The Committee Chair shall report to the Board after each meeting on matters within its duties and responsibilities.
- 28.2 The Committee shall work and liaise as necessary with other Committees of the UK Board and Group Board.

## **29 Governance and Resources**

- 29.1 The Committee shall conduct an annual self-assessment of its activities under these Terms of Reference and report any conclusions and recommendations to the UK 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.
- 29.2 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).
- 29.3 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

## **30 Terms of Reference**

- 30.1 The Committee shall annually review its Terms of Reference and may recommend to the UK 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 UK Firm's culture promotes a commitment to quality, including recognising and reinforcing the importance of professional ethics, values and attitudes throughout the UK 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 UK Firm's strategic priorities (including financial and operational priorities) and strategic investments (undertaken and to be undertaken) demonstrate a commitment to quality and the UK Firm's role in serving the public interest by consistently performing quality engagements.
- 1.3 Consider whether the UK 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 UK Firm's SoQM; and
  - 1.3.2 Establishing policies or procedures for dealing with complaints and allegations about the commitment to quality of the UK Firm or its personnel, including clearly defining channels within the UK 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 UK Firm fulfils its responsibilities to comply with the laws, regulations and professional standards that relate to the governance and leadership of the UK Firm;
  - 1.4.2 How the UK Firm leadership is responsible and accountable for the SoQM and engagement quality;
  - 1.4.3 How the UK Firm has adopted and implemented Group and KPMG International policies relevant to the SoQM and engagement quality.
- 1.5 Consider how the UK 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 fulfil 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 the Audit Board):
  - 1.7.1 the performance of the UK 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 UK Firm's Audit Practice's succession planning process.

### 2 Risk assessment process

- 2.1 Consider, as appropriate (and in liaison with the Audit Board):
  - 2.1.1 whether the UK Firm has an adequate process of identifying risks arising from the activities of the Audit Practice;
  - 2.1.2 whether the UK 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 UK 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 UK Firm has established quality objectives that address the fulfilment 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 Audit Board as regards audit engagements) the UK Firm's appetite for accepting and retaining higher risk engagements.
- 4.2 Consider how the UK Firm's process for client acceptance and continuance supports the UK Firm's engagement quality objectives.

4.3 Discuss (under legal privilege where relevant and subject to any applicable legal or confidentiality constraints) with the UK General Counsel, the UK 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 whistleblower 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 the Group Audit & Risk Committee and the Audit Board) how the UK 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 UK Firm and by external stakeholders.

## **6 Resources**

- 6.1 Consider (in liaison with the Audit Board, as regards the Audit Practice) whether the UK Firm has in place professional development and human resource processes that support engagement quality objectives in accordance with the professional standards and the UK Firm's SoQM.
- 6.2 Consider (in liaison with the Audit Board, as regards the Audit Practice) whether the UK 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 UK Firm's SoQM.
- 6.3 Consider (in liaison with the Audit Board) whether the UK 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 Public Interest Committee and the Audit Board) the UK 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 of the UK Board, the UK CEO and Independent Non-Executives) to meet external stakeholders such as, the UK 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 UK 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 UK Management 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 UK 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 UK 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 UK 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.