



Audit Quality Committee – Terms of Reference

1 Purpose

- 1.1 The purpose of the Audit Quality Committee is to oversee on behalf of the Board all relevant matters pertaining to Audit Quality – including dialogue with key regulatory bodies, inspection results, and relevant audit brand and regulatory risks.
- 1.2 The Committee assists the Board in its responsibility for KPMG’s response to Audit Firm Monitoring Approach (“AFMA”) by the Financial Reporting Council (“FRC”), and specifically for all aspects of the AFMA that relate to Audit Quality including at a minimum meeting FRC targets for results from its annual AQR inspection.
- 1.3 The Committee assists the Board in meeting its responsibilities to review, monitor and challenge the Audit Capability Group (“KPMG Audit”) as to how KPMG discharges its obligations to investors, entities subject to audit (audit clients) and other key stakeholders such as the FRC in connection with Audit Quality, and how it monitors Audit Quality Indicators (“AQIs”) and compliance with global KPMG policies.
- 1.4 The Committee monitors and oversees controls and processes in place in respect of Audit Quality, including risk management, and specifically in respect of audits that are subject to the FRC’s annual AQR inspection. The Committee will be empowered to make policy recommendations to the Board on all matters relevant to Audit Quality.
- 1.5 The Committee will hold the Audit Leadership Team (“ALT”) accountable for the monitoring and oversight of root cause analysis process and implementation and execution of a comprehensive continuous improvement plan, which is led by the Head of Audit as the individual ultimately responsible and accountable for Audit Quality.
- 1.6 The Committee liaises with any Global Audit Quality Committee and Global Audit Quality Monitoring Group, as constituted from time to time, in order to ensure that KPMG Audit is fully aligned and compliant with KPMG International’s requirements as regards ensuring Audit Quality.
- 1.7 The Committee also assists the Board by reviewing and making recommendations in respect of aspects of the firm’s reward and recognition arrangements linked to Audit Quality.

2 Authority

- 2.1 The Audit Quality Committee is a Committee of the Board of KPMG LLP (“the Board”) from which it derives its authority and to which it regularly reports.
- 2.2 The Committee has delegated authority from the Board in respect of the functions and powers set out in these Terms of Reference.
- 2.3 The Committee has authority to investigate any matter within its Terms of Reference and to obtain such information as it may require from any Partner, officer or employee.

Terms of Reference approved by the Board on 8 March 2018

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3 Constitution

3.1 Chairperson

- 3.1.1 The Chair of the Committee will be a Non-Executive on the Board with significant audit experience.
- 3.1.2 In the absence of the Chair of the Committee or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- 3.1.3 The Committee Chair has a casting vote.

3.2 Membership

- 3.2.1 The Committee will comprise:
 - The Chairperson
 - At least two other Non-Executive members of the Board, including the Vice-Chair Non-Executive member of the Board with responsibility for Audit
 - One Independent Non-Executive
 - Up to three Co-opted at-large Partners
- 3.2.2 Members of the Committee shall be appointed by the Board on the recommendation of the Chair in consultation with the Senior Non-Executive Board Member; in the case of co-opted members, appointments shall be made by the Board on recommendation of the Chair of the Committee.
- 3.2.3 Members may be removed from the Committee at any time by the Board.

3.3 Duration of appointments

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

3.4 Secretary

- 3.4.1 The Board Secretary or their nominee shall act as Secretary to the Committee and attend all meetings.
- 3.4.2 The Secretary shall record the proceedings and decisions of the Committee meetings and the minutes shall be circulated to all members and attendees, as appropriate, taking into account any conflicts of interest that may exist.

4 Proceedings of Meetings

4.1 Frequency of Meetings

- 4.1.1 The Committee shall meet approximately monthly and otherwise as required.
- 4.1.2 Meetings of the Committee may be called by the Chair of the Committee at any time to consider any matters falling within these Terms of Reference.

4.2 Quorum

- 4.2.1 Any three members of the Committee may form a quorum, provided at least one Non-Executive Board member, who is an auditor, is in attendance.
- 4.2.2 A duly convened meeting of the Committee at which a quorum is present shall be

competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

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

4.3 Attendees

- 4.3.1 Only the members of the Committee and other Non-Executive members of the Board have the right to attend Committee meetings.
- 4.3.2 The Head of Audit and members of KPMG Audit leadership responsible for Audit Quality and risk management, as well as the Global Head of Audit may attend each meeting on invitation of the Chair of the Committee.
- 4.3.3 Any Partner, officer or employee of the LLP may attend at the invitation of the Chair of the Committee and they may collectively or individually be requested to withdraw from meetings of the Committee if required to do so by the Chair of the Committee.

4.4 Resolutions

- 4.4.1 The Committee shall reach decisions by a simple majority of those voting on the issue in question.
- 4.4.2 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 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

The committee shall:

5.1 Audit Quality

- 5.1.1 Monitor and oversee how KPMG Audit and external stakeholders define "Audit Quality", including identification of the drivers that contribute to Audit Quality, and how this is measured by KPMG.
- 5.1.2 Receive regular reports by the Head of Audit on the performance of the KPMG Audit and overall audit quality, including resource levels, challenging and supporting the Head of Audit and holding him/her to account.
- 5.1.3 Receive regular reports on the activities of the Audit Quality Council and Head of Audit Quality in order to provide support and challenge.
- 5.1.4 Review the regular monitoring of AQIs by the ALT.
- 5.1.5 Oversee the continuous improvement initiatives (including root cause analysis) in connection with Audit Quality, and in particular the elements designed to meet targets set by the FRC for AQR results, and monitor performance against the plan.
- 5.1.6 Recommend to the Board enhancements to the firm's policies and

processes supporting Audit Quality

5.2 Risk Management

- 5.2.1 Review the process of identification of risks arising from the activities of KPMG Audit and the plans in place to mitigate these risks and in particular reviewing the criteria for categorisation of risk levels to individual engagements and KPMG Audit's appetite for accepting higher risk audits.
- 5.2.2 Have oversight over controls and processes in place in respect of Audit Quality, including risk management, and specifically (but not exclusively) in respect of audits that are subject to the FRC's annual AQR inspection.

5.3 Engagement

- 5.3.1 Oversee the appropriateness and adequacy of KPMG Audit's interaction with external regulators (including the FRC, ICAEW, ICAS and PCAOB) and investors.
- 5.3.2 Be available to meet external stakeholders such as investors, the FRC, and provide a link to those responsible for Audit Quality at KPMG International.

5.4 Performance Management

- 5.4.1 Oversee the performance of KPMG Audit in terms of Audit Quality goals, financial performance, capacity and resource utilisation, partner and staff satisfaction and adequacy of training and development.
- 5.4.2 Review and provide input on policies related to remuneration of audit partners to better incentivise Audit Quality and make recommendations to the Remuneration Committee accordingly.
- 5.4.3 Be consulted by the Head of Audit in relation to the annual performance evaluation of audit partners and the recommendations made to Exco in relation to their remuneration.
- 5.4.4 Review and provide input on policies related to compensation of employees in KPMG Audit and make recommendations to the Remuneration Committee accordingly.

5.5 Quality Reviews and Investigations

- 5.5.1 Review and agree the annual planning for QPR within KPMG Audit and make recommendations to the Head of Audit, Head of Audit Quality, Chief Risk Officer for KPMG Audit and Head of Quality & Risk Management accordingly.
- 5.5.2 Review the annual AQR report of the FRC and make recommendations to the Head of Audit and the Board, as appropriate.
- 5.5.3 Receive regular reports from the Office of General Counsel on the status of matters related to the Firm's audits or audit clients that are, for the time being, under case examination, review or investigation by the FRC, ICAEW, ICAS, PCAOB or other relevant regulator.

5.6 General

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- 5.6.1 Review the Audit Quality section of the annual report and recommend to the Board for approval;
- 5.6.2 Agree and monitor KPIs on the performance against audit quality goals;
- 5.6.3 Review and approve, as appropriate, any material communications on behalf of the Firm with its regulators as regards Audit Quality and associated matters within the scope of the Committee's Terms of Reference.

6 Reporting

- 6.1 Minutes of each Committee meeting will be disclosed at the next following meetings of the Board and the Public Interest Committee. Periodically the Chair of the Committee shall report to the Board on matters within its duties and responsibilities.
- 6.2 The Committee shall compile a report of the work of the Committee in discharging its responsibilities for inclusion in the Annual Report, including a description of significant issues dealt with by the Committee.
- 6.3 The Committee shall work and liaise as necessary with other committees of the Board and, in particular, shall meet jointly with the Public Interest Committee at least twice a year to report on the firm's performance in ensuring audit quality.¹

7 Governance and Resources

- 7.1 The Committee shall, via the Secretary to the Committee, make available to new members of the Committee a suitable induction process and, for existing members, ongoing training as discussed and agreed by the Committee.
- 7.2 The Committee shall conduct an annual self-assessment of its activities under these Terms of Reference and report any conclusions and recommendations to the Board and, as part of this assessment, shall consider whether or not it receives adequate and appropriate support in fulfilment of its role and whether or not its annual plan of work is manageable.
- 7.3 The Committee shall in its decision making, give due regard to any relevant legal or regulatory requirements, and associated best practice guidance, as well as to the risk and reputation implications of its decisions (liaising where relevant with other committees).
- 7.4 The Committee shall have access to sufficient resources in order to carry out its duties and have the power to engage independent counsel and other professional advisers and to invite them to attend meetings.

8 Terms of Reference

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

¹ In addition, a member of the Committee shall be entitled to attend meetings of the Public Interest Committee.