



Audit Committee – Terms of Reference

1 Purpose

The purpose of the Audit Committee is to:

- 1.1 assist the Board in its oversight of the integrity of the LLP's financial reporting, including supporting the Board in meeting its responsibilities regarding financial statements and the financial reporting systems and internal controls;
- 1.2 monitor, on behalf of the Board, the effectiveness and objectivity of internal and external auditors;
- 1.3 assist the Board in its supervision of the internal audit function's role to provide risk management assurance as the 'third line of defence'.

2 Authority

- 2.1 The Audit 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.

3 Constitution

3.1 Chairperson

- 3.1.1 The Chair of the Committee will be an at-large Non-Executive Board member appointed by the Senior Partner and ratified by the Board.
- 3.1.2 In the absence of the Chair of the Committee or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- 3.1.3 The Committee Chair has a casting vote.

3.2 Membership

- 3.2.1 The Committee will comprise at least three Non-Executive members, one of which shall have recent and relevant audit financial experience.
- 3.2.2 One external Independent Non-Executive shall be invited to attend all meetings of the Committee, but shall not be a voting member.
- 3.2.3 Members of the Committee shall be appointed by the Board on the recommendation of 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.
- 3.2.4 Members can be co-opted onto the Committee (as determined by the Committee Chair) as the need arises to help fulfil the duties and obligations of the Committee
- 3.2.5 Non-Executive Members shall comprise a majority of the Committee at all times.
- 3.2.6 Members may be removed from the Committee at any time by the Board.

3.3 Duration of appointments

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- 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 at least four times a year and otherwise as required.
- 4.1.2 Meetings of the Committee may be called by the Chair of the Committee at any time to consider any matters falling within these Terms of Reference.

4.2 Quorum

- 4.2.1 Any two members of the Committee may form a quorum, provided at least one at-large Non-Executive Board member 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 In addition to one Independent Non-Executive, the following will be expected to attend Committee meetings on a regular basis:
- a) Chief Financial Officer
 - b) General Counsel
 - c) Head of Quality and Risk
 - d) Head of Internal Audit
 - e) External Audit representative
 - f) Board Secretary
- 4.3.3 Any Partner, officer or employee of the LLP may attend at the invitation of the Chair of the Committee and they may collectively or individually be requested to withdraw from meetings of the Committee if required to do so by the Chair of the Committee.
- 4.3.4 The Committee will meet with the external auditor and internal auditor at least once a year without management present.

5. Resolutions

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- 5.1. The Committee shall reach decisions by a simple majority of those voting on the issue in question. If the numbers of votes for and against a certain proposal are equal, the Committee Chair shall have a casting vote.
- 5.2. Any resolution evidenced in writing or by electronic or voice recognition means, by such member or members of the Committee as would have been necessary to pass such resolution had all members of the Committee been present at a meeting to consider such resolution, shall be valid and effective as if it had been passed at a meeting of the Committee duly convened and held, provided that notice and details of the proposed resolution have been given in advance to each member of the Committee.

6 Responsibilities

6.1 Financial Reporting

The Committee shall monitor the integrity of the financial statements of the LLP, including its annual report relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor. In particular, the Committee shall review and challenge where necessary:

- 6.1.1 The application of significant accounting policies and any changes to them;
- 6.1.2 The methods used to account for significant or unusual transactions where different approaches are possible;
- 6.1.3 Whether the firm has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements;
- 6.1.4 All material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.

6.2 External Audit

The Committee is responsible for:

- 6.2.1 considering the appointment, re-appointment or removal of the external auditor and to oversee the selection process for a new auditor where required.
- 6.2.2 establishing and maintaining an Auditor Independence Policy;
- 6.2.3 annually challenging and assessing 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;
- 6.2.4 approving 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;
- 6.2.5 approving the nature, scope and plan of the audit with the external auditor, including the factors that could affect audit quality, before the audit commences;
- 6.2.6 reviewing 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;

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- key accounting and audit judgements;
 - the auditor's view of their interactions with senior management; and
 - levels of errors identified during the audit;
- 6.2.7 reviewing management representation letters in relation to financial reporting requested by the external auditor prior to signature by the Executives;
- 6.2.8 monitoring the effectiveness of the relationship between the external and internal auditors;
- 6.2.9 reviewing management's response to findings of the audit and resolving disagreements between management and the external auditor regarding financial reporting;
- 6.2.10 meeting 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.

6.3 Internal Control

The Committee is responsible for:

6.3.1 Reviewing:

- Regular assurance reports from Internal Audit covering the firm's risk management and risk oversight activities in the 'first line of defence' and 'second line of defence' respectively, and other ad hoc reports of Internal Audit covering such other matters relating to risk assurance and internal control as the Board may request from time to time; and
- The timeliness of and reports on, the effectiveness of corrective action taken.

6.3.2 Considering 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);

6.3.3 Reviewing and recommending for Board approval the statements to be included in any financial reporting concerning the effectiveness of internal controls and risk management;

6.3.4 Reviewing the framework, policies and overall process conducted by the firm's management for identifying and assessing enterprise risks and managing their impact on the firm;

6.3.5 Reviewing the firm's assurance framework and its linkage to the Enterprise-wide Risk Management Framework and assurance planning;

6.3.6 Providing input and recommendations to the Board and the Risk Committee on the firm's risk strategy, risk appetite and risk mitigations.

6.4 Internal Audit

The Committee is responsible for:

6.4.1 approving the internal audit priorities, programme, budget and resource plan, requesting where appropriate that Internal Audit undertake specific work, and monitoring the significant internal audit findings, including management's response to them;

6.4.2 reviewing the effectiveness and performance of the service provided by Internal Audit, ensuring it remains independent, objective and professionally sceptical;

6.4.3 ensuring that Internal Audit is appropriately organised, adequately resourced and free

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from constraint, and has the appropriate standing within the LLP;

- 6.4.4 confirming and approving the remit and mandate of the Head of Internal Audit, and providing input to that officer's evaluation;
- 6.4.5 carrying out an annual assessment of the effectiveness of the internal audit function and as part of this assessment:
 - Meet with the head of internal audit without the presence of management to discuss the effectiveness of the function;
 - 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.

7 Reporting

- 7.1 Minutes of each Committee meeting will be disclosed at the next meeting of the Board.
- 7.2 Periodically the Chair of the Committee shall report to the Board on matters within its duties and responsibilities.
- 7.3 The Committee shall compile a report of the work of the Committee in discharging its responsibilities for inclusion in the Annual report, including an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor.
- 7.4 The Committee shall work and liaise as necessary with other Committees of the Board.

8 Governance and Resources

- 8.1 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.
- 8.2 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.
- 8.3 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).
- 8.4 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.

9 Terms of Reference

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

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