Audit Board – Terms of Reference

1 Purpose

1.1 The Audit Board is established as a permanent committee of KPMG LLP under the LLP Agreement. Its purpose is to oversee the KPMG Audit practice (“KPMG Audit” or the “Audit Practice”) and the interaction of the Audit Practice with the rest of the Firm, under powers and delegations vested in it by the LLP Board of KPMG LLP (the “LLP Board”), providing independent judgment through its composition and involvement of external members including Independent Non-Executives.

1.2 The Audit Board oversees, monitors and provides independent challenge to KPMG Audit to ensure that the Firm robustly discharges its public interest obligations to investors, and other key stakeholders such as regulators, as well as to those entities which it audits (audited companies).

1.3 The Audit Board oversees and reviews the adequacy of the Firm’s responsiveness to challenges in the audit profession, specifically in relation to:

— Audit Quality;
— Actual or perceived conflicts of interest;
— Independence;
— Market dynamics and choice for audit clients;
— The regulation of the Audit Profession;
— Strategy; and
— Investment,
and interacts with the LLP Board’s ‘Future of the Profession’ working group.

2 Authority

2.1 The Audit Board is designated for purposes of the LLP Agreement as a Committee of the LLP Board from which it derives its authority and to which it regularly reports.

2.2 The Audit Board has delegated authority from the LLP Board in respect of the functions and powers set out in these Terms of Reference, including certain specific delegations to act on behalf of the Firm.

2.3 The Audit Board 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.

2.4 In addition, the Audit Board may have delegated authority from the LLP Board for oversight of specified strategic, cultural or transformational projects led by the Audit Executive.

1 Formerly established as the Audit Oversight Committee
3 Constitution

3.1 Chair

3.1.1 The Chair of the Audit Board will be an Elected or Nominated Board Member appointed by the Senior Partner and ratified by the LLP Board.

3.1.2 The Deputy Chair of the Audit Board shall be the Chair of Audit.

3.1.3 In the absence of the Chair of the Audit Board or the Deputy Chair, the remaining members present shall elect one of themselves to chair the meeting.

3.2 Membership

3.2.1 The Audit Board will comprise:
— The Chair of the Audit Board; and
— At least two Elected or Nominated Board Members provided that at least one shall be an Elected Board Member and at least one shall have recent and relevant experience as a practising auditor; and
— At least one external (non-KPMG) person who shall have recent and relevant experience as a practising auditor.

3.2.2 Up to two Independent Non-Executives (INEs) shall attend each Audit Board meeting.

3.2.3 The Global Head of Audit shall be invited to attend each Audit Board meeting.

3.2.4 A Regional Chair shall be invited to attend each Audit Board meeting.

3.2.5 Additional members of the Audit Board shall be appointed by the LLP Board on the recommendation of the Senior Elected Board Member.

3.2.6 Members can be co-opted onto the Audit Board (as determined by the Chair of the Audit Board) as the need arises to help fulfil the duties and obligations of the Audit Board. These appointments shall be made by the LLP Board on the recommendation of the Chair of the Audit Board.

3.2.7 Members may be removed from the Audit Board at any time before the end of their term by the LLP Board.

3.2.8 The Ethics Partner is entitled to attend any meeting of the Audit Board and shall have access to all agendas and papers of the Audit Board.

3.2.9 Other attendees, including the Head of Audit, may be invited to attend meetings at the discretion of the Chair of the Audit Board.

3.3 Duration of appointments

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

3.3.2 Unless otherwise determined by the LLP Board, the duration of appointments of Independent Non-Executives as participants at the Audit Board shall be for a period of three years which may be extended by the LLP Board for an additional two terms of three years each, subject to a maximum nine years in aggregate.
3.4 Secretary

3.4.1 The LLP Board Secretary or their nominee shall act as Secretary to the Audit Board and attend all meetings.

3.4.2 The Secretary shall record the proceedings and decisions of the Audit Board 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 Audit Board shall meet at least six times per annum and otherwise as required.

4.1.2 Meetings of the Audit Board may be called by the Chair of the Audit Board at any time to consider any matters falling within these Terms of Reference.

4.2 Quorum

4.2.1 Any three members of the Audit Board may form a quorum.

4.2.2 A duly convened meeting of the Audit Board 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 Audit Board.

4.2.3 In the event of difficulty in forming a quorum, Elected or Nominated Board members who are not members of the Audit Board may be co-opted as members for individual meetings.

4.3 Attendees

4.3.1 Only the members of the Audit Board, other Elected or Nominated Members of the LLP Board, Independent Non-Executives and the Ethics Partner have the right to attend Audit Board meetings.

4.3.2 Members of KPMG Audit leadership responsible for Audit Quality and risk management may attend each meeting on invitation of the Chair of the Audit Board.

4.3.3 Any Partner, officer or employee of the LLP may attend at the invitation of the Audit Board Chair and they may collectively or individually be requested to withdraw from meetings of the Audit Board if required to do so by the Chair of the Audit Board.

4.4 Resolutions

4.4.1 The Audit Board 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 Audit Board Chair shall have a casting vote.

4.4.2 Any members of the Audit Board who are practising audit partners in the Firm or who are members of the Audit Executive should be recused when the Audit Board is discussing matters related to the pay or performance of those individuals.

4.4.3 Any resolution evidenced in writing or by electronic or voice recognition means, by such member or members of the Audit Board as would have been necessary to pass such resolution had all members of the Audit Board been present at a meeting consider such resolution, shall be valid and effective as if it had been passed at a meeting of the Audit Board duly convened and held, provided that notice and details of the proposed resolution have been given in advance to each member of the Audit Board.
5 Responsibilities
The Audit Board shall:

5.1 Audit Quality and Quality Reviews
5.1.1 Under delegation by the LLP Board, 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 to ensure that KPMG complies with standards expected by investors, regulators and other stakeholders, as well as those of the entities which it audits.

5.1.2 Ensure that KPMG Audit sets robust targets for Audit Quality, including, but not limited to, results in relation to AQRs that meet regulator expectations and make recommendations to the LLP Board accordingly.

5.1.3 Under delegation by the LLP Board, oversee the sufficiency and performance of the Audit Quality framework, and challenge management to ensure that the framework is sufficient to drive good quality audits and meets the expectations of investors, regulators and other stakeholders, as well as those of the entities which it audits.

5.1.4 Oversee and monitor, in coordination with the People Committee, the Firm’s culture and behaviours within the Audit Practice and their role in ensuring Audit Quality.

5.1.5 Review the performance of KPMG Audit and overall audit quality, including the adequacy of resourcing; and in the context of such review, challenge and support the Head of Audit, and make recommendations to the LLP Board so as to hold the Audit Practice and the Head of Audit to account.

5.1.6 Under delegation by the LLP Board, oversee the efficacy of 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.

5.1.7 Under delegation by the LLP Board, ensure the appropriateness of the Firm’s policies and processes supporting Audit Quality and approve enhancements to them as may be necessary from time to time.

5.2 Conflicts of Interest and Independence
5.2.1 Monitor, oversee and make recommendations to the LLP Board in respect of the adequacy and effectiveness of KPMG Audit’s arrangements for managing actual, potential or perceived conflicts of interest and independence, with a particular view to the public interest and the interests of Audit Clients.

5.2.2 Monitor, oversee and make recommendations to the LLP Board in respect of the effective management of actual, potential or perceived conflicts of interest internally within the Firm or its governance and leadership that could adversely impact the delivery of Audit Quality by the Audit Practice.

5.2.3 Review and make recommendations in coordination with the Clients and Markets Executive Committee with respect to decisions to tender for new audit work or to retender (rather than pursue or maintain an advisory led relationship) and with respect to escalating public interest concerns to the LLP Board for its consideration; noting that the LLP Board shall resolve disagreements between the Audit Board and the Clients and Markets Executive Committee in relation to tendering or retendering decisions.
5.3 Strategy

5.3.1 Review and challenge the strategy of the Audit Practice ("the Strategy") as developed (or modified) by the Audit Executive and, if satisfied, recommend the Strategy (or any modifications) to the LLP Board for its adoption by the Firm, considering its adequacy and responsiveness to challenges in the profession and market dynamics.

5.3.2 Review and challenge the development by the Audit Executive of the operational plan designed to implement the Strategy.

5.3.3 Monitor, challenge and provide assurance to the LLP Board and the Public Interest Committee that management is executing the Strategy as expected.

5.3.4 Monitor and made recommendations to the LLP Board in respect of material strategic and regulatory matters impacting the profession and the Audit business.

5.3.5 Review and challenge the Audit Executive in respect of the development of its long term commercial objectives and, if satisfied, recommend such objectives to the LLP Board for its approval.

5.4 Investments

5.4.1 Review and challenge the Audit Executive in respect of the development of a budget envelope for investments to deliver the Strategy and, if satisfied, recommend such budget to the LLP Board for approval.

5.4.2 Review and challenge the Audit Executive in respect of its proposals for specific investments and, if satisfied, recommend such investments to the LLP Board for approval (pursuant to the Firm-wide investment approvals process), considering alignment with the Strategy and the Audit Board’s ongoing assessment of the adequacy of the investment pipeline to deliver the Strategy.

5.4.3 Oversight of the implementation of key investments in Audit to fulfil the Strategy and oversight of associated Key Performance Indicators to demonstrate the efficacy of such investments.

5.4.4 For the avoidance of doubt the LLP Board approved Investment Framework will be utilised for the review and approval of proposed investments.

5.5 Risk Management

5.5.1 Oversee and ensure that KPMG Audit has a robust risk framework which is identifying, mitigating and responding to risks, in particular:

i. Under delegation by the LLP Board, review the adequacy of the process of identification of risks arising from the activities of KPMG Audit and coordinate with the Risk Committee with respect to any recommendations or approvals related to such process.

ii. Review, measure and monitor the Audit Practice’s second line risk function in relation to Audit Quality.

iii. Review and make recommendations to the Risk Committee in respect of the Audit Practice’s risk matrix and arrangements for the oversight of the effective risk management in the Audit Practice and related management information flows.

iv. Under delegation by the LLP Board, review and approve the mitigations and appropriateness of KPMG Audit’s appetite for accepting higher risk audits.

v. Review information sufficient to satisfy itself that Audit is being managed within the agreed risk appetite or other parameters and that management is responding to risk incidents as appropriate.
5.6 Engagement with Regulators

5.6.1 Under delegation by the LLP Board, oversee the appropriateness and adequacy of KPMG Audit’s interaction with external regulators (including the FRC, ICAEW, ICAS and PCAOB) and investors, to ensure that KPMG Audit is engaging with regulators in an open and positive way, consistent with regulators’ expectations.

5.7 Operations, Performance Management and People

5.7.1 Oversee the operational and financial performance of KPMG Audit.

5.7.2 Review and challenge the Audit Executive in respect of the development of the annual budget for KPMG Audit and, if satisfied, recommend such budget to the LLP Board for approval.

5.7.3 Review and make recommendations (in coordination with the Risk Committee) to the LLP Board and People Committee, with respect to the Firm’s policies related to remuneration impacting the Audit Practice, so as to ensure that incentives are aligned to appropriate risk and quality outcomes.

5.7.4 Oversee resourcing capacity within the Audit Practice, to ensure that it has sufficient skills and capacity to deliver high quality audit outcomes.

5.8 Audit Leadership

5.8.1 Oversee and ensure, in coordination with the Senior Partner, that the Firm has the best possible Audit Executive leadership and that it is operating effectively on an ongoing basis.

5.8.2 Review and recommend for appointment candidates for the role of Head of Audit.

5.8.3 Review the performance of the Head of Audit each year and recommend to the People Committee the appropriate remuneration for him/her in terms of both discretionary performance profit share and level of ‘benchmark pay’.

5.8.4 Oversee, challenge and provide assurance to the LLP Board with respect to the appointments made to the Audit Executive, considering the need for the quality, integrity and competence of such individuals to support the delivery of audit quality the Firm’s public interest objectives.

5.8.5 Make recommendations (in coordination with the People Committee), in relation to the evaluation and compensation of the members of the Audit Executive, which shall be taken into account by the Head of Audit and the Senior Partner.

5.9 Audit Investigations

5.9.1 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, and where appropriate make recommendations with respect to resolution of such matters to the Risk Committee in its role of advising and making recommendations to the LLP Board.

5.9.2 Monitor trends and lessons learned arising from regulatory investigations and challenge and support the Audit Practice in its responding to them.
5.10 General

5.10.1 Review the Audit Quality section of the annual report and, if satisfied, recommend it for approval by the LLP Board;

5.10.2 Review and make recommendations to LLP Board with respect to any material communications on behalf of the Firm with its regulators as regards the audit profession and associated matters within the scope of the Audit Board’s Terms of Reference.

5.10.3 Providing input to, shaping and making recommendations to the LLP Board with respect to KPMG’s responses to consultations and reviews on the future of audit and audit related matters prior to their submission.

6 Reporting

6.1 Minutes of each Audit Board meeting will be disclosed at the following meeting of the LLP Board. The Chair of the Audit Board shall report to the LLP Board after each meeting on matters within its duties and responsibilities.

6.2 The Audit Board shall compile a report of the work of the Audit Board in discharging its responsibilities for inclusion in the Transparency Report, including a description of significant issues dealt with by the Audit Board.

6.3 The Audit Board shall work and liaise as necessary with other Committees of the LLP Board and with the Public Interest Committee.

7 Governance and Resources

7.1 The Audit Board shall, via the Secretary to the Audit Board, make available to new members of the Audit Board a suitable induction process and, for existing members, ongoing training as discussed and agreed by the Audit Board.

7.2 The Audit Board shall conduct an annual self-assessment of its activities under these Terms of Reference and report any conclusions and recommendations to the LLP 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 Audit Board 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 Audit Board 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.

7.5 In the event of any significant and serious disagreement between the Audit Board and the LLP Board with respect to any matters within the scope of the Audit Board’s Purpose, Authority and Responsibilities as set out in these Terms of Reference, the LLP Board shall ensure that such disagreement shall be reported within the Firm’s next following annual Transparency Report. With regard to any dispute between the Audit Board and the LLP Board with respect to the decision to include such a report in the Transparency Report, the matter shall be referred to the Public Interest Committee which shall, in the first instance, seek to facilitate resolution of the dispute; failing such resolution, the Public Interest Committee shall determine whether or not the disagreement is so significant and serious as to justify its being reported in the Transparency Report in the public interest.
8 Terms of Reference

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